Danske Bank Pool C

Mortgage Covered Bonds

The AAA rating with a Stable Outlook assigned to the mortgage covered bonds (særligt dækkede obligationer – SDOs) issued by Danske Bank A/S (Danske Bank) is based on the bank's issuer rating (A+/ Stable) enhanced by up to six notches of governance-support factors. The six notches reflect the strong governance of Denmark's legal covered bond and their resolution framework and provide a floor for the covered bond rating against a deterioration in cover pool credit quality.

Covered bond programme

Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
31 Mar 2024	DKK 41.65bn*	Commercial mortgages	DKK 34.61bn*	AAA/Stable

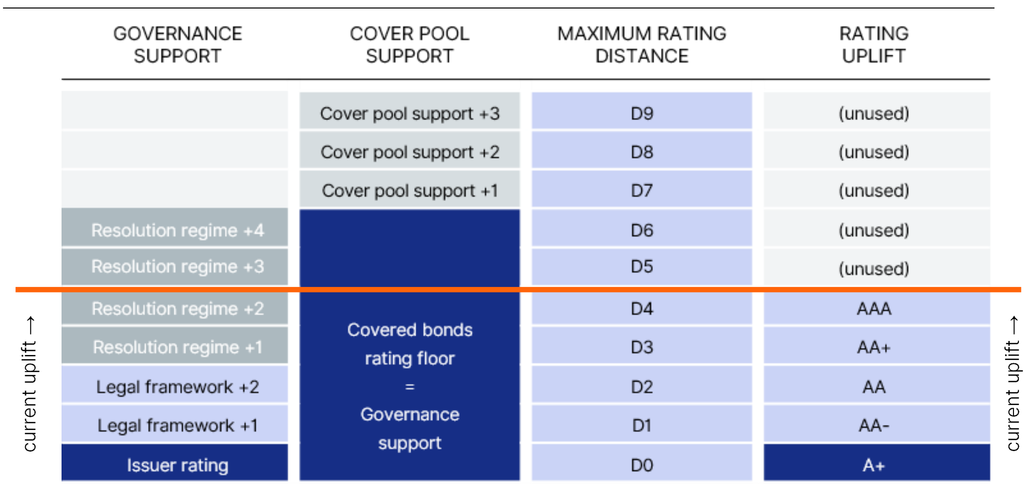
*DKK is the base currency used by Danske Bank

As of March 2024, Danske Bank's mortgage covered bonds issued out of its pool C are secured by mortgage loans originated by its branches in Sweden (63.5% of portfolio) and Norway (36.5%). No substitute assets are registered.

Of the mortgage loans, 72.3% are exposed to commercial properties including for agriculture. The remainder to private rental residential or multifamily properties account for 27.7%. The properties securing the loans are spread well across both Sweden and Norway. With 3,563 loans, the portfolio has a moderate granularity, also reflected in the top 10 exposure of 6.6%. The average loan-to-value (LTV) is relatively low at 47.9%

Market risks are present due to maturity, interest rate and currency mismatches, though these are well managed and hedged. The weighted average scheduled maturities of the cover assets (2.7 years) and liabilities (3.6 years excluding extensions) create a mismatch that exposes the programme to carry costs from excess cash. Interest rates and currency mismatches are hedged between the covered bonds (fixed-rate in euro; floating-rate in Norwegian krone) and the assets.

Figure 1: Covered bond rating building blocks



Covered bond rating

AAA

Outlook

Stable

Rating action date

4 July 2024

Last rating action

Affirmation

Issuer rating

A+

Outlook

Stable

Last rating action date

18 June 2024

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Stable Outlook

The Stable Outlook on the SDOs reflects the issuer's rating and Stable Outlook in addition to a five-notch rating buffer from governance and cover pool support against an issuer downgrade. Consequently, the covered bond rating may only be downgraded upon: i) an issuer rating downgrade by more than five notches; ii) a deterioration in Scope's view on credit-positive governance factors relevant to the issuer and Danish covered bonds in general and on the interplay between complexity and transparency; and/or iii) an inability by the cover pool to provide an additional uplift in case of an issuer rating downgrade by more than two notches.

Changes since last performance update

On 18 June 2024, we affirmed Danske Bank's issuer rating at A+ with a Stable Outlook. The issuer's rating and Outlook reflect the broad diversification of its universal business model, encompassing retail and corporate banking, capital market activities, insurance, and asset management.

The AAA/Stable rating of the pool C covered bonds is four notches above the issuer rating with five-notches rating buffer. The rating buffer was previously three notches, with the improvement reflecting the higher cover pool complexity (CPC) assessment due to higher transparency (see Cover pool analysis).

The characteristics of the cover assets have changed noticeably since our last analysis. The Swedish exposure in pool C has reduced significantly. Residential loans (private rental and multifamily properties) have reduced by DKK 5.8bn since Q1 2023, reflecting the strategic decision to finance Swedish residential mortgage loans via covered bonds issued by the bank's Swedish subsidiary Danske Hypothek AB. At the same time, the Norwegian commercial exposure (office and business properties) increased by DKK 4.4bn. The liability profile also changed significantly as DKK 17bn of maturing covered bonds – 50% of the total outstanding – were refinanced with longer maturities (more than five years), which increased the weighted average life of the bonds to 3.6 years from 2.2 years.

Commercial property prices in Sweden as well as in Norway have suffered from the rise in interest rates and oversupply in certain markets. This was most evident in Sweden, where prices for commercial buildings and multifamily dwellings fell by 9.4% in 2023. Even so, the impact on the cover pool's weighted average LTV was minimal: the current loan-to-value (LTV) is only slightly higher from 12 months ago, at 47.9% from 46.4%.

Rating drivers and mitigants

Positive rating drivers	Negative rating drivers and mitigants
• Strong legal covered bond framework • Strong resolution regime and systemic importance	

Upside rating-change drivers	Downside rating-change drivers
• No upside as rating is highest achievable • Additional issuer downgrade cushion possible from an issuer rating upgrade	• Issuer downgrade by more than five notches • Inability of cover pool to provide additional uplift in case of issuer rating downgrade by at least three notches • Inability of cover pool to provide an additional uplift in case governance analysis deteriorates by at least two notches

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The issuer

The issuer rating[1] (A+/Stable) on Danske Bank 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 these areas, the bank has a strong franchise in Denmark and other Nordic markets. The ratings also consider Danske Bank's robust asset quality metrics and an operating performance that provides a solid buffer against a potential increase in the cost of risk. Conservative capital buffers and stable and diversified funding and liquidity also support the rating.

See also our updated rating report on Danske Bank A/S.

Programme structure

As a universal bank, Danske Bank holds a licence to issue SDOs, which is granted by the Danish Financial Supervision Authority (DFSA). Other types of Danish covered bonds (SDROs and ROs) may only be issued out of Danish specialised mortgage banks.

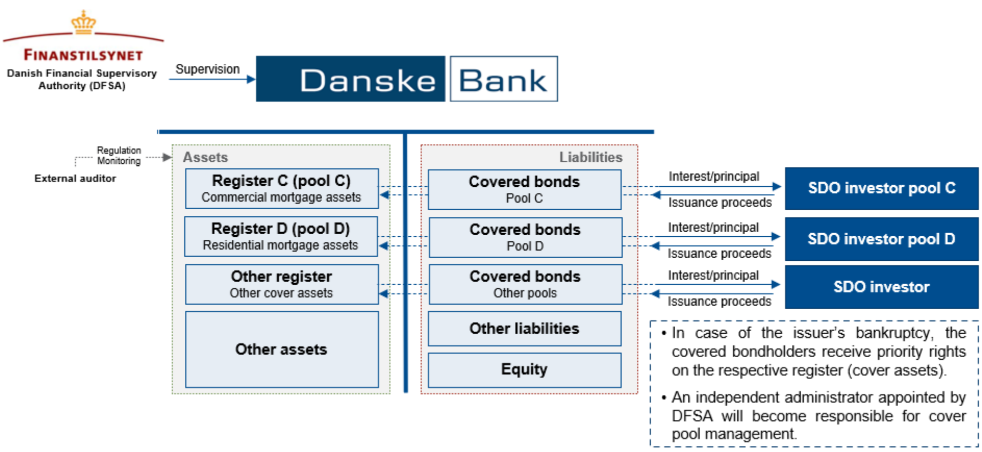
As a universal bank, Danske Bank issues SDOs following a European model

Unlike issuance by mortgage banks under a 'fully matched funding' model (almost all asset-liability mismatches are neutralised), Danske Bank's SDO issuance compares with the European model, which uses hard or soft bullet covered bonds. Covered bond maturities do not need to match those on the underlying cover assets.

Registered cover assets are legally separated in case of an issuer insolvency

As long as the issuer is solvent, cover assets remain on its balance sheet and claims under the covered bonds can be enforced against the issuer (first recourse). Bonds and cover assets can be assigned to individual covered bond programmes (in this case pool C). In case of insolvency, the cover pool is segregated by law from the general insolvency estate and is reserved only for the claims of SDO holders (second recourse). Different covered bond programmes do not cross-collateralise in case of a shortfall nor is an individual programme impacted from a default in another programme.

Figure 2: Issuance structure



Source: Scope Ratings GmbH

Governance credit support analysis

Governance credit support is the key rating driver for Danske Bank's SDOs, providing an uplift of up to six notches. This uplift is based on our credit-positive view on i) the legal framework for mortgage covered bonds in Denmark; ii) the Danish resolution regime; and iii) the systemic relevance of covered bonds in Denmark, including those of Danske Bank.

Six notches from legal framework and resolution regime assessments

Legal framework analysis

The Danish covered bond framework is very strong, meeting our criteria for protecting investors and resulting in the highest credit differentiation of two notches.

Two notches reflecting strong legal framework addressing all credit relevant areas

The legal framework relevant to Danske Bank's SDOs is the Danish Financial Business Act (Lov om finansiel virksomhed). The act entered into force on 8 July 2022 and adopted the necessary changes of the harmonized EU covered bond directive (comprising EU Directive 2019/2162 and EU Regulation 2019/2160). The act allows an issuer to maintain several active cover pools and establish separate covered bond programmes. Each of Danske Bank's programmes are exposed to different asset types: pool D is secured by domestic residential mortgage loans and pool C by international commercial and residential mortgage loans in Sweden and Norway.

Segregation of cover pool upon insolvency

Covered bonds benefit from a preferential claim on all assets in the respective cover pool, also called a register. The priority claim has a legal and binding effect with the registration of the cover assets into a register. The issuer can maintain several registers. A register contains all assets, guarantees received and derivative contracts. SDO registers are managed by the issuer (instead of an independent trustee) and supervised by the DFSA.

Asset segregation with preferential claim on all assets supports covered bond investors

In case of an issuer's insolvency, the cover pool – which comprises all registered eligible assets and related covered bonds – is separated from the issuer's general insolvency estate and managed with the aim of facilitating full and timely payment.

Ability to continue payments after issuer insolvency

In the event of bankruptcy, the DFSA decides whether a respective register becomes a separate estate subject to special administration (as opposed to a general insolvency administration). The main aims are to ensure investors receive timely payments and borrowers' rights are not impaired.

Payment continuation supported by special administration and structural mitigants avoiding a liquidity shortfall

Insolvencies do not trigger an acceleration of covered bonds, unlike other debt categories. Derivatives remain in force throughout an issuer's bankruptcy, liquidation or resolution if they are registered in the cover pool and the derivatives contract stipulates that the suspension of payments or an issuer's bankruptcy does not constitute an event of default.

According to the Danish Covered Bond Legislation, an issuer must ensure a cover pool maintains a balance between the assets and the covered bond's payments and obligations in terms of currencies, interest rates and maturities. This is the 'general balance principle' and applies to universal banks. This principle also involves certain market risk tests, including those that limit the impact of a yield curve shift or exposure to foreign exchange. Another requirement is a higher net present value on the cover assets than on the covered bonds.

Payment continuation is further supported by a 12-month extension on the due dates for covered bond principal repayments. Maturity extensions and their terms and conditions must be clearly described in the issuance documentation. Extensions are not at the issuer's discretion but are granted only if payment becomes unlikely at the scheduled maturity or other measures are deemed insufficient by the DFSA for the timely repayment of all covered bonds. Such other measures could include i) the issuance of refinancing bonds backed by the same registered assets; ii) short-term loans to cover temporary liquidity deficits; and iii) asset sales, though only limited. Maturity extensions are expected to be the main tool to mitigate maturity mismatches. This is strengthened by the regulation allowing the margin for refinancing bonds to be five per cent above the reference rate, which could significantly reduce available excess spread.

Danish covered bonds must ensure that the first 180 days of liquidity needs are sufficiently covered by highly liquid assets. Soft bullet covered bonds issued after aligning with CBD can be accounted for using their extended maturity rather than their scheduled maturity. However, as with most other European countries, the 180-day requirement is largely ineffective.

Programme enhancements remain available

Regulatory action or event of default does not impact the ability to manage the covered bond

Enhancements, such as maintained overcollateralisation, asset eligibility standards or liquidity provisions, remain available, valid and enforceable after a resolution event or insolvency. Neither a regulatory action nor an issuer's event of default impacts the ability to manage the covered bonds in the interest of investors. However, the Danish Covered Bond Act does not prohibit the use of set-off against cover pool assets. As such, borrowers can retain a residual right under the relevant local legislation (Norway and Sweden) to set off claims vis-à-vis Danske Bank against their outstanding loan amounts. To mitigate this risk, Danske Bank ensures overcollateralisation under pool C can cover potential claims by borrowers.

Danish covered bonds benefit from a minimum legal overcollateralisation of 2% based on the nominal value of both the cover assets and the covered bonds. This level shall also cover maintenance and management costs to wind down covered bonds.

The cover pool benefits from strong eligibility standards determining the eligibility and limits of certain cover assets. For example, residential mortgage assets only qualify for covered bond funding if their eligible loan share does not exceed 80% of the market value and where the maturity and interest-only period do not exceed 30 and 10 years respectively. For commercial loans, the LTV must not exceed 60%, or 70% if the bank adds collateral. Asset valuations require frequent updates, which can be performed based on statistical measures.

A cover pool may also comprise public sector loans, which generally need to comply with article 129 of the EU Capital Requirements Regulation.

Covered bond oversight

DFSA performs continual oversight

The issuer is responsible for monitoring and managing the cover pool. This involves providing quarterly reporting to the DFSA on registered assets and on asset-liability management. The statement on registered assets must be verified by the bank's external auditor. The DFSA itself supervises banks, provides covered bond licences, issues regulations and monitors compliance with law. The DFSA is legally empowered to take any appropriate measures and conduct inspections. Upon an issuer insolvency, the DFSA will appoint an independent administrator to act in the interest of the covered bond holders.

Resolution regime analysis

Four notches reflect the resolution regime and bail-in exemption

Danske Bank's mortgage covered bonds benefit from an additional four-notch uplift that reflects i) the covered bonds' exemption from bail-in; ii) the high likelihood that the covered bonds remain with a resolved and restructured issuer and that the programme remains actively managed as going concern funding instrument; iii) the very high systemic relevance of SDOs in Denmark as well as Danske Bank's own systemic relevance as one of the largest Danish covered bond issuers and a global issuer of covered bonds; and iv) the strong and proactive stakeholder community.

Availability of statutory provisions

Statutory provisions allow regulators to resolve the issuer

In Denmark, the DFSA and the Financial Stability Company are responsible for the resolution of banks, the former dealing with going concern entities and the latter with gone concern entities. Denmark transposed the European Bank Resolution and Recovery Directive into Danish legislation in 2015 even though the country is outside the euro area. This gives the Financial Stability Company a wide range of resolution powers.

Strength of statutory provisions

Statutory provisions strong in Denmark

Generally, the resolution of large Danish banks aims for the recapitalisation and continuation of the whole group in order to maintain critical functions, usually by means of bail-in. This approach has been shown by the resolution approach taken for two smaller Danish banks. As part of the regulator's toolkit, senior secured debt, which includes covered bonds, are exempt from bail-in. Given Danske Bank's balanced refinancing and capital structure, we believe bail-in would be used in a hypothetical resolution, which would allow the group to maintain senior secured debt as a going concern. This reflects our view that a regulatory intervention would allow for the continuation of the issuer, including the active management and maintenance of its covered bond programmes.

Systemic importance of issuer

We believe regulators would preserve Danske Bank in case of its hypothetical failure. Danske Bank is not a global systemically important bank. However, as the largest bank in Denmark measured by size and importance, Danske Bank is considered a systemically important financial institution by the DFSA. Considering this status, Danske Bank must ensure it maintains an additional capital buffer of 3.0%.

Systemic relevance of covered bonds

Relevance of covered bonds in Denmark is very high

Covered bonds have a very high systemic relevance in Denmark and regulators are therefore conscious of the systemic importance of their issuers. The Danish covered bond market is one of world's oldest, with a 229-year history. Its domestic covered bonds account for the largest share of tradeable high-grade debt in the Danish capital markets. At present, seven banks are licensed to issue covered bonds. The Danish covered bond market is also the largest globally, with EUR 463bn of outstanding covered bonds at year-end 2022. On average, total outstanding covered bonds account for more than 124% of Denmark's GDP. Danish banks are the largest investors of Danish covered bonds, followed by international investors and the Danish public pension scheme.

Proactive stakeholder community

Strong stakeholder community in Denmark

Danish covered bonds benefit from a very strong stakeholder community, increasing the likelihood of active support to maintain this product a going concern funding instrument.

Danish covered bond issuers actively collaborate under the umbrella of Finance Denmark and the Association of Danish Mortgage Banks, which includes promoting the product and initiating changes to the domestic (and international) covered bond framework. Investors use Danish covered bonds as a substitute for long-dated Danish-krone government debt. Almost 75% of Danish covered bonds are held domestically, which has supported the ongoing issuance and trading of Denmark's covered bond market throughout the various financial crises; in contrast, other countries' capital markets were suspended or closed. The Danish central bank and the DFSA are also active stakeholders given Danish covered bonds' wide use as collateral for central bank operations as well as a funding instrument.

Cover pool analysis

Danske Bank's covered bond rating for pool C is governance-supported. Hence, cover pool support is not needed to reach highest ratings. However, cover pool support does provide additional rating stability in case of an issuer downgrade.

CPC assessment

Our assessment on the interplay between complexity and transparency translates into an improved CPC risk category of 'low', improved from the 'moderate' assessment in our last analysis, and adds three notches to the rating buffer. This combined credit support would allow the covered bond rating to remain at the highest level in the event of a hypothetical issuer downgrade of up to five notches, assuming overcollateralisation does not become a constraining factor.

The improved CPC risk category reflects the improved availability of detailed, regular, current and forward-looking transparency and reporting on key credit and market risk factors relevant to the analysis. We took into account information on the issuer's lending products; underwriting, credit and market risk management; and high transparency on its origination and issuance strategy. We also had full access to all relevant counterparty risk information, including details on hedging agreements.

Cover pool composition

As of March 2024, Danske Bank's mortgage covered bonds issued out of its pool C are secured by mortgage loans originated by its branches in Sweden (63.5% of portfolio) and Norway (36.5%). No substitute assets are registered.

Of the mortgage loans, 72.3% are exposed to commercial properties including for agriculture. The remainder to private rental residential or multifamily properties account for 27.7%. The properties securing the loans are spread well across both Sweden and NorwayThe pool is granular with 3,563 mortgage loans and an average loan amount of around DKK 11.7m (around EUR 1.5m). The top 10 loans account for 6.6%. On average, the cover pool has a moderately low LTV (current values) of 47.9%, up from 46.4%.

Interest-only loans account for around 32.5% of commercial loans, up from 25.7%. The remaining benefit from a constant repayment rate or are fully amortising. All loans are adjustable-rate mortgages, with the rate fixed for up to one year.

The mortgage loans also benefit from seasoning of around two years and a short remaining average maturity of 2.7 years. The latter reflects that commercial mortgage loans are typically underwritten with a term of 3-5 years with balloon payments and refinancing risk. All loans are performing.

Figure 3: Property type

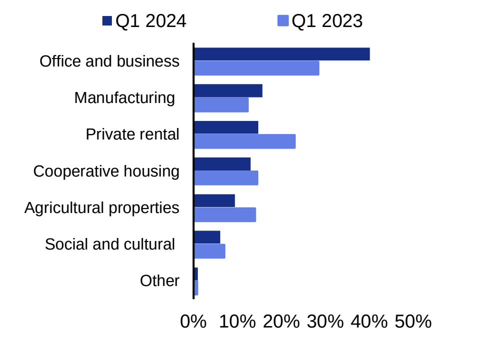
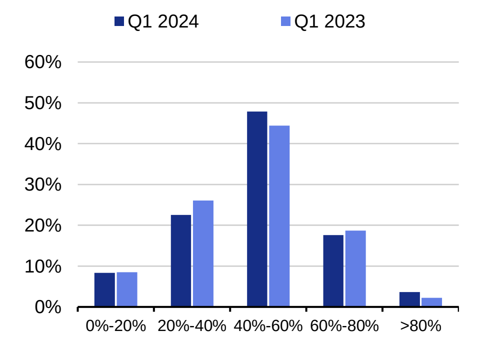


Figure 4: LTV distribution



Source: Scope Ratings, Danske Bank

Cover pool characteristics

Reporting date	March 2024	March 2023
Balance (DKK bn)	41.65	42.39
Residential (%)*	27.7	37.5
Commercial (%)	71.3	62.5
Substitute (%)	0.0	0.0

* rented residential and multifamily

Property type (%)

Reporting date	March 2024	March 2023
Cooperative housing	13.0	14.5
Private rental	14.7	23.0
Manufacturing	15.7	12.3
Office and business	40.1	28.4
Agricultural properties	9.4	14.0
Social and cultural	6.1	7.0
Other	1.0	0.8

Property location (%)

Reporting date	March 2024	March 2023
Sweden	63.5	87.7
of which, Stockholm	22.4	21.3
Norway	36.5	12.3
of which, Oslo	20.5	22.0

General information

Reporting date	March 2024	March 2023
No. of loans ('000s)	3.6	4.4
Avg. size (DKK m)	11.7	9.6
Top 10 (%)	6.6	5.8
Remaining life (years)	2.7	1.9
LTV (%)	47.9	46.4

Interest rate type (%)

Reporting date	March 2024	March 2023
Floating (≤ 1year)	100	100
Fixed	0.0	0.0

Repayment type (%)

Reporting date	March 2024	March 2023
Annuity/linear	67.5	74.3
Interest-only	32.5	25.7

Asset risk analysis

Solid asset quality thanks to diversified CRE loans in Norway and Sweden with moderately low LTV

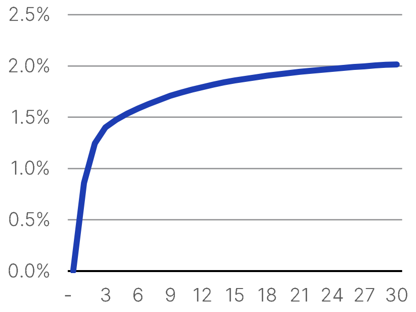
The asset quality of the mortgage loans in pool C is solid thanks to the Norwegian and Swedish loans with a moderate to low LTV and short remaining life.

Our projection of default applicable to the mortgage portfolio uses an inverse Gaussian distribution characterised by a measure of mean default probability and a variance of correlation parameter. This approach is supported by the high granularity of the assets based on a top 10 concentration of less than 1.4% for the 1,042 rental residential and multifamily loans and 5.2% for the 2,521 commercial loans.

Considering the mortgage loans' seasoning and scheduled lifetime amortisation, the programme's cumulative term defaults are 2.0% and the coefficient of variation is 60%. Accounting for the mortgage loans' weighted average remaining life of 2.2 years (as opposed to the weighted average maturity of 2.7 years), the annualised default probability is around 90 bps, commensurate with a bb+ credit score.

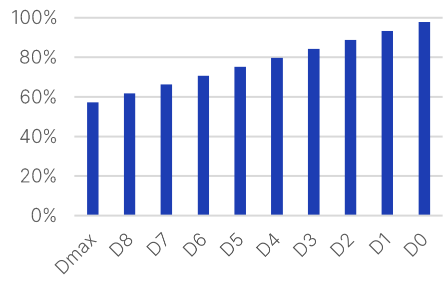
We assume a coefficient of variation of 60%, which gives credit to the bank's low risk appetite but also the more volatile commercial real estate assets and their exposure to refinancing risk.

Figure 5: Expected term defaults, cumulative (DP/years)



Source: Scope Ratings

Figure 6: Scope calculated recovery rates



Source: Scope Ratings

Stressed recovery rates (D_{max}) are 57.2%, driven by the mortgage loans' LTVs and our assumptions on the security value haircuts for commercial real estate loans, which range between 75% and 65% (multifamily/rented residential). Our base recovery rate expectation (D_0) is 98.4%, reflecting the low LTV in the cover pool.

Cash flow risk analysis

The overcollateralisation (OC) supporting the rating has a floor at the legal minimum of 2%. This is because the rating does not rely on cover pool support (highest rating already reached based on governance support) while the governance support uplift assumes covered bonds comply with regulatory criteria.

Supporting overcollateralisation at legal minimum as rating is solely based on governance support

Cover pool support provides additional rating stability for the SDOs. Our cash flow analysis shows that if the issuer were downgraded to BBB-, the current nominal overcollateralisation of 22.6% (post-hedge) would still support the AAA covered bond rating.

Foreign currency and interest rate mismatch risks are well mitigated. The fixed-rate euro-denominated and floating-rate Norwegian krone-denominated covered bonds issued out of pool C are fully hedged to match the cover assets' currency and interest types (in NOK and SEK and paying a floating coupon). Basis risk between the assets and liabilities are also hedged. However, in stressed scenarios such as high defaults or high prepayments, mismatches could result from additional carry costs for excess cash held on the cash account.

Asset-liability mismatches

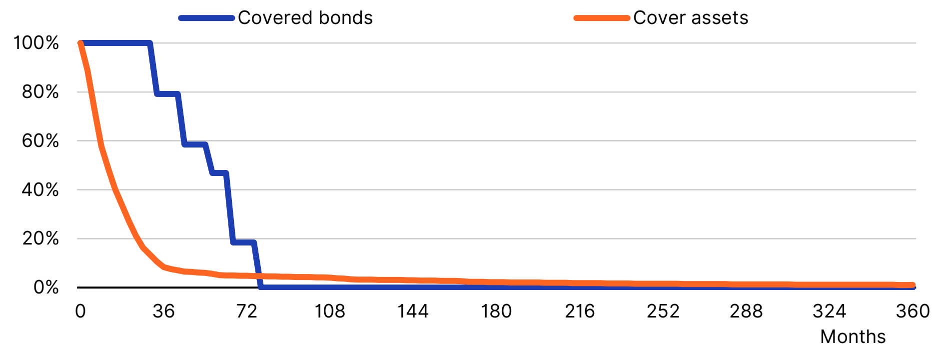
	Assets	Liabilities
SEK (%)**	63.5	60.3
NOK (%)**	36.5	39.7
Fixed (%)	0.0	0.0
Floating (%)	100	100
WAM*** (years)	2.7	4.6*

*incl. extension **hedged *** weighted average maturity

The programme is most sensitive to a combination of high prepayments (20%), rising interest rates, and an appreciation of the Norwegian krone against the Swedish krona. This is mainly driven by negative carry arising from maturity mismatches from the bonds' weighted average remaining life of 4.6 years (including extensions) in comparison with the remaining maturity of the mortgage loans of only 2.7 years (scheduled). Hence, excess cash under high prepayments is reinvested at no margin. Non-performing loans also put stress on the programme's excess spread during their assumed recovery timing (30 months). Currency mismatches could arise from excess cash that is reconverted into the base currency, putting stress on the programme's (stressed) open foreign-exchange positions by 25%-55%.

While asset sales are not a driving scenario, we have tested scenarios assuming stressed asset sales used to cure possible liquidity shortfalls. As such, we have applied a 300 bp refinancing spread for the Swedish and Norwegian commercial mortgage loans.

Figure 7: Amortisation profile



Source: Scope Ratings, Danske Bank

The amortisation schedules for assets and liabilities were based on the schedule provided by the issuer. Servicing fees are 50 bps.

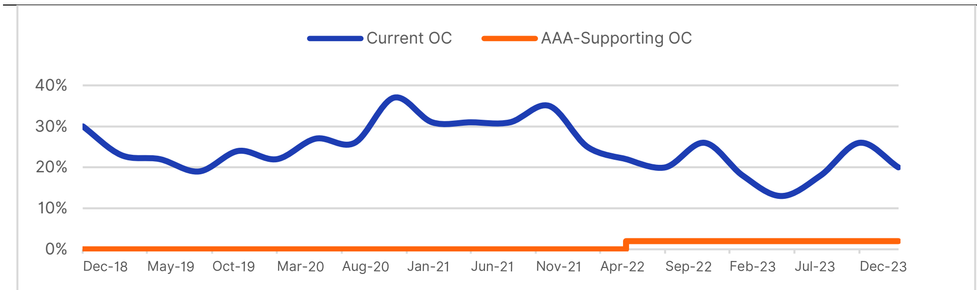
We complemented our base case cash flow results by testing the sensitivity to adverse interest rate scenarios, the non-execution of bond extensions, and spread compression. None of these resulted in adjustments to the rating-supporting OC.

Availability of overcollateralisation

Danske Bank's current rating allows us to account for the provided OC. We are not aware of any changes to the programme that would alter its risk profile or reduce available OC to levels that would no longer support the current rating uplift.

Rating-supportive available overcollateralisation fully taken into account

Figure 8: Current OC versus AAA-supporting level



Source: Scope Ratings, Danske Bank

Other risk considerations

The rated covered bonds have counterparty exposures to the issuer, Danske Bank, as loan originator, servicer, bank account provider, swap counterparty and paying agent. We assess the bank as resolvable and believe that if a regulator were to intervene, the strong alignment of interests between the bank and the covered bond holders would prevent any negative impact.

Counterparty exposure does not limit the rating

Country risk does not constrain the covered bond rating. Denmark's long-term issuer and senior unsecured debt ratings in local- and foreign-currency are AAA. The Outlook is Stable. We have no evidence that transfer risk (e.g. risk of capital controls), convertibility risk (e.g. risk of eurozone exit) and the risk of an institutional meltdown are pertinent risk factors for Denmark.

Country risk is not a rating driver

Governance factors are key for the analysis of the SDOs and therefore for our legal and resolution regime analysis. Our quantitative analysis on Danske Bank's SDOs have not directly included ESG aspects. Danske Bank may issue green bonds under the group's Green Finance Framework. This framework is based on ICMA Green Bond Principles and LMA Green Loan Principles. As such, green bonds can be issued based on a use-of-proceeds principle. Eligible mortgage coverage shall have an energy demand of at least 10% lower than the national requirements set for a nearly zero-energy building or the national building code. Alternatively, mortgage collateral may benefit from a building certification that meets a predefined threshold. While Danske Bank has not yet issued any green covered bond under its pool C, the group has issued green covered bonds since 2019 through its subsidiary Realkredit Danmark A/S.

Governance factors are key rating drivers

Sensitivity analysis

Danske Bank's SDO ratings have a five-notch buffer against an issuer downgrade. Assuming the issuer's willingness to support the highest covered bond rating and maintain the covered bond programme's risk profile, a five-notch issuer downgrade would increase the rating-supporting OC to 16%.

Five-notch buffer against an issuer downgrade

The covered bond rating 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 pool to provide an additional uplift in case the issuer rating is downgraded by more than two notches.

Summary of covered bond characteristics

Reporting date	31 March 2024	31 March 2023
Issuer name	Danske Bank A/S	
Country	Denmark	
Covered bond name	Særligt dækkede obligationer – SDO (Danish covered bonds) – Cover pool C	
Covered bond legal framework	Danish Financial Business Act (Lov om finansiel virksomhed)	
Cover pool type	Commercial mortgage loans	
Composition	Rental residential = 27.7%	Rental residential = 37.5%
	Commercial = 72.3%	Commercial = 62.5%
	Substitute = 0.0%	Substitute = 0.0%
Issuer rating	A+ / Stable	A+ / Stable
Current covered bond rating	AAA / Stable	AAA / Stable
Covered bond maturity type	Soft bullet	Soft bullet
Cover pool currencies (post hedge)	SEK = 63.5%	SEK = 87.7%
	NOK = 36.5%	NOK = 12.3%
Covered bond currencies (post hedge)	SEK = 60.3%	SEK = 83.2%
	NOK = 39.7%	NOK = 16.8%
Governance cover pool support	6	6
Maximum additional uplift from cover pool complexity category	3	2
Maximum achievable covered bond uplift	9	8
Potential covered bond rating buffer	5	4
Cover pool (DKK bn)	41.65	42.39
thereof, substitute assets (DKK bn)	0.00	0.00
Covered bonds (DKK bn)	34.61	35.79
Overcollateralisation: current (hedged)/legal minimum	22.6% / 2.0%	19.6% / 2.0%
Overcollateralisation to support current rating	Minimum legal OC	Minimum legal OC
Overcollateralisation upon a one-notch issuer downgrade	Minimum legal OC	Minimum legal OC
Weighted average maturity of assets	2.7 years	1.9 years
Weighted average life of liabilities (extended)	4.6 years	3.2 years
Number of loans	3,563	4,407
Average loan size (DKK m)	11.69	9,62
Top 10	6.6%	5.8%
Interest rate type assets	Floating = 100%	Floating = 100%
	Fixed = 0.0%	Fixed = 0.0%
Interest rate type liabilities (post hedge)	Floating = 100.0%	Floating = 100.0%
	Fixed = 0.0%	Fixed = 0.0%
Weighted average market value (indexed)	47.9%	46.4%
Geographic split	Sweden = 63.5%	Sweden = 87.7%
	Norway = 36.5%	Norway = 12.3%
Default measure (mortgage/substitute)	Inverse Gaussian	Non-parametric
Weighted average annualised default rate	0.90%	3.56%
Weighted average coefficient of variation	60%	106%
Weighted average recovery assumption (D0; D9)[1]	98.4%; 57.2%	99.7; 52.5%
Share of loans > three months in arrears (NPL)	0.0%	0.0%
Interest rate stresses (max/min)	10% / -1%	10% / -1%
FX stresses (max/min; currency-dependent)	n/a	n/a
Max. liquidity premium	300 bps	300 bps
Average servicing fee	50 bps	50 bps

Source: Scope Ratings

[1] D0 and D9 denote the stresses commensurate with the rating distance between our credit view on the issuer and the covered bond ratings.

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Related research

Covered Bond Quarterly: Have German banks put Pfandbriefe at risk?, April 2024

Covered Bond Outlook: Back to a credit-driven buyer's market, January 2024

Systemic risk remains high in European housing market, January 2024

Applied methodologies

Covered Bond Rating Methodology, July 2024

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