# DNB Boligkreditt AS / NO0013056184

## Performance Report

The AAA rating with a Stable Outlook assigned to the NOK 50bn Norwegian mortgage-covered bond (NO0013056184) issued out of DNB Boligkreditt AS (DNBB) Eur 60bn covered bond programme are based on the bank's credit quality, enhanced by governance-support based uplift. Governance support factors, in total, provide a rating uplift of up to six notches and, effectively, a floor against a deterioration in cover pool credit quality. This reflects our assessment of the strong governance support provided by the legal covered bond and resolution framework in Norway.

**The covered bond programme**

| Cut-off date | Cover pool | Cover asset type | Covered bond* | Rating/Outlook** |
|---|---|---|---|---|
| 30 June 2024 | NOK 677.09bn | Mortgage | NOK 50bn | AAA/Stable |

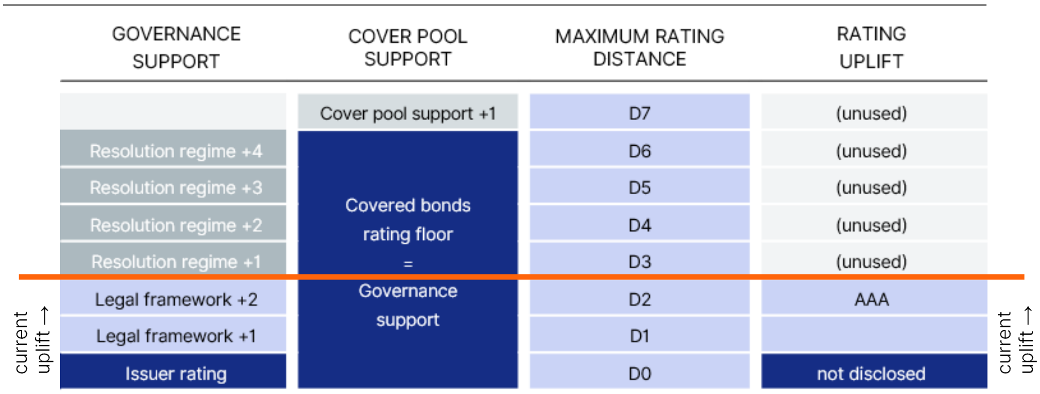
*Under the issuer's covered bond programme the total outstanding covered bonds account for NOK 404.45bn ** of the rated bond

Our cover pool analysis provides additional rating stability. We have assigned the interplay between complexity and transparency a cover pool complexity (CPC) category of 'high', allowing for a maximum additional uplift of up to one notch on top of the governance support uplift. Together the programme benefits from a five-notch buffer against an issuer downgrade.

The rated bond ranks pari-passu to other covered bonds issued under the bank's Eur 60bn covered bond programme. It is covered by a granular portfolio of domestic mortgage loans with around 350,000 loans. Around two third of the pool are secured by owner-occupied properties and mortgage loans are mostly floating rate. About 23% are bullet loans that include revolving credit lines with moderate LTVs. The average indexed LTV of 51.8% indicates high recoveries even under our most severe stresses. 1.1% of the loans show arrears while only 0.12% are 90 days past due.

Interest and currency mismatches are hedged. Market risk is driven by maturity mismatches. The weighted average life (WAL) of cover assets of 14.5 years compares to 3.9 years of the liabilities. Mismatches are partly mitigated by the bond's legal soft-bullet structure shifting the WAL to 4.8 years. The programme does not benefit from liquid, substitute assets.

**Figure 1: Covered bond rating building blocks**




Covered bond rating
AAA

Outlook
Stable

Rating action
Affirmation

Last rating action
30 Oct 2024

Issuer rating
not disclosed

Outlook
not disclosed

Last rating action
not disclosed

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## Stable Outlook

Scope's Stable Outlook on the mortgage covered bond reflects the Stable Outlook on the issuer, governance support factors and the cover pool. Together they allow for a cushion against a downgrade of up to five notches. The rating may be downgraded upon: i) an issuer rating downgrade by more than five notches; ii) a significant deterioration in Scope's view on governance support factors relevant to the issuer and Norwegian covered bonds in general and on the interplay between complexity and transparency, and/or iii) the inability of the cover pool to provide an additional uplift in case the issuer rating is downgraded by more than four notches.

## Changes since the last performance update

Since our last analysis one year ago covered bonds have increased by 7.6% while the cover assets increased by 0.4% only. Overcollateralisation dropped to 67.4% from 79.4% consequently. This level however does still provide a very comfortable cushion against credit and market risks – well above the AAA supporting OC of 5%. Assets and liabilities remained relatively stable. Norwegian house-prices have stabilised showing moderate growth again since they were falling during 2023.

## Rating drivers and mitigants

| Positive rating drivers | Negative rating drivers and mitigants |
|---|---|
| **High issuer credit quality.** DNBB's high credit quality is the starting point for our rating.<br><br>**Norwegian covered bond framework (+2 notches).** The legal framework supporting covered bonds fully meets our expectations and ensures the integrity of the covered bond structure and recourse to the cover pool.<br><br>**Resolution regime assessment (+4 notches).** Norwegian covered bonds are excluded from bail-in; regulators are expected to restructure the bank using available resolution tools; DNBB's covered bonds are deemed systemically relevant; and a cohesive stakeholder group supports the market. | **CPC category.** The interplay between complexity and transparency reflects our current level of transparency and only allows for a maximum additional cover pool uplift of one notch. |

| Upside rating-change drivers | Downside rating-change drivers |
|---|---|
| **Issuer.** An upgrade of DNBB may further increase the buffer of the covered bond rating against issuer downgrades.<br><br>**CPC category.** A higher level of transparency could positively impact our assessment and increase the potential cover pool support and thus buffer of the covered bond rating against issuer downgrades. | **Issuer.** A greater than expected earnings volatility, deterioration of the banks funding profile or other negative material events may negatively impact the rating of the issuer. This may decrease the buffer of the covered bond rating against issuer downgrades.<br><br>**Resolution-regime assessment.** A significant fall in the market share or reduced relevance of covered bonds as a funding instrument could lower the regulators or stakeholders' incentive and ability to maintain the issuer as going concern. |

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## The issuer

The issuer is a wholly owned subsidiary of DNB Bank ASA

We maintain and monitor a private issuer rating on DNBB, a wholly owned subsidiary of DNB Bank ASA (DNB). Scope has a subscription rating on DNB. For more information on DNB's rating, please refer to ScopeOne, Scope's digital marketplace, or to register, click here.

DNBB provides loans secured on residential property up to 75 per cent of the property's appraised value. DNBB plays a key role in securing long-term and favourable funding for the DNB group through the issuance of covered bonds.

DNB's diversified business model and dominant market position in Norway underpin resilient earnings and sound prudential metrics. The group's leading retail and commercial banking franchise is complemented by leading asset management, insurance and capital markets businesses.

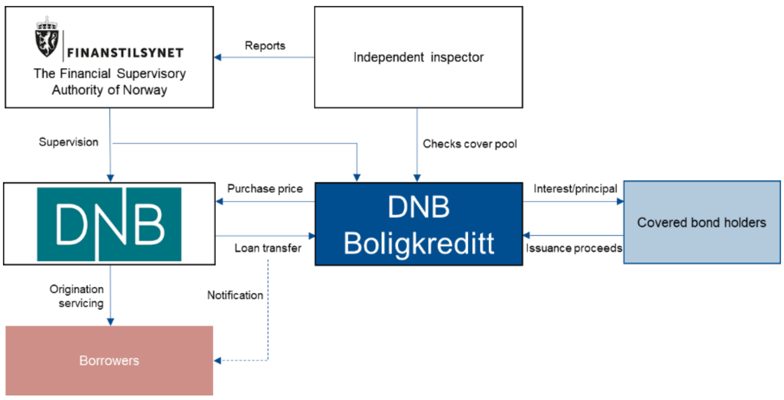
Management takes a proactive approach to maintaining the group's leading position in an increasingly competitive market. In 2023, the group acquired the digital bank, Sbanken, further strengthening its market position in mortgages and adding technology expertise. The group has recently announced the acquisition of Carnegie Holding AB which will expand its presence in the Nordic region and materially increase fee-based income.

## Programme structure

Covered bond issuance permitted only through specialist covered bond issuers

The Norwegian legal covered bond framework is mainly based on the covered bonds section of the Financial Institutions Act and a related regulation on mortgage credit institutions, both introduced in 2007. The act was amended to transpose the European Covered Bond Directive and came into force on 8 July 2022, the same day as the directive in the EU. Under this framework, issuance is permitted only through specialist covered bond issuers. Like most Norwegian covered bonds issuers (generally called Boligkreditt, or specialised residential mortgage institutions), DNBB relies on loans directly originated by its parent bank or on loans underwritten and originated by DNBB itself. In either case, the parent bank generally provides most of the servicing, allowing DNBB to keep staff numbers low.

**Figure 2: Issuance structure**




Source: Scope Group GmbH

## Governance credit support analysis

Governance credit support is the key rating driver for DNBB's mortgage covered bonds. It provides the maximum possible uplift of six notches. This uplift is based on our credit-positive view on i) the legal framework for mortgage covered bonds in Norway; ii) the Norwegian's resolution regime; and iii) the systemic relevance of covered bonds in Norway, including those of DNBB.

Together six notches from legal framework and resolution regime

**Legal framework and structural support analysis**

The Norwegian covered bond framework is very strong, meeting our criteria for protecting investors and resulting in the highest credit differentiation of two notches.

Two notches reflecting strong legal framework

The relevant legal framework is based on the relevant section in the country's Financial Institutions Act and related regulation on mortgage companies (finansforetaksforskriften). Both were introduced in 2007 and amended to transpose the European CBD that and came into force 8 July 2022. The term "covered bonds", (in Norwegian "obligasjoner med fortrinnsrett" or "OMF") is protected by law.

*Segregation of cover pool upon insolvency*

The Norwegian legislation gives covered bondholders preferential claims over the cover pool if the issuer is placed under public administration. The assets in the pool remain with the estate but bondholders and derivatives counterparties have exclusive, equal and proportionate preferential claims over the cover pool. The issuer maintains a register of issued covered bonds and of the cover assets assigned to them, including derivatives agreements.

*Ability to continue payments after issuer insolvency*

Owners of covered bonds and derivatives counterparties have a direct claim to timely payments with funds covered by preferential rights. Only if timely payment is not possible i.e. after maturity extension is triggered and no distressed liquidity situation emerges, can payments on the covered bonds be suspended. Covered bonds will not, however, be subject to automatic acceleration in the event of special administration or liquidation under public administration of the credit institution.

The administrator ensures proper management of the cover-pool and that holders of covered bonds and derivatives counterparties receive agreed and timely payments. Assets can be sold, and new covered bonds can be issued. The administrator can also enter new derivatives contracts or change existing contracts. The entire collateral can only be sold if this provides full coverage of all senior costs as well as the costs incurred by covered bond investors (including any deferred or accrued interest and costs).

*Asset eligibility and risk management principles*

According to the regulation, the collateral pool securing a European Covered Bond (Premium) can only consist of claims that meet the requirements of article 129 of the Capital Requirements Regulation. This restricts funding coverage for mortgage covered bonds to the asset's loan-to-value threshold of 80% (from 75% earlier) for residential mortgages and 60% for commercial mortgages. The regulation further specifies that mortgages on holiday properties qualify only up to a loan-to-value of 60%. The amount of substitute assets is restricted according to their credit quality step category.

The collateral requirements allow for loans secured by housing association shares, mortgage loans, or loans secured by pledges in other real property assets. Mortgage collateral must be located within European Economic Area (EEA). Additionally, assets can consist of assets guaranteed by a state or public body, claims against credit institutions or receivables from derivatives agreements.

The regulation specifies minimum over-collateralisation levels that are dependent on the collateral type. Norwegian mortgage covered bonds benefit from nominal overcollateralisation to 5%.

Interest risk mitigants are formalized and addressed by mandatory tests and limits. Further, the cover pool's interest yield must at all times be higher than the sum of the costs associated with covered bond funding including derivatives. Foreign currency risk mitigants are not formalized.

Liquidity risk is addressed allowing for maturity extension as stipulated in the bond's terms and conditions and based on specified events. As such, the criteria for a 12-month extension is: a) the expectation that an issuer will be affected by a crisis in the near future and there is no reasonable prospect that other measures will prevent the institution from being affected by a crisis, or b) a decision made by the Ministry of Finance. The determination of a "crisis" will be made by Finanstilsynet, the Financial Supervisory Authority (FSA), while the Ministry of Finance and resolution authority will be most likely involved into this process as well.

In addition, a covered bond issuer must always have a liquidity buffer forming part of the cover assets that at least corresponds to the net liquidity outflow in the OMF programme over 180 days. The regulation specifies that the basis of the liquidity calculation can be the extended maturity (if applicable).

The liquidity buffer must consist of assets that qualify as level 1, level 2A or level 2B in accordance with the Capital Requirements Regulation article 460. In addition, short-term exposures to credit institutions in risk class 1 or 2 and short-term deposits in credit institutions that qualify for risk class 1, 2 or 3 do qualify. Assets in default cannot be counted in the liquidity buffer.

*Programme enhancements remain available*

Programme enhancements remain available as all other creditors of the Boligkreditt rank junior to the OMF. Available overcollateralisation (OC) on the balance sheet remains fully available for covered bond holders upon the issuer's insolvency (or the parent's). Derivative counterparties rank pari passu with covered bonds and will not accelerate upon the issuer's insolvency.

The public administrator must ensure proper management of assets securing covered bonds and that the provisions on composition of collateral, liquidity, currency and interest rate risk are continuously complied with.

Any excess collateralisation, yielding more than is necessary to cover bondholders' or derivatives counterparties' claims, may constitute a general bankruptcy claim. While this may limit the preferential position of covered bond investors, it is up to the special administrator to judge if available over-collateralisation (OC) is excessive. We do not expect that any special administrator would release assets as long as it has to ensure timely and full payment of covered bonds according to the law.

*Covered bond oversight*

Norwegian issuers are subject to a supervisory regime involving both an independent monitor (cover pool monitor) and the Norwegian's national supervisor, Finanstilsynet – the Financial Supervisory Authority (FSA).

The FSA must approve new covered bond issuance programmes and can reject issuance in case of solvency doubts. The cover-pool monitor must be a state-authorised auditor and different from the firm auditing the parent or the covered bond issuer. At least quarterly, the monitor checks that the requirements for collateral, OC, liquidity, registration and investor information are met and reports at least annually to the FSA. If the monitor has reason to believe that the requirements have not been met, it must notify the FSA as soon as possible.

## Resolution regime and systemic importance analysis

*Availability of statutory provisions*

Four notches reflecting highest likelihood that covered bonds are maintained as a going-concern funding instrument

Norway is in the EAA but is not part of the EU. Relevant EU rules are normally incorporated into the EEA Agreement before being enacted into Norwegian law. This includes the Bank Recovery and Resolution Directive (BRRD) as well as the European Covered Bonds Directive. The main legal act applicable to Norwegian banks is the Act on Financial Undertakings and Financial Groups (Financial Undertakings Act). This Act consolidates the main financial regulations and implements the Capital Requirements Regulation, Capital Requirements Directive and the BRRD.

*Strength of statutory provisions*

Statutory provisions provide Norwegian regulators with a toolkit allowing to preserve DNB as a going concern and we expect this to be extended to DNBB to allow a resolved DNB to remain active in mortgage lending and benefit from secured funding. In addition, the national transposition of Article 55 of the BRRD into section 11-6 of the Financial Institutions Act exempts secured liabilities such as covered bonds from bail-in.

*Systemic importance of issuer*

We believe regulators would preserve DNB in the case of a hypothetical failure. This reflects the group's systemic importance. DNB Bank is Norway's largest financial institution and offers a full range of financial services, including loans, savings, advisory services, insurance, and pension products to customers in Norway. Accordingly, the bank has the status of a domestically systemic important bank. It must ensure to maintain an additional capital buffer of 1.0%. The bank's balanced refinancing and capital structures allows for a bail-in to keep the issuer supporting the covered bonds on a going concern basis. Its's relevance to the local market is also underpinned by its strong domestic retail and commercial banking franchise.

*Systemic relevance of covered bonds*

We classify Norwegian residential mortgage covered bonds as a systemic important refinancing product. Since the introduction of covered bonds in 2007, covered bonds have become a key pillar in most domestic banks' funding toolkit. They allow banks to better match longer-dated mortgage financing with stable and also longer-dated wholesale funding, which they are also able to source in the euro market or in USD. Since 2007, covered bonds outstanding have soared to EUR 133bn or NOK 1.57trn at the end of 2023. Outstanding covered bonds to GDP account for 30% at the end of 2023 with and annual issuance regularly hovers around EUR 25bn-30bn. Covered bonds have repeatedly provided Norwegian banks with funding stability when capital markets-based wholesale funding has been challenging. Ongoing access to investors as well as ability to use covered bonds as collateral with the central bank prompted peak issuance volumes shortly after the Global Financial Crisis in 2008 (EUR 26bn) as well as during the pandemic crisis (EUR 32.8bn). Globally, Norway was the fifth largest issuing country in 2023, and it ranks 10th by total outstanding covered bonds.

*Proactive stakeholder community*

Norwegian stakeholders have demonstrated regularly that they are strongly interested in a functioning covered bond market and are willing to support an orderly resolution of problems in case of a distressed issuer. The country's covered bond issuers actively co-operate under the umbrella of the Norwegian Covered Bond Council to promote the product and initiate any changes to the framework.

## Cover pool analysis

DNBB's mortgage covered bond ratings are governance supported. Cover pool support is currently not needed to support highest ratings. Cover pool support could provide additional rating stability in case of an issuer downgrade.

### CPC assessment

Our assessment on the interplay between complexity and transparency translates into a CPC category of 'high'. The assessment on the interplay between complexity and transparency could add up to one additional notch above the issuer rating enhanced by governance support. Consequently, the combined credit support could allow to maintain the covered bond rating at the highest level under a hypothetical issuer downgrade by up to five notches, assuming OC does not become a constraining factor.

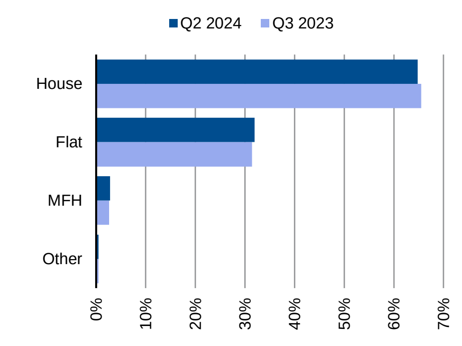
The CPC category of 'high'-risk reflects the limited transparency on the issuers hedging strategy, counterparty risk mitigation as well as the lack of more detailed, regular, current and forward-looking transparency on the management of key credit and market risk factors; information on lending products; ability to assess underwriting and credit risk procedures and visibility on origination and issuance strategy.

The CPC categorisation also reflects the granularity of cover assets which feature common loan and collateral terms in Norway as well as a balanced covered bond maturity structure resulting in a diversified cash flow profile. The issuer publicly discloses key risk factors for the respective covered bond programme every quarter using the industry best practice reporting templates (HTT) and Norwegian additions (NTT).

### Cover pool composition

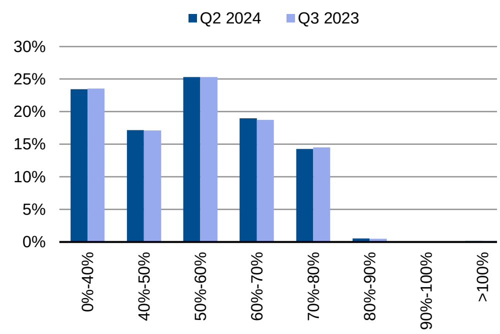
DNBB's mortgage covered bonds are secured by a portfolio of residential mortgage loans. The pool is highly granular with around 350k loans, mostly to borrowers in Oslo and Akershus area. Larger loans secured by multi-family houses or housing association only account for 2.8%. Around two third of the pool are secured by owner-occupied properties. As is usual for Norwegian mortgages, loans are mostly floating rate. The share of bullet loans is relatively high at around 23%. These include revolving credit lines with moderate to low LTVs. The average indexed LTV of 51.8% indicates strong recoveries even under our most severe stresses.

**Figure 3: Property type distribution**




Source: Scope Ratings, DNBB

**Figure 4: LTV distribution**




Source: Scope Ratings, DNBB

**Cover pool characteristics**

| Reporting date | June 2024 | Sept 2023 |
|---|---|---|
| Balance (NOK bn) | 677.1 | 674.4 |
| Residential (%) | 100 | 100 |
| Commercial (%) | 0.0 | 0.0 |
| Substitute (%) | 0.0 | 0.0 |

**Property type (%)**

| Reporting date | June 2024 | Sept 2023 |
|---|---|---|
| House | 64.8 | 65.5 |
| Flat | 31.9 | 31.4 |
| MFH | 2.8 | 2.6 |
| Other | 0.5 | 0.5 |

**General information**

| Reporting date | June 2024 | Sept 2023 |
|---|---|---|
| No. of loans ('000s) | 347.4 | 347.3 |
| Avg. loan (NOK '000s) | 1,949 | 1,941 |
| Top 10 borrowers (%) | 0.3 | 0.2 |
| LTV (indexed) (%) | 51.8 | 51.7 |
| Seasoning | 5.6 | 5.5 |
| Remaining maturity | 14.5 | n/a |

**Interest rate type (%)**

| Reporting date | June 2024 | Sept 2023 |
|---|---|---|
| Floating | 95.1 | 94.9 |
| Fixed | 4.9 | 5.1 |

**Repayment type (%)**

| Reporting date | June 2024 | Sept 2023 |
|---|---|---|
| Annuity / Linear | 76.6 | 77.4 |
| Interest-only | 23.4 | 22.6 |

### Asset risk analysis

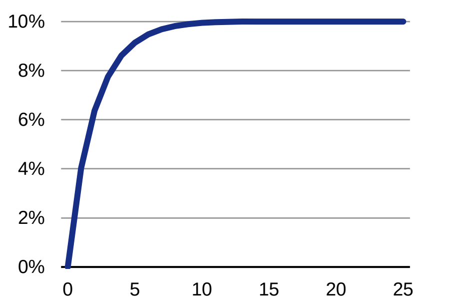
69bps of annual default expectation and 98.5% base recovery rate underpins moderate credit risk

The cover pool's credit quality is strong and in line with Norwegian peers.

Our projection of default applicable to the mortgage portfolio uses an inverse Gaussian distribution characterised by a measure of mean default probability and a variance or correlation parameter. This approach is supported by the high granularity of such assets characterised by 347k residential mortgage loans with a top 10 concentration of less than 28bps.

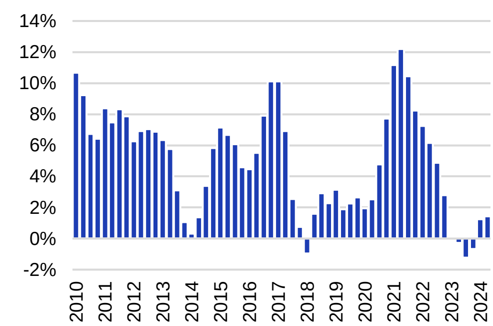
Taking into consideration the residential mortgage loans' seasoning and expected lifetime amortisation, the programme's cumulative term defaults translate into a rate of 10.0% (69bps annualized), unchanged to our last analysis. Our unchanged assumption of a coefficient of variation stands at 55%.

**Figure 5: Expected term defaults, cumulative (DP/years)**




Source: Scope Ratings

**Figure 6: House price growth in Norway**




Source: OECDStat, Scope Ratings

The moderate LTV of 51.8% does support high recoveries as expressed in our base recovery expectation of 98.5%. Our stressed recovery rate is calculated at 67.5%. This is lower compared to our earlier stressed recovery rate of 72.5% and mainly driven by our revised market value decline assumption for Norway.

We kept our fire-sale discounts for Norway unchanged at 20%. The fire-sale discount is applied to properties sold under non-standard market or distressed conditions. In our recovery analysis we do further size for sale costs of 10% (by stressed property value).

**Figure 7: Norwegian private residential security value haircuts**

| Region | Base MVD | Stressed MVD | Firesale discount | Sale costs | Stressed SVH* |
|---|---|---|---|---|---|
| Norway | 0% | 46.9% | 20% | 10% | 62.5% |

MVD: market value decline / SVH: security value haircut
*rounded

We assumed a recovery lag of 24 months reflecting Norway's lean and digital sale procedures as well as the more regional asset exposure.

## Cash flow risk analysis

The overcollateralisation (OC) supporting the rating is floored at the legal minimum OC of 5%. This is because the rating does not rely on cover pool support and can reach highest ratings based on governance support only. To benefit from governance support we floor at the legal minimum in order to qualify as a covered bond.

Supporting overcollateralisation at legal minimum as the rating is solely based on governance support

Cover pool support could provide additional rating stability to DNBB's mortgage covered bonds. Our cash flow analysis shows, that if our credit view on DNBB would be at BBB+, the lowest issuer rating that still would allow to achieve highest covered bond ratings, the maintained nominal overcollateralisation of 34.3% as of March 2024 would still be sufficient.

The issuer has a prudent strategy to mitigate market risk. DNBB actively uses derivatives to mitigate foreign currency and interest rate risk. All issuances in foreign currency are swapped to NOK. Fixed interest rate exposures in the form of fixed rate covered bonds and fixed rate mortgages are also swapped to 3-month NIBOR.

Our analysis shows, that the programme is most sensitive to a combination of low prepayments (1%) and low interest rates. The main driver are maturity mismatches arising from the bond's weighted average remaining life of 4.8 years (including extension) in comparison to the remaining life of the residential mortgage loans with 14.5 years, respectively.

**Asset-liability mismatches***

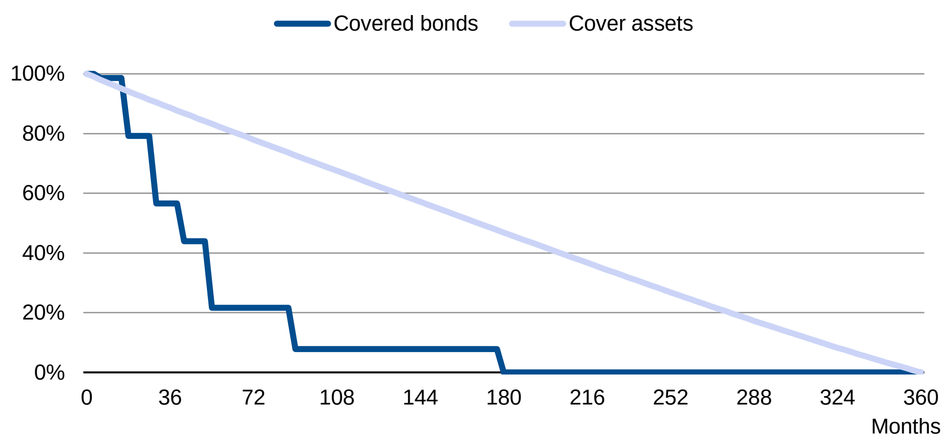
| | Assets | Liabilities |
|---|---|---|
| NOK (%) | 100 | 100 |
| Fixed (%) | 0.0 | 0.0 |
| Floating (%) | 100 | 100 |
| WAL (years) | 14.5 | 4.8** |

*hedged
**extended

In the event of recourse to the cover pool and where available asset cash flows are not sufficient to pay the bond's (extended) maturing liability, we have assumed stressed asset sales to cure liquidity shortfalls. As such, we have applied a 150bp refinancing spread for the Norwegian, mortgage loans.

For the mortgage loans, we have built an amortisation schedule reflecting the reported seasoning and repayment structure. The liability profile was established by considering reported maturity profiles together with the average maturity.

**Figure 8: Amortisation profile**




Source: Scope Ratings, DNBB

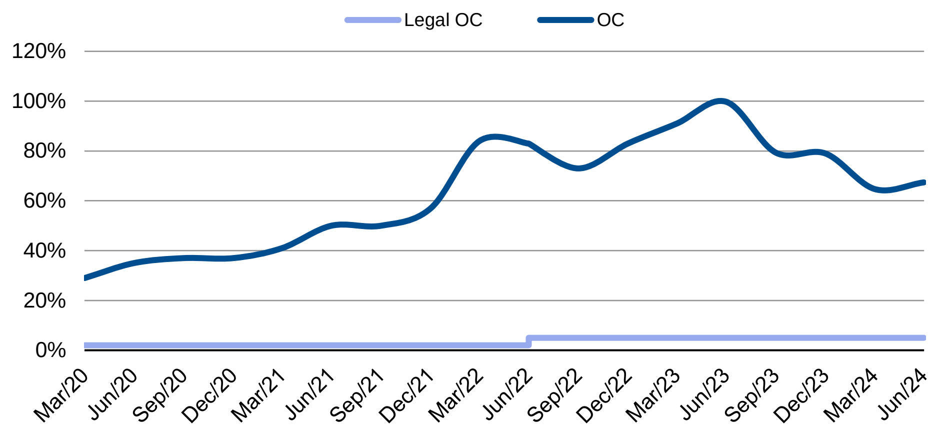
Servicing fees are assumed at 25bp for Norwegian residential loans. Our default timing follows the scheduled amortisation profile considering a recovery lag of 24 months. In addition, we have assessed the impact of a 15% high prepayment scenario. We complemented our base case cash flow results with additional analysis, testing sensitivities to higher credit losses, non-execution of bond extension, frontloaded defaults, time subordination and spread compression. None of such calculation resulted into an adjustment of our rating supporting overcollateralisation.

## Availability of overcollateralisation

The current rating of DNBB allows us to account for the provided OC. We are not aware that any change to the programme may alter its risk profile or reduce the available OC to levels that would no longer support the current rating uplift.

Supportive level of available overcollateralisation fully taken into account

**Figure 9: Available OC versus current rating-supporting level**




Source: Scope Ratings, DNBB

## Other risk considerations

Counterparty exposure does not limit the rating

The rated covered bonds have significant counterparty exposures to the issuer, as well as to the issuer's parent as loan originator, servicer, bank account provider, paying agent and swap counterparty. However, if a regulator were to intervene, we believe the strong alignment of interests between the bank and the covered bond holders would prevent any negative impact. We also view positively the fact that collections for residential mortgage loans are typically made via direct debit, allowing for a relatively swift redirection of payments if necessary.

Country risk is not a key rating driver

Country risk is not a key risk factor that constrains the covered bond rating. Norway is currently rated AAA/Stable. We have no evidence that transfer risk (e.g. risk of capital controls), convertibility risk (e.g. risk of eurozone exit), the risk of an institutional meltdown are pertinent risk factors for Norway.

Governance factors are key to the rating

Governance factors are key for the analysis of Norwegian covered bonds as such drive our legal and resolution regime analysis. In our quantitative analysis performed for the covered bonds issued by DNBB we however have not directly included ESG aspects.

DNB has established a green bond framework in 2021, based on ICMA's Green Bond Principles. Under this framework DNB issues Green Covered Bonds (through DNBB) and uses its proceeds to finance green residential buildings. DNB currently follows a best-in-class approach, whereby the 15% of Norwegian buildings with the lowest CO2 emission are labelled as 'green'. As of august 2024, DNBB has a NOK 54,399m equivalent of green covered bonds outstanding. The green buildings collateral in DNBB accounted for NOK 92,042m as of December 2023. The bank has issued five green bonds, denominated in EUR and SEK. The rated NOK 50bn is not a dedicated green labelled covered bond.

## Sensitivity analysis

Five notches buffer against an issuer downgrade

DNBB's mortgage covered bond ratings do benefit from a buffer against an issuer downgrade of up to five notches. Assuming the issuer's willingness to support the highest ratings as well as a stable covered bond programme risk profile, a five-notch downgrade would increase the rating-supporting OC requirement to 10.0%.

As a consequence, the rating may be downgraded upon: i) an issuer rating downgrade by more than five notches; ii) a deterioration in Scope's view on governance support factors relevant to the issuer and Norwegian covered bonds in general and on the interplay between complexity and transparency, and/or iii) the inability of the cover pool to provide an additional uplift in case the issuer rating is downgraded by five notches.

## Summary of covered bond characteristics

| Reporting date | 30 June 2024 | 30 September 2023 |
|---|---|---|
| Issuer name | DNB Boligkreditt AS | |
| Country | Norway | |
| Covered bond name | Obligasjoner med fortrinnsrett (Norwegian mortgage-covered bonds) | |
| Covered bond legal framework | Norwegian legal covered bond framework | |
| Cover pool type | Residential mortgage loans | |
| Composition | Residential = 100% | Residential = 100% |
| | Substitute = 0.0% | Substitute = 0.0% |
| Issuer rating | Not disclosed | Not disclosed |
| Current covered bond rating | AAA/Stable | AAA/Stable |
| Covered bond maturity type | Soft bullet and hard bullet | Soft bullet and hard bullet |
| Cover pool currencies | NOK (100%) | NOK (100%) |
| Covered bond currencies (post hedge) | NOK (100%) | NOK (100%) |
| Governance cover pool support | 6 | 6 |
| Maximum additional uplift from cover pool complexity category | 1 | 1 |
| Maximum achievable covered bond uplift | 7 | 7 |
| Potential covered bond rating buffer | 5 | 5 |
| Cover pool (NOK bn) | 677.1 | 674.4 |
| thereof, substitute assets (NOK bn) | 0.0 | 0.0 |
| Covered bonds (NOK bn) | 404.4 | 376.0 |
| Overcollateralisation: current/legal minimum | 67.4% / 5.0% | 79.4% / 5.0% |
| Overcollateralisation to support current rating | 5.0% / Minimum legal oc | 5.0% / Minimum legal oc |
| Overcollateralisation upon a one-notch issuer downgrade | 5.0% / Minimum legal oc | 5.0% / Minimum legal oc |
| Weighted average life of assets | 14.5 years | 14.5 |
| Weighted average life of liabilities (extended) | 4.8 years | 4.3 |
| Number of loans | 347,371 | 347,279 |
| Average loan size (NOK ‘000) | 1.95 | 1.94 |
| Top 10 | 0.3% | 0.2% |
| Interest rate type assets (post hedge) | Floating = 100% | Floating = 100% |
| | Fixed = 0% | Fixed = 0% |
| Interest rate type liabilities (post hedge) | Floating = 100% | Floating = 100% |
| | Fixed = 0% | Fixed = 0% |
| Weighted average indexed loan to value | 51.8% | 51.7% |
| Geographic split | Oslo = 24.7% | Viken = 31.6% |
| | Akershus = 20.4% | Oslo = 24.7% |
| | Vestland = 7.5% | Vestfold og Telemark = 8.3% |
| Default measure (mortgage/substitute) | Inverse Gaussian | Inverse Gaussian |
| Weighted average annualised default rate | 69bps | 69bps |
| Weighted average coefficient of variation | 55% | 55% |
| Weighted average recovery assumption (D0;D7)[1] | 95.0% / 67.5% | 95.0% / 72.5% |
| Share of loans > three months in arrears (NPL) | 0.12% | 0.10% |
| Interest rate stresses (max/min) | 9% / -1% | 10% / -1% |
| FX stresses (max/min; currency-dependent) | n/a | n/a |
| Max liquidity premium | 150bps | 150bps |
| Average servicing fee | 25bps | 25bps |

Source: Scope Ratings

[1] D0 and D7 denote the stresses commensurate with the rating distance between our credit view on the issuer and the covered bond ratings.

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## Related research

Covered Bond Directive: Policymakers solicit views on outstanding items. Are ESNs the next frontier?, September 2024

Covered Bond Quarterly: Steady sailing over the summer with clouds on the horizon, July 2024

New property value definitions in CRR3; notable impact on mortgage covered bonds, July 2024

Covered Bond Quarterly: Have German banks put Pfandbriefe at risk?, April 2024

Covered Bond Outlook: Back to a credit-driven buyer's market, January 2024

Systemic risk remains high in European housing market, January 2024

## Applied methodologies

Covered Bond Rating Methodology, July 2024

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