

Danske Hypotek Mortgage Covered Bond Program Assigned Preliminary 'AAA' Rating; Outlook Stable

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OVERVIEW

- We have assigned preliminary 'AAA' ratings to the mortgage covered bond program and first issuances of Sweden-based Danske Hypotek.
- Our preliminary ratings reflect our review of the program under our covered bonds criteria and the fact that available credit enhancement exceeds the required credit enhancement for a 'AAA' rating.
- The stable outlook reflects that we expect the program to benefit from between one and two unused notches of rating uplift.

MADRID (S&P Global Ratings) Aug. 25, 2017--S&P Global Ratings today assigned its preliminary 'AAA' credit ratings to the mortgage covered bond program and related issuances from Danske Hypotek AB.

Our covered bond ratings process follows the methodology and assumptions outlined in "Covered Bonds Criteria," published on Dec. 9, 2014 and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

From our analysis of Danske Hypotek's covered bond program and the Swedish legislative covered bond framework, we have concluded that the assets in the cover pool are isolated from the risk of the issuer's insolvency. This asset

isolation allows us to potentially assign a higher rating to the covered bond program than our long-term issuer credit rating (ICR).

In accordance with our covered bonds criteria, we have determined the issuer's reference rating level (RRL), and attributed notches of uplift from this level through our determination of jurisdictional support and collateral-based support. Based on the long-term ICR on Danske Bank A/S and our assessment of jurisdictional support, we assess the RRL at 'aa-' and the jurisdiction-supported rating level (JRL) at 'aaa'. The program could benefit from up to four notches of collateral-based uplift.

As of June 30, 2017, the provisional pool of assets backing the program comprises residential mortgages backed by Swedish residential properties and tenant-owner rights. We expect the available credit enhancement to be commensurate with the third or fourth notch of potential collateral-based uplift, from which we deduct two notches given that 180 days of liquidity are not covered and for lack of an overcollateralization commitment, leaving between one and two additional notches of uplift above the JRL.

There are no rating constraints relating to legal, country, counterparty, or administrative and operational risks.

We have performed our cash flow analysis modeling two SEK10 billion, three-year and five-year hard-bullet covered bonds backed by a provisional portfolio of SEK30 billion Swedish mortgages as of June 2017.

The stable outlook on the covered bonds reflects the fact that a one or two-notch downgrade of the bank would not, on its own, automatically result in a downgrade of the covered bond program.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

Our ratings are based on our applicable criteria, including our covered bonds criteria.

However, the resolution regime analysis section of these criteria is under review (see "Request For Comment: Methodology For Incorporating The Effect Of Resolution Regimes Into Covered Bond Ratings," and "Request for Comment: Methodology For Assigning Financial Institution Resolution Counterparty Ratings ," both published on Jan. 31, 2017).

As a result of this review, we may amend certain paragraphs of our covered bonds criteria. This change may affect the ratings on the outstanding covered bonds issued under this covered bond program. Until this time, we will continue to rate and surveil these covered bonds using our existing criteria (see "Related Criteria").

RELATED CRITERIA

- Criteria - Structured Finance - General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- Criteria - Structured Finance - Covered Bonds: Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Criteria - Structured Finance - Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria - Structured Finance - Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

RELATED RESEARCH

- Global Covered Bond Characteristics And Rating Summary Q2 2017, July 11, 2017
- Request For Comment: Methodology For Incorporating The Effect Of Resolution Regimes Into Covered Bond Ratings, Jan. 31, 2017
- Request for Comment: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, Jan. 31, 2017
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, July 20, 2016

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