

RATING ACTION COMMENTARY

Fitch Affirms Danske Bank's Covered Bonds at 'AAA'; Withdraws Ratings

Tue 10 Dec, 2024 - 4:13 PM ET

Fitch Ratings - Frankfurt am Main - 10 Dec 2024: Fitch Ratings has affirmed Danske Bank A/S's (Danske; A+/Stable/F1) covered bonds issued under Pool C, D and I at 'AAA' with Stable Outlooks and subsequently withdrawn the ratings.

Fitch has chosen to withdraw the ratings of the covered bonds for commercial reasons and will no longer provide ratings or analytical coverage of them.

KEY RATING DRIVERS

Four Notches Above IDR: The covered bonds' rating is based on Danske's Long-Term Issuer Default Rating (IDR) of 'A+', the various uplifts above the IDR granted to the programme and the over-collateralisation (OC) protection for covered bond holders. The Stable Outlook reflects that on Danske Bank's IDR, along with a six-notch buffer against an IDR downgrade. The covered bonds are rated four notches above the bank's IDR. This is out of a maximum achievable uplift of 10 notches, consisting of a resolution uplift of two notches, a payment continuity uplift (PCU) of six notches and a recovery uplift of two notches.

Two-notch Resolution Uplift: The two-notch resolution uplift reflects that covered bonds issued by retail banks in Denmark are exempt from bail-in. It also considers Fitch's assessment that the risk of under-collateralisation at the point of resolution is sufficiently low and that a resolution of Danske, should it happen, would not result in the direct enforcement of a recourse against the cover pools. The two-notch resolution uplift results in an 'AA' resolution reference point.

Six-notch PCU: Fitch's PCU for the programmes is six notches, reflecting the principal liquidity protection provided by a 12-month maturity extension and three months protection for interest payments.

Recovery Uplift for Cover Pool C: The recovery uplift for cover Pool C is two notches, as Fitch deems that foreign-exchange (FX) risk in a recovery given default scenario is mitigated by the weighted average life of the assets, which is shorter or marginally longer than that of the liabilities. No other material downside risks to recoveries have been identified.

Recovery Uplift for Cover Pool D: The recovery uplift for cover pool D is two notches, as Fitch believes that the Danish krone's peg to the euro mitigates the significant pre-swap FX mismatches between Danish krone-denominated cover assets and euro-denominated liabilities.

Recovery Uplift for Cover Pool I: The recovery uplift for cover pool I remains capped at one notch due to significant pre-swap FX mismatches between cover assets and liabilities. The FX covered bonds are fully hedged until maturity (including the extension period). However, in the event of a covered bond default, recoveries from Danish krone-denominated assets could expose bondholders to FX risk.

Relied-Upon OC: As Danske's IDRs are 'A+'/'F1', Fitch relies on the lowest observed OC over the last 12 months. The relied-upon OC is 20.3% for cover pool C, 6.9% for cover pool D and 6.7% for cover pool I. They provide more protection than the respective 'AAA' break-even OC.

Unchanged Credit Loss: In accordance with its Covered Bonds Rating Criteria, Fitch carried forward the results of its asset models. For Danske D this is because the credit loss is driven by the application of the portfolio loss floor, and the asset characteristics, IDR and sovereign ratings have not materially changed since the last modelling in September 2023. For Danske C there has been no material change to asset characteristic and the last run of the asset model was less than 12 months ago.

Danske I's Cover Pool Composition: Danske I's cover pool has recently been collateralised with Danish mortgage loans, following the transfer of its assets to Nordea as part of the sale of Danske's private customer business in Norway. The assets have been replaced with Danish residential mortgage loans, which are similar in characteristics to those in Danske's cover pool D and we apply the same asset model results as for Danske's cover pool D to Danske's cover pool I.

Portfolio Loss Floor: The credit loss is driven by the minimum loss assumption of 4.0% and 3.2% for Danske D and I, at their respective rating scenarios. Fitch applies the assumption to address the idiosyncratic risks of low-risk portfolios and translates it into the 'AAA' and 'AA+' credit losses of 4.2% and 3.3%. It reflects the high quality of Danske's

cover assets with high seasoning and low current weighted average (WA) loan-to-value ratio, allowing for outstanding recoveries in case of default.

Danske C and D's Cash Flow Modelling: Danske C and D's cash flow modelling results have been carried forward in accordance with Fitch's Covered Bond Rating Criteria, since the models were run less than six months ago and there have been no significant changes in the meantime.

Danske C's 'AAA' Break-Even OC: Danske C's 20.0% 'AAA' break-even OC supports timely payments in a 'AA+' stress scenario and a one-notch recovery uplift to 'AAA'. The combination of a 'AA+' timely payment rating level and a one-notch recovery uplift results in the lowest break-even OC supporting the 'AAA' ratings. The break-even OC is composed of a credit loss of 19.3% and the ALM (asset-liability mismatch) loss component of 0.5%, and has been rounded up to the nearest 0.5%, in line with Fitch's Covered Bonds Rating Criteria.

Danske D's 'AAA' Break-Even OC: Danske D's 'AAA' break-even OC is at 4.0%. It supports a two-notch recovery uplift to 'AAA' above the resolution reference point of 'AA'. The credit loss in a 'AAA' rating scenario is the sole component of the break-even OC.

Danske I's 'AAA' Break-Even OC: The 'AAA' break-even OC has decreased from 7.0% to 5.0%, due to a lower ALM loss component for cover pool I. The ALM loss component of the break-even OC decreased to 1.9% from 3.6%, due to a change in the asset and liability structure following the transfer of its Norwegian assets and some of the Norwegian krona-denominated bonds to Nordea. The break-even OC supports a one-notch recovery uplift to 'AAA' above the 'AA+' timely payment rating level.

Cash Flow Modelling for Danske I: In Fitch's cash flow modelling, the lowest WA asset margin observed in the pool over the past 12 months is subject to a haircut of 40bp for the first 12 months and a haircut of 15bp thereafter. This margin is also constrained by a floor of 100bp and cap of 200bp. For this analysis, the margin remains floored at 100bp, consistent with the last review.

RATING SENSITIVITIES

Not applicable as the ratings have been withdrawn.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The covered bonds' rating was driven by the bank's Long-Term IDR.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Danske Bank A/S		
senior secured, Mortgage Covered Bonds, Cover Pool D	LT AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable
senior secured, Mortgage Covered Bonds, Cover Pool D	LT WD Withdrawn	
senior secured, Mortgage Covered Bonds, Cover Pool C	LT AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable

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APPLICABLE CRITERIA

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 28 Nov 2023\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub. 28 Nov 2023\)](#)

[SME Balance Sheet Securitisation Rating Criteria \(pub. 19 Feb 2024\) \(including rating assumption sensitivity\)](#)

[Bank Rating Criteria \(pub. 15 Mar 2024\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 20 Jun 2024\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Covered Bonds Cash Flow Model, v2.2.2 (1)

ADDITIONAL DISCLOSURES

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Danske Bank A/S

EU Issued, UK Endorsed

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