

# Danske Bank's Cover Pool D Danish Mortgage Covered Bonds Ratings Affirmed; Outlook Stable

August 19, 2019

## Overview

- We have reviewed Danske Bank's cover pool D mortgage covered bond program under our updated counterparty criteria.
- Following our review, we have affirmed our 'AAA' ratings on the program and related issuances.
- The outlook on our ratings is stable.

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LONDON (S&P Global Ratings) Aug. 19, 2019--S&P Global Ratings today affirmed its 'AAA' credit ratings on Danske Bank A/S' cover pool D mortgage covered bonds. The outlook is stable.

On March 8, 2019 we published our criteria for analyzing counterparty risk in structured finance transactions (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019). As a consequence, we placed under criteria observation the ratings of the programs that could potentially be affected (see "Ratings Placed Under Criteria Observation Due To Revised Counterparty Risk Criteria," published on March 8, 2019). Following our review, our ratings on this covered bond program are no longer under criteria observation.

Danske Bank is the swap counterparty in the program and is the only counterparty exposure subject to this criteria change. To derive the maximum potential rating on the covered bonds under our updated counterparty criteria, we consider various factors including whether the counterparty is related to the issuer, the seniority of termination payments, the replacement commitment, and the collateral posting framework.

Danske Bank is a related counterparty to the issuer and it is entitled to termination payments that rank pari-passu to payments on the covered bonds. According to the swap documentation, Danske Bank is committed to replacing itself, at its own cost and within 60 days, upon its rating being lowered below 'A-'. If the counterparty fails to meet this commitment, an additional termination event would allow the issuer to terminate the derivative agreement. Furthermore, if we downgrade Danske Bank below 'A', it must post sufficient collateral to cover the issuer's exposure to the counterparty plus certain volatility risk in the swap value. We categorize the current counterparty's collateral-posting framework in the derivative contract as moderate according to our criteria.

Our counterparty criteria combine the collateral framework assessment with the replacement trigger and the reference rating level (RRL) on the issuer to derive the maximum potential covered bond rating. While the replacement trigger according to the swap documentation is the rating on Danske Bank's long-term, unsecured, unsubordinated, and unguaranteed debt obligations, our

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counterparty criteria state that the RRL is the applicable counterparty rating when the counterparty is related to the covered bond issuer. We have therefore derived the applicable replacement trigger from the rating type shown in the documentation.

When the swap documentation does not explicitly refer to a rating type, as is the case in this program, we generally consider this to be our resolution counterparty rating (RCR).

A replacement trigger of 'A-' on the RCR equates to a replacement trigger of 'BBB+' on the long-term ICR, because there is currently one notch difference between the RCR and ICR on Danske Bank. This, in turn, is equivalent to a replacement trigger of 'a' on the RRL, given the very strong systemic importance of mortgage covered bonds in Denmark.

The moderate collateral framework assessment, combined with the current RRL on the issuer ('aa-') and the replacement trigger at 'a' supports a maximum potential rating of 'AAA' on the program. We have therefore affirmed our 'AAA' ratings on the covered bonds.

The stable outlook on the covered bonds reflects the fact that the program benefits from three unused notches of collateral-based uplift under our covered bonds criteria. Therefore, if we were to lower our long-term ICR on Danske Bank by up to three notches, we would not lower our ratings on the covered bonds, all else being equal.

### **Related Criteria**

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

### **Related Research**

- Global Covered Bond Characteristics And Rating Summary Q2 2019, June 27, 2019
- Global Covered Bond Insights Q2 2019, June 27, 2019
- Ratings Placed Under Criteria Observation Due To Revised Counterparty Risk Criteria, March 8, 2019
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Oct. 16, 2018

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- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Oct. 16, 2018
- Glossary Of Covered Bond Terms, April 27, 2018

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