

Danske Hypotek AB Mortgage Covered Bond Ratings Affirmed At 'AAA'; Outlook Stable

August 14, 2019

Overview

- Following the publication of our revised counterparty risk criteria, we placed our ratings on Danske Hypotek's mortgage covered bond program under criteria observation.
- Our analysis concludes that the maximum supported rating is still 'AAA'.
- We have therefore affirmed our 'AAA' ratings on the covered bond program and related issuances and removed the under criteria observation identifier. The outlook remains stable.

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MADRID (S&P Global Ratings) Aug. 14, 2019--S&P Global Ratings today affirmed its 'AAA' credit ratings on Danske Hypotek AB's mortgage covered bonds. The outlook is stable.

On March 8, 2019, we published our criteria for analyzing counterparty risk in structured finance transactions and placed under criteria observation (UCO) the ratings on programs that could potentially be affected (see "Ratings Placed Under Criteria Observation Due To Revised Counterparty Risk Criteria," published on March 8, 2019 and "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

Danske Bank A/S is the interest rate swap counterparty in the program and is the only counterparty exposure subject to this criteria change. To derive the maximum potential rating on the covered bonds considering our counterparty criteria, we consider various factors, including whether the counterparty is related to the issuer, the seniority of termination payments, the replacement commitment, and the collateral posting framework.

Danske Bank is a related counterparty to the issuer and it is entitled to termination payments that rank paripassu with payments on the covered bonds. According to the swap documentation, Danske Bank is committed to replace itself, at its own cost and within 60 days, if its rating falls below 'BBB+'. If the counterparty fails to meet this commitment, an additional termination event would allow the issuer to terminate the derivative agreement. Furthermore, if its rating is lowered below 'A', the swap counterparty is committed to post collateral sufficient to cover the issuer's exposure to the counterparty plus certain volatility risk in the swap value. We categorize the current counterparty's collateral-posting framework in the derivative contract as adequate according to our criteria.

Our counterparty criteria combine the collateral framework assessment with the replacement trigger and the issuer's RRL to derive the maximum potential covered bond rating. While the replacement trigger according to the swap documentation is the 'BBB+' rating on the long-term, unsecured and unsubordinated debt obligations of Danske Bank, our counterparty criteria state

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that the reference rating level (RRL) is the applicable counterparty rating when the counterparty is related to the covered bond issuer. We have therefore derived the applicable replacement trigger from the rating type shown in the documentation.

When the swap documentation does not explicitly refer to a rating type, as is the case in this program (which refers to rating triggers on the long-term, unsecured and unsubordinated debt obligations of the bank) we generally consider this to be our resolution counterparty rating (RCR).

A replacement trigger of 'BBB+' on the RCR equates to a replacement trigger of 'BBB' on the long-term ICR, because there is currently one notch difference between the RCR and ICR on Danske Bank. This, in turn, equates to a replacement trigger of 'a-' on the RRL (given the very strong systemic importance of mortgage covered bonds).

The adequate collateral framework assessment, combined with the current RRL on the issuer ('aa-') and the replacement trigger at 'a-', supports a maximum potential rating of 'AAA' under our counterparty risk assessment. As a result, we are removing the under criteria observation identifier from the ratings on the bonds and affirming the 'AAA' ratings with a stable outlook.

The stable outlook on the covered bond ratings reflects that the program benefits from four unused notches of collateral-based uplift under our covered bonds criteria. Therefore, if we were to lower our long-term issuer credit rating (ICR) on Danske Hypotek up to four notches, we would not lower our ratings on the covered bonds, all else being equal.

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- 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 | 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: 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 2019, June 27, 2019
- Global Covered Bond Insights Q2 2019, June 27, 2019
- Ratings Placed Under Criteria Observation Due To Revised Counterparty Risk Criteria, March 8, 2019

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- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Oct. 16, 2018
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Oct. 16, 2018
- Glossary Of Covered Bond Terms, April 27, 2018

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