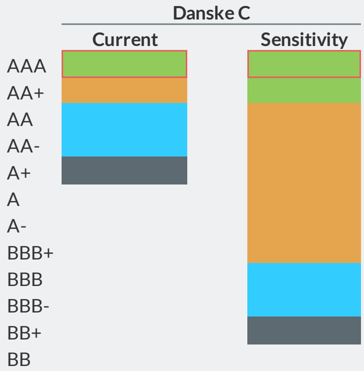
Danske Bank A/S – Cover Pool C

Mortgage Covered Bonds

Covered bonds rating/Outlook	AAA/Stable	**Asset type**	Commercial mortgages
Issuer Default Rating/Outlook	A+/Stable	**Cover assets (DKKbn)**[a]	40.9
Resolution uplift	2 notches	**Covered bonds (DKKbn)**[a]	34.6
Payment continuity uplift	6 notches	**Nominal OC (%)**[b]	20.8
Recovery uplift	2 notches	**Break-even OC (%)**	18.5
Unused notches for rating	6	**OC Fitch considers in its analysis (%)**	20.7
Credit loss (%)	17.5	**Basis of OC relied upon**	Lowest of last 12 months
ALM loss (%)	0.7	**Covered bonds maturity type**	Soft-bullet (12 month extension)

Notes: OC – overcollateralisation. ALM – asset and liability management. PCU – payment continuity uplift.
[a] Data at end-September 2023
[b] Nominal OC after hedging
Source: Fitch Ratings

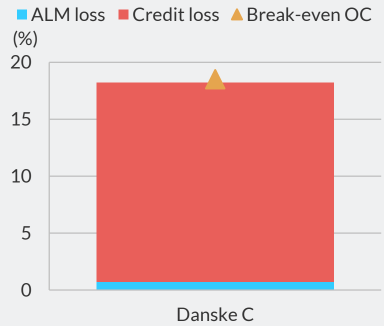
Rating Sensitivity to IDR Downgrade



Covered bonds 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

Key Rating Drivers

Six-Notch Rating Cushion: The 'AAA' soft-bullet covered bonds' rating is based on Danske Bank A/S's (Danske) 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 20.7%, which is the lowest level of OC over the past 12 months and provides more protection than Fitch Ratings' 18.5% 'AAA' break-even OC for the programme. The six-notch buffer against a downgrade of the bank's IDR supports a Stable Outlook.

Two-Notch Resolution Uplift: The two-notch resolution uplift reflects that covered bonds issued by commercial banks in Denmark are exempt from bail-in, while the risk of under-collateralisation at the point of resolution is deemed by Fitch to be sufficiently low, and should it happen, would not result in the direct enforcement of recourse against the cover pool. The two-notch resolution uplift also considers that Danske's IDR is driven by its Viability Rating.

Six-Notch PCU: Fitch's PCU for Danske's Cover Pool C (Danske C) is six notches, reflecting the 12-month principal maturity extension and three-month protection for interest payments.

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. Even if the FX risk is hedged in the programme, the swaps would likely terminate in a scenario with defaulted covered bonds. No other material downside risks to recoveries have been identified.

Unchanged Credit Loss Component: The unchanged credit loss component of 17.5% at 'AA+' remains the largest component of the 'AAA' break-even OC. It reflects the high borrower concentration in the pool, which leads to increased loss assumptions under Fitch's criteria.

Small Increase in ALM Loss from New Issuance: The asset liability mismatches (ALM) loss component, which represents the non-credit loss component of the break-even OC for the rating and reflects the programme's interest and maturity mismatches, has increased to 0.7% from -0.6%. This is driven by a five-year bond issuance in September 2023, which increased the weighted average bond margins and the WAL of the bonds (to 3.5 years from 2.8 years). A higher bond yield leads to a decline in the excess spread for the programme. The driving scenario in our cash-flow model is the high prepayment and decreasing interest rates, leading to a high negative carry of accumulated cash.

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Programme Highlights

Large Obligors Concentration: The proportion of obligors representing 50bp or more of the outstanding pool balance has increased to 23.2% (from 22.8% at 3Q22). 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.

Increased Norwegian Exposure in 2023: Danske C consists of Norwegian and Swedish commercial mortgage loans. The pool includes 24.4% of loans backed by residential properties (multifamily houses), which are treated as commercial real estate (CRE) for the purpose of the analysis. At 3Q23, the exposure to Norwegian assets increased to 39% from 13% in 3Q22, while the Swedish sub-pool decreased to 61% from 87%.

Currency Mismatches Hedged: The covered bonds have been issued in euros, Danish kroner and Norwegian 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.

Danish Legislative Framework: Changes to Denmark's covered bonds law, which took effect from July 2022, include how and when maturities on new covered bonds can be extended. The changes are only applicable after a new bond is issued under the cover pool register after the effective date of the EU Covered Bonds Directive. As Danske has issued new bonds under the programme since July 2022, Fitch's PCU was increased to six notches from five.

Given the 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 on new bonds. 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.

Cover Pool

Characteristics at September 2023

General		WAL assets (years)	2.8
Current balance (DKK bn)	40.9	WAL liabilities (years)	3.5
Number of loans	3,723	**Geographic concentration**	
Average loan amount (DKK m)	11	Norway **(%)**	39.1
Ten largest exposure (%)	7.2	Sweden **(%)**	60.9
Interest rate type		**Regional breakdown**	
Fixed rate (%)	45.6	East Sweden (%)	14.3
Floating rate (%)	54.4	Greater Stockholm (%)	12.1
Repayment type		South Sweden (%)	11.2
Interest-only (%)	34.1	Vestfold, Telemark & Viken (%)	10.8
Amortising (full and part) (%)	64.4	Oslo (%)	10.3
Other	1.5	Other (%)	41.3

Source: Fitch Ratings, Danske Bank

Default Model Output (%)

Rating level	WAFF (%)	WARR (%)	Loss rate (%)
AAA	25.2	30.2	17.6
AA+	23.1	35.4	14.9
AA	21.9	35.7	14.1
B	3.6	75.0	0.9

Source: Fitch Ratings

Applicable Criteria

Covered Bonds Rating Criteria (September 2023)

Originator-Specific Residential Mortgage Analysis Rating Criteria (January 2024)

Originator-Specific Residential Mortgage Analysis Rating Criteria – Supplementary Data File (January 2024)

SME Balance Sheet Securitisation Rating Criteria (October 2021)

Bank Rating Criteria (September 2023)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (December 2022)

Structured Finance and Covered Bonds Country Risk Rating Criteria (July 2023)

EMEA CMBS and CRE Loan Rating Criteria (June 2023)

Structured Finance and Covered Bonds Counterparty Rating Criteria (November 2023)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (November 2023)

Related Research

Covered Bonds Snapshot - 3Q23 (October 2023)

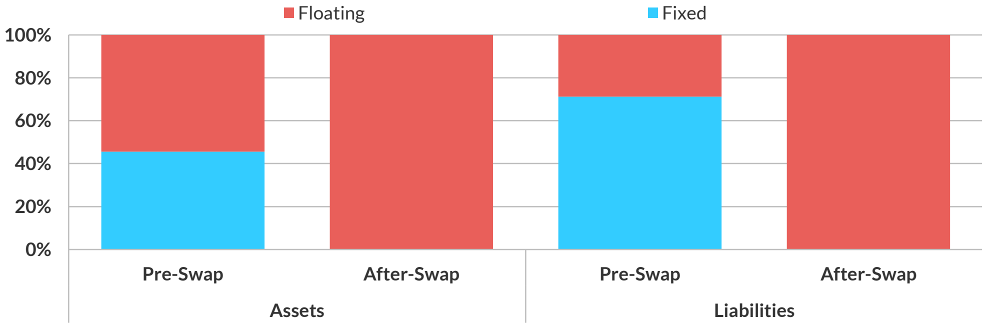
Global Covered Bonds Outlook (December 2023)

Covered Bonds Protection Dashboard (December 2023)

Danske Bank AS's Mortgage Pools D and I Covered Bond Programmes – Peer Review (February 2023)

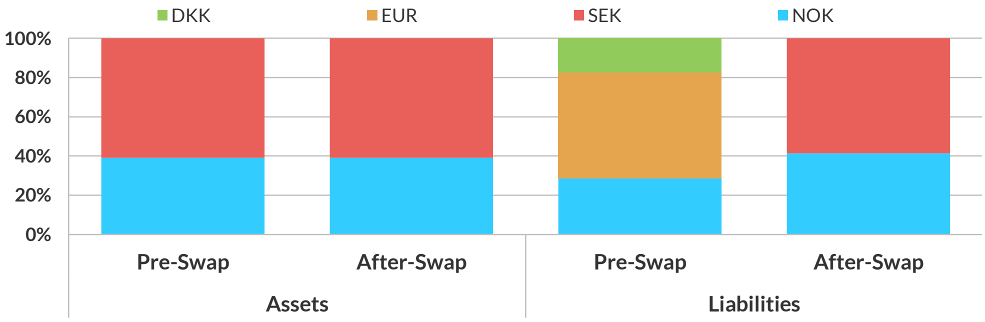
Realkredit Danmark's Capital Centres S & T Covered Bond Programmes – Peer Review (March 2023)

Asset/Liability Interest Rate Breakdown - 3Q23



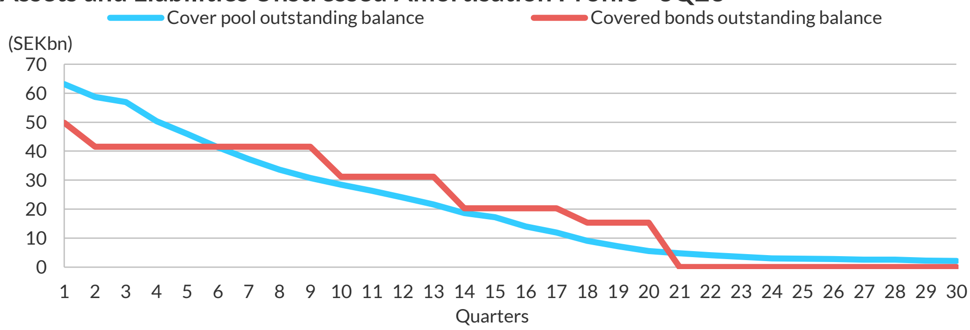
Source: Fitch Ratings, Danske

Asset/Liability FX Breakdown - 3Q23



Source: Fitch Ratings, Danske

Assets and Liabilities Unstressed Amortisation Profile - 3Q23



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 18.5% (at December 2023). This is higher than the 'AAA' break-even OC for Realkredit Danmark's Capital Centre S (CCS) of 3.0% and Capital Centre T (CCT) of 4.0%. The variation is principally because Danske C pool includes a majority of commercial mortgage loans, whereas CCS and CCT mostly include residential loans to private individuals, which have lower credit risk. In addition, the C pool is more concentrated and Fitch applies additional stresses in its analysis to exposures representing more than 0.5% of the pool. The smaller excesss spread and larger maturity mismatches also drive the higher 'AAA' break-even OC for Danske's C programme.

The credit loss component of 17.5% for Danske C's cover assets is higher than those of Realkredit's CCS and CCT programmes (3.3% and 4.7% respectively). The credit loss for CCS remains at the applied floor to capture the idiosyncratic risks of low-risk portfolios. The credit loss for CCT is 4.7%, driven by higher loan-to-value levels than for CCS. The assets of Danske C are located in Norway and Sweden, whereas those of Realkredit's CCS and CCT programmes are located in Denmark and consist of a mix of commercial and private residential properties.

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

The 14.9% 'AA+' expected loss for Danske C is based on a 23.1% weighted average foreclosure frequency and a 35.4% weighted average recovery rate. Taken as a percentage of the bonds (in OC terms), the expected loss is equivalent to a credit loss of 17.5% in a 'AA+' rating case.

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. A bond issuance in September 2023 at a higher margin led to a decline in the excess spread. The resulting ALM Loss component for Danske C with the current outstanding bonds increased to 0.7% from minus 0.6%. It contrasts with those of Realkredit's CCS and CCT programmes (minus 0.1% for CCS and minus 0.7% for CCT), which have lower interest and maturity mismatches.

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 the maturity extension of bonds with these features.

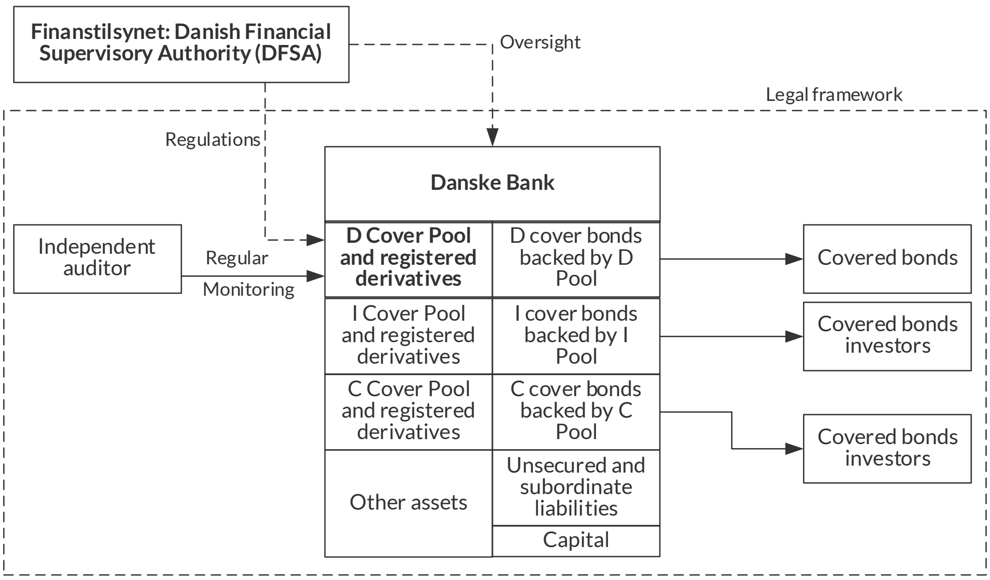
Please see Fitch's *Covered Bond Snapshot* (October 2023) and the related Excel file for a detailed comparison of rating drivers across all Fitch-rated covered bond programmes.

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+/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 (%)	0.9	0.4	0.3
AAA break-even OC (%)	18.5	3.0	4.0
Break-even OC components (%)			
Credit loss (%)	17.5	3.3	4.7
ALM loss (%)	0.7	-0.1	-0.7

Source: Fitch Ratings, data at December 2023

Issuance Diagram



Source: Fitch Ratings

ESG Relevance Scores

FitchRatings

Danske Bank AS, Mortgage SDO (Cover Pool C)

Covered Bonds ESG Navigator
Commercial Real Estate Loans and Mixed Mortgage

Credit-Relevant ESG Derivation

				ESG Relevance to Credit Rating
Danske Bank AS, Mortgage SDO (Cover Pool C) has 6 ESG potential rating drivers Danske Bank AS, Mortgage SDO (Cover Pool C) has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure/recovery practices, borrower/consumer data protection (data security) but this has very low impact on the rating. Danske Bank AS, Mortgage SDO (Cover Pool C) has exposure to macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability but this has very low impact on the rating. Governance is minimally relevant to the rating and is not currently a driver.	key driver	0	issues	5
	driver	0	issues	4
	potential driver	6	issues	3
	not a rating driver	5	issues	2
		3	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	2	Regulatory risks, fines, or compliance costs from building emissions standards (including energy consumption) and related reporting standards	Asset Stresses; Cash Flow Stresses; OC Protection	5
Energy Management	2	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	2	Environmental site risk and associated remediation/liability costs; sustainable building practices including Green building certificate credentials	Asset Stresses; Cash Flow Stresses; OC Protection	2
Exposure to Environmental Impacts	2	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes	Asset Stresses; Cash Flow Stresses; OC Protection	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.
The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.
The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Accessibility to affordable housing; GSE/agency issued or provision for social good; services for underbanked and underserved communities	Asset Stresses; Cash Flow Stresses; OC Protection	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure/recovery practices, borrower/consumer data protection (data security)	Asset Stresses; Cash Flow Stresses; OC Protection; Issuer Risk Present	4
Labor Relations & Practices	1	n.a.	n.a.	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability	Asset Stresses; Cash Flow Stresses; OC Protection	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Rule of Law, Institutional and Regulatory Quality	3	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	5
Transaction & Collateral Structure	3	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	4
Transaction Parties & Operational Risk	3	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	3
Data Transparency & Privacy	3	Transaction data and periodic reporting	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	2
				1

CREDIT-RELEVANT ESG SCALE - DEFINITIONS

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant; a key transaction or program rating driver that has a significant impact on an individual basis.
4	Relevant to transaction or program ratings; not a key rating driver but has an impact on the ratings in combination with other factors.
3	Minimally relevant to ratings; either very low impact or actively mitigated in a way that results in no impact on the transaction or program ratings.
2	Irrelevant to the transaction or program ratings; relevant to the sector.
1	Irrelevant to the transaction or program ratings; irrelevant to the sector.

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.