

# Danske Bank A/S – Cover Pool C

## Mortgage Covered Bonds

Covered bonds rating/Outlook	AAA/Stable	Cover assets (EURbn) <sup>a</sup>	7.8
Issuer Default Rating/Outlook	A/RWN	Covered bonds (EURbn) <sup>a</sup>	6.3
Unused notches for rating	4	Nominal OC (%) <sup>a</sup>	23.6
Break-even OC (%)	17.0	OC Fitch considers in its analysis (%)	21.0
Credit loss (%)	15.6	Basis of OC relied upon	Min last 12 months
ALM loss (%)	1.2	Covered bonds maturity type	Soft-bullet

<sup>a</sup>Data as of 4Q19. OC – Overcollateralisation.

### Key Rating Drivers

**Four-Notch Rating Cushion:** The 'AAA' soft-bullet covered bonds rating is based on Danske Bank A/S's Long-Term Issuer Default Rating (IDR) of 'A', an IDR uplift of two notches, a Payment Continuity Uplift (PCU) of five notches and a recovery uplift of two notches. The rating also considers the OC of 21.0% that Fitch Ratings gives credit to in its analysis, which is well above the agency's 17.0% break-even OC for the programme. The four-notch buffer against a downgrade of the bank's IDR supports a Stable Outlook.

**Credit Loss Is Main Break-even OC Component:** The credit loss of 15.6% (from 17.2%) remains the largest component of the break-even OC. Its reduction is driven by the smaller proportion of large obligors (reduced to 16% from 19.6% in 4Q18). For these obligors, Fitch applies a minimum one-year probability of default (PD) of at least 1.0%, a correlation uplift of 50% and a recovery rate multiplier of 0.5, in line with its criteria.

**Increased Benchmark PD Assumption:** Fitch applied a benchmark one-year PD of 1.85% for loans secured by Swedish commercial real estate (67%) and 2.35% for loans secured by Norwegian commercial real estate. These were increased by 0.35% for both countries from last year to reflect the potential impact of the coronavirus pandemic, where we expect a temporary, sharp economic deterioration similar to or worse than that of the financial crisis of 2008-2009.

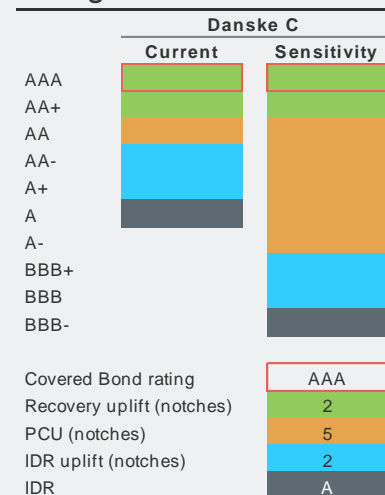
**Modest Maturity Mismatches:** The ALM loss component, which represents the non-credit loss component of the breakeven OC for the rating and reflects the programme's maturity mismatches, is modelled at 1.2%. Due to the low weighted average life of the assets compared to that of the liabilities, the high prepayment and decreasing interest rates scenario in our cash flow modelling become the most stressful for the programme. The associated reinvestment costs for the asset proceeds in the negative-rate scenario drive the ALM loss component.

**Two-Notch IDR Uplift:** The programme's two-notch IDR uplift reflects the fact that covered bonds issued by retail banks in Denmark are exempt from bail-in. It also takes into account Fitch's assessment that the risk of under-collateralisation at the point of resolution is sufficiently low and that a resolution of Danske, should it happen, would not result in the direct enforcement of recourse against the cover pool.

**Five-Notch PCU:** Fitch's PCU for Danske's programme is five notches, rather than the standard six for mortgage covered bonds with a 12-month principal maturity extension and three-month protection for interest payment. This is due to the lack of formal provisions to find a refinancing solution without a delay in the event of a maturity extension.

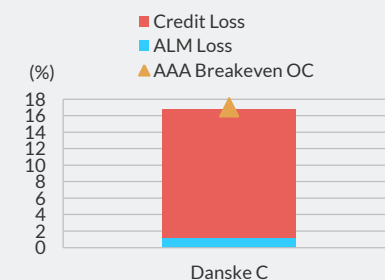
**Two-Notch Recovery Uplift:** The recovery uplift for the programme was increased to two notches from one, as Fitch deems that the foreign-exchange risk in a recovery given default scenario is mitigated by the shorter weighted average life (WAL) of the assets than the liabilities. The relied-upon OC now also offsets the credit loss in a 'AAA' stress scenario and no other material downside risk to recoveries has been identified.

### Rating Sensitivity to IDR Downgrade



Source: Fitch Ratings

### AAA Breakeven OC



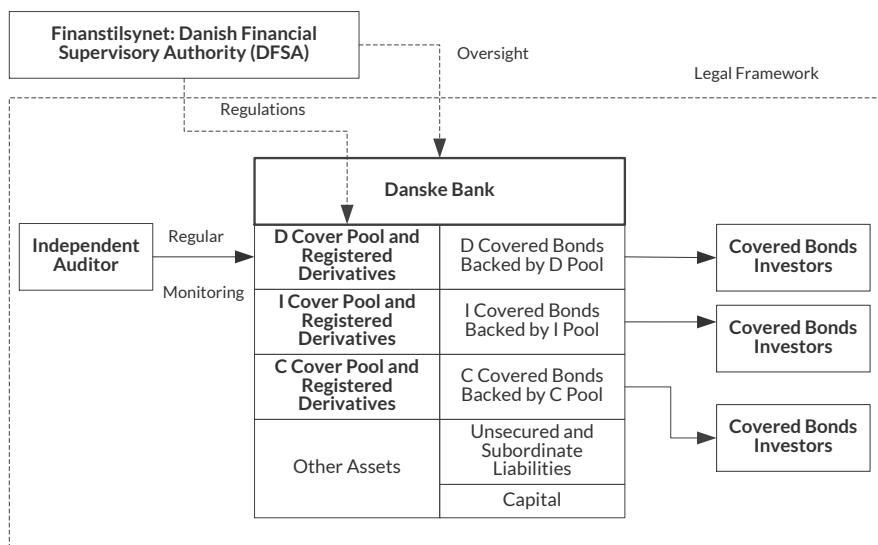
Source: Fitch Ratings

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Issuance Diagram



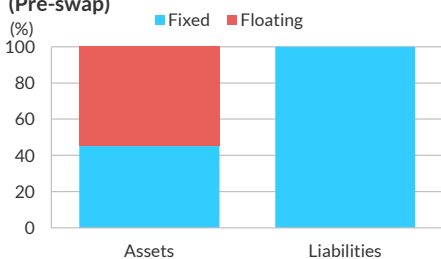
Source: Fitch Ratings

Programme Highlights

**Downside Stress Buffer:** Fitch expects the coronavirus containment measures to have a negative effect on Norwegian and Swedish commercial real estate loans. However, when Fitch performed downside sensitivity scenario stresses to the programme by increasing the cover pool's PD assumption, decreasing recovery rates on the mortgage loans, increasing the obligor concentration, as well as increasing the stressed cost to refinance the cover pool, the current OC still provided sufficient protection for the 'AAA' rating of the programme.

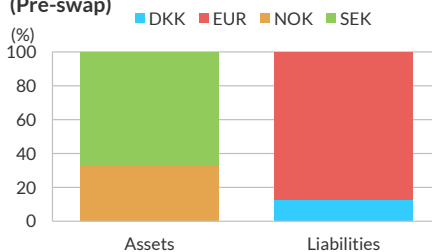
**Currency Mismatches Hedged:** The covered bonds have been issued in euros and Danish kroner, while assets are denominated in Norwegian kroner and Swedish kronor, and pay variable or fixed rates. Interest rate and currency risks are fully hedged with Danske.

Asset/Liability Interest rate breakdown (Pre-swap)



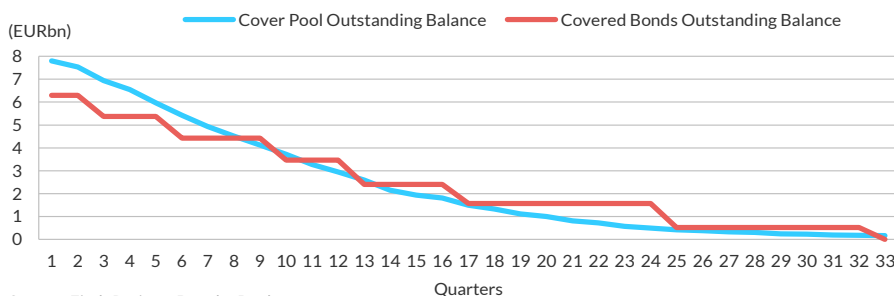
Source: Fitch Ratings, Danske Bank

Asset/Liability FX breakdown (Pre-swap)



Source: Fitch Ratings, Danske Bank

Assets and Liabilities Amortisation Profile



Source: Fitch Ratings, Danske Bank

Default Model Output

Rating level	WAFF (%)	WARR (%)	Loss rate (%)
AAA	29.0	42.9	16.5
AA+	26.2	48.5	13.5
AA	23.9	47.4	12.6
B	5.4	82.3	1.0

Source: Fitch Ratings

Cover Pool Characteristics 4Q19

Number of obligors	3,417
Average loan balance (EUR)	1,381,480
Seasoning (months)	24.3
Obligor > 0.5%	16.0

Loan type (%)

Amortising (full & part)	73.8
Interest-only	26.2

Geographic distribution (%)

Sweden	67
Norway	33

Unstressed asset/liability profile

WAL assets (years)	2.8
WAL liabilities (years)	3.5

Source: Fitch Ratings, Danske Bank

Applicable Criteria

- Covered Bonds Rating Criteria (July 2019)
- SME Balance Sheet Securitisation Rating Criteria (February 2020)
- Originator-Specific Residential Mortgage Analysis Rating Criteria (February 2020)

Related Research

- Global Housing and Mortgage Outlook - 2020 (December 2019)
- Unique Mortgage Market Features - Denmark (July 2019)
- Fitch Ratings 2020 Outlook: Global Covered Bonds (November 2019)

ESG Relevance Scores

- Danske Bank AS, Mortgage SDO (Cover Pool C) ESG Navigator (April 2020)
- Introducing ESG Relevance Scores for Structured Finance and Covered Bonds (October 2019)

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