

Credit Rating Announcement

04 July 2024

Scope affirms and publishes covered bonds issued by Danske Bank from pools C and D at AAA/Stable

The issuer rating of A+ enhanced by up to six notches of governance-support based uplift results in the highest achievable ratings for the mortgage-covered bonds issued out of Pool C and D. Cover pool support can provide additional rating stability.

Rating action

Scope Ratings GmbH (Scope) has today affirmed the ratings assigned to the Danish mortgage-covered bonds (særligt dækkede obligationer – SDO) issued by Danske Bank A/S out of registers (pools) C and D at AAA. All ratings have a Stable Outlook.

Rating rationale

Solid issuer rating (positive)¹. Danske Bank A/S has a solid issuer rating of A+. The assessment reflects the broad diversification of its resilient universal business model, which includes retail and corporate banking, capital market activities, insurance and asset management. In all of these areas, the bank has a strong franchise in Denmark and other Nordic markets. The ratings also consider Danske Bank A/S's robust asset quality metrics and an operating performance that provides a solid buffer against potentially increasing cost of risk. Conservative capital buffers and stable and diversified funding and liquidity also add to the rating.

Governance support (positive)². Governance support is the primary rating driver for the SDOs issued under cover pool C and D and is based on Scope's view on: i) Denmark's strong legal covered bond framework; and ii) the resolution regime and systemic importance of Danske Bank A/S and its covered bonds in the country. Governance support provides the covered bonds with up to six notches of uplift above the issuer rating. Only four notches are needed to raise the covered bonds ratings to the highest achievable level. (ESG factor)

The legal framework, together with common market practices, ensures i) the cover pool would be segregated from the issuer's insolvency estate; ii) bond payments can continue after insolvency; and iii) identified risks can be mitigated by overcollateralisation, which remains available after insolvency. Danish covered bonds also benefit from specific regulatory oversight and the unique balance principle (general) which largely mitigates liquidity and other market risks allowing for two notches of uplift from our legal framework assessment.

The additional four notches of resolution-regime uplift reflect Scope's assessment of the Danish resolution regime and systemic importance considerations. These include: i) the implementation of the Bank Recovery

and Resolution Directive and the exemption of covered bonds from bail-in; ii) incentives that prevent regulatory intervention in the issuer affecting the covered bonds' credit quality and performance; iii) product-, issuer- and country-specific aspects relevant to the systemic importance of covered bonds in Denmark; and iv) a pro-active domestic stakeholder community.

One or more key drivers of the credit rating action are considered an ESG factor.

Rating-change drivers

Scope's Stable Outlooks on the covered bonds reflect the rating on the issuer, governance support and the strong cover pools. The ratings may be downgraded upon: i) an issuer rating downgrade by more than five notches, ii) a deterioration in Scope's view on governance support factors relevant to the issuer and Danish covered bonds in general and on the interplay between complexity and transparency, and/or iii) the inability of the cover pools to provide an additional uplift in case the issuer rating is downgraded by more than two notches.

Quantitative analysis and assumptions

Scope performed a cover pool analysis to assess the cover pool's ability to provide additional support should the issuer be downgraded by more than two notches.

Cover pool support³. For Pool C and D the cover pool analysis supports additional rating stability. This is reflected by:

- Cover Pool Complexity Score (positive)**. For both programmes Scope has assigned a Cover Pool Complexity category of 'Low' to the issuer's management of the interplay between complexity and the transparency provided to investors. This allows for an additional uplift of three notches on top of the governance uplift. (ESG Driver).
- Over-collateralisation (positive)**. As of 31 March 2024, Pool D benefits from 6.9% and Pool C from 20.3% of over-collateralisation. The current level of over-collateralisation can shield the AAA/ Stable ratings against an issuer downgrade of up to five notches.
- Sound credit quality (positive)**. The cover pools comprise Danish residential (Pool D), as well as Swedish and Norwegian commercial mortgage loans (Pool C). They benefit from a low average indexed loan-to-value ratio of about 52.0% for Pool D and 47.8% for Pool C.
- Market risks (positive)**. Market risks are hedged and further aided by the Danish (general) balance principle.

Scope's projection of default for Pool D and C were made assuming an inverse Gaussian distribution. Scope derived an effective weighted-average lifetime mean default rate of 5.3% for Pool D and 2.0% for Pool C with a coefficient of variation of 50% and 60% based on the issuers performance data also taking into account market performance and benchmarking.

Scope applied rating distance and location-dependent total security-value haircuts (including liquidation costs) for the properties securing the Danish mortgage loans. Scope assumed haircuts of 30% in its base scenario. Under a stressed scenario 42.5%-55.0% for Pool D (private residential) and for Pool C, 65% for multi-family and 75% for other commercial property, respectively. Taking into account the loan specific

characteristics, asset-recovery rates for Pool D range between 98.4% in the base scenario and 66.8% in the stressed scenario. For Pool C between 99.5% and 57.2%, respectively.

Scope used the resulting loss distributions and default timings to project the covered bond programmes' losses and reflect their amortisation structures. The analysis also incorporated the impact of rating-distance-dependent interest-rate and foreign exchange rate stresses as well as different prepayment scenarios. Scope tested for low (1%) and high (up to 25%) prepayments to stress the programmes' sensitivity to unscheduled repayments. Scope applied foreign exchange stresses ranging between -35% and +55%.

Recovery lag assumptions were 18 months for residential loans and 24 months for commercial loans. Scope assumed an annual average servicing fee of 25bp for residential and 50bp for commercial mortgage loans.

For Pool D and C Scope calculated the cover pools' net present value in the event of an asset sale. A refinancing premium of 150bp for residential mortgage loans and 300bp for commercial mortgage loans was added to the rating-distance and scenario-dependent discount curve.

Rating driver references

1. [Danske Bank A/S – issuer rating](#)
2. [Governance support assessment Denmark](#)
3. [Confidential and public quarterly cover Pool reporting, complementary annual performance updates](#)

Stress testing

No stress testing was performed.

Cash flow analysis

The Credit Rating uplift is based on a cash flow analysis using Scope Ratings' covered bond model (Covered Bonds Expected Loss Model Version 1.1). The model applies Credit Rating distance-dependent stresses to scheduled cash flows to simulate the impact of increasing credit and market risks. The model outcome is the expected loss for a given level of overcollateralisation.

Methodology

The methodology used for these Credit Ratings and Outlooks, (Covered Bond Rating Methodology, 24 May 2023), is available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

The model used for these Credit Ratings and Outlooks is (Covered Bonds Expected Loss Model Version 1.1), available in Scope Ratings' list of models, published under <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://scoperatings.com/governance-and-policies/regulatory/eu-regulation>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerp.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

The Outlook indicates the most likely direction of the Credit Rating if the Credit Rating were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting these Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and Outlooks and the principal grounds on which the Credit Ratings and Outlooks are based. Following that review, the Credit Rating and Outlooks were not amended before being issued.

Regulatory disclosures

These Credit Ratings and Outlooks are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and Outlooks are UK-endorsed.

Lead analyst: Fatemeh Torabi Kachousangi, Specialist

Person responsible for approval of the Credit Ratings: Karlo Fuchs, Managing Director

The Credit Ratings/Outlooks were first released by Scope Ratings on 22 September 2015. The Credit Ratings/Outlooks were last updated on 11 July 2022.

Potential conflicts

See www.scooperatings.com under Governance & Policies/Regulatory for a list of potential conflicts of interest disclosures related to the issuance of Credit Ratings, as well as a list of Ancillary Services and certain non-Credit Rating Agency services provided to Rated Entities and/or Related Third Parties.

Conditions of use / exclusion of liability

© 2024 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.

About Scope Group

With more than 300 employees operating from offices in Berlin, Frankfurt, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG analysis and fund research. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. Scope Ratings is registered in accordance with the EU rating regulation and operating in the European Union with ECAI status. Scope Ratings is the only European rating agency accepted by the ECB for the Eurosystem Credit Assessment Framework (ECAAF). The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several European countries. More on www.scopegroup.com

Contact

Analyst	F a t e m e h	T o r a b i	f.torabi@scooperatings.com
Team leader	Kachousangi		k.fuchs@scooperatings.com
	Karlo Fuchs		



Scope Ratings GmbH • Lennéstraße 5 • D-10785 Berlin • Phone: +49 30 27891-0 • Fax: +49 30 27891-0
www.scooperatings.com

Executive Board: Guillaume Jolivet • District Court: Berlin: HRB 192993 B • VAT identification number: DE226486027

Save paper! Please consider the environment before printing this email. This email may contain confidential and/or privileged information. If you are not the intended recipient (or have received this email by mistake) please notify the sender immediately and destroy this email. Any unauthorised copying, disclosure or distribution of the material in this email is strictly forbidden.

[Subscription Center](#)

[Contact](#)

[Legal Notice](#)

