# Nordic Credit Rating

# Danske Hypotek AB (publ) cover pool overview Q2 2020

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This commentary does not constitute a rating action.

Nordic Credit Rating's (NCR's) 'A' issuer rating and 'AAA' covered bond ratings on Danske Hypotek AB (publ) (Danske Hypotek) are unchanged following the publication of its second-quarter 2020 results and receipt of updated cover pool details. The following report is our bi-annual statistical summary of Danske Hypotek's cover pool. Our latest full report explaining the components of NCR's covered bond ratings on Danske Hypotek (see Figure 1) is available here.

**Figure 1. Danske Hypotek covered bond rating components**



**Figure 2. Danske Hypotek cover pool characteristics, Q2 2018-Q2 2020**

|  | Q2 2018 | Q4 2018 | Q2 2019 | Q4 2019 | Q2 2020 |
|---|---|---|---|---|---|
| Eligible cover pool assets (SEKm) | 56.0 | 74.5 | 74.5 | 92.9 | 107.3 |
| Outstanding covered bonds (SEKm) | 38.9 | 47.6 | 63.5 | 73.1 | 89.5 |
| Overcollateralisation (%) | 44.2 | 56.6 | 17.3 | 27.0 | 19.8 |
| Weighted-average LTV (%) | 56.2 | 59.1 | 58.4 | 59.0 | 59.1 |
| Average loan seasoning (years) | 3.6 | 3.4 | 3.8 | 3.8 | 3.9 |
| Average bond maturity (years) | 4.4 | 4.0 | 3.7 | 3.3 | 3.2 |
| Average loan size (SEKm) | 1.08 | 1.08 | 1.07 | 1.06 | 1.04 |
| Owner-occupied share (%) | 95.5 | 95.8 | 95.8 | 96.2 | 96.3 |
| Priority liens (%) | 97.9 | 98.2 | 98.3 | 98.5 | 98.6 |
| >60 day past due loans (bps) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Source: Danske Hypotek's European Covered Bond Council Harmonised Transparency Templates (ECBC HTT). LTV-loan to value.

**Figure 3. Share of pool by borrower-level LTV, last five quarters**
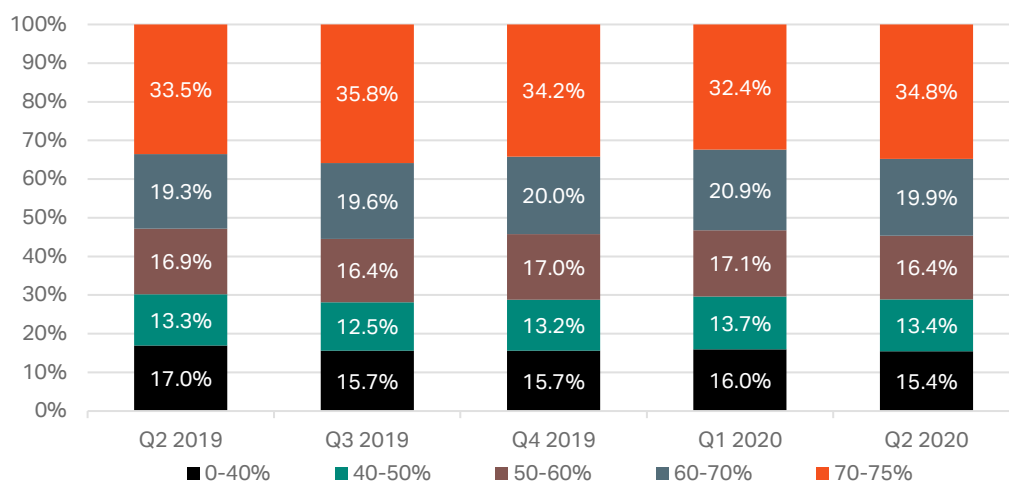


Source: Company data. Entire eligible loan amount in respective bucket based on borrowers' LTV.

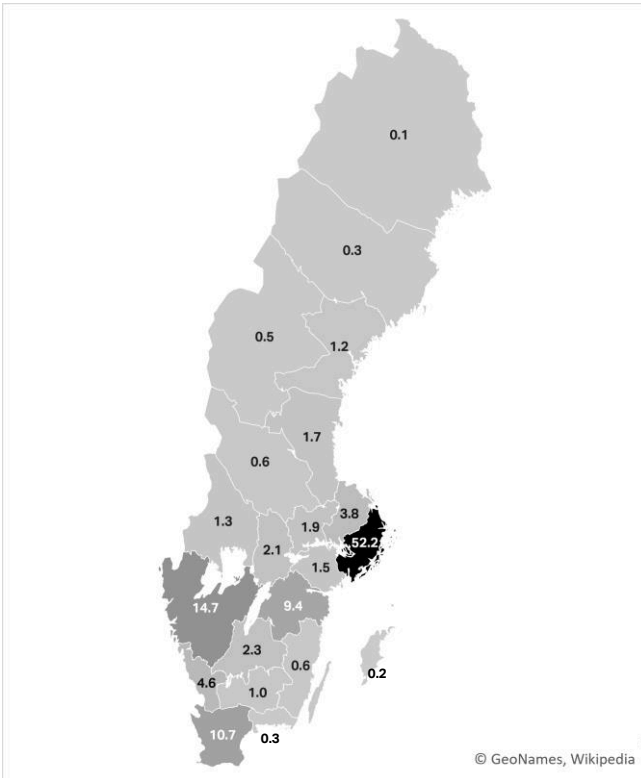**Figure 4. Loan balance by property region (SEKbn), 30 Jun. 2020**



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**Figure 5. Weighted LTV by borrower region (%), 30 Jun. 2020**



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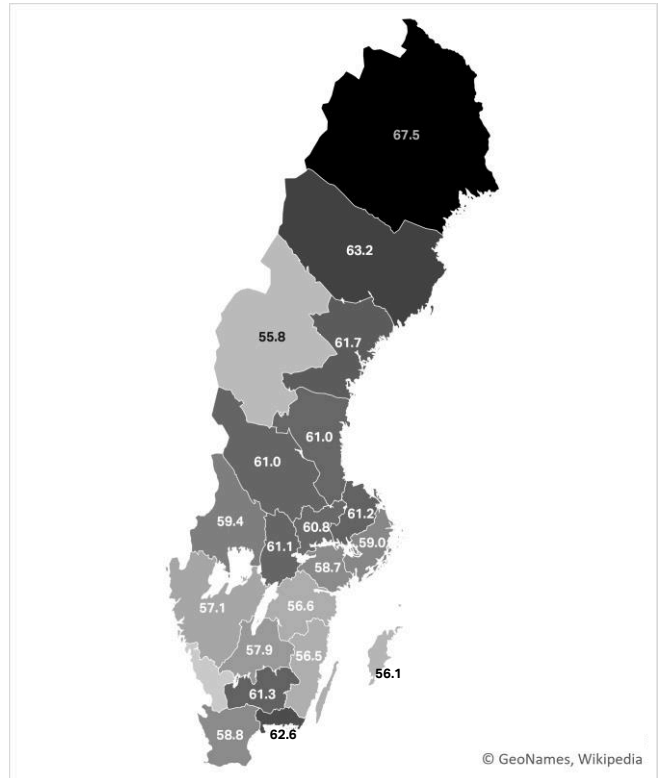
**Figure 6. Average loan per property by region (SEKm), 30 Jun. 2020**



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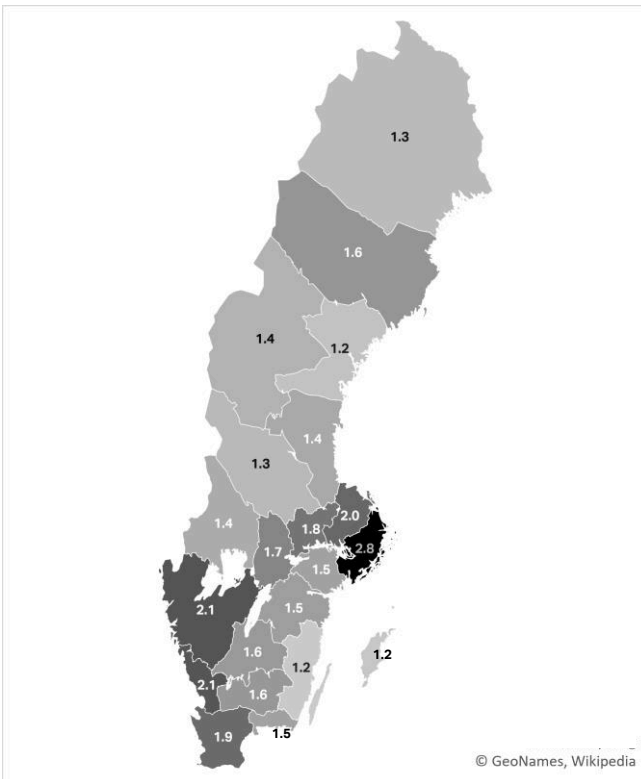
**Figure 7. Average region class[1] under NCR methodology by property region, 30 Jun. 2020**



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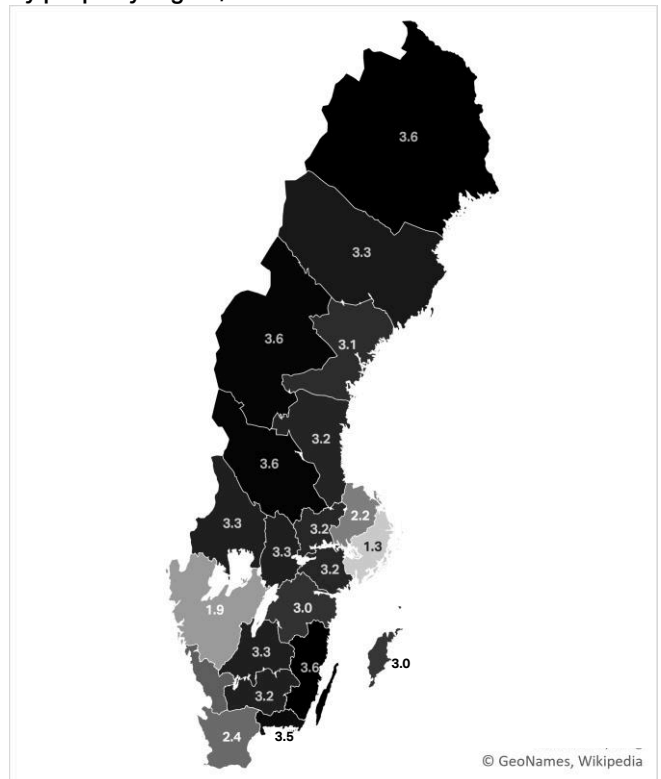
[1]See §65, *Covered Bond Rating Methodology*, 5 Jul. 2019. In summary, region classes are defined from 1-5. Classes 1-2 are for larger cities where price fluctuations are larger, but liquidity is higher. A class of 3 is in line with national levels and classes 4-5 reflect less liquid housing markets.

**Figure 8.  Share of pool by loan seasoning, last five quarters**



Source: Company data.
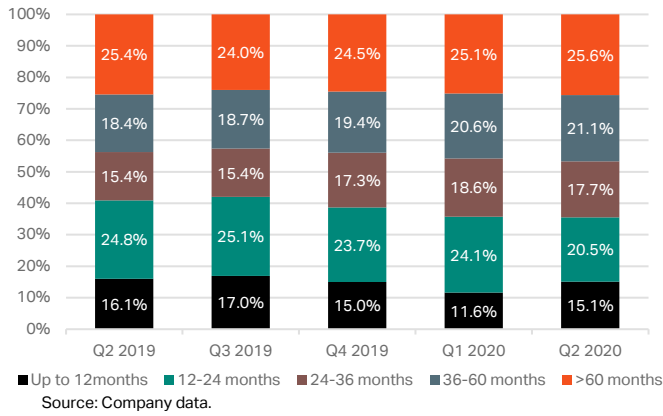
**Figure 9. Share of pool by loan size (SEK), last five quarters**



Source: Company data.
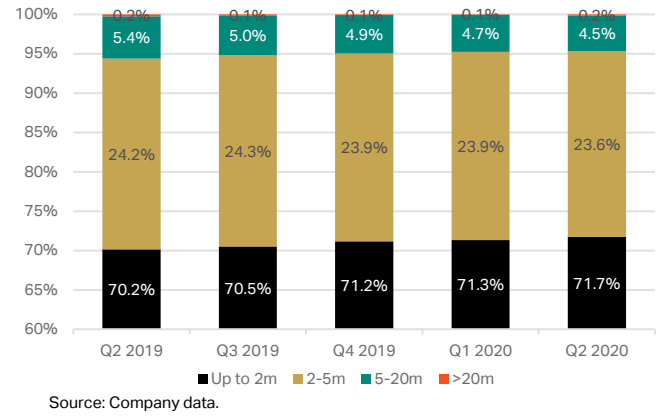
**Figure 10.  Share of pool by payment profile, last five quarters**



Source: ECBC HTT
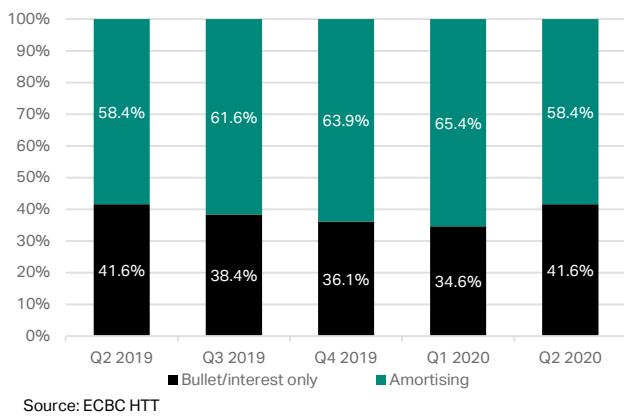
**Figure 11.  Share of pool by maturity, last five quarters**



Source: Company data.
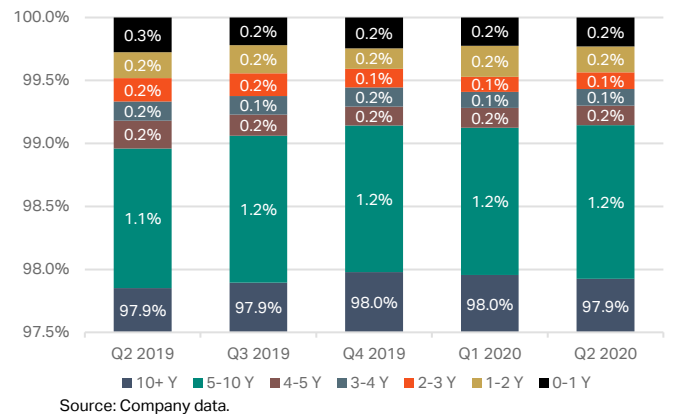
**Figure 12.  Share of pool by interest rate, last five quarters**



Source: Company data.
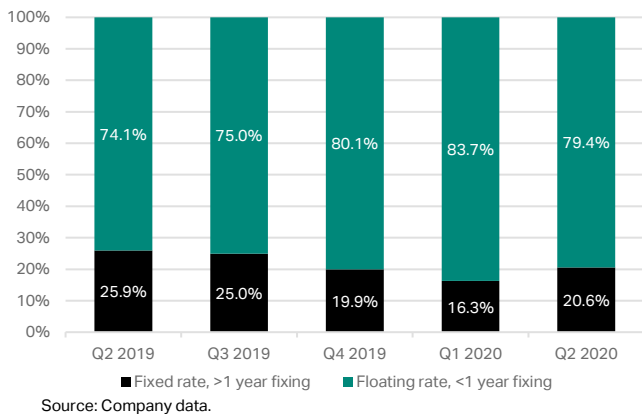
**Figure 13.  Share of pool by priority claims, last five quarters**



Source: Company data.
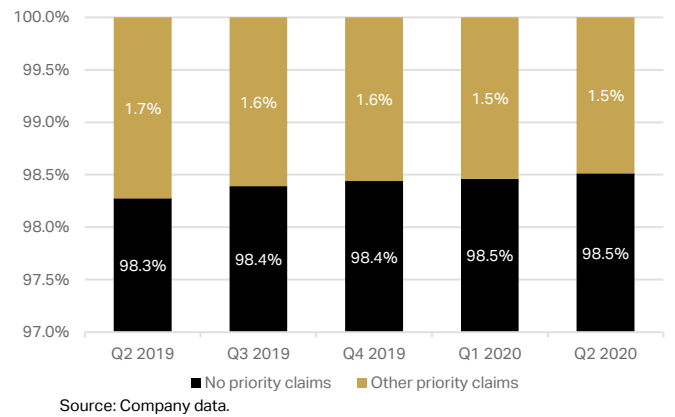
**Figure 14. Region class and property type, 30 Jun. 2020**



Source: Company data, including loan balances outside the cover pool, NCR region definitions.
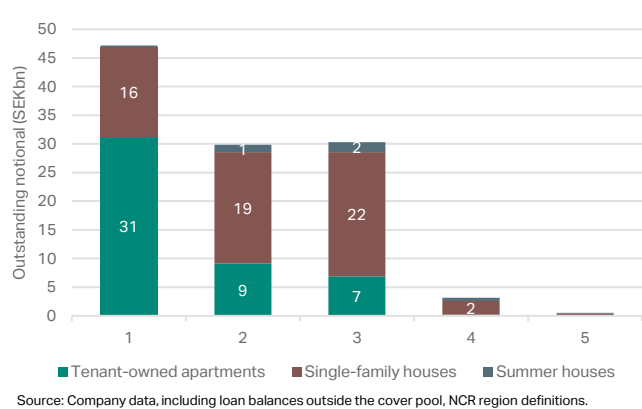
**Figure 15.  Region class, last five quarters**



Source: Company data, including loan balances outside the cover pool, NCR region definitions.
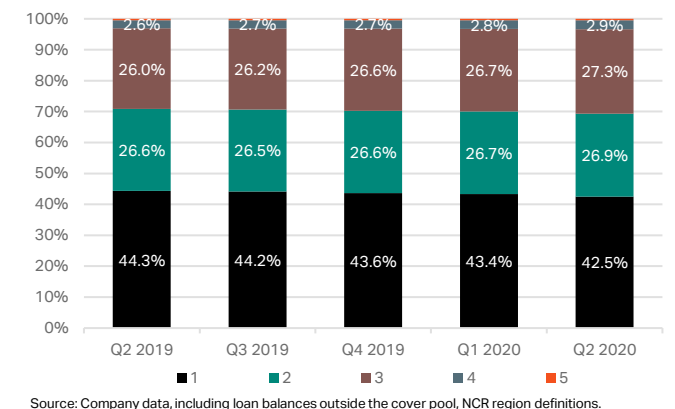
**CREDIT RISK STRESS TEST**

NCR's credit risk stress testing begins with standard assumptions as defined in our criteria. We then make adjustments to default assumptions based on the concentration of the portfolio and to stressed property valuations based on the region class of the specific property.

The resulting one-year and multi-year credit losses in the stress scenarios are compared with the expected loss of the portfolio using Danske Hypotek's own default probabilities (Figure 16). Danske Hypotek's stressed credit losses include an 8% upward adjustment to the standard default rates given that the company's cover pool is somewhat more concentrated than its Swedish peers'.

Figure 16. Expected loss as a share of cover pool loans, based on actual portfolio composition and NCR stress test, last five quarters
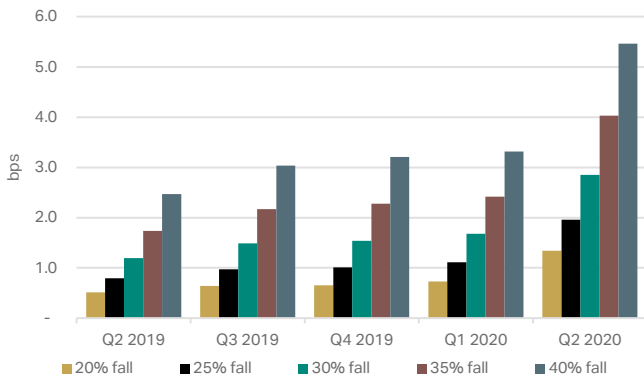


Source: NCR analysis of company data.

Figure 17. One-year credit loss as a share of cover pool loans, based on actual portfolio composition and NCR stress test, last five quarters
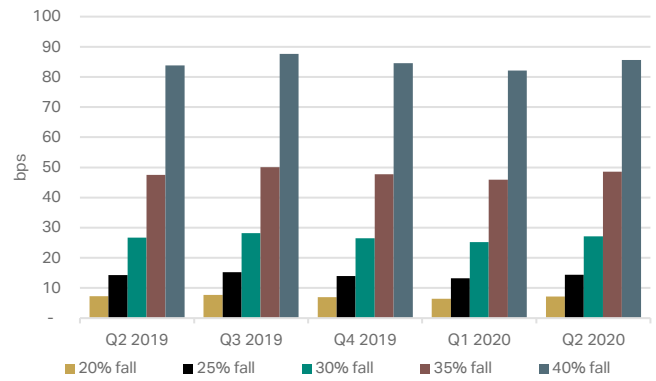


Source: NCR analysis of company data

Figure 18. Multi-year credit loss as a share of cover pool loans, based on actual portfolio composition and NCR stress test, last five quarters
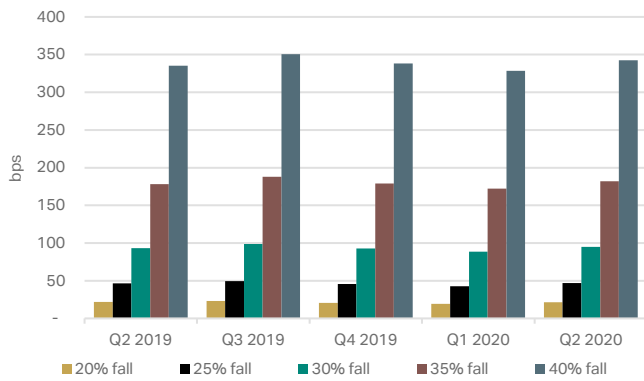


Source: NCR analysis of company data.

Figure 19. Peak non-performing loans as a share of cover pool loans, based on actual portfolio composition and NCR stress test, last five quarters
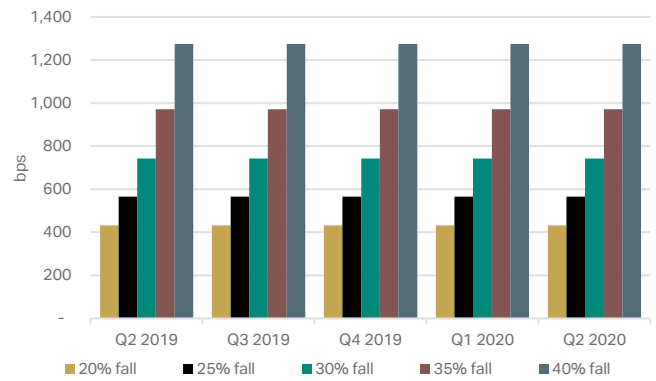


Source: Company data.

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