

RatingsDirect®

Transaction Update: Danske Bank A/S (Cover Pool C Mortgage Covered Bonds)

Saerligt Daekkede Obligationer

Primary Credit Analyst:

Matteo Lanza, London + (44)2071766026; matteo.lanza@spglobal.com

Research Contributor:

Parashar Tendolkar, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Major Rating Factors

Outlook: Stable

Rationale

Program Description

Rating Analysis

Related Criteria

Related Research

Transaction Update: Danske Bank A/S (Cover Pool C Mortgage Covered Bonds)

Saerligt Daekkede Obligationer

Ratings Detail

Reference Rating Level	aa-	+	Jurisdiction-Supported Rating Level	aaa	+	Maximum Achievable Covered Bond Rating	aaa	=	Covered Bond Rating	
Resolution Regime Uplift	+2		Assigned Jurisdictional Support Uplift	+3		Collateral Support Uplift	+1		AAA	
Systemic Importance	Very Strong		Jurisdictional Support Assessment	Very Strong		Overcollateralization Adjustment	-1		Rating Constraints	aaa
Resolution Counterparty Rating	A+		Legal Framework	Very Strong		Liquidity Adjustment	0		Counterparty Risk	aaa
Issuer Credit Rating	A		Systemic Importance	Very Strong		Potential Collateral Based Uplift	+2		Country Risk	aaa
			Sovereign Credit Capacity	Very Strong						

Major Rating Factors

Strengths

- The long-term issuer credit rating (ICR) on the issuer is such that the program only needs to cover 'AAA' credit risk in order to achieve a 'AAA' rating.
- The program benefits from one unused notch of collateral uplift, which would protect the rating if we downgraded the issuer.
- Due to the covered bonds' soft-bullet maturities, six months liquidity coverage is ensured.

Weaknesses

- The cover pool's assets comprise only commercial real estate loans, which we consider to be riskier than residential real estate loans.
- The available overcollateralization is provided on a voluntary basis, reducing the amount of collateral-based uplift by one notch.

Outlook: Stable

S&P Global Ratings' stable outlook on the ratings on Danske Bank A/S' cover pool C mortgage covered bonds ("saerligt daekkede obligationer"; SDOs) reflects our view that we would not automatically lower the ratings on the covered bonds if we were to lower our long-term ICR on Danske Bank by up to one notch.

Rationale

This transaction update follows our periodic review of Danske Bank's cover pool C mortgage covered bonds. Our rating analysis for the covered bonds follows the framework set out in our criteria article "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

The 'AAA' ratings reflect our reference rating level (RRL) of 'aa-' and our jurisdiction-supported rating level (JRL) of 'aaa', as well as the overcollateralization coverage of the 'AAA' credit risk.

The ratings on the program and related issuances are not constrained by legal, operational, counterparty risks, or country risks.

Program Description

Danske Bank is a leading Danish financial services group. It operates primarily in Denmark, Finland, Sweden, and Norway.

We currently rate the category C, D, and I covered bonds issued under the €30,000,000,000 global covered bond program.

Cover pool C contains mortgage loans denominated in Swedish krona (SEK) and Norwegian krone (NOK), secured on Swedish and Norwegian commercial properties. The covered bonds are issued in euros and Swedish krona. The transaction features interest rate swaps and cross-currency swaps on both assets and liabilities.

The bonds are senior-secured obligations. They rank pari passu with other obligations in the same cover pool. If the issuer were to become bankrupt, the pools would be separated and managed independent of each other.

Table 1

Program Description*	
Jurisdiction	Denmark
Covered bond type	Legislation-enabled
Underlying assets	Commercial mortgage loans
Outstanding covered bonds (bil. SEK)	65.81
Year of first issuance	2010
Rating at closing	'AAA'
Extendible maturities	Yes
Target credit enhancement (%)	21.78

Table 1

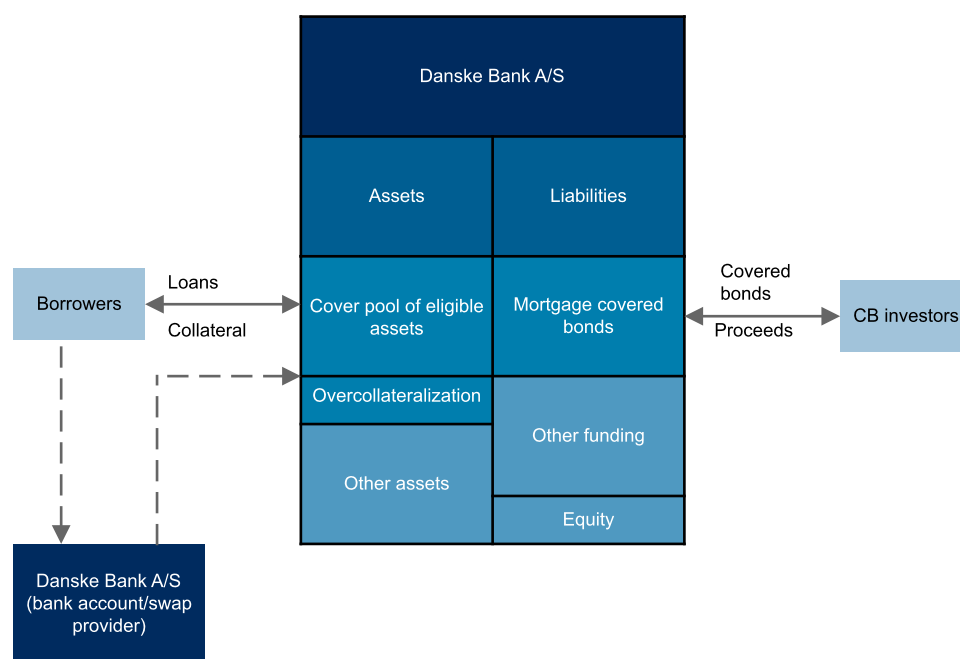
Program Description* (cont.)	
Available credit enhancement (%)	18.26

*Based on data as of Sept. 30, 2019. SEK--Swedish krona.

Table 2

Participants			
Role	Name	Rating	Rating dependency
Issuer	Danske Bank A/S	A/Stable/A-1	Y
Swap provider	Danske Bank A/S	A/Stable/A-1	Y
Bank account provider	Danske Bank A/S	A/Stable/A-1	N
Originator	Danske Bank A/S	A/Stable/A-1	N

Program Structure



Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Rating Analysis

Legal and regulatory risks

In our view, the Danish covered bond framework sufficiently addresses the relevant legal aspects of our covered bonds criteria and our legal criteria (see "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). This enables us to assign ratings to the covered bonds that exceed the long-term ICR on the issuer.

The Danish Covered Bond Act provides the legal framework for the issuance of the Danish covered bonds. It also outlines eligibility criteria for the inclusion of assets in the cover pool. The issuer needs to obtain a general covered bond issuing license from the Danish Financial Supervisory Authority.

Under certain restrictions, an SDO cover pool can include mortgage credit assets secured on residential and commercial properties within the European Economic Area (EEA), the Organization for Economic Cooperation and Development (OECD), as well as loans granted to public bodies in the EEA and OECD. It may also include supplementary assets, such as securities from eligible financial institutions in the EEA or the OECD.

Under the law:

- The cover pool must register all derivatives used for hedging mismatches. The derivatives rank pari passu with the bonds.
- The cover pool's value must always exceed that of the covered bonds.
- The law requires the prudent market valuation of the mortgage credit assets according to recognized principles, and collateral valuation is performed annually.

If Danske Bank becomes insolvent, the covered bondholders have a preferential claim on the proceeds generated by the pool. Danish covered bonds do not automatically accelerate if the issuer becomes insolvent. The cover pool is managed by a bankruptcy administrator, who is obliged to ensure timely payment. To this end, the administrator is entitled to take appropriate measures aimed at raising liquidity by selling or borrowing against unmatched assets, in order to repay the maturing covered bonds' principal. The cover pool bears costs, which rank senior to the covered bondholders' claims.

Danske Bank adheres to the general balance principle (in contrast to the specific balance principle) in order to manage market risk exposure. The issuer has the flexibility to issue covered bonds that are delinked from the mortgage assets, and the mortgage collateral acts as overcollateralization.

Under Danish law, collateral added to a cover pool less than three months before the bankruptcy of the issuer may be "clawed back" or challenged by other creditors if the covered bondholders received preferential treatment at the expense of the issuer's ordinary creditors. If such a challenge were to succeed, fewer assets would be available for covered bondholders from the relevant cover pool. We continuously monitor the transfer of collateral and consider the credit rating on the issuer in determining the size of a potential clawback. As Danske Bank has shown a pattern of providing sufficient overcollateralization to maintain a 'AAA' rating, any increase in the asset pool to maintain this rating would likely be considered ordinary, and therefore not subject to clawback.

Operational and administrative risks

In June 2019, we conducted a review of Danske Bank's origination, underwriting, collection, and default management procedures for the cover pool assets. We also reviewed the cover pool management and administration. We consider that Danske Bank actively manages the cover pool and has strict underwriting and loan management policies. We have not identified any operational or administrative risks that would affect our assessment of the program.

We believe that a replacement servicer could be found were the issuer to become insolvent. We consider Denmark to

be an established covered bond market and the assets in the cover pool to be standard, hence not limiting the range of available cover pool managers or servicers.

Resolution regime analysis

As part of our covered bonds criteria, our analysis considers the presence of resolution regimes when determining the RRL. As Denmark is part of the EU and is required to implement the EU's Bank Recovery and Resolution Directive (BRRD), this analysis considers the support provided by the adoption of the regime.

The program's RRL is equal to the greater of (i) the ICR on the issuing bank, plus up to two notches for programs in jurisdictions with effective resolution regimes that exempt covered bond from bail-in, and (ii) the resolution counterparty rating (RCR) on the issuing bank, where applicable.

Given Danske Bank's 'A+' RCR, and our very strong systemic importance assessment for covered bonds in Denmark, the RRL is 'aa-', two notches above the ICR.

Jurisdictional support analysis

Under our analysis of jurisdictional support in our covered bonds criteria, we determine a JRL of 'aaa', which is our assessment of the creditworthiness of a covered bond program once we have considered the level of jurisdictional support, but before giving credit to the amount of collateral.

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative, instead of from the liquidation of collateral assets in the open market. Our assessment of the expected jurisdictional support for Danish mortgage covered bond programs is very strong (see "Assessments For Jurisdictional Support According To Our Covered Bond Criteria," published on Oct. 16, 2018). Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional uplift from the RRL. This leads to a JRL of 'aaa' for Danske Bank's cover pool C mortgage covered bonds.

Collateral support analysis

Table 3

Cover Pool Composition*				
Asset type	As of Sept. 30, 2019		As of Dec. 31, 2018	
	Value (mil. SEK)	Percentage of cover pool (%)	Value (mil. SEK)	Percentage of cover pool (%)
Residential	0	0	0	0
Commercial	79,656	100	97,410	100
Substitute assets	0	0	0	0
Other asset type	0	0	0	0
Total	79,656	100	97,410	100

*This is based on S&P Global Ratings' classification and therefore does not necessarily equal publicly available information (e.g., we classify multifamily homes as commercial).

Table 4a

Key Credit Metrics: Swedish Assets		
	As of Sept. 30, 2019	As of Dec. 31, 2018
Weighted-average loan-to-value ratio (%)	51.02	52.35
Balance of loans in arrears (%)	0	0

Table 4a

Key Credit Metrics: Swedish Assets (cont.)		
	As of Sept. 30, 2019	As of Dec. 31, 2018
Credit analysis results		
Weighted-average foreclosure frequency (%)	24.12	24.75
Weighted-average loss severity (%)	46.92	49.58

Table 4b

Key Credit Metrics: Norwegian Assets		
	As of Sept. 30, 2019	As of Dec. 31, 2018
Weighted-average loan-to-value ratio (%)	45.22	47.96
Balance of loans in arrears (%)	0	0
Credit analysis results		
Weighted-average foreclosure frequency (%)	26.41	25.86
Weighted-average loss severity (%)	42.51	43.93

Table 4c

Key Credit Metrics		
	As of Sept. 30, 2019	As of Dec. 31, 2018
Weighted-average foreclosure frequency (%)	24.78	25.05
Weighted-average loss severity (%)	45.66	48.05

Table 5a

Loan-To-Value Ratios: Sweden		
	As of Sept. 30, 2019	As of Dec. 31, 2018
(%)	Percentage of cover pool (%)	
0 to 60	67.59	76.54
60 to 70	20.55	17.86
70 to 80	8.02	3.23
80 to 90	1.74	0.38
90 to 100	1.13	0.18
Above 100	0.97	1.80
Weighted-average loan-to-value ratios	51.02	52.35

Table 5b

Loan-To-Value Ratios: Norway		
	As of Sept. 30, 2019	As of Dec. 31, 2018
(%)	Percentage of cover pool (%)	
0 to 60	93.29	89.35
60 to 70	2.31	9.41
70 to 80	0.62	0.36
80 to 90	3.59	0.47
90 to 100	0.00	0.00
More than 100	0.18	0.40

Table 5b

Loan-To-Value Ratios: Norway (cont.)		
	As of Sept. 30, 2019	As of Dec. 31, 2018
Weighted-average loan-to-value ratios	45.22	47.96

Table 6a

Geographic Distribution Of Loan Assets: Sweden		
	Percentage of cover pool (%)	
	As of Sept. 30, 2019	As of Dec. 31, 2018
West Sweden	24.44	24.86
Stockholm	21.76	23.96
East Middle Sweden	19.40	20.45
South Sweden	14.24	12.52
Smaland and the islands	10.07	10.87
North Middle Sweden	7.35	4.99
Middle Norrland	2.14	1.15
Upper Norrland	0.59	1.21
Total	100.00	100.00

Table 6b

Geographic Distribution Of Loan Assets: Norway		
	Percentage of cover pool (%)	
	As of Sept. 30, 2019	As of Dec. 31, 2018
East	63.43	62.47
West	17.27	18.44
Trondelag	13.83	14.12
North	3.60	3.25
South	1.86	1.72
Total	100.00	100.00

Table 7

Collateral Uplift Metrics		
	As of Sept. 30, 2019	As of Dec. 31, 2018
Asset WAM (years)	2.15	2.32
Liability WAM (years)	4.45	4.73
Maturity gap (years)	(2.30)	(2.41)
Available credit enhancement	18.23	29.11
AAA' credit risk	13.15	13.59
Credit enhancement for first notch of collateral uplift (%)	15.31	16.10
Credit enhancement for second notch of collateral uplift (%)	17.47	18.60
Credit enhancement for third notch of collateral uplift (%)	19.62	21.11
Credit enhancement for maximum uplift (%)	21.78	23.61
Potential collateral-based uplift (notches)	2	4
Adjustment for liquidity (Y/N)	N	N

Table 7

Collateral Uplift Metrics (cont.)		
	As of Sept. 30, 2019	As of Dec. 31, 2018
Adjustment for committed overcollateralization (Y/N)	Y	Y
Collateral support uplift (notches)	1	3

WAM--Weighted-average maturity.

We base our credit analysis on the loan-level data provided by the issuer as of Sept. 30, 2019. The cover pool comprises only commercial mortgage loans backed by Swedish (71.3%) and Norwegian (28.7%) assets. We analyze these pools under our commercial real estate criteria (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

The pool's weighted-average foreclosure frequency (WAFF) is equal to 24.78%, down from the 25.05% that resulted from our December 2018 analysis.

The pool's weighted-average loss severity (WALS) is equal to 45.66%, lower than the December 2018 figure, 48.05%.

Both WAFF and WALS have improved because of a decrease in the weighted-average loan-to-value ratio, registered in both the Swedish and the Norwegian pool. More generally, the pool's credit quality is fairly stable.

According to our covered bonds criteria, the maximum potential collateral-based uplift on a covered bond program above the JRL is four notches. We then look to make adjustments to the maximum collateral-based uplift by reviewing the six-month liquidity coverage and the level of committed overcollateralization. Due to the covered bonds' soft-bullet maturities, liquidity coverage is being met, according to our criteria. The available credit enhancement is provided voluntarily, which means that we reduce the amount of collateral-based uplift by one notch.

By applying our credit and cash flow stresses, we calculate a target credit enhancement (TCE), which would allow the program to receive four notches of collateral-based uplift. The TCE calculated on September 2019 data is 21.78%. This is an improvement compared to the 23.61% resulting from the December 2018 analysis, due to the lower credit figures and asset-liability mismatch.

However, given the JRL of 'aaa', under our covered bonds criteria, only coverage of the 'AAA' credit risk, at 13.15%, is required to maintain the current 'AAA' rating, based solely on jurisdictional support. The available credit enhancement, which is 18.26% after applying a haircut to account for set-off risk, is sufficient to cover this requirement.

Under our commercial real estate criteria, we apply a largest obligor test to address portfolio concentration risk. Our largest obligor test, currently at 6.59%, is lower than the aforementioned 'AAA' credit risk, meaning that it does not floor the overcollateralization requirements.

Counterparty risk

We analyze counterparty risk by applying our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

Commingling risk. Danske Bank is committed to mitigating commingling risk by providing additional overcollateralization if the long-term ICR on Danske Bank falls below 'A'.

Swaps. Danske Bank is the sole swap counterparty for this program. Hedging addresses interest rate and currency mismatches between the pool's mortgage loans and the payments due to covered bondholders. Termination costs are not subordinated.

The swap agreements contain a replacement trigger set at 'A-', but because the counterparty is related to the issuer, we map the trigger to its corresponding RRL. This translates in a replacement trigger of 'A', given the program's one notch differential between the RCR and RRL, which is supportive of a 'AAA' rating on the program.

Set-off risk. There is a risk that borrowers of certain loans contained in the cover pool retain a residual right under the relevant local legislation to set-off claims against the outstanding amount of their loans. In order to mitigate this risk the issuer will include additional assets in the cover pool, up to a value that is equal to the set-off risk as calculated quarterly. We do not consider this amount when calculating the available overcollateralization.

Sovereign risk

We consider country risk in line with our criteria (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019).

The assets are located in Norway and Sweden. However, to determine the maximum differential above the sovereign rating, we look at the issuer's domicile. As Denmark is currently rated 'AAA' (unsolicited), sovereign risk does not constrain the rating on the program.

Related Criteria

- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Credit Stability Criteria, May 3, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Global Covered Bond Characteristics And Rating Summary Q4 2019, Dec. 12, 2019
- Global Covered Bond Insights Q4 2019, Dec. 12, 2019
- Various Rating Actions Taken On Five Danish Banks As Denmark's Banking Market Offers Mixed Blessings, Oct.

23, 2019

- S&P Global Ratings Definitions, Sept. 18, 2019
- Denmark Ratings Affirmed At 'AAA/A-1+'; Outlook Stable, March 8, 2019
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Oct. 16, 2018
- Assessments For Jurisdictional Support According To Our Covered Bond Criteria, Oct. 16, 2018
- Credit FAQ: The Danish Covered Bond Market Explained, July 15, 2014

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.