

Danske Mortgage Bank

Mortgage Covered Bonds

The AAA rating with a Stable Outlook assigned to the mortgage covered bonds (Katettu joukkolaina) issued by Danske Mortgage Bank Plc (Danske Kiinnitysluottopankki Oyj) are based on the bank's issuer rating (A+ / Stable), enhanced by governance-support based uplift. Governance support factors, in total, can provide a rating uplift of up to five notches and, effectively, a floor against a deterioration in cover pool credit quality. This reflects our assessment of the strong governance support provided by the legal covered bond and resolution framework in Finland and Denmark.

The covered bond programme

Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
31 Mar 2024	EUR 5.48bn	Mortgage	EUR 4.25bn	AAA/Stable

The bonds are covered by a portfolio of Finnish owner-occupied mortgage loans. The securing properties are spread in Finland, with a concentration to Uusimaa region in which Finland's capital Helsinki is located. Granularity is high. As of March 2024, the portfolio accounts for 69k loans and a top 10 of only 0.15%. The mortgage loans have a moderately low loan-to-value of on average 53.0%. Non-performing loans account for 0.1% and are actively managed.

Market risks exist as the programme is exposed to maturity and interest rate mismatches. The weighted average life (WAL) of cover assets is 8.9 years compared to 3.1 years for the liabilities. Such mismatches are partly mitigated by the bonds' legal soft-bullet structure. Interest rate mismatches from the fixed covered bonds are hedged into floating matching the profile of the assets. The covered bonds are not exposed to FX risks as all assets and bonds are denominated in EUR.

Figure 1: Covered bond rating building blocks

GOVERNANCE SUPPORT	COVER POOL SUPPORT	MAXIMUM RATING DISTANCE	RATING UPLIFT
	Cover pool support +3	D8	(unused)
	Cover pool support +2	D7	(unused)
	Cover pool support +1	D6	(unused)
Resolution regime +3	Covered bonds rating floor = Governance support	D5	(unused)
Resolution regime +2		D4	AAA
Resolution regime +1		D3	AA+
Legal framework +2		D2	AA
Legal framework +1		D1	AA-
Issuer rating		D0	A+

Covered bond rating

AAA

Outlook

Stable

Rating action

New

Last rating action

n/a

Issuer rating

A+

Outlook

Stable

Last rating action

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Stable Outlook

Scope’s Stable Outlook on the mortgage covered bonds reflects the Stable Outlook on the issuer and the cover pool, which could provide up to three notches of additional uplift. The rating may be downgraded upon: i) an issuer rating downgrade by more than four notches; ii) a deterioration in Scope’s view on governance support factors relevant to the issuer and Finnish 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 one notch.

Rating drivers and mitigants

<p style="text-align: center;">Positive rating drivers</p> <ul style="list-style-type: none"> • Strong legal covered bond framework • Potential deterioration of the issuer’s credit quality can be buffered with unused notches from governance and cover pool support 	<p style="text-align: center;">Negative rating drivers and mitigants</p> <ul style="list-style-type: none"> • Moderate systemic importance of Danske Mortgage Bank Plc as cross boarder subsidiary of Danske Bank A/S • Finnish resolution provisions ready but less advanced
<p style="text-align: center;">Upside rating-change drivers</p> <ul style="list-style-type: none"> • The ratings are on the highest level achievable • Additional issuer downgrade cushion could further arise from a rating upgrade of the issuer • Further issuer downgrade cushion could arise from an improved assessment related to the programme’s governance support factors 	<p style="text-align: center;">Downside rating-change drivers</p> <ul style="list-style-type: none"> • The rating may be downgraded upon an issuer downgrade by more than four notches • The rating may also be subject to a downgrade if the cover pool is unable to provide an additional uplift in case the issuer rating is downgraded by two or more notches • The rating may also be subject to a downgrade if the cover pool is unable to provide an additional uplift in case our governance analysis deteriorates by two or more notches

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The issuer

On 18th of June 2024, Scope affirmed its A+ rating with a Stable Outlook of Danske Mortgage Bank Plc.

Danske Mortgage Bank Plc (Danske Mortgage Bank) is a wholly-owned subsidiary of Danske Bank A/S (Danske Bank), the parent company of Danske Bank Group. As a core subsidiary of Danske Bank, Danske Mortgage Bank is closely integrated into the Danske group, sharing its strategy and risk management principles. Loan servicing process as many other processes are outsourced to Danske Bank A/S. This way loan purchases are not influencing the service received by the customers.

Danske Mortgage Bank is operating as an issuer of covered bonds. Bonds issued by the bank are covered by a pool of loans consisting of Finnish private housing loans. The Bank does not act as the originator of housing loans as it purchases loans from Danske Bank A/S, Finland Branch. The purchased loans are long term loans for Finnish households having a residential real estate or share of a housing company as collateral.

Programme structure

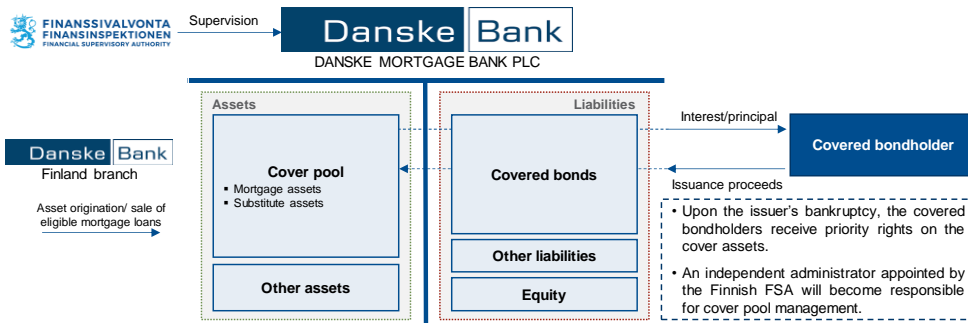
Covered bond issuance is governed by the Act on Mortgage Credit Banks and Covered Bonds. Specialised mortgage banks, but also deposit banks or credit entities are entitled to apply for a license to engage in mortgage credit bank operations.

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

As long as the issuer is solvent, cover assets remain on the bank's balance sheet and claims under the covered bonds are enforceable against the issuer (first recourse). In the case of insolvency, the cover pool is segregated by law from the general insolvency estate and is reserved only for the claims of the holders of the Finnish Covered Bonds (second recourse).

The act does also allow the special mortgage banks to issue covered bonds secured by eligible cover assets from other deposit banks or credit entities. As such these assets can be pledged as a security of an intermediate loan granted to the special mortgage bank or, in case of Danske Mortgage Bank purchased from its parent company – Danske Bank. In any case, the cover assets need to be registered to secure enforceable claims of the collateral for the benefit of the bond holders.

Figure 2: Issuance structure



Source: Scope Group GmbH

Governance credit support analysis

Governance credit support is the key rating driver for Danske Mortgage Bank's mortgage covered bonds. It provides an uplift of up to five notches. It combines our credit positive view on the legal framework for mortgage covered bonds in Finland; specificities in the interplay between the Finnish and Danish resolution; the systemic relevance of DMB's covered bonds and stakeholder support.

Together five notches from legal framework and resolution regime

Legal framework analysis

We consider the Finnish's covered bond framework to be strong, fully meeting our criteria for protecting investors. Therefore, we assign the highest credit differentiation of two notches.

Two notches reflecting strong legal framework addressing all credit relevant areas

The relevant legal framework is based on the Act on Mortgage Credit Banks and Covered Bonds. It entered into force on 8 July 2022 adopting the necessary changes of the harmonized EU legal framework (EU directive 2019/2162 and EU Regulation 2019/2160). The act allows to maintain several active cover pools. This optionality is used by some issuers to issue covered bonds under the new act and to maintain an actively managed run-off pool under the former act.

Covered bonds issued before July 2022 are grandfathered under the former Act on Mortgage Credit Bank Operations (688/2010). This includes possible tap issues after that date but referring to covered bonds existing prior to the 8th of July 2022. Danske Mortgage Bank does only maintain one programme including bonds issued under the former act. However, such covered bonds have been converted to fully conform with the new act.

Segregation of cover pool upon insolvency

Covered bonds benefit from a preferential claim on all assets in the cover pool. The priority claim receives legal and binding effect with the registration of the cover assets into the bond register which does also allow for the identification of substitute assets, funds, derivatives, and corresponding covered bonds. The cover register is managed by the issuer, which is supervised by the Finnish Financial Supervisory Authority (F-FSA).

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

Upon the insolvency of the issuer, or a debtor of an intermediary loan has entered liquidation or bankruptcy, 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 a view to allow full and timely payment.

Ability to continue payments after issuer insolvency

Following an event of insolvency the F-FSA appoints an administrator to supervise the appropriate administration of covered bonds and, if needed, liquidation of the cover assets with the consent of the F-FSA. In principle and under certain conditions, it further allows to take bridge loans, if needed.

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

Independent from other debt categories, an insolvency does not trigger an acceleration of covered bonds. In case derivatives are registered in the cover pool, they remain in force notwithstanding the issuer's bankruptcy, liquidation, or resolution.

Payment continuation is supported by the legal and conditional option to extend the due dates for covered bond's principal repayments. A maturity extension is subject to permission by the F-FSA. The prerequisites for an extension of the initial maturity are 1.) an inability to obtain funding from commonly used sources of long-term funding, 2.) an inability to repay the principal and interests of the maturing covered bonds without falling short on the liquidity buffer requirement 3.) the extension does not affect the order of maturity based on the original maturity dates. Danske Mortgage Bank opted for extension options on all its outstanding covered bonds.

Finnish covered bonds further benefit from a legal 180-day liquidity requirement - which requires that sufficient amounts of highly liquid assets are maintained in the cover pool to cover shortfalls in that period. In case of Danske Mortgage Bank this however is widely ineffective given the bonds

benefit from extension options and the liquidity requirement calculation is based on the extended profile of covered bond maturities.

Programme enhancements remain available

Enhancements, such as maintained overcollateralisation, eligibility standards or liquidity provisions remain available, valid and enforceable vis-à-vis other creditors 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 best interest of investors. The Covered Bond act specifically excludes set-off against cover pool assets including potential set off from intermediary loans.

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

Finnish covered bonds benefit from a minimum overcollateralisation of 2% based on the lower of the net present- or nominal-value and net of non-performing loans. On top, the overcollateralization shall also cover the estimated winding-down costs related to covered bonds. The net present value basis addresses some market risks while the act does also limit currency risks by restricting unhedged currency mismatches.

The cover pool benefits from strong eligibility standards not only determining the eligibility of certain cover assets but also their limits. E.g. residential mortgage assets do only qualify for covered bond funding with their loan share that does not exceed 80% of the market value, commercial must not exceed 60%. Commercial loans are limited to 10% of total nominal if not otherwise stated in the bonds' terms. Mortgage assets include shares in a housing companies or rights of occupancy. Asset valuations require frequent updates which can be performed based on statistical measures.

Public sector loans that are exposed to or guaranteed by central governments, ECB, central banks, public sector entities, regional governments or local authorities need to comply with Art. 129 (1) of the EU Capital Requirements Regulation. In addition, eligible substitute assets must not exceed 20%.

Covered bond oversight

Prior to the issuer's insolvency, the issuer is responsible for the monitoring and managing the cover pool. It reports to the F-FSA on a quarterly basis. The F-FSA itself is responsible for banking supervision, covered bond licensing, issuing regulations and compliance with the law. The F-FSA has the legal power to take appropriate measures and to conduct inspections where deemed necessary. Post insolvency an independent administrator as appointed by the F-FSA takes over to act in the interest of the covered bondholders. The administrator works together with the F-FSA and, where applicable, the Resolution Authority.

Ongoing oversight mainly in the responsibility of the Finnish FSA

Resolution regime analysis

Danske Mortgage Bank's mortgage covered bonds benefit from an additional three-notch uplift reflecting the likelihood of a going concern in case of a regulatory intervention. The credit positive impact of our resolution regime assessment is partially constrained by our view on the complexity around resolution of DMB.

Three notches reflect the resolution regime and bail-in exemption...

DMB is a Finnish regulated covered bond issuer but in resolution the Danish resolution authority will be the lead supervisor. Complexity coupled with the less advanced Finnish resolution framework and the small to moderate size and relevance of DMB Bank may make an orderly wind-down or sale to another covered bond issuer more likely than a going concern under its Danish parent. We therefore have not assigned the maximum uplift of four notches under our resolution-regime assessment.

...but is also taking into account the complexity of cross border resolution and the issuer's small size and relevance

In our view the bank's Danish parent Danske Bank A/S benefits from a very high likelihood of becoming resolved by Danish regulators. We believe regulators would preserve the issuer in the case of a hypothetical failure of the bank using available resolution tools.

Within the current setup of the issuer, the mortgage bank may benefit from the very strong Danish resolution framework and the single point of entry upon the need for a resolution. However, where the Danish regulators may have to enforce measures under their resolution toolkit, it is likely, that the Finnish bank becomes spin-off under the sole responsibility of the Finnish resolution board. On its own, we would expect Danske Mortgage Bank most likely to be transferred or orderly wind-down by the Finnish regulators. This also reflects that the Finnish resolution-toolkit does not yet benefit from the same transparency and sophistication as the Danish one – in particular with regard to cross border resolution.

Availability of statutory provisions

As a highly integrated cross boarder subsidiary, Danske Mortgage Bank’s resolution may be impacted by both, the Danish and Finnish resolution and recovery framework. While resolution of Danske Group (going concern) may widely be impacted by the Danish framework, the Finnish resolution authorities may intervene where such actions may impact the creditworthiness of Danske Mortgage Bank.

Statutory provisions allow regulators to resolve the issuer and its parent

In Denmark the Danish FSA (going concern) together with the Financial Stability Company (FSC, gone concern) are responsible for the resolution of banks. Despite not being part of the Euro Area, Denmark has transposed the European Bank Resolution and Recovery Directive into Danish legislation in 2015. According to this, the Danish FSC has a wide range of resolution powers. Amongst those creditors can be bailed-in, except for senior secured debt. Finland has transposed the BRRD in 2015 which aligns with global and European good practices for institutions that could be systemic in failure.

Strength of statutory provisions

The general resolution principle for large Danish banks is that the whole group should be recapitalised and continued, so that critical functions can be maintained. This is generally done using the bail-in tool as also proven by two Danish banks being resolved under this framework. As part of the regulator’s toolkit senior secured debt, such as covered bonds are exempt from bail-in. Danske Bank benefits from a sufficiently balanced refinancing and capital structures which allows for a bail-in to keep the group supporting their senior secured debt on a going concern basis. This reflects our view, that a regulatory intervention would effectively allow for the continuation of the issuer including an active management and maintenance of its covered bond programs.

Statutory provisions strong in Denmark, Finnish provisions may benefit from additional disclosure

At the same time, the covered bonds are issued out of a Finnish subsidiary. The F-FSA has made progress in developing crisis management capabilities and procedures. However, work remains to fully operationalize the crisis management framework. While the F-FSA has defined a clear set of expectations for firms to comply with policies based on the principles of the Single Resolution Board (SRB) and European Banking Authority (EBA), it has yet to establish its preferred mechanism for implementing the bail-in or transfer tools.¹ As such, regulatory actions may be slow and less proactive. While this could be seen as a concern in general, Danske Mortgage Bank is a small and very simple bank that benefits from additional regulatory enhancement supported by the Finnish covered bond act. It also benefits from a liquidity mechanism that will not put the bank’s liquidity profile at imminent risk where uncertainties persist.

Systemic importance of issuer

The Danish FSA has determined Danske Bank’s systemic importance on a consolidated basis, this however does not include its Finnish subsidiary. Danske Mortgage Bank is not deemed a systemic relevant bank by the Finnish regulator. As of end 2022 the F-FSA ranked its size at ten with a O-

The issuer has low systemic importance but benefits from the status of its parent

¹ [Finland: Financial Sector Assessment Program-Technical Note on Crisis Management and Resolution](#)

SII score of 0.36% compared to Nordea Bank Abp (64.9% O-SII), OP Financial Group (11.7%) and Municipality Finance (4.3%).

Systemic relevance of covered bonds

Systemic relevance in Finland but also Denmark is seen as very high. Regulators are therefore conscious of the high systemic importance of mortgage banks. While the covered bonds are Finnish, its parent, Danske Bank is also a relevant covered bond issuer in Denmark. Hence, any regulatory action of the Danish regulator (ultimately also impacting its Finnish subsidiary) on Danske Bank may also be driven by the importance and relevance of Danish covered bonds and covered bonds in general.

Relevance of covered bonds in Finland is high. Very high in Denmark

The Danish covered bond market is one of world's oldest, with a 221-year history. Its domestic covered bonds account for the largest share of tradable debt in Danish capital markets. At present, seven banks are licensed to issue covered bonds. It 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. The largest investors into Danish covered bonds are domestic banks. However, covered bonds are also bought by international investors and the Danish public pension scheme.

The outstanding mortgage covered bonds in Finland account for EUR 51.8bn at the end of 2022. Of this, Danske Mortgage Bank account for around 8%. Total issuance accounts for 19% of GDP, reflecting a strong relevance within the economy. The amount of outstanding Finnish covered bonds has increased by more than 70% over the last 10 years. This is also evidenced by the increasing number of issuers from six to nine as of 2022. 2022 also marked a record year in terms of benchmark issuance with a total of EUR 11.4bn. The largest issuers are Nordea Mortgage Bank plc followed by OP Mortgage Bank. Danske Mortgage Bank ranks next.

Proactive stakeholder community

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

Proven stakeholder community in both, Finland and Denmark

Finnish covered bond issuers are not organized separately while the local financial sector is represented by Finance Finland which deals with economic and political affairs and acts as a lobbying body. As such, Finnish stakeholders have actively supported regular framework amendments, lastly the timely transposition of the European Covered Bonds Directive. Finnish market representatives are active and visible within the covered bond society and contributing to further development. Finnish covered bonds are UCITS compliant, comply with the ECB's euro system framework and are regulated by the F-FSA and/or the respective European bodies.

Danish Covered bond issuers actively collaborate under the umbrella of Finance Denmark and the Association of Danish Mortgage Banks, promoting the product and initiating changes to the domestic (and international) covered bond framework. To manage liquidity, Danish covered bond investors such as banks and insurers actively use covered bonds to substitute for long-dated Danish-kroner government debt. Almost 75% of Danish covered bonds are held by domestic investors, which Scope believes supported the ongoing functioning of the covered bond market during the crisis. Scope has observed that issuance and trading in the Danish covered bond market has continued while other countries' markets hibernated or were closed. Also, the Danish central bank and the Danish FSA are active stakeholders given the widespread use of covered bonds as a funding tool.

Cover pool analysis

Danske Mortgage Bank’s mortgage covered bond rating is governance supported. Hence, cover pool support is not needed to reach the highest rating. The 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 a CPC risk category of ‘Low’. This assessment on the interplay between complexity and transparency allows for an additional three notches above the issuer rating enhanced by governance support. Consequently, the combined credit support could allow to maintain the covered bond rating at the highest level under a hypothetical issuer downgrade by up to four notches, assuming OC does not become a constraining factor.

The CPC category of low-risk stems from the ongoing availability of detailed, regular, current and forward-looking transparency on key credit and market risk factors. We do benefit from information on lending products, the issuer’s underwriting and credit risk procedures as well as high visibility on origination and issuance strategy. In addition, we have full access to all relevant counterparty risk information including details on the hedging agreements.

Cover pool composition

Danske Mortgage Bank’s mortgage covered bonds are secured by a portfolio of granular Finnish mortgage loans. Collateral types include shares of housing companies (58%) and single properties. The securing properties / shares in housing associations are mainly located in Uusimaa region. Finland’s capital and largest city, Helsinki, along with the surrounding metropolitan area, are both contained in the region. The region’s GDP accounts for around 40% of Finnish output. By capita, Uusimaa accounts for 31% of total population which compares to 58.4% for the cover pool.

The pool is very granular with 69,201 loans and an average loan amount of around EUR 80k. Top ten loans account for only 0.15%. The covered bonds benefit from moderately low loan-to-values (indexed) of 53.0% on average. However, property prices in Finland have suffered from the rise in interest rates and oversupply in certain markets. House prices fell by 5.6% year-on-year in January 2024, while in the Greater Helsinki Area the drop was above 7%. Nominal prices are down to 2020 levels.

The loans are typically floating rate with only 0.9% fixed rate mortgage loans. All loans are amortising.

Cover pool characteristics

Reporting date	March 2024	March 2023
Balance (EUR bn)	5.48	3.96
Residential (%)	99.9	99.9
Commercial (%)	0.0	0.0
Substitute (%)	0.1	0.1

Property type (%)

Reporting date	March 2024	March 2023
Owner Occupied	93.3	100.0
Buy-to-let	6.7	0.0

General information

Reporting date	March 2024	March 2023
No. of loans (tsd)	69.2	52.3
Avg. size (EUR tsd)	79.1	75.6
Top 10 (%)	0.15	0.12
Remaining life (years)	8.9	8.5
LTV (%)	53.0	47.8

Interest rate type (%)

Reporting date	March 2024	March 2023
Floating	99.1	98.6
Fixed	0.9	1.4

Repayment type (%)

Reporting date	March 2024	March 2023
Annuity / Linear	100.0	100.0
Interest-only	0.0	0.0

Figure 3: Property location

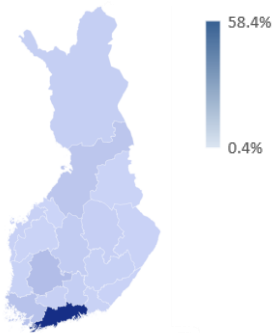
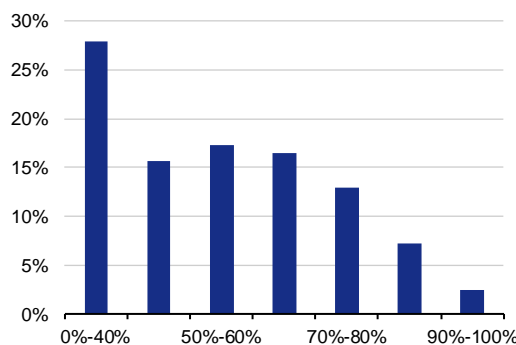


Figure 4: LTV* distribution



Source: Scope Ratings, Danske Mortgage Bank *whole loan

Asset risk analysis

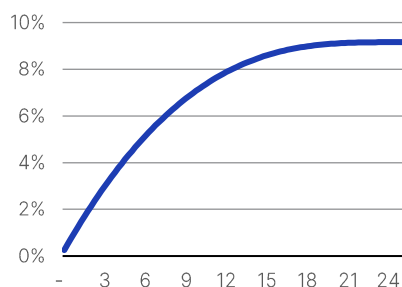
The cover pool's credit quality is strong. The bank's loan portfolio consists of prime Finnish housing loans. The balance of non-performing loans is low as they are regularly sold back to Danske Bank A/S, Finland Branch. Our projection of defaults applicable to granular mortgage loans uses an inverse Gaussian distribution. Our analysis is based on credit performance data provided by the issuer, market performance and benchmarking.

Strong, highly granular and fully amortising cover pool with moderately low LTV

Our assessment results in a mean term default rate of 9.2% which reflects an annual default rate of around 1%. It takes into account the portfolio's lifetime amortisation.

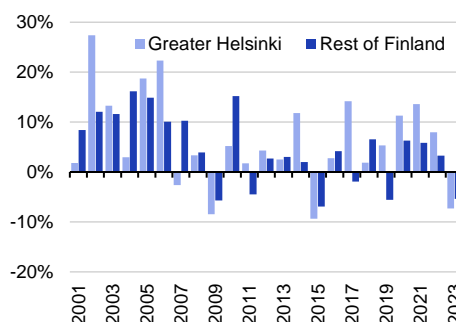
Our assumed coefficient of variation is 60% and gives credit to the portfolio's stable performance over the last years but also takes into consideration the high proportion of loans secured by shares in housing associations. A majority of loans are secured by shares in housing companies. While such shares are legally enforceable by the banks, they also come with additional risks. Most of all that a housing company loan may come on top of a borrower's own housing loan and that it may become difficult to estimate the overall costs involved. This is because such housing company loans often come with a floating rate, bullet payment and may involve additional community debt where capex is required. Under certain circumstances, shareholders may also become liable when another shareholder becomes insolvent. Some of these concerns are covered by the Finnish regulators by embedding additional limits constraining the leverage, term and repayment on new housing company loans.

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



Source: Danske Mortgage Bank, Scope Ratings

Figure 6: Annual house price growth in Finland



Source: Tilastokeskus, Scope Ratings

Stressed recovery rates are at 80% and driven by mortgage loan LTVs and our assumptions on the security value haircuts (SVH) in Finland ranging between 55% for the Uusimaa region and 50% for the rest of the country. Our SVH are a function of market value declines (MVD), fire-sale discounts (FSD) and liquidation costs.

Finnish security value haircuts

Region	Base MVD	Stressed MVD	Fire-Sale discount	Sale costs	Stressed SVH*
Uusimaa	5%	37%	20%	10%	55%
Rest of Finland	5%	29%	20%	10%	50%

*rounded

We have disregarded the substitute assets from our asset risk analysis because of their volatile level of support and because cover pool support is not a key rating driver. Therefore, we consider only the credit risk (and cash flows) of the primary collateral – the mortgage loans.

Cash flow risk analysis

The overcollateralisation (OC) supporting the rating is floored at the legal minimum OC of 2%. This is because the rating does not rely on cover pool support and can reach highest ratings based on governance support only.

Cover pool support could provide additional rating stability to Danske Mortgage Bank’s mortgage covered bonds. Our cash flow analysis shows, that if the issuer would be downgraded to BBB, the currently maintained nominal overcollateralisation of 29% would still be sufficient to support the highest achievable rating on the mortgage covered bonds.

The programme benefits from a fully hedged profile. The fixed rate covered bonds are all hedged into floating. The asset cash flows are also fully hedged to mitigate any basis risk arising from different fixings under the floating mortgage loans. Effectively, the hedge takes out any margin over the reference rate until the legal maturity of the assets and bonds. The swap, contracted with Danske Bank A/S will not accelerate in case of a default of Danske Bank, collateral posting is one-sided and the ISDA agreement and schedule is in line with our counterparty methodology. However, the swap documentation does not cover the one-year extension option under the soft-bullet covered bonds that themselves will convert to floating with a varying margin between 0-1%.

The programme is most sensitive to a combination of low prepayments (1%) and low interest rates (-1%). This is mainly driven by maturity mismatches arising from the bonds’ weighted average remaining life of 4.1 years (including extension) in comparison to the 8.9 years of remaining life of the residential mortgage loans. As such, in the event of recourse to the cover pool and where available asset cash flows are not sufficient to pay the bonds’ maturing liability, we have assumed stressed asset sales to cure liquidity shortfalls. We have applied a 150bp refinancing spread for the Finnish mortgage loans, which predominantly consists of private residential and shares in housing companies. Low rates are most penalizing as overcollateralisation will not create any excess spread.

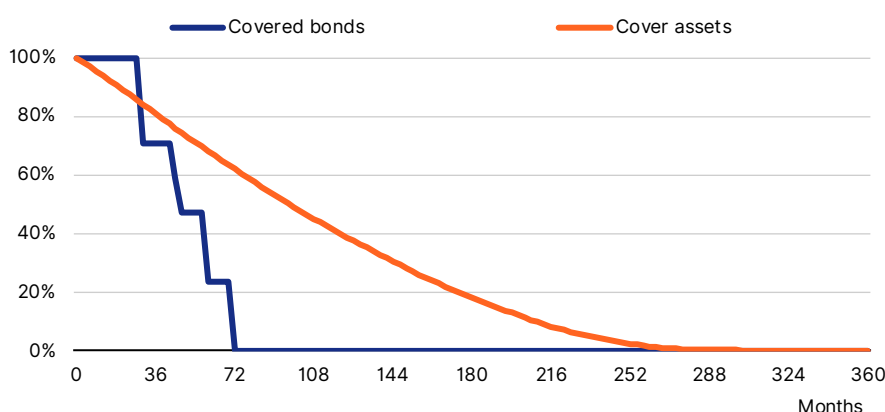
Supporting overcollateralisation at legal minimum as the rating is solely based on governance support

Asset-liability mismatches

	Assets	Liabilities
EUR (%)	100	100
Fixed (%)	0.9	0.0
Floating (%)	99.1	100**
WAL (years)	8.9	4.1*

*incl. extension **hedged

Figure 7: Amortisation profile



Source: Scope Ratings, Danske Mortgage Bank

The amortisation schedule for both assets and liabilities were based on the schedule provided by the issuer. Servicing fees are assumed to be 25bp. Default timing was assumed to follow the scheduled amortisation profile with a recovery lag of 24 months.

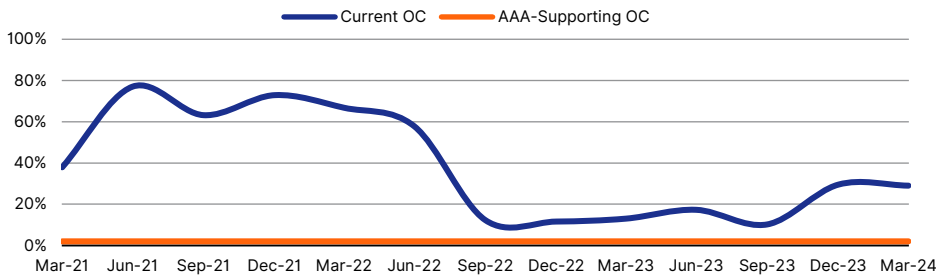
We complemented our base case cash flow results with additional analysis, testing sensitivities to adverse interest rate scenarios, higher credit losses, non-execution of bond extension, frontloaded defaults and spread compression. No such calculations resulted in an adjustment of our rating supporting overcollateralisation.

Availability of overcollateralisation

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

Supportive level of available overcollateralisation fully taken into account

Figure 8: Current OC versus AAA-supporting level



Source: Scope Ratings, Danske mortgage bank

Other risk considerations

The rated covered bonds have counterparty exposures to the issuer and its parent Danske Bank A/S as loan originator, servicer, bank account provider, swap counterparty and paying agent. According to our resolution assessment, we see the bank as resolvable. As a consequence, if a regulator were to intervene, we believe 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 is not a key risk factor that constrains the covered bond rating. Finland's long-term issuer and senior unsecured debt ratings in local- and foreign-currency are AA+. 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), the risk of an institutional meltdown are pertinent risk factors for Finland.

Country risk is not a rating driver

Governance factors are key for the analysis of Finnish covered bonds as such drive our legal and resolution regime analysis. In our quantitative analysis performed for the covered bonds issued by Danske Mortgage Bank we however have not directly included ESG aspects. Danske Mortgage Bank PLC 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 at least 10% lower than the national requirements set for the nearly zero-energy building (NZEB) or national building code. Alternatively, it may benefit from building certification meeting a predefined threshold. While Danske Mortgage Bank has not yet issued any green covered bonds, the group has issued substantial amounts of green covered bonds since 2019 through Danske Bank and its subsidiary Realkredit Danmark.

Governance factors are key rating drivers

Sensitivity analysis

Danske Mortgage Bank's mortgage covered bond rating benefits from a buffer against an issuer downgrade of up to four notches. Assuming the issuer's willingness to support the highest ratings as well as a stable covered bond programme risk profile, a four-notch downgrade would increase the rating-supporting OC requirement to 10%.

Four notches buffer against an issuer downgrade

As a consequence, the rating may be downgraded upon: i) an issuer rating downgrade by more than four notches; ii) a deterioration in Scope's view on governance support factors relevant to the issuer and its covered bonds 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 one notch.

Summary of covered bond characteristics

Reporting date	31 March 2024	31 March 2023
Issuer name	Danske Mortgage Bank PLC	
Country	Finland	
Covered bond name	Katettu joukkolaina (Finnish mortgage-covered bonds)	
Covered bond legal framework	Act on Mortgage Credit Banks and Covered Bonds	
Cover pool type	Residential mortgage loans	
Composition	Residential = 99.9%	Residential = 99.9%
	Commercial = 0.0%	Commercial = 0.0%
	Substitute = 0.1%	Substitute = 0.1%
Issuer rating	A+ / Stable	na / na
Current covered bond rating	AAA / Stable	na / na
Covered bond maturity type	Soft bullet	Soft bullet
Cover pool currencies	EUR (100%)	EUR (100%)
Covered bond currencies	EUR (100%)	EUR (100%)
Governance cover pool support	5	n/a
Maximum additional uplift from cover pool complexity category	3	n/a
Maximum achievable covered bond uplift	8	n/a
Potential covered bond rating buffer	4	n/a
Cover pool (EUR bn)	5.48	3.96
thereof, substitute assets (EUR bn)	0.01	0.0
Covered bonds (EUR bn)	4.25	3.50
Overcollateralisation: current/legal minimum	29.0% / 2.0%	13.0% / 2.0%
Overcollateralisation to support current rating	2.0% / Minimum legal OC	n/a
Overcollateralisation upon a one-notch issuer downgrade	2.0% / Minimum legal OC	n/a
Weighted average life of assets	8.9 years	8.5 years
Weighted average life of liabilities (extended)	4.1 years	3.9 years
Number of loans	69,201	52,336
Average loan size (EUR '000)	79.1	75.6
Top 10	0.15%	0.12%
Interest rate type assets	Floating = 99.1%	Floating = 98.6%
	Fixed = 0.9%	Fixed = 1.4%
Interest rate type liabilities (post hedge)	Floating = 100.0%	Floating = 100.0%
	Fixed = 0.0%	Fixed = 0.0%
Weighted average market value (indexed)	53.0%	47.8%
Geographic split	Finland = 100%	Finland = 100%
Default measure (mortgage/substitute)	Inverse Gaussian	n/a
Weighted average annualised default rate	102bps	n/a
Weighted average coefficient of variation	60%	n/a
Weighted average recovery assumption (D0;D8) ²	96.8%; 80.2%	n/a
Share of loans > three months in arrears (NPL)	0.0%	n/a
Interest rate stresses (max/min)	10% / -1%	n/a
FX stresses (max/min; currency-dependent)	n/a	n/a
Max liquidity premium	150bps	n/a
Average servicing fee	25bps	n/a

Source: Scope Ratings

² D0 and D8 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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