MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns definitive Aaa to Danske Hypotek AB - Mortgage Covered Bonds

09 Apr 2025

SEK 107.3 billion of notes affected

Frankfurt am Main, April 09, 2025 -- Moody's Ratings (Moody's) has today assigned definitive Aaa long-term ratings to the mortgage covered bonds issued by Danske Hypotek AB (the issuer/Danske Hypotek, counterparty risk (CR) assessment Aa3(cr)), which are governed by the Swedish covered bond act.

RATINGS RATIONALE

A covered bond benefits from (1) the issuer's promise to pay interest and principal on the bonds; and (2) following a CB anchor event, the economic benefit of a collateral pool (the cover pool). The ratings therefore reflect the following factors:

(1) The credit strength of Danske Hypotek (CR assessment Aa3(cr)) and a CB anchor of Aa2.

(2) Following a CB anchor event, the value of the cover pool. The stressed level of losses on the cover pool assets following a CB anchor event (cover pool losses) for this transaction is 10.5%.

We considered the following factors in our analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds. The mortgage covered bonds are backed by Swedish residential, multi-family, and commercial mortgage loans. The collateral score for the cover pool is 4.7%.

b) The legal framework of the programme. Notable aspects of the Swedish covered bond framework include (i) the requirement for the issuer to exclude non-performing assets from coverage tests at 60 days past due, (ii) the requirement to test asset coverage on both nominal and net present value (NPV) basis, and (iii) the restriction of loans backed by commercial property to 10% of the cover pool.

c) The exposure to market risk, which is 7.3% for this cover pool.

d) The over-collateralisation (OC) in the cover pool is 33.7%, of which Danske Hypotek provides 2% on a "committed" basis (see Key Rating Assumptions/Factors, below).

The TPI assigned to this transaction is Probable-High. Our TPI framework does not constrain the rating.

At present, the total value of the assets included in the cover pool is approximately SEK 143.4 billion, comprising 113,719 residential mortgage loans backed by single family housing, by tenant owner rights, and by co-operative housing assets and 707 mortgage loans mainly backed by multi-family and some commercial properties. The residential mortgage loans have a weighted-average (WA) seasoning of 70 months and a WA loan-to-value (LTV) ratio of 56.5% while the multi-family and commercial backed mortgage loans have a weighted-average (WA) seasoning of 18 months and a WA loan-to-value (LTV) ratio of 55.6%.

KEY RATING ASSUMPTIONS/FACTORS

We determine covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: We use our Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (such cessation, a CB anchor event); and (2) the estimated losses that will accrue to covered bondholders should a CB anchor event occur. We express the probability of a CB anchor event as a point on our alpha-numeric rating scale (i.e. the CB anchor), which is typically one notch higher than the issuer's CR assessment.

The CB anchor for this programme is Aa2 being the CR assessment of Danske Hypotek plus one notch.

The cover pool losses for Danske Hypotek's mortgage covered bonds are 10.5%. This is an estimate of the losses we currently model following a CB anchor event. We split cover pool losses between market risk of 7.3% and collateral risk of 3.2%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. We derive collateral risk from the collateral score, which for this programme is currently 4.7%.

The over-collateralisation in the cover pool is 33.7%, of which Danske Hypotek provides 2% on a "committed" basis. Under our COBOL model, the minimum OC consistent with the Aaa rating is 0%, of which 0% needs to be in "committed" form to be given full value (numbers in nominal value terms). These numbers show that we are not relying on "uncommitted" OC in our expected loss analysis.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by us please refer to "Covered Bonds Sector Update", published quarterly.

TPI FRAMEWORK: we assign a "timely payment indicator" (TPI), which is our assessment of the likelihood of timely payment of interest and principal to covered bondholders following a CB anchor event. TPIs are assessed as Very High, High, Probable-High, Probable, Improbable or Very Improbable. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

RATING METHODOLOGY

The principal methodology used in these ratings was "Covered Bonds" published in February 2025 and available at https://ratings.moodys.com/rmc-documents/438242 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the covered bonds. The TPI Leeway measures the number of notches by which we might lower the CB anchor before we downgrade the covered bonds because of TPI framework constraints.

Based on the current TPI of "Probable-High", the TPI Leeway for this programme is four notches. This implies that we might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by five notches all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain circumstances, such as (1) a country ceiling or sovereign downgrade capping a covered bond rating or negatively affecting the CB anchor and the TPI; (2) a multiple-notch downgrade of the CB anchor; or (3) a material reduction of the value of the cover pool.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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