

## Danske Hypotek AB (publ) cover pool overview Q2 2023

### PRIMARY ANALYST

Sean Cotten  
+46735600337  
sean.cotten@nordiccreditrating.com

### SECONDARY ANALYST

Ylva Forsberg  
+46768806742  
ylva.forsberg@nordiccreditrating.com

This commentary does not constitute a rating action.

Our 'A' issuer rating and 'AAA' covered bond ratings on [Danske Hypotek AB \(publ\)](#) are unchanged following the publication of its mid-2023 results and receipt of updated cover pool details. The following is a bi-annual summary of the cover pool. The latest full report by Nordic Credit Rating (NCR) explaining the components of the covered bond ratings is available [here](#).

Figure 1. Danske Hypotek covered bond rating components

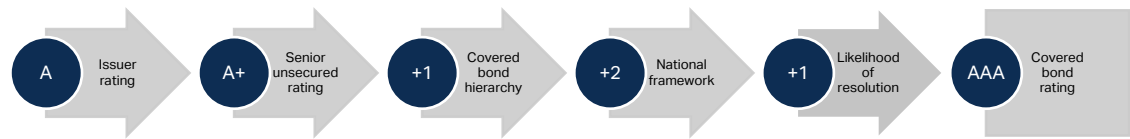
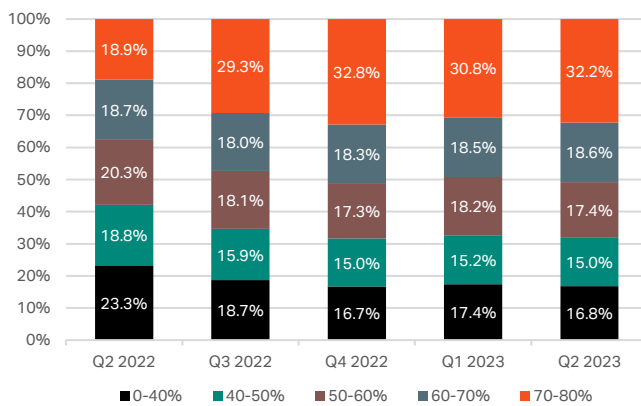


Figure 2. Danske Hypotek cover pool characteristics, Q2 2021-Q2 2023

	Q2 2021	Q4 2021	Q2 2022	Q4 2022	Q2 2023
Eligible covered pool assets (SEKm)	115.8	121.3	129.1	129.5	133.4
Outstanding covered bonds (SEKm)	104.9	98.1	105.8	104.6	113.7
Legal overcollateralisation (%)	10.4	23.7	22.0	21.8	15.4
Weighted-average LTV (%)	56.0	54.0	53.0	59.0	59.0
Average loan seasoning (years)	4.3	4.7	4.7	4.9	5.0
Average bond maturity (years)	2.6	2.6	2.4	2.7	2.6
Average loan size (SEKm)	1.05	1.04	1.10	1.08	1.12
Owner-occupied share, residential (%)	96.0	97.0	97.0	96.0	96.4
Priority liens, residential (%)	99.0	99.0	99.0	99.0	98.8
>60 day past due loans (bps)	0.00	0.00	0.00	0.00	0.00
Share of commercial mortgages (%)	0.0	0.0	0.3	0.2	0.3

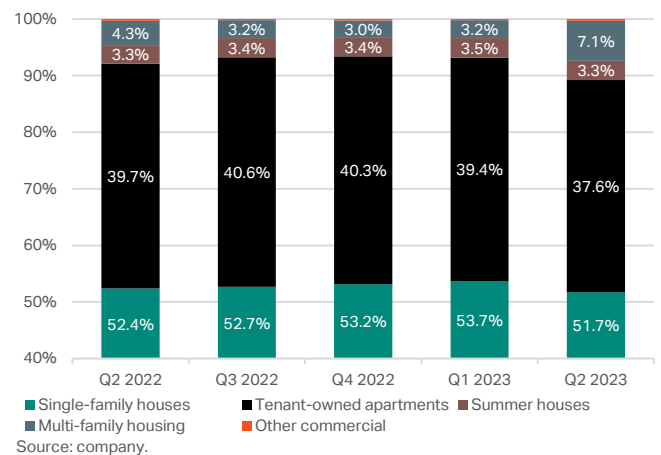
Source: Danske Hypotek's European Covered Bond Council Harmonised Transparency Templates (ECBC HTT). LTV-loan to value.

Figure 3. Share of pool by borrower-level LTV, last five quarters



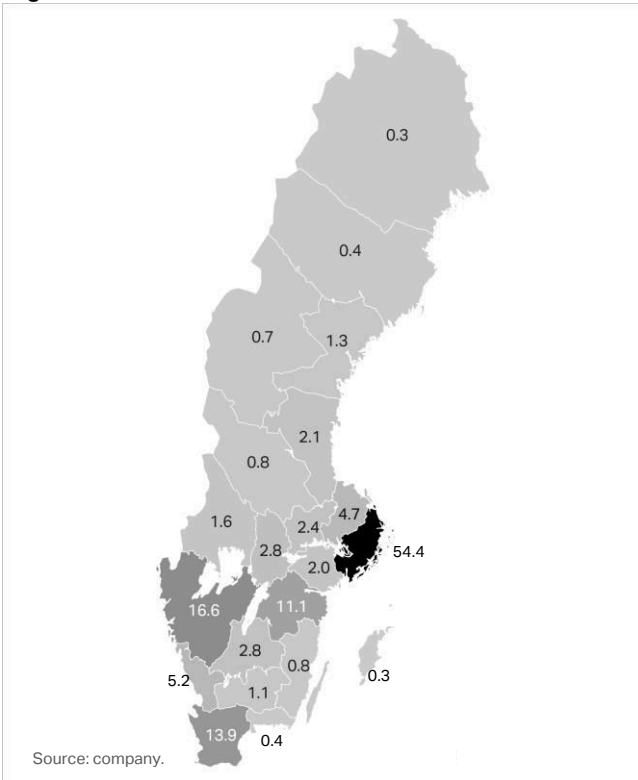
Source: company. Entire eligible loan amount in bucket based on borrowers' LTV.

Figure 4. Share of pool by property type, last five quarters

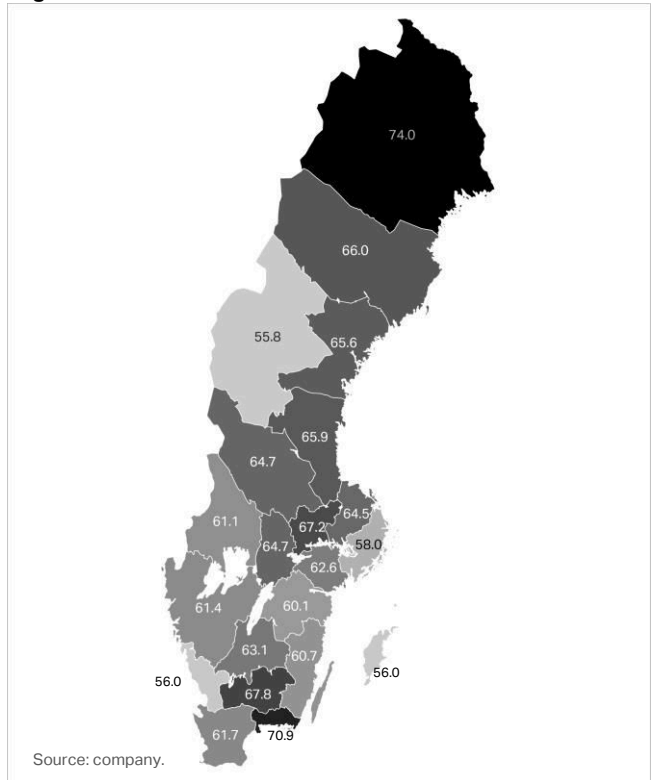


Source: company.

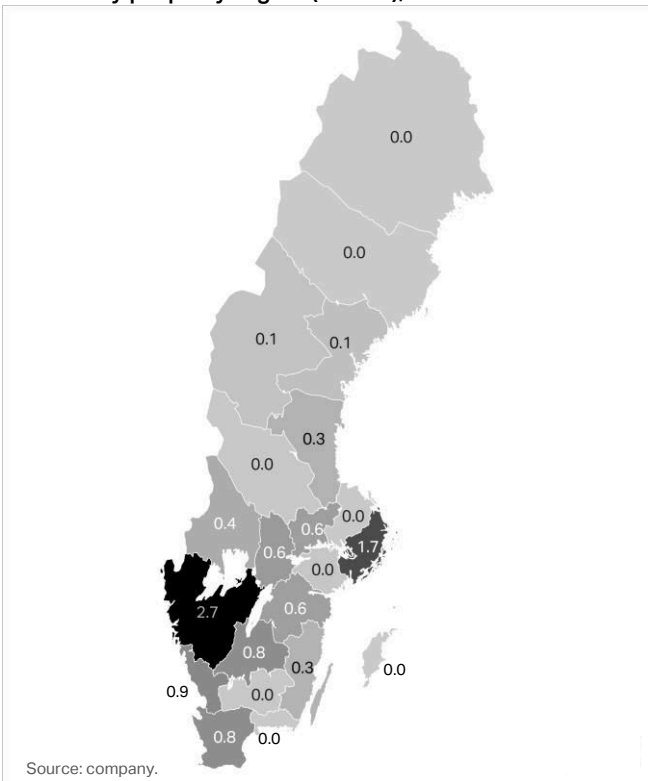
**Figure 5. Residential mortgage loan balance by property region (SEKbn), 30 June 2023**



**Figure 6. Weighted residential mortgage LTV by borrower region (%), 30 June 2023**



**Figure 7. Commercial and multi-family mortgage loan balance by property region (SEKbn), 30 June 2023**



**Figure 8. Average commercial and multi-family mortgage loan per property by region (SEKm), 30 June 2023.**

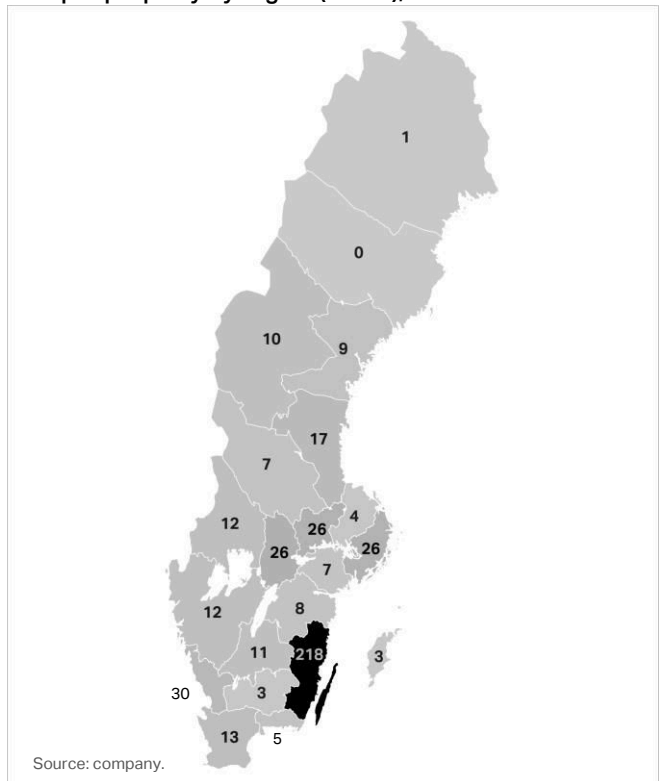


Figure 9. Share of pool by loan seasoning, last five quarters

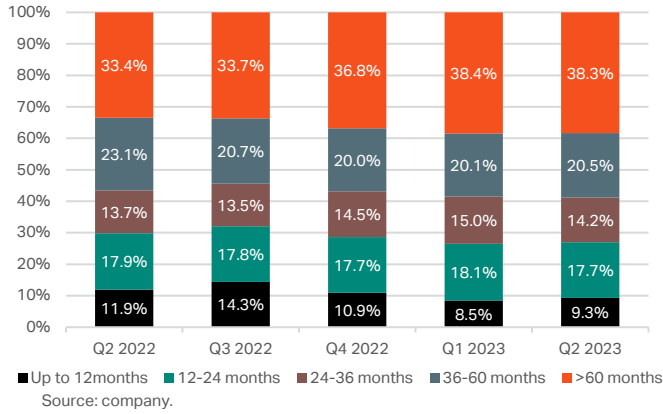


Figure 10. Share of pool by loan size (SEK), last five quarters

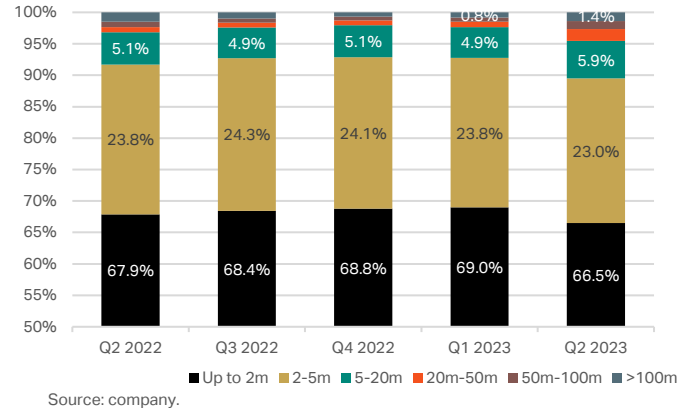


Figure 11. Share of pool by payment profile, last five quarters

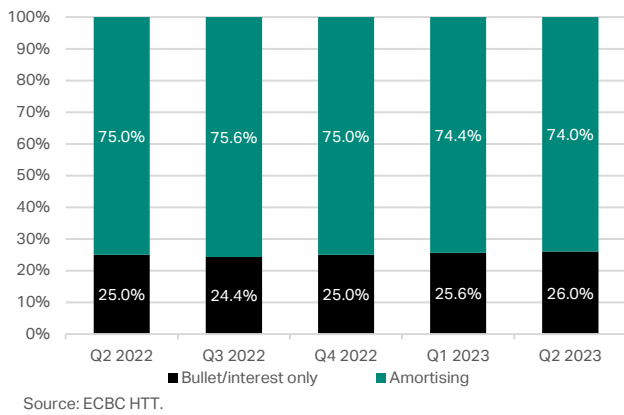


Figure 12. Share of pool by maturity, last five quarters

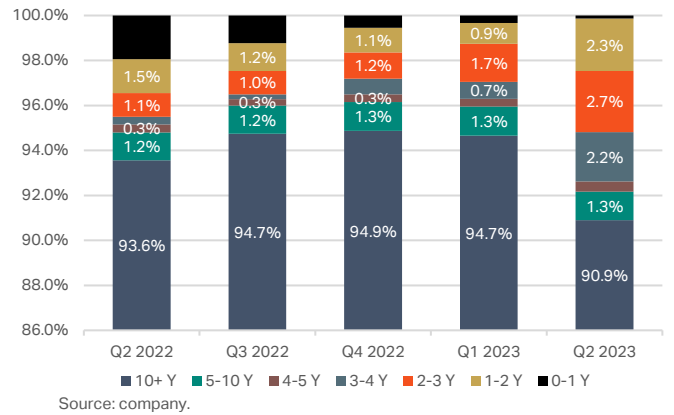


Figure 13. Share of pool by interest rate, last five quarters

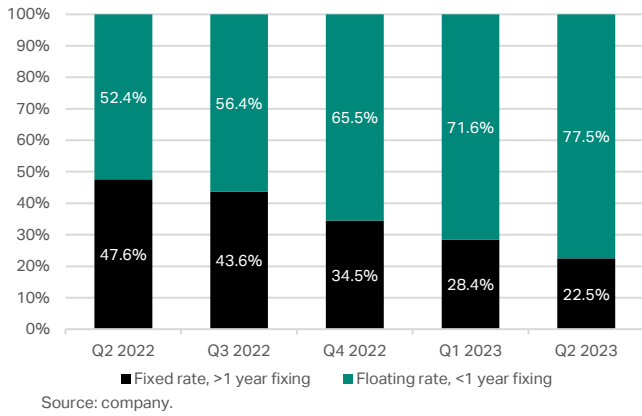


Figure 14. Share of pool by priority claims, last five quarters

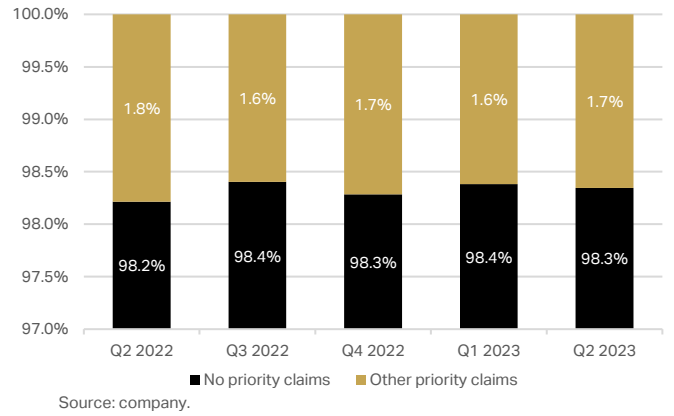


Figure 15. Region class and property type, 30 June 2023

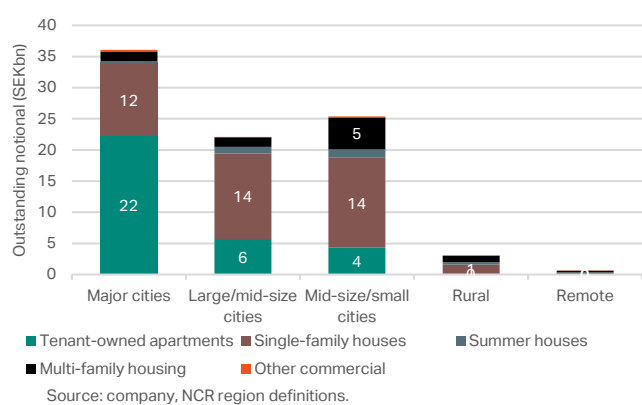
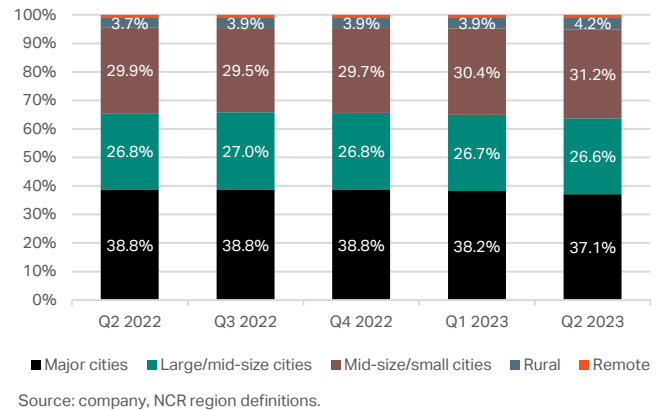


Figure 16. Region class, last five quarters



### CREDIT RISK STRESS TEST

NCR's credit risk stress testing begins with standard assumptions as defined in our criteria. Given the market situation and the quick adjustment in property values over the last 12 months, we have based our cover pool stress scenarios on the assumption that Swedish housing prices are 5–15% below their long-term trend levels since Q4 2022. Decreases in housing prices resulted in a higher loan-to-value ratio in Danske Hypotek's portfolio during the first half of 2023. While prices have stabilized, we see the potential for further declines in our base case given the increasing supply of homes for sale in Sweden. Given the fall in prices from the long-term trend, we consider a 15–35% fall in residential property prices in our stressed scenarios. In Q2 and Q3 2022 the stressed scenarios assumed a 25–45% fall in residential property values, given higher property valuations (see Figures 19 and 20).

The resulting one-year and multi-year credit losses in the stress scenarios can be compared with the expected loss levels (see Figure 17) based on Danske Hypotek's own probability of default (PD) and loss given default (LGD) assumptions. We note an increasing trend in the weighted average PDs for customers in the sample (see Figure 18), likely reflecting the reduction in disposable income due to higher interest and living costs for households as policy rates rise.

In Q1 2022, Danske Hypotek transferred about SEK 8bn in multi-family rental housing loans from Danske Bank to its own cover pool. The volumes decline in the subsequent quarters to around SEK 4bn; however, the company increased the volume of loans to nearly SEK 10bn in Q2 2023 (see Figure 4). Multi-family rental housing carries the default risk of the property owner and their ability to service their bank loans. While property owners can raise rental rates, the rates in Sweden are often regulated and dependent on investments to raise the standard of the building. The ability to service the debt on multi-family housing is also dependent on maintaining low vacancies and stable rental income. The strength and available alternatives in the local rental market and attractiveness of the underlying asset therefore play a larger role in the default risk for these types of loans. In terms of expected losses, we assume that the one-year probability of default of these exposures is 1.8% ('BB' according to NCR's rating principles) and apply commercial property stress levels.

Figure 17. Expected loss as a share of cover pool loans, based on actual portfolio composition and NCR stress test, last five quarters

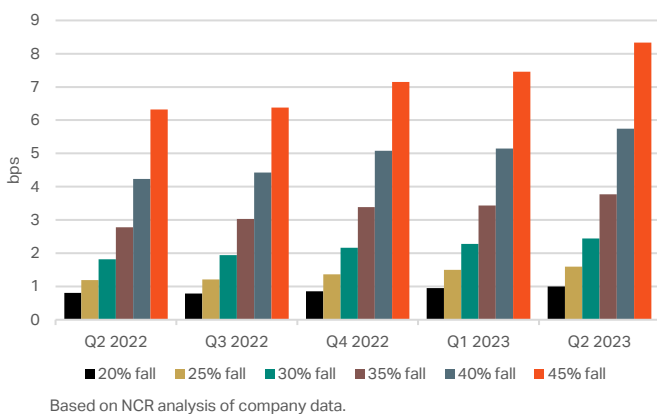
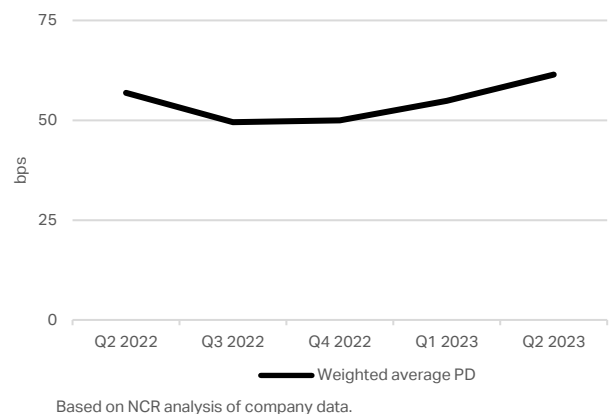
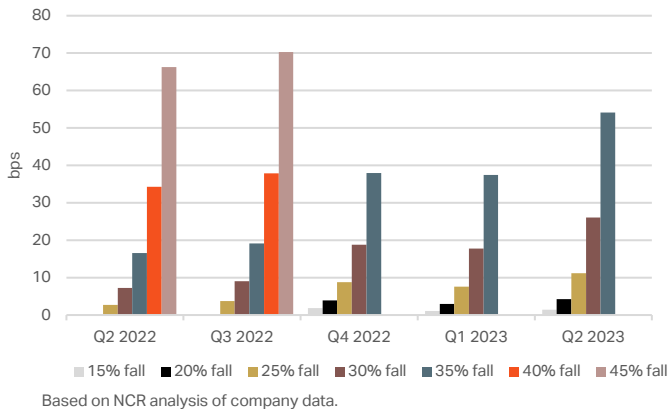


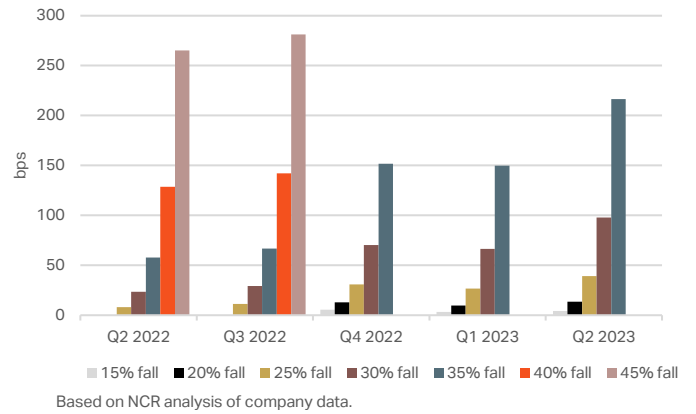
Figure 18. Weighted-average PD of the cover pool, last five quarters



**Figure 19. One-year credit loss as a share of cover pool loans, based on actual portfolio composition and NCR stress test, last five quarters**



**Figure 20. Multi-year credit loss as a share of cover pool loans, based on actual portfolio composition and NCR stress test, last five quarters**



## DISCLAIMER

Disclaimer © 2023 Nordic Credit Rating AS (NCR, the agency). All rights reserved. All information and data used by NCR in its analytical activities come from sources the agency considers accurate and reliable. All material relating to NCR's analytical activities is provided on an "as is" basis. The agency does not conduct audits or similar warranty validations of any information used in its analytical activities and related material. NCR advises all users of its services to carry out individual assessments for their own specific use or purpose when using any information or material provided by the agency. Analytical material provided by NCR constitutes only an opinion on relative credit risk and does not address other forms of risk such as volatility or market risk and should not be considered to contain facts of any kind for the purpose of assessing an issuer's or an issue's historical, current or future performance. Analytical material provided by NCR may include certain forward-looking statements relating to the business, financial performance and results of an entity and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. Forward-looking statements contained in any analytical material provided by NCR, including assumptions, opinions and views either of the agency or cited from third-party sources are solely opinions and forecasts which are subject to risk, uncertainty and other factors that could cause actual events to differ materially from anticipated events. NCR and its personnel and any related third parties provide no assurance that the assumptions underlying any statements in analytical material provided by the agency are free from error, nor are they liable to any party, either directly or indirectly, for any damages, losses or similar, arising from use of NCR's analytical material or the agency's analytical activities. No representation or warranty (express or implied) is made as to, and no reliance should be placed upon, any information, including projections, estimates, targets and opinions, contained in any analytical material provided by NCR, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained in any analytical material provided by the agency. Users of analytical material provided by NCR are solely responsible for making their own assessment of the market and the market position of any relevant entity, conducting their own investigations and analysis, and forming their own view of the future performance of any relevant entity's business and current and future financial situation. NCR is independent of any third party, and any information and/or material resulting from the agency's analytical activities should not be considered as marketing or a recommendation to buy, sell, or hold any financial instruments or similar. Relating to NCR's analytical activities, historical development and past performance does not safeguard or guarantee any future results or outcome. All information herein is the sole property of NCR and is protected by copyright and applicable laws. The information herein, and any other information provided by NCR, may not be reproduced, copied, stored, sold, or distributed without NCR's written permission.

## NORDIC CREDIT RATING AS

[nordiccreditrating.com](http://nordiccreditrating.com)