

Danske Hypotek AB (publ)

Rating Action Report

COVERED BOND RATING

AAA

ISSUER RATINGS

LONG-TERM RATING

A

OUTLOOK

Stable

SHORT-TERM RATING

N2

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Danske Hypotek 'AAA' covered bond issue rating and 'A' issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'A' long-term issuer rating on Sweden-based [Danske Hypotek AB \(publ\)](#). The outlook is stable. At the same time, NCR affirmed the 'N2' short-term rating and the 'AAA' issue rating on Danske Hypotek's covered bonds and the 'A+' issue rating on its senior unsecured obligations.

Rating rationale

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. We also maintain our 'a' standalone assessment of Danske Hypotek. However, due to changes in the loan composition and a higher share of multi-family housing and non-performing loans, we have revised our view of loss performance. In addition, we have adjusted our expected earnings performance downwards to reflect our expectations that lending margins will remain tighter given high competition and low demand.

Given the stable outlook on our 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.

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 credit assessment of the parent. 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.

Rating list

Long-term issuer credit rating:
Outlook:
Short-term issuer credit rating:
Covered bond issue rating:
Senior unsecured issue rating:

To	From
A	A
Stable	Stable
N2	N2
AAA	AAA
A+	A+

Figure 1. Danske Hypotek rating scorecard

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

Figure 2. Capital structure ratings

Seniority	To	From
Covered bond	AAA	AAA
Senior unsecured	A+	A+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 30 Apr. 2020.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Financial Institutions Rating Methodology published on 14 Feb. 2024 NCR's Rating Principles published on 14 Feb. 2024 NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024 NCR's Covered Bond Rating Methodology published on 14 Feb. 2024 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies. The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA).
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Bond prospectuses, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test or cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies .
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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