

## Danske Hypotek AB (publ)

Rating Update

## COVERED BOND RATING

AAA

## ISSUER RATINGS

## LONG-TERM RATING

A

## OUTLOOK

Stable

## SHORT-TERM RATING

N-1+

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## Danske Hypotek AB (publ) outlook revised to stable from negative; 'A' long-term rating affirmed

Nordic Credit Rating (NCR) said today that it had revised its outlook on Sweden-based mortgage lender [Danske Hypotek AB \(publ\)](#) (Danske Hypotek) to stable from negative. At the same time NCR affirmed its 'A' long-term issuer rating and 'N-1+' short-term issuer rating.

### ECONOMIC UNCERTAINTY REDUCED

NCR today revised its outlook on the wider Swedish banking sector to stable from negative, while affirming its 'bbb+' assessment of the industry. Earlier this year, we revised our assessment score for Swedish financial institutions down by one notch to its current level (see [NCR sees increased risks in the Swedish banking sector](#), published 3 Apr. 2020), mainly to reflect the initial impact of COVID-19. We have also revised our outlook on the Danish banking sector to stable from negative, which in turn impacts our view of the outlook on Danske Hypotek's owner, Danske Bank A/S. The outlook revision to stable for Danske Hypotek also indicates that a downward revision of our credit assessment of Danske Bank is currently unlikely.

Danske Hypotek's mortgage volumes grew by 44% in the year to 30 Jun. 2020 to SEK 112bn, with net interest income rising 16% in the first half of 2020 compared with the first half of 2019. Net interest income is expected to improve further given that many loans were transferred from Danske Bank in the second quarter. We note that Danske Bank (including Danske Bank's Swedish branch and Danske Hypotek) increased its share of the Swedish mortgage market with a 6.8% marginal market share during the first half of 2020, improving on its 3.8% overall share. Danske Hypotek's common equity Tier 1 (CET1) ratio remains in line with expectations at 16.0% when considering the mid-year result (16.7% at end-2019).

Upside to Danske Hypotek's issuer rating remains constricted by our 'a' credit assessment of Danske Bank. Danske Bank's first-half results were affected by material increases in credit loss provisioning in response to COVID-19 and the economic scenarios the bank uses to make forward-looking provisions. While core revenues were relatively stable, an increase in compliance and legal costs weighed on the pre-provision result. However, Danske Bank maintains a robust capital position with its fully loaded CET1 ratio of 17.3% well above the regulatory minimum requirement of 13.2%.

### STABLE OUTLOOK

The stable outlook reflects our expectations of a flatter U-shaped recovery rather than the sharp V- or W-shaped rebound that we anticipated previously. In addition, the Swedish mortgage market remains robust after an initial downturn in March and April of this year and is expected to grow by up to 5% in 2020. We could revise our rating on Danske Hypotek due to changes in our credit assessment of Danske Bank, which we currently see as unlikely.

#### POTENTIAL POSITIVE RATING DRIVERS

- Improvement in NCR's view of Danske Bank group's creditworthiness.

#### POTENTIAL NEGATIVE RATING DRIVERS

- Deterioration in NCR's view of Danske Bank group's creditworthiness.
- Long-term economic recession, affecting economic activity and employment.
- Lower capital ratios or increased margin compression for Swedish residential mortgages.

**Figure 1. Scoring summary sheet**

Subfactors	Impact	Score
National factors	20.0%	bbb+
Regional, cross border, sector	-	n/a
Operating environment	20.0%	bbb+
Capital	17.5%	a-
Funding and liquidity	15.0%	a+
Risk governance	5.0%	a
Credit risk	10.0%	a
Market risk	-	-
Other risks	2.5%	a
Risk appetite	50.0%	a
Market position	15.0%	bbb+
Earnings	7.5%	aa-
Loss performance	7.5%	aa-
Performance indicators	15.0%	aa-
<b>Indicative credit assessment</b>		<b>a</b>
Peer comparisons		Neutral
Transitions		Neutral
Borderline assessments		Neutral
<b>Stand-alone credit assessment</b>		<b>a</b>
Support analysis		Neutral
Material credit enhancement		Neutral
Rating caps		Neutral
<b>Issuer rating</b>		<b>A</b>
Outlook		Stable
<b>Short-term rating</b>		<b>N-1+</b>

**Figure 2: Capital structure ratings**

Seniority	Rating
Covered bond	AAA
Senior unsecured	A+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 30 Apr. 2020.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	<a href="#">NCR's Financial Institutions Rating Methodology published on 14 Aug. 2018</a> <a href="#">NCR's Rating Principles published on 16 Sep. 2019</a> <a href="#">NCR's Covered Bond Rating Methodology published on 5 Jul. 2019</a> The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website <a href="http://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> . The historical default rates of entities and securities rated by NCR will be viewed on <a href="#">the central platform (CEREP) of the European Securities and Markets Authority (ESMA)</a> .
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Bond prospectuses, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: <a href="https://nordiccreditrating.com/governance/policies">https://nordiccreditrating.com/governance/policies</a>
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test or cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: <a href="http://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> .
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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## NORDIC CREDIT RATING AS

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