

Danske Bank A/S – Cover Pool C

Mortgage Covered Bonds

| | | | |
|-------------------------------|------------|--|----------------------|
| Covered Bonds Rating/Outlook | AAA/Stable | Asset type | Commercial mortgages |
| Issuer Default Rating/Outlook | A/Negative | Cover assets (EURbn) ^a | 9.3 |
| Resolution uplift | 2 notches | Covered bonds (EURbn) ^a | 6.8 |
| PCU | 5 notches | Nominal OC (%) ^a | 25.7 |
| Recovery uplift | 2 notches | Break-even OC (%) | 17.0 |
| Unused notches for rating | 4 | OC Fitch considers in its analysis (%) | 20.1 |
| Credit loss (%) | 16.3 | Basis of OC relied upon | Min last 12 months |
| ALM loss (%) | 0.6 | Covered bonds maturity type | Soft bullet |

Notes: OC – Overcollateralisation. ALM – Asset and Liability Management – PCU – Payment Continuity Uplift

^a Data at end-December 2020

Source: Fitch Ratings

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’, a resolution uplift of two notches, a PCU of five notches and a recovery uplift of two notches. The rating also considers the OC of 20.1% which Fitch Ratings gives credit to in its analysis, which is well above the agency’s 17.0% ‘AAA’ break-even OC for the programme. The four-notch buffer against a downgrade of the bank’s IDR supports a Stable Outlook.

Credit Loss: The credit loss of 16.3% (at March 2021 from 15.6% at April 2020) remains the largest component of the ‘AAA’ break-even OC. Its increase is driven by the larger proportion of large obligors (increased to 16.3% from 16.0% in 4Q19) and an increase in geographical concentration (Swedish assets increased to 83% from 67% in 4Q19). For the large 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.

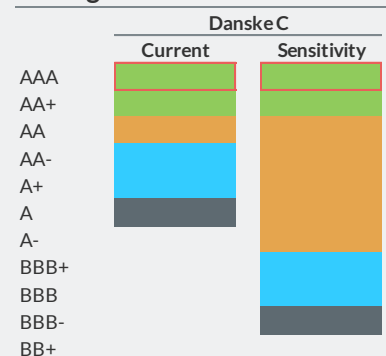
Decreased Benchmark PD Assumption: Fitch applied (at March 2021) a benchmark one-year PD of 1.70% for loans secured by Swedish commercial real estate (84%) and 2.20% for loans secured by Norwegian commercial real estate. The PDs were reduced by 0.15% for both countries from 2020, but still account for pandemic-related uncertainties.

Modest Maturity Mismatches: The ALM loss component, which represents the non-credit loss component of the break-even OC for the rating and reflects the programme’s maturity mismatches, is modelled at 0.6%. Due to the low weighted average life (WAL) of the assets compared to that of the liabilities, the high prepayment and decreasing interest rates scenario in our cash flow modelling is the most stressful for the programme. The associated reinvestment costs for the asset proceeds in the negative-rates scenario drive the ALM loss component.

Two-Notch Resolution Uplift: The programme’s two-notch resolution 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 any resolution of Danske 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.

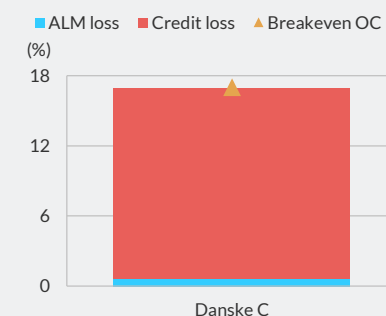
Rating Sensitivity to IDR Downgrade



| | |
|-----------------------------|-----|
| Covered Bond rating | AAA |
| Recovery uplift (notches) | 2 |
| PCU (notches) | 5 |
| Resolution uplift (notches) | 2 |
| IDR | A |

Source: Fitch Ratings

AAA Break-Even OC



Source: Fitch Ratings

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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.

Uplift Potential for PCU: The draft proposal for the transposition of the EU covered bond directive into Danish law will clarify the maturity extension procedure. If enacted, it could lead us to increase the PCU for the programme to six notches, increasing the buffer against issuer downgrade.

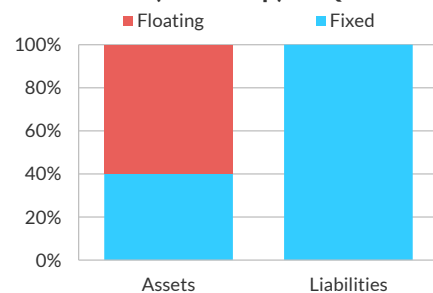
Cover Pool

Characteristics at September 2020

| General | Payment type | | |
|------------------------------------|--------------|--------------------------------|------|
| Current principal balance (EURbn) | 8.6 | Amortising (full and part) (%) | 72.0 |
| Number of loans | 6,660 | Interest only (%) | 28.0 |
| Average loan amount (EUR) | 1,290,841 | | |
| Number of obligors | 3,612 | Geographic distribution | |
| Obligors > 0.5% (%) | 16.3 | Sweden (%) | 84.0 |
| | | Norway (%) | 16.0 |
| Unstressed asset/liability profile | | | |
| WAL assets (years) | 2.8 | | |
| WAL liabilities (years) | 3.1 | | |

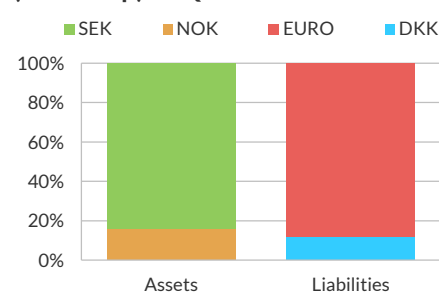
Source: Fitch Ratings, Danske Bank

Asset/Liability Interest Rate Breakdown (Pre-Swap) - 3Q20



Source: Fitch Ratings, Danske

Asset/Liability FX Breakdown (Pre-Swap) - 3Q20



Source: Fitch Ratings, Danske

Default Model Output (%)

| Rating level | WAFB (%) | WARR (%) | Loss rate (%) |
|--------------|----------|----------|---------------|
| AAA | 29.7 | 42.1 | 17.2 |
| AA+ | 26.6 | 47.1 | 14.0 |
| AA | 24.4 | 46.1 | 13.1 |
| B | 5.2 | 81.8 | 1.0 |

Source: Fitch Ratings

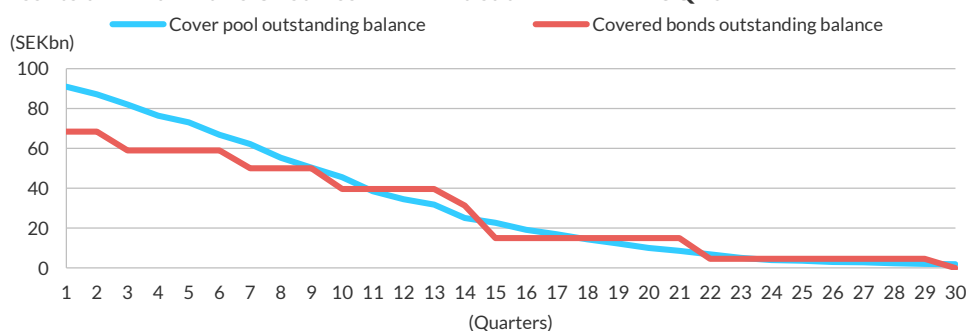
Applicable Criteria

- [Covered Bonds Rating Criteria \(November 2020\)](#)
- [Originator-Specific Residential Mortgage Analysis Rating Criteria \(January 2021\)](#)
- [SME Balance Sheet Securitisation Rating Criteria \(February 2020\)](#)
- [Bank Rating Criteria \(February 2020\)](#)
- [Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(November 2020\)](#)
- [Structured Finance and Covered Bonds Country Risk Rating Criteria \(September 2020\)](#)
- [EMEA CMBS and CRE Loan Rating Criteria \(June 2020\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria \(January 2020\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(January 2020\)](#)

Related Research

- [Danish Covered Bond Proposal Clarifies Extension Rules \(December 2020\)](#)
- [Covered Bonds Surveillance Snapshot \(January 2021\)](#)
- [Fitch Ratings 2021 Outlook: Global Covered Bonds \(November 2020\)](#)
- [Cover Pool Loss Rates Resilient to Coronavirus \(November 2020\)](#)
- [Covered Bonds Protection Dashboard \(February 2021\)](#)
- [Structured Finance and Covered Bonds Interactive ESG Relevance Dashboard - 4Q20 \(January 2021\)](#)
- [Realkredit Danmark's Capital Centres S & T Covered Bond Programmes - Peer Review \(February 2021\)](#)

Assets and Liabilities Unstressed Amortisation Profile - 3Q20



Source: Fitch Ratings, Danske

Selected Peers for Comparison

| Issuer/ Programme | Cover pool | CVB Rating |
|--|--------------------------------------|------------|
| Danske Bank A/S – cover pool C | Commercial Mortgages | AAA/Stable |
| Realkredit Danmark A/S – SDRO capital centre S | Residential and Commercial Mortgages | AAA/Stable |
| Realkredit Danmark A/S – SDRO capital centre T | Residential and Commercial Mortgages | AAA/Stable |

Source: Fitch Ratings

Peer Comparison

The table below compares the key rating drivers for the covered bond programme with those of other Fitch-rated mortgage covered bond programmes in Denmark with commercial exposure.

The 'AAA' breakeven OC for Danske C's covered bond programme is 17% (at March 2021). This is higher than the 'AAA' break-even OC for Realkredit Danmark's Capital Center S (CCS) of 4% and Capital Centre T (CCT) of 6%.

The credit loss component of 16.3% for Danske C's cover assets is higher than Realkredit's CCS and CCT programmes. The pool is composed of commercial mortgages with about 26.9% of the mortgage loans being secured by rental housing properties, 30.3% office and business, 11.7% agriculture, and the remainder by cooperative housing and others, at September 2020. Realkredit's CCS and CCT programmes include commercial and residential mortgage loans. The credit loss of all programmes is based on a 'AA+' rating scenario. The assets of Danske C are located in Norway and Sweden, whereas those of Realkredit's CCS and CCT programmes are located in Denmark. The 16.3% 'AA+' expected loss for Danske C is based on a 26.6% weighted average foreclosure frequency and a 47.1% weighted average recovery rate, at March 2021.

In the case of Danske C, the driving high prepayment scenario puts strain on the negative cost of carry of holding cash before repaying the maturing bonds. The resulting ALM Loss component for Danske C is therefore higher than those of Realkredit's CCS and CCT programmes (0.6% versus minus 1.5% and minus 0.6% respectively). Fitch does not model a sale of assets in its cash flow analysis of Realkredit's CCS and CCT programmes, but considers the possibility of bond refinancing post insolvency or models the pass-through or maturity extension of bonds with these features.

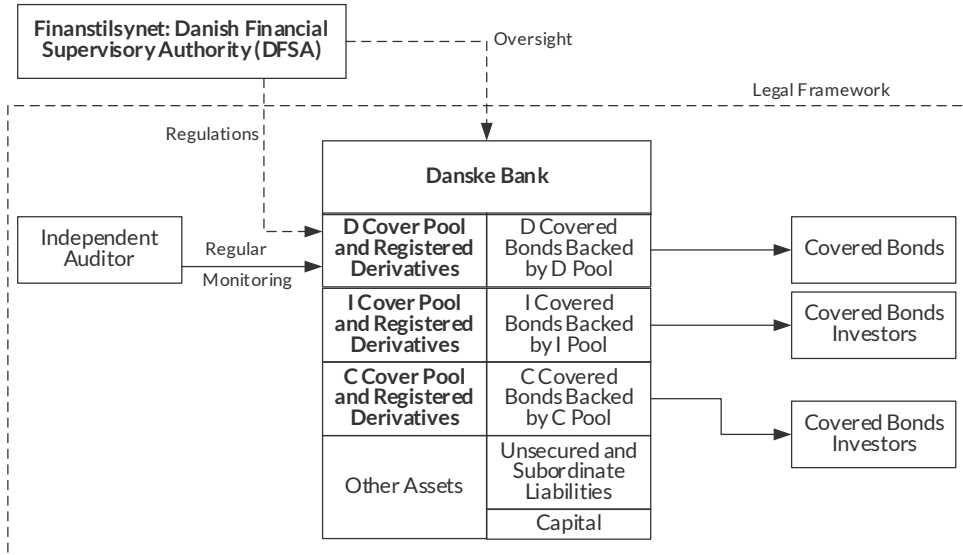
Please see Fitch's *Covered Bond Surveillance Snapshot* (January 2021) and the related Excel file for a detailed comparison of rating drivers across all Fitch-rated covered bond programmes.

Peer Comparison: Key Rating Drivers

| | Danske Bank A/S – cover pool C | Realkredit Danmark A/S – SDRO capital centre S | Realkredit Danmark A/S – SDRO capital centre T |
|------------------------------------|--------------------------------|--|--|
| IDR/Outlook | A/Negative | A/Stable | A/Stable |
| Resolution uplift (notches) | 2 | 0 | 0 |
| PCU (notches) | 5 | 6 | 6 |
| Recovery uplift (notches) | 2 | 2 | 2 |
| 'B' portfolio loss rate (%) | 1.0 | 0.6 | 0.6 |
| 'AAA' breakeven OC (%) | 17.0 | 4.0 | 6.0 |
| Breakeven OC components (%) | | | |
| Credit loss (%) | 16.3 | 5.6 | 6.6 |
| ALM loss (%) | 0.6 | -1.5 | -0.6 |

Source: Fitch Ratings, data at March 2021

Issuance Diagram



Source: Fitch Ratings

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