S&P Global
Ratings

RatingsDirect®

Transaction Update: DNB Boligkreditt AS (Legislation-Enabled Mortgage Covered Bonds)

€60 Billion Covered Bond Program

Primary Credit Analyst:
Ana Galdo, Madrid + 34 91 389 6947; ana.galdo@spglobal.com

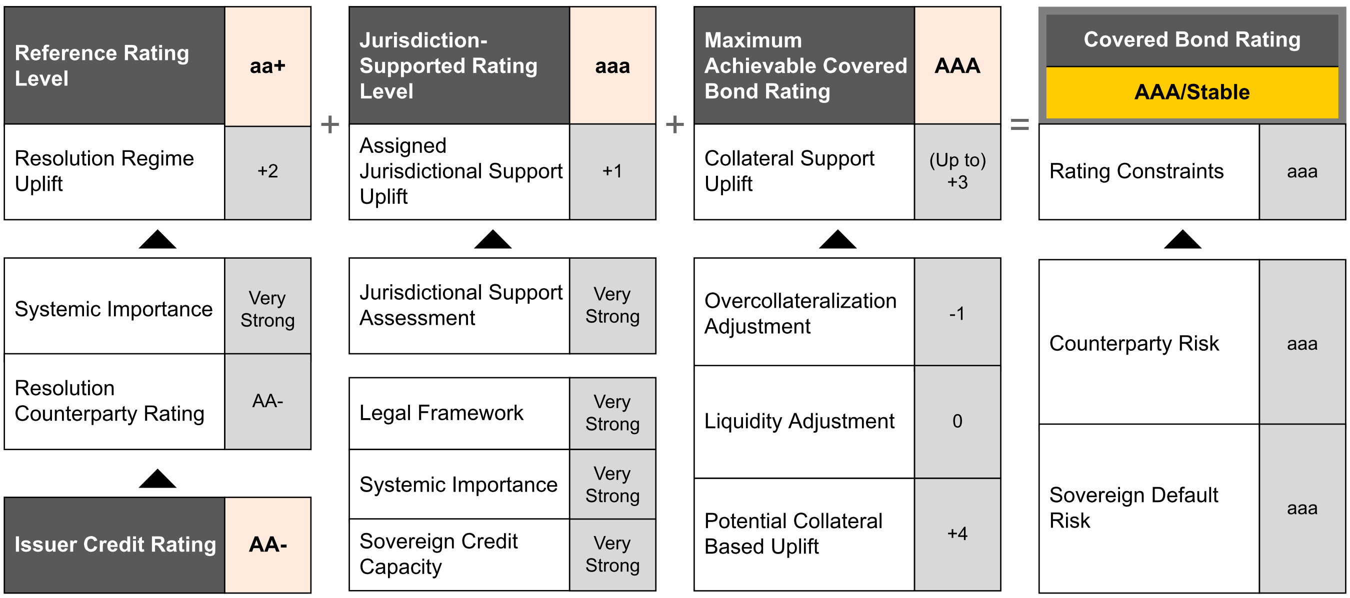
Research Contributor:
Saisadwik Chodavarapu, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Transaction Update: DNB Boligkreditt AS (Legislation-Enabled Mortgage Covered Bonds)

€60 Billion Covered Bond Program

Ratings Detail



Note: As a starting point of the analysis, we may use the ICR on the relevant parent or guarantor when the issuer is not rated but belongs to a group with a rated parent or payments under the covered bonds are guaranteed by another rated entity.

Major Rating Factors

Strengths

- High issuer credit rating allowing the program to achieve a 'AAA' rating at a jurisdiction-supported rating level (JRL) level.
- The program benefitting from four unused notches of uplift, which will protect the covered bond ratings if the issuer is downgraded.

Weaknesses

- The cover pool is geographically concentrated in Eastern Norway, above our criteria-defined concentration thresholds.
- No overcollateralization commitment limits the maximum available uplift and the final number of unused notches of uplift by one notch.

Outlook

Under our covered bonds criteria, we derive the starting point of our covered bond program analysis from the long-term issuer credit rating (ICR) on the parent, DNB Bank ASA (AA-/Stable/A-1+). S&P Global Ratings' stable outlook on its ratings on Norway-based DNB Boligkreditt AS' (DNBB) legislation-enabled mortgage covered bonds reflects that we would not automatically lower our covered bond ratings following a downgrade of DNB Bank as the program benefits from four unused notches of uplift.

We would lower the covered bond ratings if we were to lower our long-term ICR on DNB Bank by more than four notches or if the overcollateralization commensurate with the rating exceeded the available overcollateralization.

Rationale

We are publishing this transaction update following our annual review of DNBB's mortgage covered bond program and related issuances.

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

From our legal and regulatory framework analysis for Norwegian covered bonds, we concluded that the cover pool assets are isolated from the issuer's risk of bankruptcy or insolvency allowing us to rate the covered bonds higher than our long-term ICR.

We consider DNBB's mortgage operations as very prudent and the existing satisfactory procedures support our covered bond ratings.

DNBB is domiciled in Norway, which has implemented a resolution regime like the Bank Recovery and Resolution Directive (BRRD). Therefore, under our covered bonds criteria, we assess the reference rating level (RRL) as 'aa+', which is two notches above the long-term ICR on DNB Bank.

We also consider the likelihood for the provision of jurisdictional support. Based on a very strong jurisdictional support assessment for mortgage programs in Norway, we can potentially assign three notches of uplift from the RRL, however, only one notch is required to achieve a 'aaa' JRL. Therefore, we assess the JRL as 'aaa', leaving two unused notches of jurisdictional support uplift.

We have reviewed the asset information provided as of Sept. 30, 2024 and cashflows as of Dec. 31, 2024. The cover pool comprises Norwegian residential mortgage loans and loans granted to housing cooperatives. Based on our cash flow analysis, we consider that the available credit enhancement exceeds the required credit enhancement for a 'AAA' rating.

The covered bonds are eligible for four notches of collateral-based uplift. This uplift is reduced by one notch because overcollateralization is provided voluntarily, without a public or contractual commitment to maintain an overcollateralization level commensurate with the rating.

We do not adjust for liquidity in our analysis because the law requires a liquidity buffer in the cover pool. This buffer should meet the net liquidity outflow in the covered bond program for the next 180 days.

Counterparty or sovereign default risks do not currently constrain the 'AAA' covered bond ratings.

The stable outlook on the ratings reflects that the program benefits from four unused notches of uplift.

We have based our analysis on the criteria articles referenced in the "Related Criteria" section.

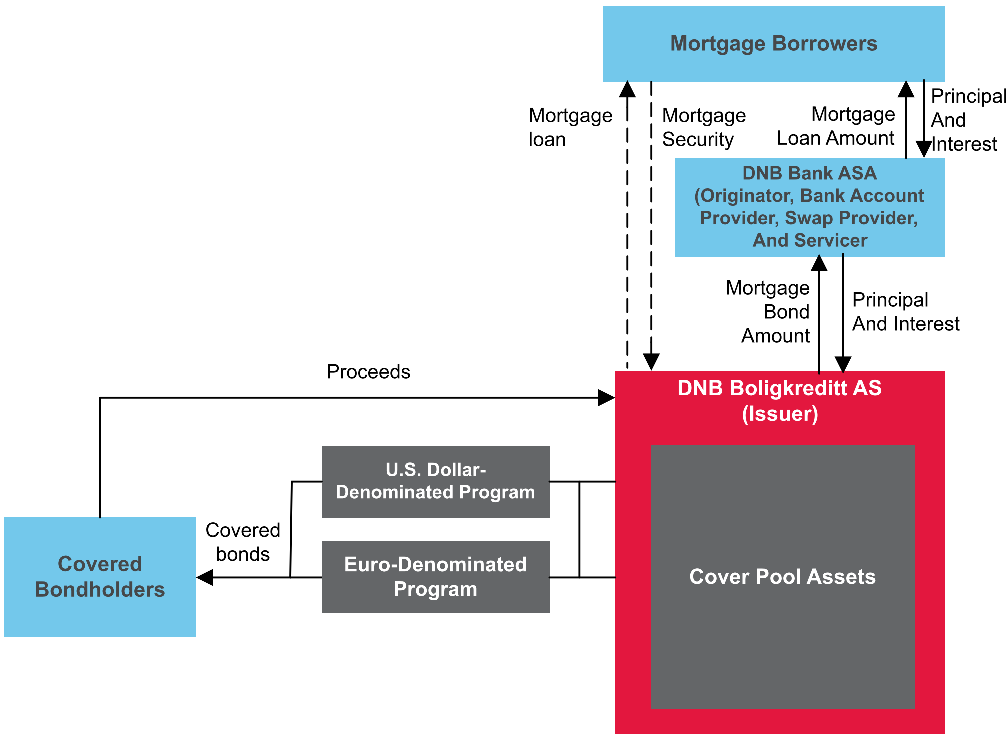
Table 1

Program overview*	
Jurisdiction	Norway
Year of first issuance	2007
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. NOK)	488.69
Redemption profile	Hard and soft bullet
Underlying assets	Residential mortgages and loans to housing cooperatives
Jurisdictional support uplift	3
Unused notches for jurisdictional support	2
Target credit enhancement (%)	22.13
Available credit enhancement as reported (%)	66.20
Available credit enhancement (%)**	55.30
Credit enhancement commensurate with the rating (%)	3.11
Collateral support uplift	3
Unused notches for collateral support	3
Total unused notches covered bond criteria	5
Unused notches counterparty criteria	4
Final total unused notches (lower of the two above)	4

*Based on collateral data as of Sept. 30, 2024 and covered bonds outstanding balance as of Dec. 31, 2024. **Considering set-off risk from loans to employees. NOK--Norwegian krone.

Program Description

Program Structure



DNBB is wholly owned by DNB Bank, a member of DNB Group, the largest banking group in Norway and the third largest in Scandinavia.

In our view, DNB Bank benefits from its leading position in the Norwegian market and has access to a strong deposit base that has been outgrowing its loan book. The bank's acquisition of Norway-based digital lender, Sbanken, further strengthens its position. Also, an advanced digital agenda, due in part to a superior local IT infrastructure leading to lower efficiency metrics than those of European peers, supports its market position. DNB Bank has a stable funding structure originating from a vast branch network and its position in the Norwegian, Euro and U.S. dollar funding markets. Stable core deposits represented about 55% of the funding base in Q2 2024. Our stable funding ratio for DNB is 102.1%, which compares well with those of the bank's larger Nordic peers, in part due to its higher share of deposit funding. DNB's deposit franchise is complemented by frequent issuance in both the domestic and international bond markets (about 45% of the funding base), where the bank continues to enjoy strong recognition for both secured and unsecured bonds. DNB Bank, through DNBB, is a frequent issuer in the growing domestic covered bond market, as well as in international markets. It continues to enjoy strong recognition in Norway's covered bond market and has stable access to international markets.

DNBB's €60 billion covered bond program was originally established in 2007 following the enactment of the Norwegian covered bond law. If DNB Bank were to default, the cover pool assets would benefit this program's covered bondholders and potential derivative counterparties before any other creditors.

Covered bondholders will have a pro rata claim on the cover pool assets if DNB Bank became insolvent.

The program's structure has not changed materially since our previous review.

Table 2

Program participants

Role	Name	Rating	Rating dependency
Issuer	DNB Boligkreditt AS	NR*	Yes
Originator	DNB Boligkreditt AS	NR*	No
Originator	DNB Bank ASA	AA-/Stable/A-1+	No
Account provider	DNB Bank ASA	AA-/Stable/A-1+	Yes
Swap provider	DNB Bank ASA	AA-/Stable/A-1+	Yes

*We use the long-term issuer credit rating on DNB Bank ASA (AA-/Stable/A-1+) as the starting point for our analysis. NR--Not rated.

Rating Analysis

Legal and regulatory risks

DNBB's covered bonds are governed by Norwegian law. Specifically, the Financial Institutions Act encapsulates the main covered bonds regulation, and the Norwegian Ministry of Finance supports the regulations on mortgage credit institutions.

The Norwegian covered bond legislation was enacted in 2007, amended in June 2022 to transpose the EU Covered Bond Directive into domestic legislation, and became effective on July 8, 2022. The legislation complies with the EU's Capital Requirement Directive and the Undertakings for Collective Investment in Transferable Securities. This makes Norwegian covered bonds eligible for reduced risk weighting when calculating capital adequacy.

The 2022 amendments introduced a liquidity buffer, maturity extensions, loan-to-value (LTV) ratio, minimum 5% overcollateralization, and the cover pool's surveillance.

The Norwegian covered bond law defines the eligibility criteria for the type of assets that the cover pool may and may not include. The "Finanstilsynet," the Norwegian Financial Supervisory Authority (FSA), appoints an independent inspector to regularly review compliance, oversee the cover pool register, and ensure that the cover pool's value always exceeds the issued covered bonds. The law also stipulates that the issuer must be a specialized credit institution that holds a covered bond license from the Norwegian FSA.

If the issuer becomes insolvent, the legal framework's bankruptcy legislation requires the appointment of a cover pool administrator and gives investors a senior claim over the cover pool assets. The legal framework restricts the type of businesses that mortgage credit institutions can engage in. It includes requirements for the cover pool's composition and the appointment of an independent inspector responsible for the oversight of the cover pool's compliance with the law.

In our legal analysis, we applied our legal criteria and our covered bond ratings criteria (see "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). Our legal and regulatory framework analysis for Norwegian covered bonds indicates that the cover pool's assets are isolated from the issuer's risk of bankruptcy or insolvency, allowing us to rate the covered bond program higher than the long-term ICR on the issuer.

Operational and administrative risks

As a core entity within DNB Bank, DNBB is based in the same headquarters in Oslo. The two entities can access the same loan management systems and may share customer files electronically, limiting the scope for operational errors. We consider DNB Bank's credit procedures to align with current market standards.

Under the transaction documents, the cover pool can include mortgages that either DNB Bank or DNBB has originated. In either case, the origination and underwriting process is the same, and follows a five-step process: Application, loan approval, document control, processing of land and establishing legal protection, and disbursement. As part of the underwriting process, checks are performed on the borrower's ability to pay under current conditions, as well as in a rising interest rate scenario.

If a loan becomes nonperforming, DNB Bank first works on a plan with the borrower to ensure that the loan becomes performing again. If loan rehabilitation is not possible, it requests the borrower to sell the property voluntarily, as this typically yields a better price. If DNB Bank needs to foreclose on the property, it will initiate forced-sale proceedings and the property will be auctioned, generally within a four- to six-months' liquidation period.

In our opinion, the cover pool's management and loan origination processes do not give rise to any new operational or administrative risks that would constrain the covered bond ratings to the same level as the long-term ICR.

We view the bank's underwriting criteria as prudent. Our analysis of operational and administrative risk follows the principles laid out in our covered bond ratings framework.

Resolution regime analysis

DNB Bank is domiciled in Norway, which is part of the European Economic Area. The implementation of a resolution regime similar to the EU's BRRD came into effect in Norway on Jan. 1, 2019. We consider that mortgage covered bonds have a very strong systemic importance to Norway. These factors increase the likelihood that the issuer would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of its senior unsecured obligations. Under our covered bonds criteria, a very strong systemic importance means that the RRL is the maximum between two notches above the long-term ICR and the resolution counterparty rating (RCR). Given that the RCR on DNB Bank is at the same level as the ICR ('AA-'), the RRL is 'aa+', which reflects the two-notch uplift from the ICR.

Jurisdictional support analysis

Under our jurisdictional support analysis in our covered bonds criteria, we determine a JRL, assessing the covered bond program's creditworthiness once we have considered the jurisdictional support level, but before giving credit to the amount of collateral.

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of from the liquidation of collateral assets in the open market. Our assessment of the expected jurisdictional support for Norwegian mortgage covered bond programs is very strong. Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional uplift from the 'aa+' RRL'. This leads to a 'aaa' JRL and two unused notches of jurisdictional support uplift.

Collateral support analysis

We base our credit analysis on the loan-level data provided by the issuer as of Sept. 30, 2024. The cover pool comprises prime Norwegian well-seasoned residential mortgage loans and loans to housing cooperatives (see table 3).

In line with our previous review, we have performed our residential mortgage loans' analysis based on the specific adjustments defined for Norway under the European supplement of our global residential loans criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Europe Supplement," published on April 4, 2024, and "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019). We analyze the cover pool's housing cooperatives portion using our commercial real estate (CRE) criteria (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

We assess a typical mortgage cover pool's credit quality by estimating the credit risk associated with each loan in the pool, applying stresses commensurate with a 'AAA' rating scenario. We then calculate the aggregate risk to assess the cover pool's overall credit quality. To quantify the potential losses associated with the entire pool, we weight each loan's foreclosure frequency and loss severity by its percentage of the total pool balance. The weighted-average foreclosure frequency (WAFF) and the weighted-average loss severity (WALS) estimate the required loss protection, assuming all other factors remain unchanged.

Since our previous review, WAFF has decreased and WALS is stable for the total pool.

The WAFF decreased to 7.70% from 10.11% in pour last review, mainly due to positive factors in the residential loans, such as relatively lower effective LTV ratios and lower interest-only loans, partially offset by an increase in the percentage of loans with loan-to-income (LTI) ratios higher than five (5x). This has resulted in a WAFF in the residential pool of 7.44% compared to 9.91% in our last review. The WAFF for housing cooperatives has remained stable (17.60% compared with 17.65% in our last review) and has a lower base default frequency than other commercial loans.

Over the same period, the WALS has marginally decreased to 29.68% from 29.99%. The decrease for both residential and housing cooperative loans is due to a decrease in LTV ratios. An additional positive factor for the residential assets is the downward revision of our overvaluation percentage. These positive factors have been partially offset by an increase in the percentage of loans with jumbo valuations.

Table 3

Cover pool composition

	As of Sep. 30, 2024		As of Dec. 31, 2023	
Asset type	**Value (Bil. NOK)**	**% of cover pool**	**Value (Bil. NOK)**	**% of cover pool**
Residential mortgages	726.81	97.47	649.06	97.44
Housing cooperatives	18.90	2.53	17.05	2.56
Total	745.70	100.00	666.10	100.00

NOK--Norwegian krone.

Table 4

Key credit metrics

	As of Sep. 30, 2024	As of Dec. 31, 2023
Residential loans		
Average loan size (NOK)	2,342,779	2,255,912
Weighted-average current LTV ratio (%)	54.61	56.21
Weighted-average original LTV ratio (%)	59.32	66.35
Weighted-average effective LTV ratio (%)	58.94	64.89
Weighted-average loan seasoning (years)*	5.73	5.75
Balance of loans in arrears (%)	0.0	0.0
Buy-to-let loans (%)	0.04	0.04
Interest-only loans (%)	21.92	22.99
Jumbo valuations (%)	36.97	29.83
Loan to Income >5x	58.29	52.08
Housing cooperatives		
Weighted-average whole LTV ratio (%)	24.62	31.17
Geographic concentration: East Norway	41.97	40.02
Credit analysis results:		
Residential loans		
Weighted-average foreclosure frequency (%)	7.44	9.91
Weighted-average loss severity (%)	30.09	30.29
AAA credit risk (%)	2.24	3.00
Housing cooperatives		
Weighted-average foreclosure frequency (%)	17.6	17.65
Weighted-average loss severity (%)	13.74	18.35
AAA credit risk (%)	2.42	3.24
Total pool		
Weighted-average foreclosure frequency (%)	7.7	10.11
Weighted-average loss severity (%)	29.68	29.99
AAA credit risk (%)	2.29	3.03

*Seasoning refers to the elapsed loan term. NOK--Norwegian krone. LTV--Loan-to-value.

Table 5

LTV ratios (residential loans)

Current LTV ratios (%)	As of Sep. 30, 2024	As of Dec. 31, 2023
	% of cover pool	
0-60	57.88	58.10
60-70	20.52	17.71
70-80	18.45	17.23
80-90	1.53	3.28
90-100	0.57	1.14
Above 100	1.05	2.55
Weighted-average current LTV ratios	54.61	56.21
Original LTV ratios (%)	**As of Sep. 30, 2024**	**As of Dec. 31, 2023**
	% of cover pool	
0-60	48.55	33.93
60-70	19.94	21.54
70-80	30.48	32.30
80-90	0.67	7.65
90-100	0.17	1.88
Above 100	0.20	2.70
Weighted-average original LTV ratios	59.32	66.35
Effective LTV ratios (%)	**As of Sep. 30, 2024**	**As of Dec. 31, 2023**
	% of cover pool	
0-60	46.67	36.97
60-70	22.34	22.76
70-80	30.03	28.57
80-90	0.63	7.36
90-100	0.17	1.73
Above 100	0.16	2.61
Weighted-average original LTV ratios	58.94	64.89

LTV--Loan-to-value.

Table 6

Residential loan seasoning distribution*

	As of Sep. 30, 2024	As of Dec. 31, 2023
	% of portfolio	
>0 and <=2years	26.20	26.04
>2 and <=4 years	23.07	23.80
>4 and <=5 years	8.87	8.14
>5 and <=6 years	6.69	6.43
>6 and <=7 years	5.39	5.56
>7 and <=8 years	4.92	5.07
>8 and <=9 years	4.08	4.08
>9 and <=10 years	3.46	3.11

Table 6

Residential loan seasoning distribution* (cont.)

	As of Sep. 30, 2024	As of Dec. 31, 2023
>10 years	17.32	17.77
Weighted-average loan seasoning (years)	5.73	5.75

*Seasoning refers to the elapsed loan term.

Table 7

Geographic distribution of residential loan assets

	As of Sep. 30, 2024	As of Dec. 31, 2023
Top five concentrations	**% of cover pool**	
East	69.12	69.35
West	14.63	14.44
North	8.1	8.09
South	2.64	2.69
Trondelag	5.51	5.43
Total	100	100

Table 8

Collateral uplift metrics

	As of Dec. 31, 2024	As of Dec. 31, 2023
Asset WAM (years)	14.23	14.18
Liability WAM (years)	4.17	4.73
Asset-liability maturity mismatch (ALMM)	10.06	9.45
Available credit enhancement reported		
Available credit enhancement after S&P adjustments	55.3	71.96
Credit enhancement commensurate with the AAA rating (%)	3.11	3.96
Required credit enhancement for first notch of collateral uplift (%)	3.11	3.96
Required credit enhancement for second notch of collateral uplift (%)	12.62	12.51
Required credit enhancement for third notch of collateral uplift (%)	17.38	16.79
Target credit enhancement for maximum uplift (%)	22.13	21.06
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	Y	Y
Collateral support uplift (notches)-available	3	3

WAM--Weighted-average maturity.

According to our criteria, the maximum potential collateral-based uplift on a covered bond program above the JRL is four notches. We adjust the maximum collateral-based uplift in the absence of six months' liquidity coverage and overcollateralization commitment. Liquidity is now covered by law, but the covered bonds issued by DNBB do not benefit from any public or contractual overcollateralization commitment. Therefore, the maximum collateral-based uplift is currently limited to three notches.

By applying credit and cash flow stresses, we calculated a target credit enhancement (TCE) of 22.13% as of Dec. 31, 2024, slightly higher than the 21.06% calculated as of Dec. 31, 2023. The overcollateralization commensurate with the rating (here, the 'AAA' credit risk) is 3.11%, slightly lower than the previous year's figure of 3.96%, mainly due to higher excess spread and lower credit losses. Additionally, the TCE was negatively affected by an increased maturity gap of 0.61 years between assets and liabilities (asset-liability maturity mismatch) over the period.

The TCE of 22.13% remains below the adjusted available credit enhancement of 55.30%, allowing for four potential notches of collateral-based uplift. With a 'aaa' JRL of, the program currently does not require collateral-based uplift to attain a 'AAA' rating but must cover 'AAA' credit risk of 3.11%.

As the program is not required to make use of any notches of collateral-based uplift to achieve the 'AAA' rating, there are three unused notches of collateral-based uplift, according to our covered bond criteria.

Counterparty risk

We have identified several counterparty risks exposing the covered bonds. However, as these are structurally addressed in line with our counterparty criteria, we believe that they do not constrain the rating from a counterparty risk perspective (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

Bank account provider

DNB Bank is the program's originator and bank account provider. An account agreement covers the issuer's accounts with DNB Bank. We consider the agreement replacement trigger of 'A' to be in line with our counterparty criteria, and therefore counterparty risk from the account provider does not constrain our covered bond ratings.

Swaps

Swaps mitigate interest rate and currency mismatches between the mortgage loans in the cover pool and the payments due to the covered bondholders. A swap agreement governs the program's asset swaps and liability swaps, providing various replacement options if the swap provider, DNB Bank, is downgraded below 'A'. We consider the swaps as related counterparties with senior termination payments. The current swap agreement documents replacement option 2, which, combined with the issuer RRL and immaterial presence of cross-currency float-to-float swaps, aligns with an "adequate" collateral framework assessment, supporting a 'AAA' rating.

On the asset side, fixed-rate loans, accounting for 5.58% of the pool, are swapped to floating (three-month Norwegian interbank offered rate; NIBOR). Most assets (94.42%) pay a standard variable rate (SVR) and are not swapped. On the liability side, any fixed-rate bonds are swapped to floating before being swapped into Norwegian krone (if issued in a foreign currency), with the floating component based on three-month NIBOR. Since most assets pay SVR and liabilities pay NIBOR on a post swap basis, we model basis risk in our cash flow results for the transaction.

We consider the swap agreements to be in line with our counterparty criteria, and therefore counterparty risk from the swaps does not constrain our covered bond ratings. However, it limits the number of unused notches to four.

Sovereign default risk

We base our analysis of sovereign default risk on the application of our "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019. As Norway is currently rated 'AAA', sovereign default risk does not constrain the ratings. DNBB's covered bonds are issued in a country that is not a member of a monetary union, and the program does not include structural coverage of refinancing needs over a

12-month period. Therefore, the maximum rating above the sovereign would be two notches of uplift.

Environmental, social, and governance

Environmental and social credit considerations influence the credit quality of DNBB's cover pool like they do for other Norwegian covered bond issuers we rate. Governance factors are a moderately negative consideration in our credit analysis of DNBB's mortgage covered bonds. The issuer does not commit to maintain a minimum overcollateralization level in the program beyond the minimum legal requirement. Under our covered bonds criteria, this reduces the unused notches of uplift by one.

Related Criteria

- Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Europe Supplement, April 4, 2024
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Counterparty Risk Framework: Methodology and Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria - Structured Finance - Covered Bonds: Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Criteria - Structured Finance - Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Norwegian And Finnish Covered Bond Market Insights 2025, March 21, 2025
- Global Covered Bond Insights Q2 2025: Issuance Holds Steady Amid Market Volatility, March 18, 2025
- Norway 'AAA/A-1+' Ratings Affirmed; Outlook Stable, March 7, 2025
- Covered Bonds Outlook 2025: Lower Rates, Higher Uncertainty, Dec. 6, 2024
- S&P Global Ratings Definitions, Dec. 2, 2024
- DNB Bank Asa Looks To Boost Non-Interest Income Sources By Carnegie Group Acquisition Ahead Of Strong Q3 Results, Oct. 23, 2024
- DNB Bank ASA, Oct.10, 2024

- Banking Industry Country Risk Assessment: Norway, Nov. 27, 2023
- Glossary of Covered Bond Terms, April 27, 2018