

# 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/Stable	Cover assets (EURbn) <sup>a</sup>	5.8
Resolution uplift	2 notches	Covered bonds (EURbn) <sup>a</sup>	4.8
PCU	6 notches	Nominal OC (%) <sup>a</sup>	18.1
Recovery uplift	2 notches	Break-even OC (%)	17
Unused notches for rating	5	OC Fitch considers in its analysis (%)	18.1
Credit loss (%)	17.5	Basis of OC relied upon	Expectation
ALM loss (%)	-0.6	Covered bonds maturity type	Soft-bullet (12-month extension)

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

<sup>a</sup> Data at end-September 2022

Source: Fitch Ratings

### Key Rating Drivers

**Five-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 six notches and a recovery uplift of two notches. The rating also considers the OC of 18.1% which Fitch Ratings gives credit to in its analysis, above the agency's 17% 'AAA' break-even OC for the programme. The five-notch buffer against a downgrade of the bank's IDR supports a Stable Outlook.

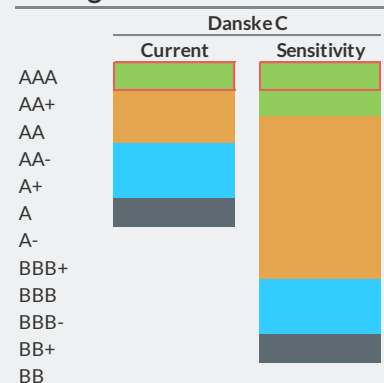
**Increased Six-Notch PCU:** Fitch's payment continuity uplift (PCU) for Danske's programme is now six notches, the standard level for mortgage covered bonds with a 12-month principal maturity extension and three months of protection for interest payment.

With amendments to Denmark's legislative covered bond framework after the implementation of the EU Covered Bond Directive, maturity extension can no longer be exercised discretionally. It can now only be exercised by an administrator appointed by the Danish FSA if the administrator is unable to bridge liquidity shortfalls by other measures.

**Increased Credit Loss Component:** The credit loss component of 17.5% (at December 2022 from 15.2% at January 2022) remains the largest component of the 'AAA' break-even OC. It has increased from the previous review due to a smaller pool size and correspondingly higher borrower concentration, which leads to increased loss assumptions for high rating scenarios under Fitch's criteria.

**Minimal Asset Liability 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 minus 0.6%. The high prepayment and decreasing interest rates projected in our cash flow modelling is the most stressed scenario for the programme.

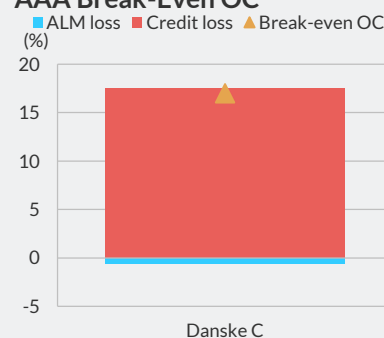
### Rating Sensitivity to IDR Downgrade



Covered Bond rating	AAA
Recovery uplift (notches)	2
PCU (notches)	6
Resolution uplift (notches)	2
IDR	A

Source: Fitch Ratings

### AAA Break-Even OC



Source: Fitch Ratings

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## Programme Highlights

**Higher Proportion of Large Obligators:** The proportion of obligors representing 50bp or more of the outstanding pool balance has increased to 22.8% (from 18.9% at 3Q21). 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.

**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.

**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.

**Two-Notch Recovery Uplift:** The recovery uplift for the programme is two notches. This is because Fitch deems that the foreign-exchange risk in a recovery given default scenario is mitigated by the assets having a shorter weighted average life (WAL) than the liabilities. No other material downside risks to recoveries have been identified.

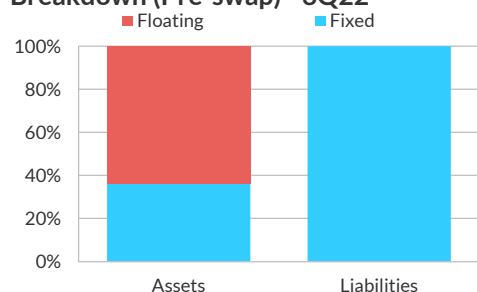
## Cover Pool

### Characteristics at September 2022

General	Payment type		
Current principal balance (EURbn)	5.8	Amortising (full and part) (%)	73.7
Number of loans	4,559	Interest only (%)	26.3
Average loan amount (EUR)	1,272,209		
Number of obligors	3,217	Geographic distribution	
Obligors > 0.5% (%)	22.8	Sweden (%)	87.2
		Norway (%)	12.8
Unstressed asset/liability profile			
WAL assets (years)	1.9		
WAL liabilities (years)	1.9		

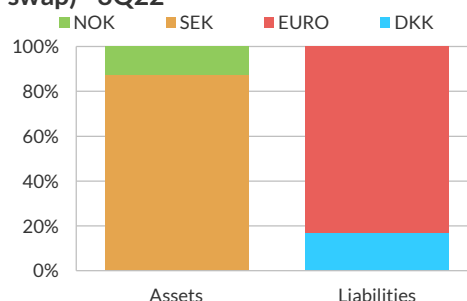
Source: Fitch Ratings, Danske Bank

### Asset/Liability Interest Rate Breakdown (Pre-swap) - 3Q22



Source: Fitch Ratings, Danske

### Asset/Liability FX Breakdown (Pre-swap) - 3Q22



Source: Fitch Ratings, Danske

## Default Model Output (%)

Rating level	WAFB (%)	WARR (%)	Loss rate (%)
AAA	25.8	32.5	17.4
AA+	23.7	37.2	14.9
AA	22.4	36.9	14.2
B	3.3	78.2	0.7

Source: Fitch Ratings

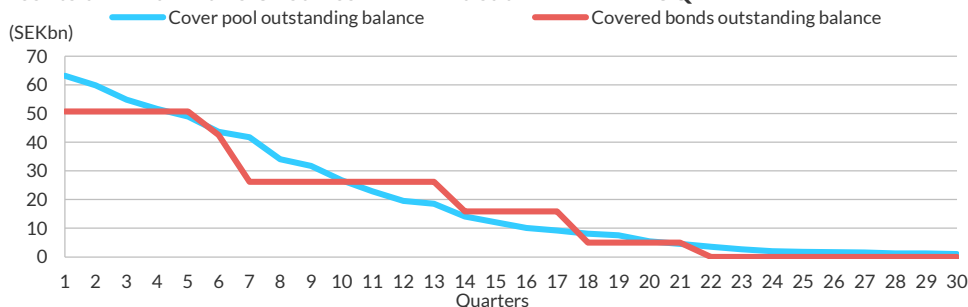
## Applicable Criteria

- [Covered Bonds Rating Criteria \(November 2022\)](#)
- [Originator-Specific Residential Mortgage Analysis Rating Criteria \(October 2022\)](#)
- [SME Balance Sheet Securitisation Rating Criteria \(October 2021\)](#)
- [Bank Rating Criteria \(September 2022\)](#)
- [Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(September 2021\)](#)
- [Structured Finance and Covered Bonds Country Risk Rating Criteria \(July 2022\)](#)
- [EMEA CMBS and CRE Loan Rating Criteria \(June 2021\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria \(July 2022\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(August 2022\)](#)

## Related Research

- [Covered Bonds Surveillance Snapshot \(October 2022\)](#)
- [Global Covered Bonds Outlook 2023 \(December 2022\)](#)
- [Covered Bonds Protection Dashboard \(December 2022\)](#)
- [Realkredit Danmark's Capital Centres S & T Covered Bond Programmes - Peer Review \(January 2022\)](#)

Assets and Liabilities Unstressed Amortisation Profile - 3Q22



Source: Fitch Ratings, Danske

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' break-even OC for Danske C's covered bond programme is 17% (at December 2022). This is higher than the 'AAA' break-even OC for Realkredit Danmark's Capital Center S (CCS) of 3.0% and Capital Centre T (CCT) of 3.5%.

The credit loss component of 17.5% for Danske C's cover assets is higher than those of Realkredit's CCS and CCT programmes. The pool is composed of commercial mortgages with about 21.9% of the mortgage loans being secured by rental housing properties, 11.1% cooperative housing, 31.6% office and business, 16.2% agriculture and the remainder by other property categories, at September 2022. Realkredit's CCS and CCT programmes include commercial and residential mortgage loans. The credit losses of all programmes are based on a 'AA+' rating scenario, corresponding to the timely payment rating level.

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 14.9% 'AA+' expected loss for Danske C is based on a 23.7% weighted average foreclosure frequency and a 37.2% weighted average recovery rate.

In the case of Danske C, the driving high prepayment scenario puts a strain on the negative cost of carry of holding cash before repaying the maturing bonds. The resulting minimal ALM Loss component for Danske C is similar to those of Realkredit's CCS and CCT programmes (minus 0.6% compared to minus 0.3% and minus 0.8% 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 after insolvency or models the pass-through or maturity extension of bonds with these features.

Please see Fitch's *Covered Bond Surveillance Snapshot* (October 2022) and the related Excel file for a detailed comparison of rating drivers across all Fitch-rated covered bond programmes.

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

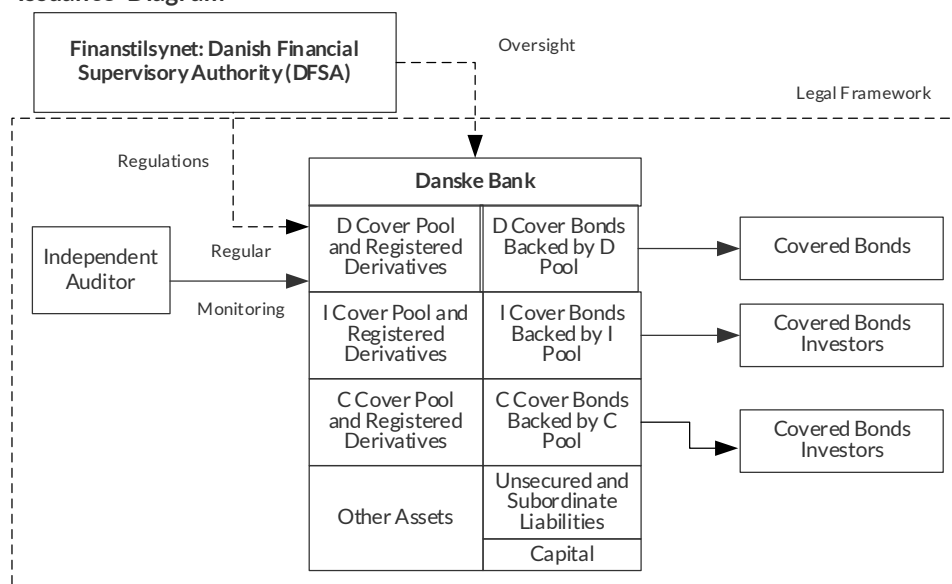
Source: Fitch Ratings

Peer Comparison: 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/Stable	A/Stable	A/Stable
Resolution uplift (notches)	2	0	0
PCU (notches)	6	6	6
Recovery uplift (notches)	2	2	2
'B' portfolio loss rate (%)	0.7	0.4	0.3
'AAA' break-even OC (%)	17.0	3.0	3.5
<b>Break-even OC components (%)</b>			
Credit loss (%)	17.5	3.3	4.4
ALM loss (%)	-0.6	-0.3	-0.8

Source: Fitch Ratings, data at December 2022

Issuance Diagram



Source: Fitch Ratings

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