

Danske Hypotek AB (publ)

Rating Action Report

COVERED BOND RATING

AAA

ISSUER RATINGS

LONG-TERM RATING

A

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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Danske Hypotek 'AAA' covered bond issue rating and 'A' issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'A' long-term issuer rating on Sweden-based [Danske Hypotek AB \(publ\)](#) (Danske Hypotek). The outlook is stable. At the same time NCR affirmed the 'N-1+' short-term rating, its 'AAA' issue ratings on Danske Hypotek's covered bond bonds and its 'A+' issue ratings on its senior unsecured bonds.

Rating rationale

Our 'A' long-term issuer rating on Danske Hypotek AB (publ) reflects the operating environment for Swedish mortgage lenders, which has improved since our last review due to a lower risk of pandemic-related loan losses, as well as strong risk-adjusted earnings and low credit risk profile. It also reflects Danske Hypotek's role as a 'vital' subsidiary within the Danske Bank group and a permanent part of Danske Bank's long-term strategy in its core Swedish market.

Given the stable outlook on the issuer rating on Danske Hypotek, we do not anticipate a multiple-notch downgrade of the company and expect the covered bond ratings to remain stable. This reflects our view that Danske Hypotek and Danske Bank will maintain their status as systemically important financial institutions with a very high likelihood of resolution, which would be expected to exclude the bail-in of covered bonds. Proposed changes to the Swedish Covered Bond Issuance Act, to align with the EU's latest covered bond directive, will not impact the ratings on Danske Hypotek's covered bonds.

Stable outlook

The outlook is stable, reflecting our credit assessment of Danske Bank and the overall Swedish mortgage market. Upside to the issuer rating on Danske Hypotek remains constrained by our 'a' credit assessment of Danske Bank. Given our view of Danske Hypotek as 'vital' to Danske Bank, we could revise our rating on the company due to changes in our credit assessment of the parent, which we currently regard as stable.

Rating list

	To	From
Long-term issuer credit rating:	A	A
Outlook:	Stable	Stable
Short-term issuer credit rating:	N-1+	N-1+
Covered bond issue rating:	AAA	AAA
Senior unsecured issue rating:	A+	A+

Figure 1. Danske Hypotek rating scorecard

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

Figure 2. Capital structure ratings

Seniority	To	From
Covered bond	AAA	AAA
Senior unsecured	A+	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:	<p>NCR's Financial Institutions Rating Methodology published on 18 Feb. 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022 NCR's Rating Principles published on 16 Sep. 2019 NCR's Covered Bond Rating Methodology published on 5 Jul. 2019</p> <p>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 nordiccreditrating.com/governance/policies. The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA).</p>
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: https://nordiccreditrating.com/governance/policies
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: nordiccreditrating.com/governance/policies .
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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