

13 AUG 2024

Fitch Affirms Danske Bank A/S's Cover Pools D and I Mortgage Covered Bonds at 'AAA'; Outlook Stable

Fitch Ratings - Frankfurt am Main - 13 Aug 2024: Fitch Ratings has affirmed Danske Bank A/S's (A+/Stable/F1) mortgage covered bonds, secured by the bank's cover pool D (Danske D) and cover pool I (Danske I), at 'AAA' with Stable Outlooks.

KEY RATING DRIVERS

Four Notches Above IDR: The mortgage covered bonds' ratings are based on Danske Bank's 'A+' Long-Term Issuer Default Rating (IDR), the various uplifts above the IDR granted to both programmes and the over-collateralisation (OC) protection provided to the bondholders. The Stable Outlook reflects that on Danske Bank's IDR, along with a six-notch buffer for Danske D and five-notch buffer for Danske I against an IDR downgrade.

The covered bonds are rated four notches above the bank's Long-Term IDR. The maximum achievable uplifts are 10 notches for cover pool D and nine notches for cover pool I. The uplifts consist of a resolution uplift of two notches, a payment continuity uplift (PCU) of six notches, and recovery uplifts of two notches for cover pool D and one notch for cover pool I. As Danske's IDRs are 'A+/'F1', Fitch relies on the lowest observed OC over the last 12 months.

Cover Pool D: Danske D consists of highly granular Danish residential mortgages. The relied upon OC is 6.8% and provides more protection than the unchanged 'AAA' break-even OC of 4%. As of end-June 2024, Danske D's outstanding covered bonds (DKK42 billion equivalent) were secured by DKK46.1 billion of cover assets.

Cover Pool I: Danske I consists of highly granular Norwegian residential mortgages and substitute assets. The relied upon OC is 9.6% and provides more protection than the increased 'AAA' break-even OC of 7.5% (from 7% previously). As of end-June 2024, Danske I's outstanding covered bonds (DKK44.7 billion equivalent) were secured by DKK49.5 billion of cover assets.

Transfer of Norwegian Assets: Danske Bank expects to sell the assets from Danske I to Nordea Eiendomskreditt AS (a fully-owned mortgage credit subsidiary of Nordea Bank) by end-2024. The transaction has been approved by the Norwegian Competition Authority and the Danish Financial Supervisory Authority.

Two-notch Resolution Uplift: The two-notch resolution uplift for each programme 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 the recourse against the cover pools. The two-notch resolution uplift results in a 'AA' resolution reference point.

Six-notch PCU: The PCU for each programme is six notches, reflecting the principal liquidity protection provided by a 12-month maturity extension and three-month protection for interest payments.

Recovery Uplift: 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 foreign-exchange (FX) mismatches between Danish krone-denominated cover assets and euro-denominated liabilities.

The recovery uplift for cover pool I remains capped at one notch due to the presence of 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 Norwegian krone-denominated assets could expose non-Norwegian krone-denominated bondholders to FX risk.

Unchanged Credit Loss: In accordance with its Covered Bonds Rating Criteria, Fitch carried forward the results of its asset models. 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 review in September 2023.

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 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 D's 'AAA' Break-Even OC : The 'AAA' break-even OC remains unchanged 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' breakeven OC has increased to 7.5% from 7.0%, due to a higher ALM loss component for cover pool I. The ALM loss component of the breakeven OC increased to 4.3% from 3.6%, driven by higher cost of sales due to shorter bond maturities. The breakeven 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 last year's review. In our cash-flow modelling, we assumed that the flex-loans would convert to repayment loans after an initial 10-year interest-only period.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The covered bonds are rated 'AAA', which is the highest level on Fitch's scale and cannot be upgraded.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Cover Pool D: Danske D mortgage covered bonds would be vulnerable to a downgrade if either of the following occurs: (i) Danske's 'A+' Long-Term IDR is downgraded by seven notches to 'BB' or below; or (ii) the level of OC Fitch gives credit to in its analysis falls below the 'AAA' BE OC of 4.0%.

If the actual OC reduces to the legal minimum of 2%, the covered bonds would be downgraded to 'AA+', three notches above the bank's IDR.

Cover Pool I: Danske I mortgage covered bonds would be vulnerable to a downgrade if either of the following occurs: (i) Danske's 'A+' Long-Term IDR is downgraded by six notches to 'BB+' or below; or (ii) the level of OC Fitch gives credit to in its analysis falls below the 'AAA' breakeven OC of 7.5%.

If the OC reduces to the legal minimum of 2%, the covered bonds would be downgraded to 'AA+', three notches above the bank's IDR.

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' ratings are driven by Danske 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>.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Danske Bank	A/S		

ENTITY/DEBT	RATING		RECOVERY	PRIOR
<ul style="list-style-type: none"> senior secured, Mortgage Covered Bonds, Cover Pool D 	LT	AAA 	Affirmed	AAA 
<ul style="list-style-type: none"> senior secured, Mortgage Covered Bonds, Cover Pool I 	LT	AAA 	Affirmed	AAA 

RATINGS KEY OUTLOOK WATCH

POSITIVE



NEGATIVE



EVOLVING



STABLE



Applicable Criteria

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

[Covered Bonds Rating Criteria \(pub.06 Aug 2024\) \(including rating assumption sensitivity\)](#)

[European RMBS Rating Criteria \(pub.21 Jun 2023\) \(including rating assumption sensitivity\)](#)

[Originator-Specific Residential Mortgage Analysis Rating Criteria \(pub.29 Jan 2024\) \(including rating assumption sensitivity\)](#)

[Originator-Specific Residential Mortgage Analysis Rating Criteria - Supplementary Data File \(pub.29 Jan 2024\)](#)

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

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

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

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub.05 Apr 2024)

Applicable Models

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

Covered Bonds Cash Flow Model, v2.1.7 (1)

Additional Disclosures

[Solicitation Status](#)

[Endorsement Status](#)

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