

Danske Hypotek AB (publ)

Full Rating Report

COVERED BOND RATING

AAA

ISSUER RATINGS

LONG-TERM RATING

A

OUTLOOK

Stable

SHORT-TERM RATING

N2

PRIMARY ANALYST

Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

SECONDARY CONTACTS

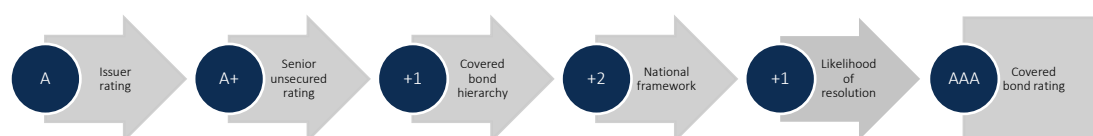
Ylva Forsberg
+46768806742
ylva.forsberg@nordiccreditrating.comGeir Kristiansen
+4790784593

geir.kristiansen@nordiccreditrating.com

RATING RATIONALE

Our 'AAA' issue rating on covered bonds issued by Sweden-based mortgage company Danske Hypotek AB (publ) is ultimately based on our 'A' issuer rating on the company, which in turn reflects its ownership by the Danske Bank A/S bank group (Danske Bank) and its vital funding role for the group's retail and corporate mortgage portfolio in Sweden. Our covered bond ratings are supported by our 'aaa' qualitative assessment and our analysis of the support available from the cover pool, which indicates 'AAA' level support for bondholders in the unlikely event that the pool were to become a standalone entity.

Figure 1. Covered bond rating components



Given the stable outlook on the issuer rating on Danske Hypotek, we expect the covered bond ratings to remain stable. This reflects our view that Danske Hypotek and Danske Bank would maintain their status as systemically important financial institutions with a very high likelihood of resolution in the event of failure, which would exclude the bail-in of covered bonds.

RATING STRENGTHS:

- Issuer and group creditworthiness, reducing downgrade risk for covered bonds.
- Strong national and European protections for covered bonds.
- Danske Hypotek's maintenance of material overcollateralisation and a clean pool via transfers of problem loans to its parent.

COVERED BOND RATING DRIVERS:

- Change in single point of entry resolution for Danske Bank.
- Multiple-notch reduction in the issuer rating on Danske Hypotek, due to a deterioration in our assessment of Danske Bank.
- Reduced security in covered bond assets.

Figure 2. Cover pool characteristics, Q4 2021–Q4 2024

	Q4 2021	Q4 2022	Q4 2023	Q4 2024
Eligible cover pool assets (SEKbn)	121.3	129.5	139.5	143.4
Outstanding covered bonds (SEKbn)	98.1	104.6	107.7	107.3
Legal overcollateralisation (%)	23.7	21.8	27.5	31.7
Average loan seasoning (years)	4.7	4.9	5.1	5.2
Average bond maturity (years)	2.6	2.7	2.9	2.9
Average loan size (SEKm)	1.04	1.08	1.16	1.25
Non-performing loans (bps)	0.0	0.0	0.0	0.0
Weighted-average LTV (%), residential	54.0	58.0	58.7	55.6
Owner-occupied share, residential (%)	97.0	96.0	96.4	96.6
Priority liens, residential (%)	99.0	98.8	98.7	98.6
Share of commercial mortgages (%)	0.0	0.2	0.3	0.4
Weighted-average LTV (%), commercial	0.0	38.0	40.4	44.2

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

Figure 3. Residential loan balance by property region (SEKbn), 31 Dec. 2024

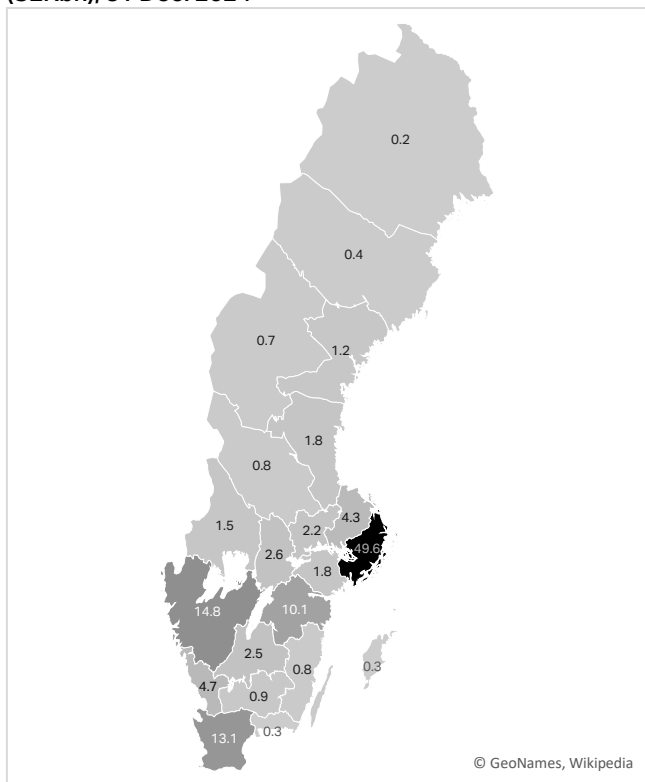


Figure 4. Weighted residential mortgage LTV by property region (%), 31 Dec. 2024

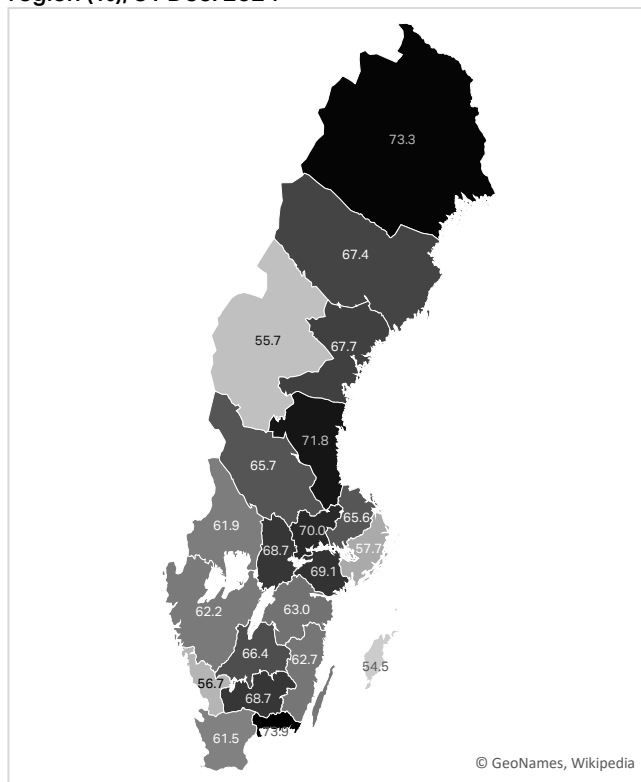


Figure 5. Commercial and multi-family mortgage loan balance by property region (SEKbn), 31 Dec. 2024

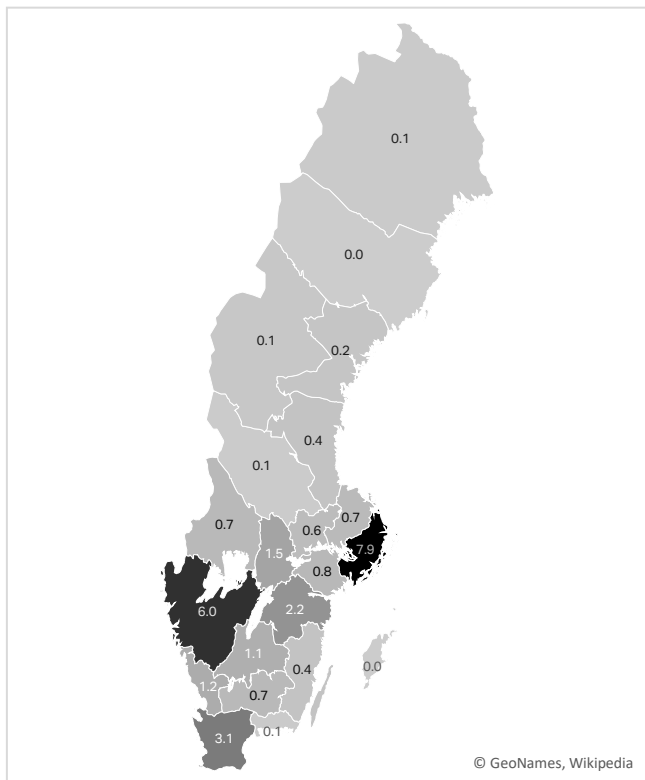
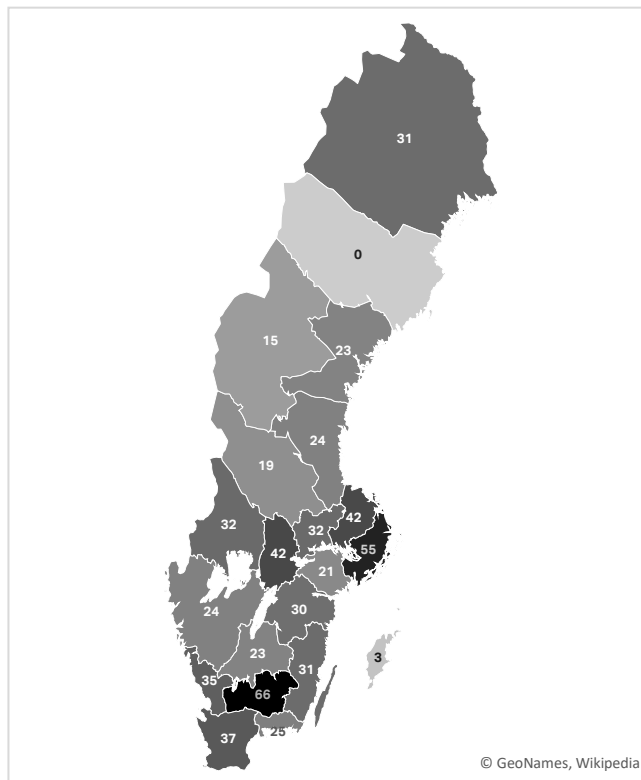


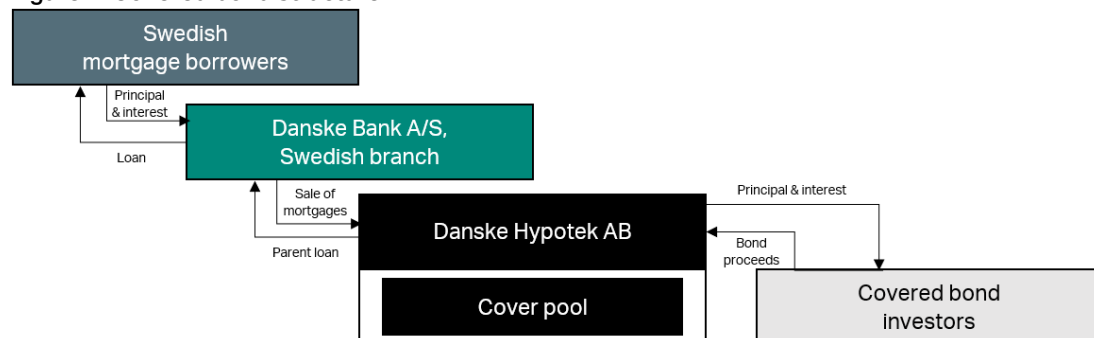
Figure 6. Average commercial and multi-family mortgage loan per property by region (SEKm), 31 Dec. 2024



COMPANY PROFILE

Danske Hypotek is a wholly owned Swedish subsidiary of Danske Bank and has been authorised to issue covered bonds in Sweden since 2017. The company was created to provide access to Sweden's covered bond market and to finance Danske Bank's Swedish retail and corporate mortgage loans in the same benchmark market as its competitors. All of the loans financed by Danske Hypotek are acquired from Danske Bank's Swedish branch, as Danske Hypotek itself does not conduct any new lending business.

Figure 7. Covered bond structure



QUALITATIVE ASSESSMENT

Our qualitative assessment of Danske Hypotek's covered bonds is 'aaa', reflecting the issuer rating on the company and the notches of support described below. Our qualitative assessment indicates a very low likelihood that the cover pool will become a standalone entity, and a high likelihood that bondholders will receive timely coupon and principal payments.

'A' issuer rating

The repayment capacity for covered bonds is linked to the credit quality of the issuer and the issuer's banking group. Our 'A' issuer rating on Danske Hypotek reflects our current 'a' credit assessment of Danske Bank and the company's role as a 'vital' entity within the group structure. The outlook on our issuer rating on Danske Hypotek is stable, reflecting our view of Danske Bank's creditworthiness.

Senior unsecured issue rating one notch above issuer rating

As of end-2024, Danske Bank had DKK 42bn in senior non-preferred debt instruments with a maturity of over one year. These instruments represent 6.1% of the group's risk exposure amount (REA) and 17% of its minimum subordination requirement for own funds and eligible liabilities (MREL) buffers. Danske Bank added USD 750m in senior non-preferred debt in March 2025. We therefore believe that the senior non-preferred instruments are likely to provide a meaningful buffer for Danske Bank's senior unsecured creditors in the event of resolution and thereby benefit all group subsidiaries.

Danske Hypotek's liability structure consists primarily of covered bonds, which are already excluded from bail-in according to the EU's Bank Recovery and Resolution Directive, and loans directly from Danske Bank. We note that Danske Bank's senior loans to Danske Hypotek are subordinate to covered bondholders, giving investors priority claims on all mortgage loans transferred to Danske Hypotek, whether or not such loans are eligible for the cover pool. In our view, the bail-in of senior non-preferred instruments in the event of a resolution of Danske Bank is likely to provide material additional support for Danske Hypotek, which we reflect in an additional notch above the issuer rating in our 'A+' senior unsecured rating.

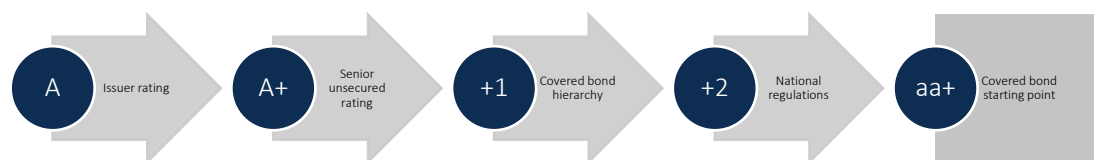
We consider covered bonds to have structural priority above other liabilities, given the preferential claim of the cover pool over a majority of the company's loan assets in the event of default. As a result, we add an additional notch of uplift to the covered bond ratings in comparison with our issue rating on the company's senior unsecured debt, even if a company has no such instruments outstanding. This reflects the explicit definition of covered bonds (according to the Bank Recovery and Resolution Directive) as having priority claim over senior unsecured debt obligations in the default hierarchy of financial institutions.

Qualitative assessment

National regulations provide two-notch uplift to covered bond ratings

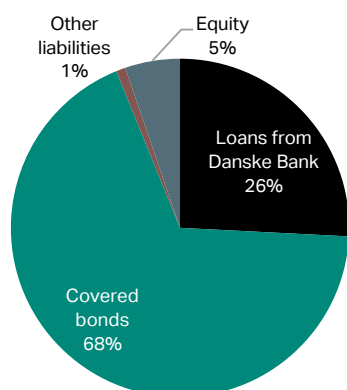
We consider the legal framework for Swedish covered bonds as supportive of the creditworthiness of covered bonds secured by residential and commercial mortgage loans, adding an additional two notches to the rating on Danske Hypotek's covered bonds and resulting in a covered bond starting point of 'aa+'.

Figure 8. Covered bond starting point



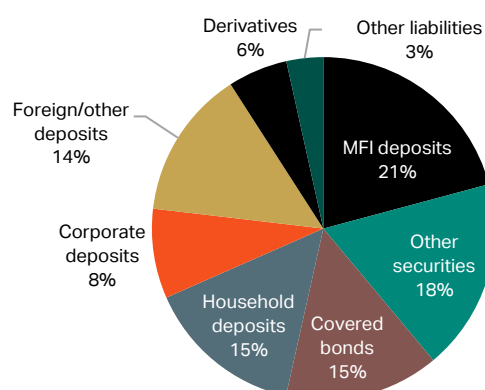
In addition to strong national regulations, covered bonds are a significant part of the Swedish financial fabric and constitute a material portion of domestic bank financing. The country had SEK 2.6 trillion in outstanding covered bonds as of February 2025, and they are an important source of stable funding. The long-term proportion of covered bond financing fell below 15% of outstanding liabilities in early 2022 as capital markets tightened and the share of interest rate derivative assets increased. The trend reversed in late 2022, and banks have steadily increased their share of covered bond financing to 14.6% as of February 2025. We expect the long-term proportion of covered bond financing to be around 15%.

Figure 9. Liabilities and equity, end-2024



Source: company.

Figure 10. Swedish monetary financial institutions' liabilities, Feb. 2025



Source: Sweden Financial Market Statistics.

High likelihood of resolution supports 'aaa' qualitative assessment

The likelihood of resolution is an important component in our evaluation of the likelihood of Danske Hypotek's cover pool being run down by an administrator without the support of Danske Hypotek or Danske Bank.

We consider a single point of entry resolution for Danske Bank a near certainty under current European law, as well as the explicit identification of the group as a systemically important financial institution in Denmark. We would expect a resolution for Danske Bank to result in Danske Hypotek maintaining its current relationship with the parent as the originator, internal swap party and parent loan provider.

In our view, Danske Hypotek would also have a very high likelihood of resolution as a standalone Swedish mortgage institution. While not explicitly identified as a systemically important financial institution in Sweden, the Swedish resolution authority, the Swedish National Debt Office, has identified a specified minimum requirement for own funds and eligible liabilities for Danske Hypotek of 6% of total liabilities and own funds since 1 Jan. 2024. We note that the loan from Danske Bank is included in Danske Hypotek's MREL, ensuring that Danske Hypotek is well over its regulatory MREL

requirement. We also believe that a default by Danske Hypotek would have a significant negative impact on the Swedish covered bond market, given over SEK 100bn outstanding covered bonds, and believe that the company's residential mortgage assets would be highly likely to be part of a restructuring if resolution measures were to fail.

Our evaluation of the impact of resolution compares the implicit default frequency of the covered bond starting point with the probability of the covered bonds being protected in a resolution scenario for Danske Bank, which is 95%, the maximum level under our criteria. The resulting qualitative assessment is presented in Figure 11.

Given the covered bond starting point ('aa+') and the 95% probability of resolution for Danske Hypotek, the qualitative assessment is 'aaa'. We expect the qualitative assessment of Danske Hypotek's covered bonds to remain 'aaa', even if Danske Hypotek were to be downgraded by up to four notches, all else being equal. If the issuer rating were to fall by five notches or more, it could still be possible for the security of the cover pool to provide additional uplift to the covered bond ratings.

Figure 11. Qualitative assessment based on covered bond starting point and probability of resolution or restructuring

COVERED BOND STARTING POINT	95%	67%	33%	0%
aaa	aaa	aaa	aaa	aaa
aa+	aaa	aaa	aaa	aa+
aa	aaa	aaa	aa+	aa
aa-	aaa	aa+	aa	aa-
a+	aaa	aa	aa-	a+
a	aaa	aa	a+	a
a-	aa+	aa-	a	a-

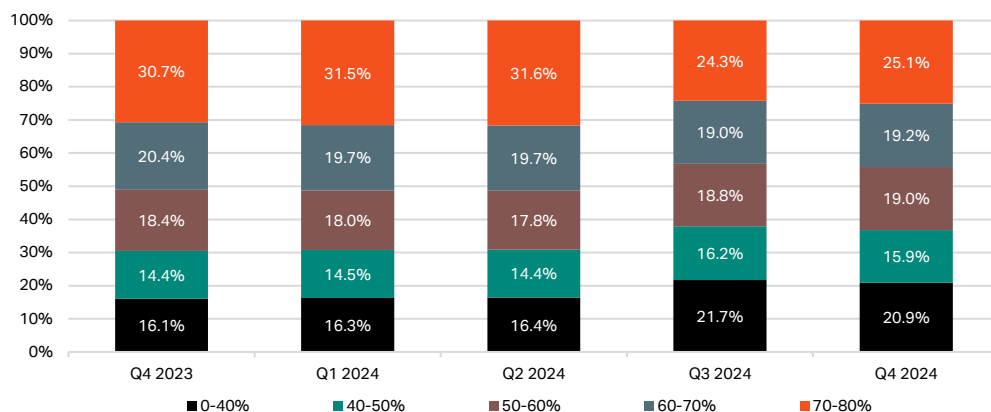
Source: NCR Covered Bond Rating Methodology.

COVER POOL ANALYSIS AND STRESS TESTING

Our cover pool analysis and stress testing support the 'AAA' rating on Danske Hypotek's covered bonds. Given the 'aaa' qualitative assessment, the analysis of the cover pool is primarily to provide further information on the details and sensitivities of the cover pool. We have used loan, property and borrower level details as well as data from Danske Hypotek's ECBC HTT to analyse pool assets and conduct sensitivity analysis, credit risk and cash flow stress testing on the cover pool according to our criteria.

We have no overcollateralisation requirement in our methodology, but stress pool assets to determine the ability to fulfil commitments as a standalone entity. Accordingly, overcollateralisation is a key component of an issuer's ability to repay bondholders in full in the event of a rundown.

Figure 12. Share of pool by borrower level LTV, last five quarters

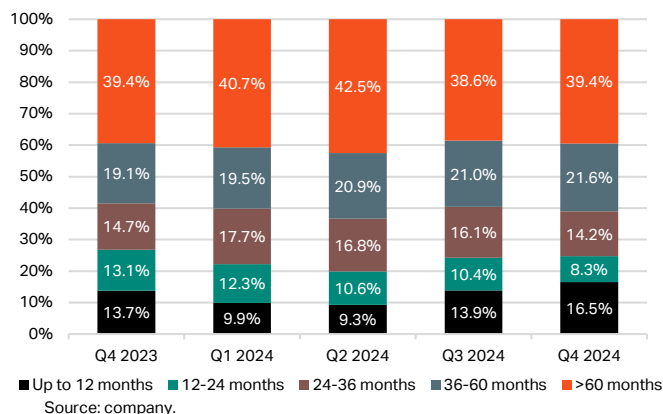


Source: company. Entire eligible loan amount in respective bucket based on borrowers' LTV.

Increasing share in multi-family housing affects pool metrics

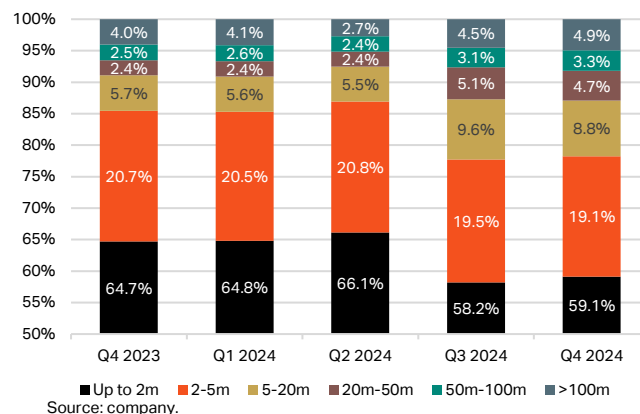
The following charts provide an overview of the characteristics of the cover pool assets. As of end-2024, the pool comprised over 80% residential mortgage loans, over 18% multi-family housing loans and less than 1% in other commercial mortgages. In addition, Danske Hypotek had SEK 6.7bn in additional net loans, to which covered bondholders have priority claims, given that Danske Bank's senior claims are subordinate to those of covered bondholders.

Figure 13. Share of pool by loan seasoning, last five quarters



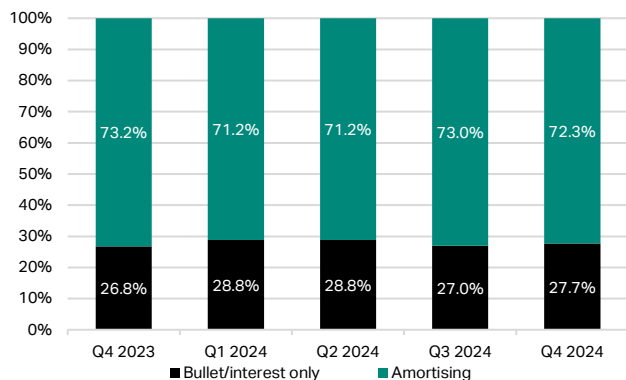
Source: company.

Figure 14. Share of pool by loan amount, last five quarters



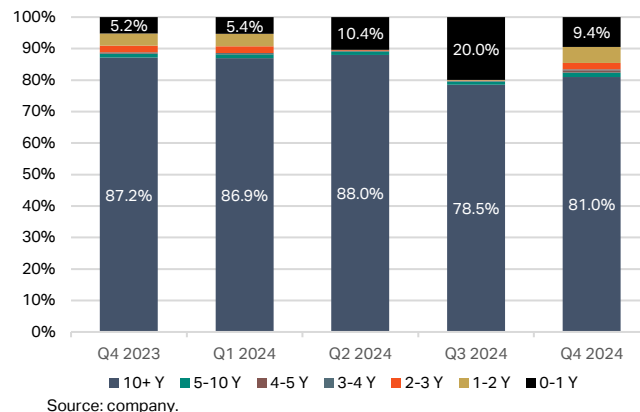
Source: company.

Figure 15. Share of pool by payment profile, last five quarters



Source: ECBC HTT.

Figure 16. Share of pool by maturity, last five quarters



Source: company.

Figure 17. Share of pool by interest rate, last five quarters

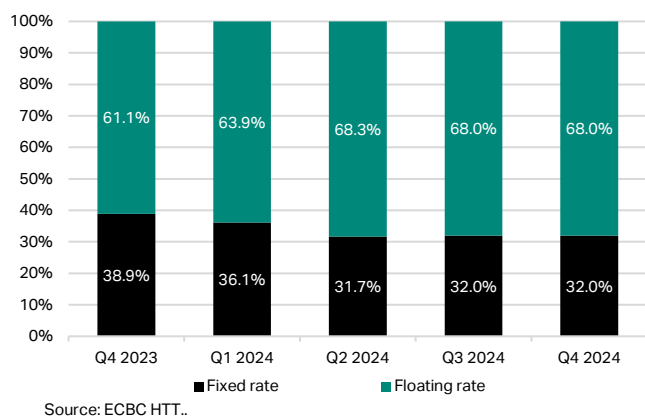


Figure 18. Share of pool by priority claims, last five quarters

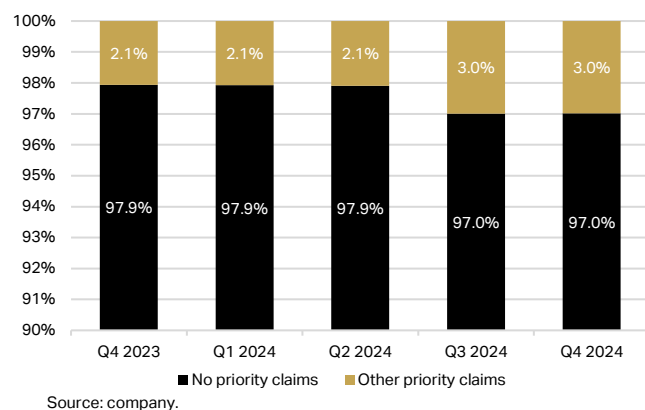


Figure 19. Property type, last five quarters

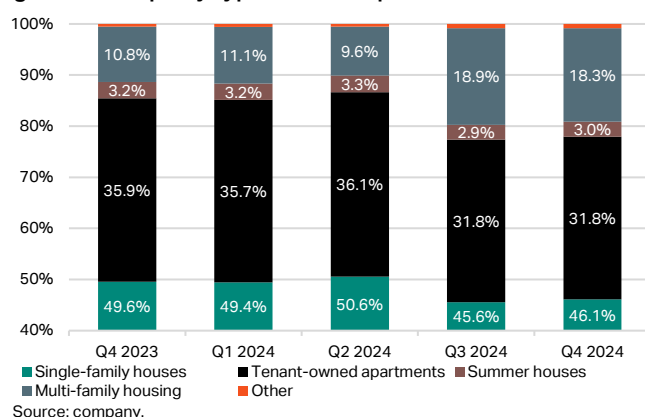
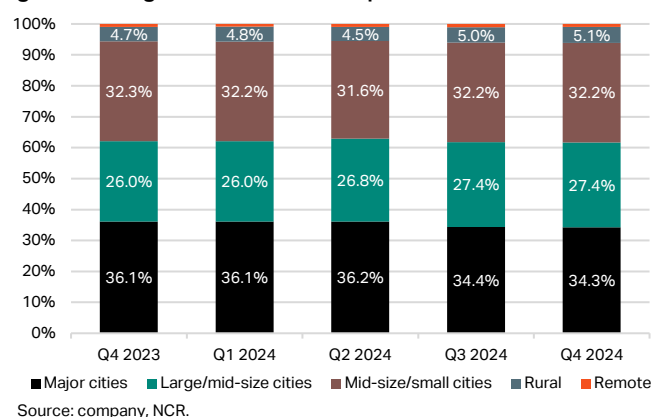


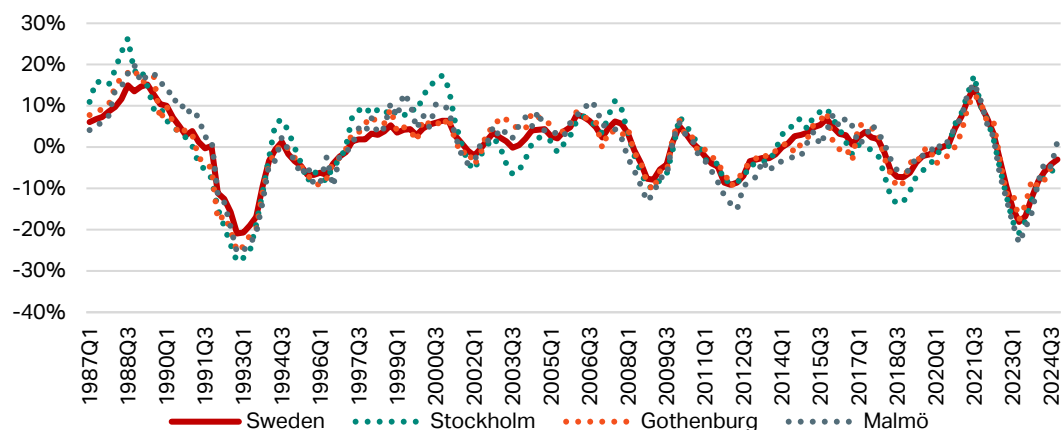
Figure 20. Region class, last five quarters



Credit risk stress tests show impact of higher proportion of residential real estate

Since 1987, average domestic housing prices have increased by 5.6% annually, according to Statistics Sweden's one- and two-dwelling index. Housing prices have improved following the steep decline from the first half of 2022 to the third quarter of 2023 (see Figure 21). However, growth rates remain below the long-term average. We expect prices to continue to rise steadily over the next two years due to lower interest rates, pent-up demand and low activity since 2022. We expect growth rates to return to their long-term compound annual growth rate (CAGR), though we remain cautious given the current volatility of interest rate expectations.

Figure 21. Sweden annual housing price growth adjusted for CAGR, 1987–2024



Source: Statistics Sweden, NCR.

Our credit risk stress testing begins with standard assumptions (see Appendix 2). Since 2022, we have based our cover pool stress scenarios on the assumption that Swedish housing prices are 5–15% below their long-term trend levels. Despite some improvement, we believe housing prices will remain subdued in the current geopolitical climate and considering the uncertainty in future interest rates. Our stress scenarios currently considers a 15–35% fall in residential property prices.

As of end-2024, Danske Hypotek had transferred about SEK 28bn in multi-family housing and other commercial mortgages from Danske Bank to its own cover pool. We expect multi-family housing loans to increase in the course of 2025 as more loans are transferred.

We make adjustments to default assumptions to reflect foreclosure costs and the concentration of the portfolio, and to stressed property valuations based on the region class of the specific property. The addition of multi-family housing loans has increased the distribution of geographic exposures and reduces the proportion of private mortgage loans located in Stockholm to 40% of the total cover pool from 43%. We maintain our concentration adjustment at 2%, reflecting the relative geographic concentration of Danske Hypotek's loan assets compared with the cover pools of its Swedish peers. For more details of our stress assumptions, see *Appendix 1: Analysing the Cover Pool* in our *Covered Bond Rating Methodology*.

Figure 22. Likely loss as a share of cover pool loans, based on actual portfolio composition and NCR stress test, last five quarters

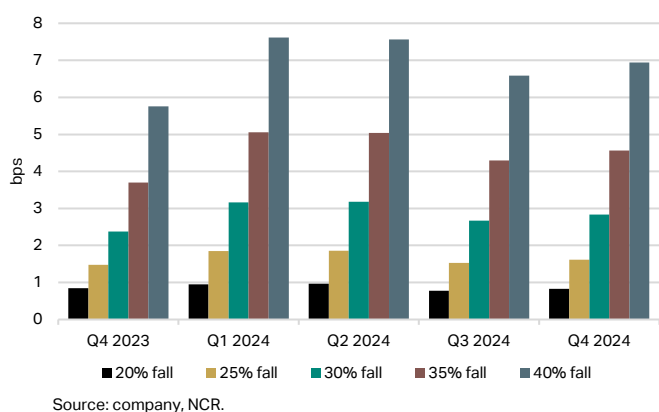


Figure 23. Weighted-average probability of default and loss given default of cover pool, last five quarters

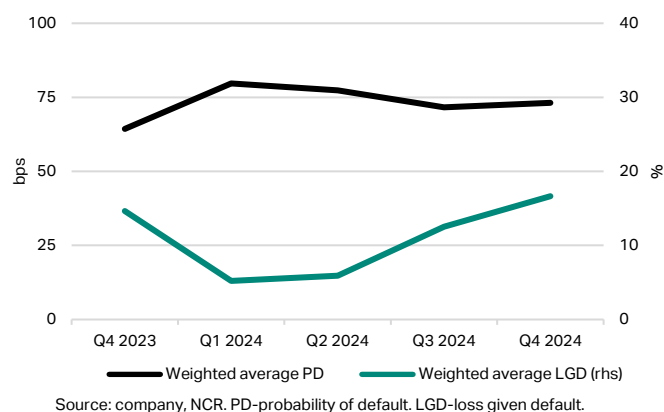


Figure 24. One-year credit loss as a share of cover pool loans, based on actual portfolio composition and NCR stress test, last five quarters

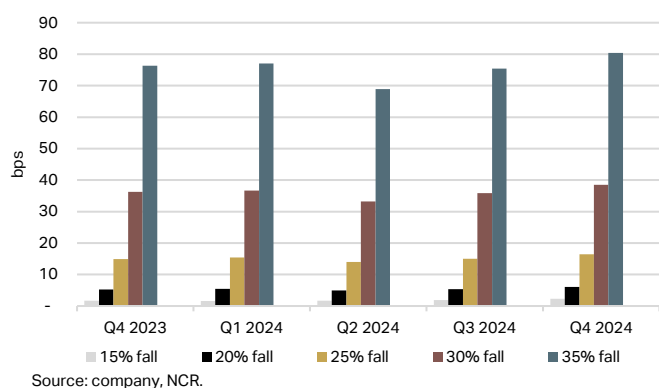
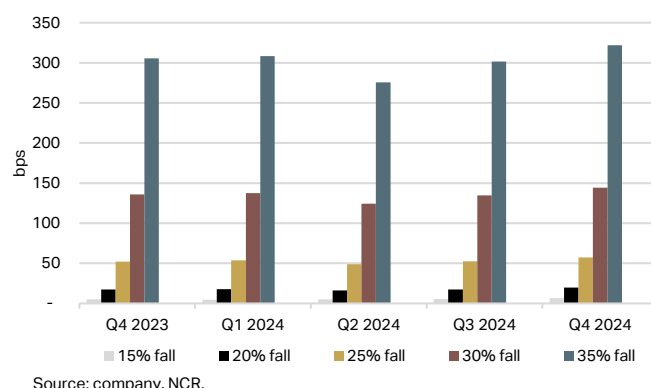


Figure 25. Multi-year credit loss as a share of cover pool loans, based on actual portfolio composition and NCR stress test, last five quarters



Cash flow stress test shows no shortages over five-year rundown

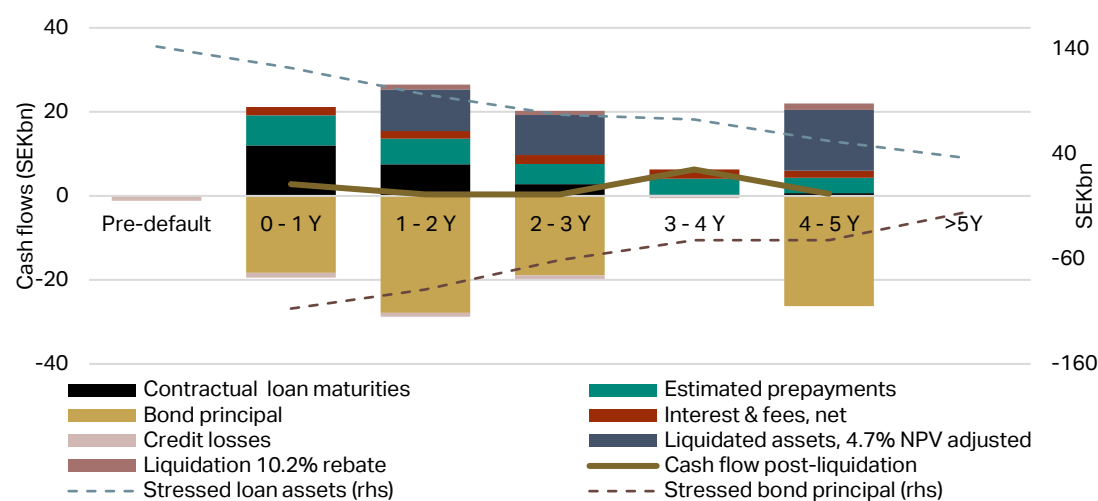
The stressed losses and non-performing loans are included in our cash flow stress test based on an assumption of the portfolio being run down by an administrator and outstanding bonds being repaid

by selling pool assets at a discount. Due to the high likelihood of a resolution, we do not view this scenario as likely for Danske Hypotek.

Our stress analysis shows no cash flow shortfall, even in our most extreme scenario (Level 5), with a significant surplus of loan assets compared to maturing debt after the fifth year of rundown (see Figure 26). This has improved due to the extended maturity of Danske Hypotek's covered bonds.

The outcome of this analysis is theoretical, given the assumption that the stress is immediate and based on current assets and outstanding bonds. The stress scenario is primarily dependent on our assumptions about the severity of discount rates and the liquidation rebates on assets sold. Interest and fees have only a modest impact on our analysis of Danske Hypotek's stressed cash flows. Interest rate risk is mitigated by the relatively short-term nature of interest rate fixing in the mortgage book and the company's policy of swapping all covered bond interest at floating rates.

Figure 26. Stressed cash flows in NCR's level 5 scenario as of 31 Dec. 2024



ADDITIONAL FACTORS

Counterparty risk from intra-group interest rate swaps

Swaps in the cover pool serve to reduce the interest rate risk between the pool and the outstanding bonds by swapping all bond interest payments to the three-month Stockholm Interbank Offered Rate. The maturities of the swap agreements are matched to the outstanding maturities of the bonds. Danske Hypotek's primary interest rate swap counterparty is Danske Bank, which fulfils our criteria in terms of the creditworthiness of swap counterparties. We note that Danske Bank is obliged to find a replacement counterparty at its own expense if its applicable public counterparty rating (as defined in the bond terms) falls below 'A-'. We also consider that Danske Bank and Danske Hypotek are likely to be part of the same resolution process, which is likely to prioritise the continuity of the derivatives within the cover pool. In view of this, we do not adjust the rating on the covered bonds, despite the concentration in Danske Hypotek's swap partners.

The Swedish covered bond act allows issuers to use bank counterparties ranked at the EU's Credit Quality Step 3 (broadly similar to a public credit rating at the 'BBB' level). According to our criteria, we could adjust covered bond ratings to reflect the risk of overreliance on derivative counterparties with public credit ratings of 'BBB+' or lower (or equivalent NCR credit assessments) outside the issuer's banking or ownership group.

ISSUER RATING

Our 'A' long-term issuer rating on Danske Hypotek reflects the operating environment for Swedish mortgage lenders, as well as the company's extremely low historical and projected loss performance and low credit risk profile, with most commercial real estate loans associated with residential properties. It also reflects Danske Hypotek's role as a 'vital' subsidiary within the Danske Bank group and a permanent part of Danske Bank's long-term strategy in its core Swedish market.

STABLE OUTLOOK

The outlook is stable, reflecting our credit assessment of Danske Bank. Upside to the issuer rating on Danske Hypotek remains constrained by our 'a' credit assessment of Danske Bank. Given our view of Danske Hypotek as 'vital' to Danske Bank, we could revise our rating on the company due to changes in our credit assessment of the parent.

POSITIVE RATING DRIVERS:

- Improvement in our view of Danske Bank group's creditworthiness.

NEGATIVE RATING DRIVERS:

- Deterioration in our view of Danske Bank group's creditworthiness.

Figure 27. Key credit metrics, 2021–2027e

%	2021	2022	2023	2024	2025e	2026e	2027e
Net interest margin	1.02	0.89	0.64	0.50	0.60	0.65	0.70
Loan losses/net loans	0.01	0.00	0.00	-0.07	0.01	0.01	0.01
Pre-provision income/REA	3.3	2.4	1.8	1.2	1.5	1.6	1.8
Cost to income	10.1	22.6	24.1	32.1	27.7	25.0	22.4
Return on ordinary equity	14.3	9.9	7.4	6.1	6.1	6.8	7.6
Loan growth	6.0	5.8	8.0	5.6	3.0	10.0	5.0
CET1 ratio	18.3	19.5	19.0	18.8	19.3	18.1	18.2

Source: company, NCR. e—estimate. All metrics adjusted in line with NCR methodology. CET1—common equity Tier 1.

RATING RATIONALE

Operating environment

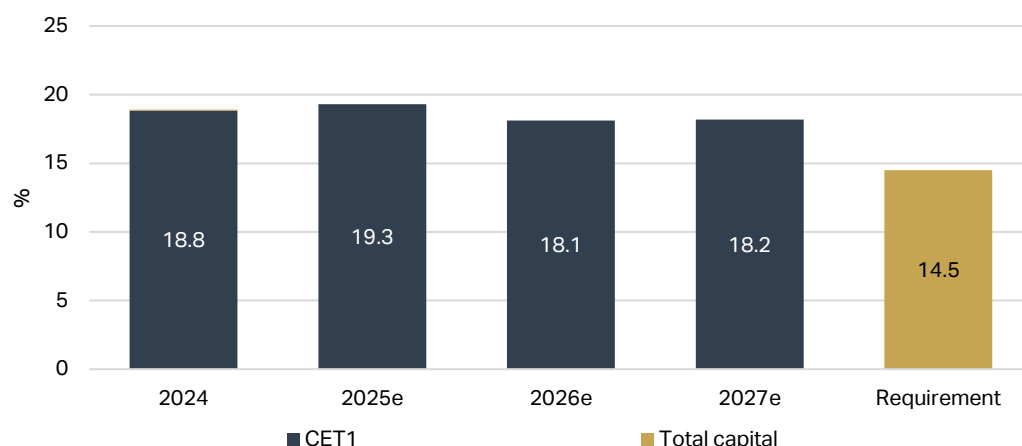
Our assessment of the Swedish banking market reflects our expectations of resilient industry conditions, low credit risk for domestic residential mortgage lending, and modest credit losses. Our view takes account of banks' strong capital and earnings and stable, yet weakening, labour markets. Residential property prices have improved somewhat since mid-2023, though price levels of housing and residential real estate remain unclear given growing uncertainty about interest rates. We project only modest credit losses from residential mortgage lending and multi-family housing loans over the next few years.

Risk appetite

Danske Hypotek has benefited from group investments in compliance and risk governance, which have positioned Danske Bank as a leader in this respect. Danske Hypotek pays for administrative services provided by the group via various service level agreements, which form the core of Danske Hypotek's own governance model, including risk oversight and internal audit processes. Danske Hypotek maintains dedicated full-time resources in key functions such as credit risk, financial accounting, operations and treasury.

Danske Hypotek's capital position is robust; the company had a CET1 ratio of 18.8% at end-2024. We project that the ratio will fall in 2026 due to additional multi-family housing loans and higher residential mortgage demand. We expect margins to improve from currently low levels and that capital will remain robust due to a lack of dividend payments. The regulatory total capital requirement was 14.5% at end-2024, and the company has access to additional capital from the group when necessary and can sell loans back to Danske Bank to reduce its capital requirements, which provides additional flexibility.

Figure 28. Capital ratio projection and total capital requirement, 2024–2027e



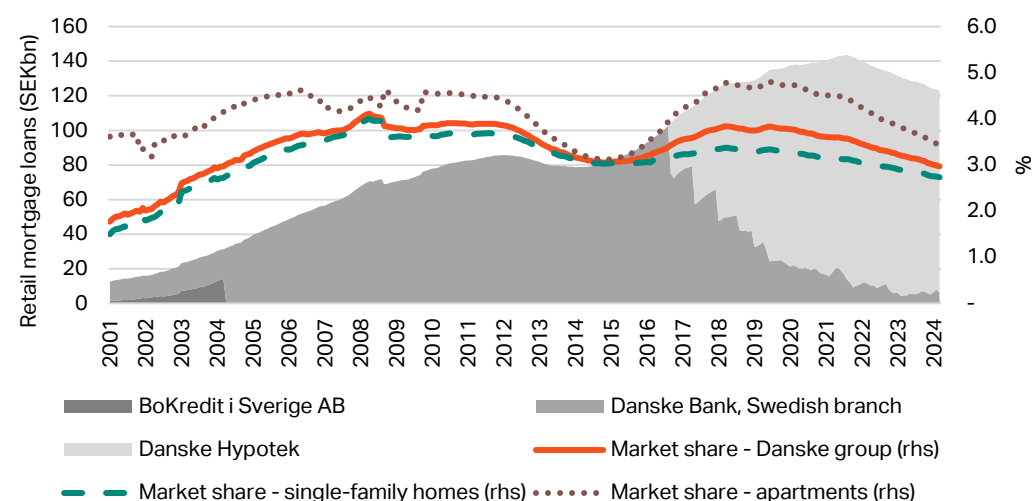
Source: company, e-estimate. Total capital requirement includes a pillar 2 requirement of 2.0%

We view covered bonds as a stable funding source, despite a relative concentration in outstanding benchmark issues. We believe the tap issuance and early buyback system used in Sweden, and the country's history of supporting liquidity in the covered bond market, mitigate the maturity mismatch in assets and liability. We view Danske Hypotek's loans from the group as a flexible and accessible secondary financing source, ensuring the fulfilment of regulatory liquidity coverage and net stable funding ratios. All outstanding bonds are denominated in Swedish kronor, matching the assets.

Danske Hypotek's credit risk profile is adequately reflected by the regulatory risk weights for residential mortgage loans (25% floor) and multi-family housing (35%). The addition of multi-family housing increases single-name concentrations somewhat, but 80% of the loan book consists of residential mortgage loans, mostly in Sweden's largest cities, supporting the relative liquidity of the collateral (see Figure 19 and Figure 20).

Danske Bank originally entered the Swedish market as a branch operation in 1995. We consider Danske Hypotek to be a challenger in the Swedish residential mortgage market. Combined with newly financed residential mortgage loans at Danske Bank's Swedish branch, the group's market share was 3.0% in February 2025 and has fallen steadily since 2020. Danske Bank has a somewhat larger position in mortgages associated with apartments (3.4%) than single-family homes (2.7%), reflecting its focus on metropolitan areas. The addition of multi-family housing has improved business diversity somewhat.

Figure 29. Danske Bank's Swedish retail mortgage market share, Dec. 2001–Feb. 2025



Source: Statistics Sweden

Competitive position

Performance indicators

Danske Hypotek's earnings and loss performance metrics have weakened in recent years. Mortgage margins in Sweden remain under pressure due to low credit growth. The company's expenses are dominated by an internal cost allocation from Danske Bank, and we forecast cost efficiency will improve. Higher volumes and margins, together with net interest income from previously transferred loans should modestly improve risk-adjusted earnings after a notably weak performance 2024.

Danske Hypotek's loss performance is supported by a propensity among Swedish borrowers to prioritise payments on their residential mortgage loans, given strong creditor rights. We generally expect the company to maintain a clean cover pool by selling non-performing loans back to Danske Bank before they become ineligible (60 days past due). However, as of end-2024, the bank had 73bps in net Stage 3 non-performing loans. As Danske Hypotek bought some loans with impairment reserves from Danske Bank in 2024, it also reported 7bps (SEK 100m) in credit provision reversals. We do not expect material credit provisions in our forecast, given the company's ability to transfer loans to Danske Bank.

Environmental, social and governance (ESG) factors are considered throughout our analysis where material to the credit assessment. Danske Hypotek's role in the group's ESG strategy is defined in Sweden by its role within the Swedish branch and group-wide commitments to sustainability. Danske Bank has established clear ESG goals through 2030 to reduce its climate footprint from lending, asset management, insurance activities and own operations. The group has also outlined focus areas for nature and biodiversity, as well human rights and social impact, to ensure alignment of customers and vendors with the bank's sustainability objectives.

Figure 30. Priority ESG factors

Issue/area	Risk/opportunity	Impacted subsections (impact on credit assessment*)
Control of sustainability issues	Proactive and rigorous measures mitigate regulatory and reputational risks and give credibility to sustainability profile.	Risk governance (0) Credit risk (0)
Sustainable/green bond framework	Aims to become a green bond issuer now that it has established itself as a benchmark covered bond issuer.	Competitive position (0)
Physical climate risk to collateral	Climate-related damage to real-estate collateral (closely linked to supervision of insurance). Longer-term term effects on market values in flood risk areas.	Credit risk (-) Loss performance (0)
Anti-money laundering capacity	Risk of sanctions and fraud due to insufficient control of customers.	Risk governance (0)

*Defined according to a 5-step scale ranging from double minus (--) to double plus (++), with (--) representing the most negative impact and (++) the most positive. See [ESG factors in financial institution ratings](#).

Ownership support neutral

We view Danske Hypotek as a 'vital' entity within the Danske Bank group. However, we currently assess Danske Bank at 'a', which is in line with our standalone credit assessment of Danske Hypotek.

Danske Hypotek is partly financed by Danske Bank and is highly integrated within the group's Swedish operations. In addition, we expect any financial resolution (as defined by the EU's Bank Recovery and Resolution Directive) involving Danske Bank to result in the Swedish subsidiary maintaining its current relationship with the parent. For this reason, Danske Hypotek is not eligible to be rated above the level of our credit assessment of the parent.

The short-term rating is 'N2', in line with our definition for the long-term rating level ('A').

METHODOLOGIES USED

- (i) [Financial Institutions Rating Methodology](#), 14 Feb. 2024.
- (ii) [Covered Bond Rating Methodology](#), 14 Feb. 2024.
- (iii) [Rating Principles](#), 14 Feb 2024.
- (iv) [Group and Government Support Rating Methodology](#), 14 Feb. 2024.

APPENDIX 1: SWEDISH COVERED BOND REGULATION

Creditor hierarchy as defined by the EU's Bank Recovery and Resolution Directive

The creditor hierarchy for Swedish banks is as follows:

1. Secured or collateralised obligations, including covered bonds.
2. Guaranteed deposits.
3. Unguaranteed household and SME deposits.
4. Senior preferred debt and wholesale and institutional deposits.
5. Senior non-preferred debt.
6. Subordinated debt.
7. Tier 2 capital instruments.
8. Additional Tier 1 instruments.
9. Equity.

Swedish covered bond regulation

Swedish covered bonds are governed by the Covered Bonds Issuance Act (*Lag (2003:1223) om utgivning av säkerställda obligationer*) as well as the Swedish Financial Supervisory Authority's regulations and general guidelines (FFFS 2013:1).

The Covered Bonds Issuance Act ensures:

- the bankruptcy remoteness of the cover pool and the maintenance of an accurate register of pool assets, including derivative agreements;
- covered bond investors' preferential claim to pool assets;
- covered bond investors' pari passu claim with other senior creditors to additional assets;
- independent monitoring of the cover pool by monitors appointed by the Swedish Financial Supervisory Authority;
- a liquidity buffer requirement covering 180 days of net outflows using extended maturity dates for extendable maturity (soft bullet) bonds;
- soft bullet bonds are only extended if approved by the Swedish regulator to avoid insolvency;
- acceptance of lower-rated derivative counterparties, where necessary, to avoid counterparty concentrations; and
- the bankruptcy administrator's authority to borrow and issue derivatives, as well as sell assets, if necessary, to maintain a balance between incoming and outgoing cash flows.

In addition, the act sets out the following conditions for cover pool assets:

- property exposures should be located in Sweden or other states of the European Economic Area;
- maximum LTV of 80% for residential mortgage loans and 60% for holiday properties included as eligible security;
- maximum LTV of 60% for commercial and agricultural mortgage loans included as eligible security, which can be increased to 70% if overcollateralisation in the cover pool exceeds 10% (agricultural mortgage loans are defined as either primarily residential or commercial);
- the amount of additional liquid security that can be pledged in the cover pool is 20%; and
- the nominal value of eligible pool assets must exceed bond liabilities by 2%.

APPENDIX 2: STRESS TEST DETAILS

Our standalone stress testing of the cover pool assumes that all forms of external support for the pool are exhausted and that only the underlying assets can provide enough liquidity to make coupon and principal payments. The stress test was conducted based on cover pool details as of 30 Dec. 2024. This analysis begins with the assumption that the issuer and/or banking group is being liquidated and administrators have committed to winding down the pool and selling necessary assets at a discount to ensure investors receive timely payment. For more details of the stress assumptions, see *Appendix 1: Analysing the Cover Pool* in our [Covered Bond Rating Methodology](#), 14 Feb. 2024.

For each scenario, if the modelled cash flows demonstrate that the existing cover pool assets can generate enough liquidity to repay outstanding covered bonds then a notch of cover pool support is added to the qualitative assessment, up to a maximum of 'aaa'. This is measured by comparing the existing overcollateralisation with the modelled interest cash flows and cover pool liquidation proceeds to make coupon and principal payments and the modelled default rates for mortgages and other cover pool assets.

We conduct credit risk and cash flow stress testing on the cover pool assets with five increasingly difficult stress scenarios – Level 1 to Level 5 – with Level 5 being the most severe. Where the qualitative assessment is below 'aaa', the varying levels of stress can determine whether additional credit support is available from pool assets and reflected in additional notches in the covered bond ratings. For Danske Hypotek, with a qualitative assessment of 'aaa', the stress test analysis demonstrates the potential for further credit support in the highly unlikely event of the cover pool becoming a standalone entity.

Segment differences

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.

We view cooperative housing association loans as carrying similar default risk to residential mortgages, but with a higher concentration given the higher average loan sizes. Housing cooperatives in Sweden can increase fees to tenant owners and own the physical collateral. In addition, the risk of vacancy or unpaid rent is minimal for housing associations once all tenant rights are sold. When housing associations default, the building is sold to a new owner, forcing the tenant owners to become renters and lose their own ownership rights.

Figure 31. Standard asset quality assumptions used in credit risk stress testing (%)

	Residential properties and housing association probability of default*	Housing association price fall	Commercial property probability of default* (3x)	Commercial property price fall (1.25x)
Level 1	4.0	20	12.0	25
Level 2	5.2	25	15.7	31
Level 3	6.9	30	20.6	38
Level 4	9.0	35	27.0	44
Level 5	11.8	40	35.4	50

*Half of instances of default are assumed to result in an executive auction at discounted prices.

In terms of expected losses (see Figure 31), we assume that the one-year probability of default on cooperative housing association loans is 0.2% ('BBB') and that the one-year probability of default on other commercial loans and multi-family housing exposures is 1.8% ('BB'). We apply residential property stress levels to cooperative housing loans and commercial property stress levels to other commercial loans.

According to our criteria, the current price level results in property value stresses in Figure 31. We expect commercial properties to have a higher probability of default and price correction than properties owned by housing associations. In addition, we adjust stressed values on the basis of our definition of the region class of the specific property.

Figure 32. Danske Hypotek key financial data, 2021–2024

Key credit metrics (%)	FY 2021	FY 2022	FY 2023	FY 2024
INCOME COMPOSITION				
Net interest income to op. revenue	104.8	108.1	99.3	99.8
Net fee income to op. revenue	-1.8	-2.3	-2.8	-4.2
Net gains and losses/operating revenue	-6.0	-6.3	3.3	3.8
Net other income to op. revenue	3.0	0.4	0.2	0.7
EARNINGS				
Net interest income to financial assets	1.0	0.9	0.6	0.5
Net interest income to net loans	1.1	0.9	0.7	0.5
Pre-provision income to REA	3.3	2.4	1.8	1.2
Core pre-provision income to REA (NII & NF&C)	3.4	2.5	1.7	1.1
Return on ordinary equity	14.3	9.9	7.4	6.1
Return on assets	0.7	0.5	0.4	0.3
Cost-to-income ratio	10.1	22.6	24.1	32.1
Core cost-to-income ratio (NII & NF&C)	9.8	21.3	24.9	33.6
CAPITAL				
CET1 ratio	18.3	19.5	19.0	18.8
Tier 1 ratio	18.3	19.5	19.0	18.8
Capital ratio	18.3	19.5	19.0	18.9
REA to assets	27.1	26.2	27.1	27.8
Dividend payout ratio				
Leverage ratio	0.0	0.0	0.0	0.0
GROWTH				
Asset growth	6.1	7.4	6.9	4.5
Loan growth	6.0	5.8	8.0	5.6
Deposit growth				
LOSS PERFORMANCE				
Credit provisions to net loans	0.01	0.00	0.00	-0.07
Stage 3 coverage ratio	4.26	7.83	17.30	10.09
Stage 3 loans to gross loans	0.72	0.48	0.21	0.81
Net stage 3 loans to net loans	0.69	0.44	0.17	0.73
Net stage 3 loans/ordinary equity	13.15	8.02	3.15	13.34
FUNDING & LIQUIDITY				
Loan to deposit ratio				
Liquid assets to deposit ratio				
Net stable funding ratio	121.0	120.0	122.0	127.0
Liquidity coverage ratio	628.0	3085.0	1486.0	228.0
Key financials (SEKm)	FY 2021	FY 2022	FY 2023	FY 2024
BALANCE SHEET				
Total assets	131,229	140,958	150,634	157,342
Total tangible assets	131,229	140,958	150,634	157,342
Total financial assets	131,209	137,102	147,893	155,658
Net loans and advances to customers	124,444	131,635	142,113	150,140
Total securities	4,657	4,544	4,661	4,743
Customer deposits	–	–	–	–
Issued securities	97,309	98,020	105,082	107,059
of which other senior debt	97,309	98,020	105,082	107,059
of which subordinated debt	–	–	–	–
Total equity	6,536	7,214	7,772	8,261
of which ordinary equity	6,536	7,214	7,772	8,261
CAPITAL				
Common equity tier 1	6,520	7,185	7,748	8,242
Tier 1	6,520	7,185	7,748	8,242
Total capital	6,520	7,185	7,748	8,267
REA	35,608	36,925	40,878	43,732
INCOME STATEMENT				
Operating revenues	1,242	1,106	919	758
Pre-provision operating profit	1,116	856	698	515
Impairments	15	2	-5	-100
Net Income	875	678	558	488

Source: company. FY–full year. YTD–year to date.

Figure 33. Danske Hypotek rating scorecard

Subfactors	Impact	Score
National factors	20.0%	a-
Regional, cross border, sector	-	-
Operating environment	20.0%	a-
Risk governance	5.0%	a
Capital	17.5%	a
Funding and liquidity	15.0%	a+
Credit risk	10.0%	a
Market risk	-	-
Other risks	2.5%	a
Risk appetite	50.0%	a
Competitive position	15.0%	bbb+
Earnings	7.5%	a
Loss performance	7.5%	a+
Performance indicators	15.0%	a
Indicative credit assessment		a
Transitions		Neutral
Peer calibration		Neutral
Borderline assessments		Neutral
Stand-alone credit assessment		a
Material credit enhancement		Neutral
Rating caps		Neutral
Support analysis		Neutral
Issuer rating		A
Outlook		Stable
Short-term rating		N2

Figure 34. Capital structure ratings

Seniority	Rating
Covered bond	AAA
Senior unsecured	A+

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