S&P Global
Ratings

RatingsDirect®

Transaction Update: Danmarks Skibskredit A/S General Capital Center (Ship Covered Bond Program)

Skibskreditobligationer

Primary Credit Analyst:
Natalie Swiderek, Madrid + 34 91 788 7223; natalie.swiderek@spglobal.com

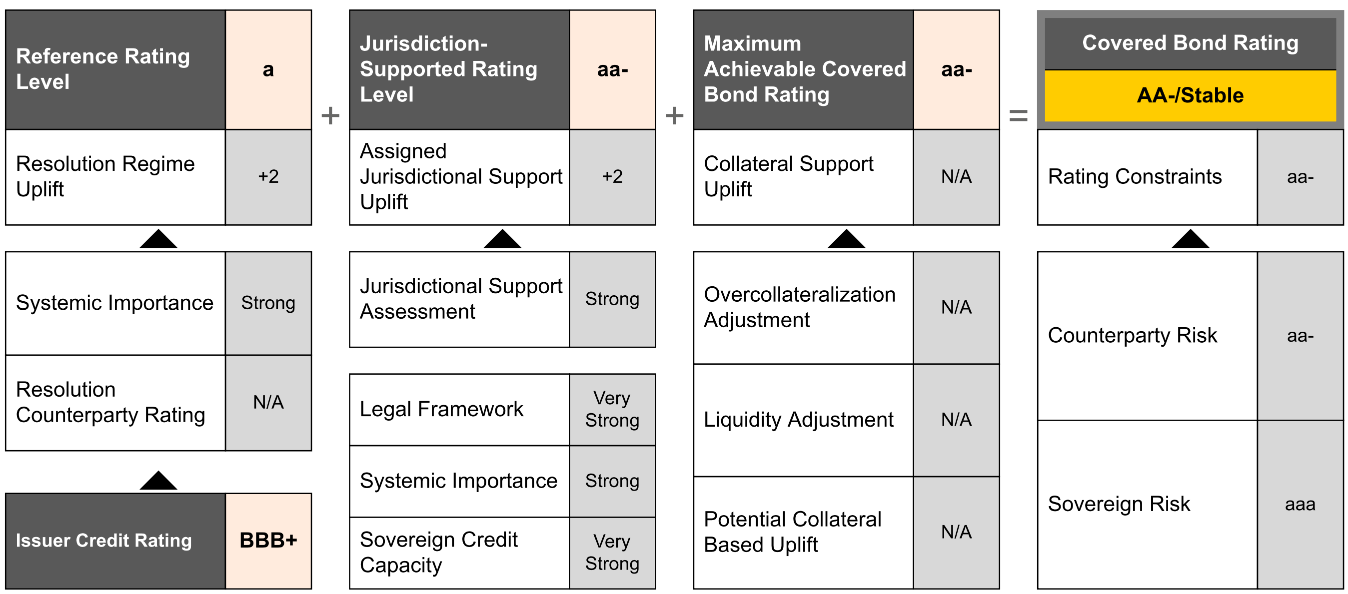
Secondary Contact:
Casper R Andersen, Frankfurt + 49 69 33 999 208; casper.andersen@spglobal.com

Table Of Contents

Transaction Update: Danmarks Skibskredit A/S General Capital Center (Ship Covered Bond Program)

Skibskreditobligationer

Ratings Detail



N/A--Not applicable.

Major Rating Factors

Strengths

- Loan offers are prefunded and matched conforming to the Danish balance principle which, in our opinion, reduces refinancing risk in the program.
- Conservative underwriting and prudent risk management have significantly improved asset quality over the years.

Weakness

- The rating is currently limited to the jurisdiction-supported rating level (JRL) as we do not assign any notches of collateral-based uplift.

Outlook

S&P Global Ratings' stable outlook on the 'AA-' credit ratings on Danmarks Skibskredit A/S' (Danish Ship Finance A/S; DSF) General Capital Center ship covered bonds reflects the stable outlook on the issuer credit rating (ICR) on DSF (BBB+/Stable/A-2).

Rationale

We are publishing this transaction update following our review of DSF's General Capital Center ship covered program and related issuances.

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

From our analysis of DSF's program documentation and the Danish legislative covered bond framework, we have concluded that the cover pool assets are isolated from the issuer's insolvency risk. The asset isolation allows us to potentially assign a higher rating to the covered bond program than our long-term ICR on DSF.

We reviewed DSF's operations, which we view as prudent. We believe satisfactory operational procedures exist to support our covered bond rating.

DSF is a Danish lender specializing in first-lien mortgage lending to the Danish shipping industry and select international shipping companies. We consider Denmark to have an effective resolution regime in place, which exempts covered bonds from bail-in.

We have recently revised our systemic importance and jurisdictional support assessment of Danish shipping covered bonds to strong from moderate (see "Sector And Industry Variables Updated For Covered Bonds Criteria" published on Jan. 2, 2025). Under our covered bonds criteria, we have therefore assigned two notches of uplift above the ICR on DSF (BBB+/Stable/A-2) to determine the covered bonds' reference rating level (RRL) as 'a'.

We then consider the likelihood of jurisdictional support for covered bonds backed by shipping collateral, which we assess as strong. This leads us to apply two notches of uplift from the RRL to determine the JRL, as 'aa-'.

As of Dec. 31, 2024, the Danish kroner (DKK) 39.2 billion cover pool comprises loans secured by ships (49.7%) and substitute assets (50.3%). The available overcollateralization stood at 26.9%.

Our ratings currently do not reflect any collateral-based uplift due to lack of visibility, in our view, of the legal status of enforceability of the assets securing the covered bonds in an extreme stress scenario, which is the one assumed in our analysis for any collateral-based uplift. This creates an uncertainty on the timing of and the amount of recovery proceeds from the sale of the ship being available to the program to fulfill payments to covered bondholders.

Administrative, operational, counterparty, or sovereign risks do not constrain the 'AA-' ratings on the covered bonds.

Program Description

Table 1

Program overview*	
Jurisdiction	Denmark
Year of first issuance	1961
Covered bond type	Legislation-enabled
Covered bonds amount (mil. DKK)	30,888.60
Redemption profile	Hard bullet
Underlying assets	Ship mortgages
Jurisdictional support uplift	2
Unused notches for jurisdictional support	0
Available credit enhancement (%)	26.92
Credit enhancement commensurate with rating (%)	N/A

*Based on data as of Dec. 31, 2024. DKK--Danish kroner. N/A--Not applicable.

Table 2

Covered bond program participants

Role	Name	Rating	Rating dependency
Issuer	Danmarks Skibskredit A/S (Danish Ship Finance A/S)	BBB+/Stable/A-2	Yes
Collection/bank account provider	Danske Bank A/S	A+/Stable/A-1	Yes
Collection/bank account provider	Nordea Bank Abp	AA-/Stable/A-1+	Yes
Swap counterparty	Danske Bank A/S	A+/Stable/A-1	Yes
Swap counterparty	Jyske Bank A/S	A+/Stable/A-1	Yes
Swap counterparty	Nordea Bank Abp	AA-/Stable/A-1+	Yes
Swap counterparty	Skandinaviska Enskilda Banken AB	A+/Positive/A-1	Yes

DSF is a small, highly specialized lender to the shipping industry, providing services to a small number of large clients by financing vessels against first-lien mortgages, reporting total assets of DKK62.4 billion (€8.4 billion) as of June 30, 2024.

The Danish Consolidated Act on a Ship Finance Institute (the Act) and the Executive Order on a Ship Finance Institute govern DSF's covered bond issuances, and its operations are under the supervision of the Danish Financial Services Authority (DFSA, or "Finanstilsynet").

DSF issues Danish ship mortgage bonds ("skibskreditobligationer", or "SMBs", formerly called "SOs"), and ship covered bonds ("særligt dækkede obligationer", or "SCBs", or "SDOs") to finance loans collateralized by ship mortgages. The issuer has another capital center (Capital Center A), established in 2019 to issue euro-denominated SCBs compliant with the Capital Requirements Regulation article 129, which we also rate (see "Transaction Update: Danmarks Skibskredit A/S Capital Center A (Ship Covered Bond Program)," published on Feb. 18, 2025). Pursuant to the Act, SMBs and SCBs may not be issued from the same capital center. The capital centers are individually ring-fenced and not subject to cross-liability.

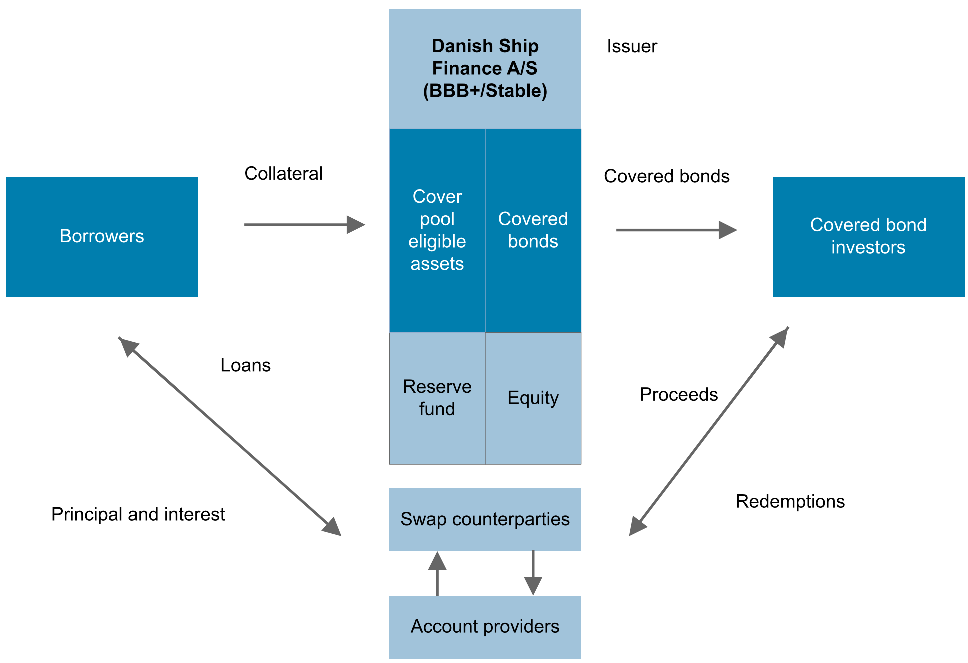
DSF's loan portfolio is concentrated, with the five largest exposures making up about lcompany's corporate lending strategy of working primarily with select shipping companies, e.g., shipping operators that the issuer considers capable of managing difficult markets and adjusting operating capacity through the cycle. DSF has approximately 70 clients, for which it finances about 600 vessels over 12 shipping segments, with tankers and bulk carriers as its largest segments. Of DSF's loan book, 90% is to shipping companies domiciled in Europe, with on average about one quarter of total loans to Denmark. This exposes DSF to significant revenue and customer concentration risk in a highly cyclical industry.

From the total number of clients and loans, DSF selects the loans placed in each covered bond capital center.

DSF's extensive expertise in international shipping, cautious client selection, and robust operational track record partly counterbalance its narrow business franchise. As of June 30, 2024, its nonperforming loan ratio was 1.9% of gross loans (compared with 5.1% in 2021 and about 14% in 2017). We also recognize DSF's track record of issuing covered bonds in the Danish market. DSF issues DKK- and euro-denominated covered bonds, primarily aimed at Nordic capital market investors and European investors.

The program has transaction accounts held with various counterparties. In addition, the cover pool includes derivative agreements with Nordea Bank Abp, Danske Bank A/S, Skandinaviska Enskilda Banken AB (publ)-SEB, and Jyske Bank A/S to hedge interest rate and foreign exchange rate risks.

Program Structure



Rating Analysis

Legal and regulatory risks

We base our analysis of legal risk on the guidelines in "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017.

In our opinion, the Danish covered bond legal framework satisfies the relevant legal requirements of our covered bond criteria. This enables us to rate the covered bonds above our long-term ICR on DSF.

DSF issues covered bonds pursuant to the Danish Consolidated Act on a Ship Finance Institute, and the Executive Order on a Ship Finance Institute. DSF is also subject to the Executive Order on the issuance of bonds, the balance principle, and risk management. The legislation regulates among others, how the issuer may originate loans and defines limits for maturity and amortization, currency/interest/liquidity risk, and overcollateralization requirements. It also states requirements on fleet mortgages, collateral valuation, loan-to-value (LTV) limits, supplementary collateral, and reporting.

The DFSA regulates the issuer and oversees its activities on an ongoing basis, including through inspections and regular reporting from the issuer.

SCBs and SMBs are unconditional and unsubordinated obligations of DSF. In the event of DSF's bankruptcy, holders of SCBs and SMBs and subject to certain conditions derivative counterparties have a preferential right (after deduction of wind down costs) to all the assets in the capital center through which the SCBs and the SMBs are issued. To the extent their claims are not fully satisfied by the funds of the relevant capital center, they will have preferential rights to the assets available for distribution in the institute in general and will rank prior to DSF's unsecured creditors.

DSF may only grant loans secured by ship mortgages or certain other qualified assets. The cover pool comprises loans secured on ships, mainly in Europe, and liquidity placements. Under the law, mortgages may be used as security up to 70% of the market value of the vessel at the time of the loan offer. The LTV ratio can be higher if additional collateral is provided (the LTV above 70% must be covered by the overcollateralization in the capital center) and if the issuer makes additional reservations of own funds. For shipping loans in Capital Center A, the LTV ratio cannot exceed 60%.

There is minimum required overcollateralization of 8% of risk-weighted assets. The balance principle requires the issuer to manage its capital centers in a way that ensures an appropriate balance between the inflows from the assets and payments due under the liabilities of the capital centers in terms of currency, interest rate and maturity structure.

Valuations of vessels are typically obtained from brokers twice a year, while the cover pool is subject to audits.

The law does not provide for a separate cover pool administrator if the issuer becomes insolvent. Instead, the receiver-in-bankruptcy represents all investors and regularly conducts special covered bond supervision.

The legislation to transpose the EU Covered Bond Directive in the Danish legal framework was passed in May 2021 and became effective on July 8, 2022. It requires the issuer to ensure that the aggregate principal amount of all cover assets in each capital center is equal to or exceeds the aggregate principal amount of the outstanding SCBs or SMBs. In addition, for SCBs a nominal statutory overcollateralization requirement of 2% applies. This does not include the cost of managing a cover pool that is winding down. Further, the issuer must hold liquid assets sufficient to meet 180 days of net liquidity needs of each capital center from which issues have been made after July 8, 2022, which is the case for Capital Center A and Capital Center General. The amendments are essentially refinements and, given that the Danish legislation was already well aligned to the requirements of the directive, the updated legislation does not affect our analysis of the Danish legal framework.

Operational and administrative risks

Our analysis of operational risk follows the principles within our covered bond ratings framework and our covered bonds criteria.

DSF was founded with effect from Jan. 1, 2005, replacing "Danmarks Skibskreditfond". Danmarks Skibskreditfond was established on June 6, 1961, by Danish banks, insurance companies, shipping companies, shipyards (represented by their respective industry associations), and Danmarks Nationalbank.

On July 10,2024, ADGM-based Magellan Holding Ltd. completed the acquisition of DSF from its three major shareholders, private equity fund Axcel and pension funds PFA and PKA, via U.K.-based Magellan Capital Holdings PLC. The Danish Maritime Fund will retain its current 10% stake in DSF. We believe, the transaction will have limited implications for DSF's operating model (see "Danmarks Skibskredit A/S" published on Sept. 12, 2024).

All mortgage loan originations are made from DSF's own offices, which also provide in house shipping analysis, in-house expertise on legal and insurance aspects, a dedicated ship surveyor and asset monitoring. Underwriting criteria include LTV ratio caps of 70% and straight amortization rules for most loans. Current ship mortgage loans as well as new origination are concentrated in Europe.

Overall, we view DSF's underwriting criteria as prudent. Our view is also supported by the low level of delinquencies and realized losses from the loan book. In our opinion, operational risk from the cover pool's management and loan origination does not constrain the rating on the covered bonds to the same level as our rating on DSF.

Resolution regime analysis

DSF is a Danish issuer of covered bonds with a global focus, operating from Denmark. Following the implementation of the bail-in regulation under the Bank Recovery and Resolution Directive (BRRD) in June 2015, we consider Denmark to have an effective resolution regime.

DSF is exempt from minimum requirements for own funds and eligible liabilities (MREL) and any bail-in according to the BRRD. Therefore, we consider the program's RRL equal to the ICR on DSF, plus up to two notches for programs in jurisdictions with effective resolution regimes that exempt covered bond from bail-in. Given DSF's 'BBB+' ICR, and our strong systemic importance assessment for ship covered bonds in Denmark the RRL is 'a', two notches above the ICR.

This uplift recognizes that resolution regimes like the BRRD increase the probability that an issuer could service its covered bonds even following a default on its senior unsecured obligations because the law exempts covered bonds from bail-in risk if there is a bank resolution. We consider this as an internal form of support because the bail in of certain creditors of the issuer does not require direct government support.

Jurisdictional support analysis

Our jurisdictional support analysis assesses 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 jurisdictional support for Danish ship covered bond programs is strong. Under our covered bonds criteria, this means that the program can receive two notches of jurisdictional support uplift from the RRL resulting in a JRL of 'aa-'. The jurisdictional support uplift is capped by the long-term foreign currency rating on the sovereign providing the support to the covered bond, which in this case is 'AAA'.

Collateral support analysis

The cover pool comprises a mixed portfolio of loans backed by ship collateral originated by DSF and substitute assets. We have not conducted an analysis of the loans in the capital center as we do not assign collateral uplift above the JRL to the program (see "Rationale").

As of Dec. 31, 2024, the DKK30.9 billion of outstanding covered bonds of Capital Center General were backed by a cover pool of DKK39.2 billion comprising loans secured by first-lien claims on shipping collateral, and substitute assets. Overcollateralization stood at 26.9%. The cover pool includes loans granted to borrowers mainly in U.S. dollars, and Danish kroner. The average LTV ratio of the loans was 38%.

Most loans are floating rate loans, while a minority of loans have fixed-interest periods. The loans have relatively short remaining maturities and most mature within a five-year period. The remaining loans mature between five and 10 years. As of Dec. 31, 2024, 0.98% of shipping loans were nonperforming.

Table 3

Cover pool composition

	As of Dec. 31, 2024		As of Dec. 31, 2022	
Asset type	**Value (bil. DKK)**	**Percentage of cover pool**	**Value (bil. DKK)**	**Percentage of cover pool**
Ship mortgages	19.491	49.72	35.619	82.22
Substitute assets	19.714	50.28	7.704	17.78
Total	39.205	100.00	43.323	100.00

Table 4

Key credit metrics

	As of Dec. 31, 2024	As of Dec. 31, 2022
Weighted-average current LTV ratio (%)	38.05	42.61
Weighted-average loan seasoning* (years)	12.96	16.67
Balance of nonperforming loans (%)	0.98	4.06
10 largest exposures (%)	51.39	47.65
Interest-only loans (%)	0.00	0.80
Floating rate loans	92.63	83.46
Number of shipping loans	168	249

LTV--Loan-to-value.
*Reported as duration of customer relationship, calculated from the first disbursement of a mortgage loan.

Table 5

Covered bond program LTV ratios

	As of Dec. 31, 2024	As of Dec. 31, 2022
Current LTV ratio (%)	Shipping loans (%)	
>00 - <=40 %	91.88	87.82
>40 - <=60 %	8.07	11.33
>60 - <=70 %	0.05	0.36
>70 - <=80 %	0.00	0.25
>80 - <=90 %	0.00	0.13
>90 - <=100 %	0.00	0.00
>100%	0.00	0.12
Weighted-average LTV ratio	38.05	42.61

LTV--Loan-to-value.

Table 6

Loan seasoning distribution*

	As of Dec. 31, 2024	As of Dec. 31, 2022
Months	**Shipping loans (%)**	
Up to 12 months	6.61	10.69
12 - 24 months	6.43	5.43
24 - 36 months	1.94	1.75
36 - 60 months	7.93	9.09
More than 60 months	77.1	73.04
Weighted-average customer seasoning (months)	155.54	199.98

*Reported as duration of customer relationship, calculated from the first disbursement of a mortgage loan.

Table 7

Geographic distribution of loan assets

	As of Dec 31, 2024	As of Dec. 31, 2022
Country	**Shipping loans (%)**	
Belgium	0.00	2.05
Denmark	13.69	30.21
Finland	0.00	0.76
France	0.00	0.00
Germany	2.92	8.00
Greece	36.51	16.99
Netherlands	0.98	0.72
Italy	0.85	0.30
Luxembourg	0.24	1.09
Malta	0.64	1.40
Sweden	0.90	0.00
Norway	17.77	12.60
U.K.	11.28	12.93
Singapore	3.80	5.93
Switzerland	0.00	0.00
U.S.	3.23	4.15
Other	7.21	2.87

Table 8

Collateral type

	As of Dec. 31, 2024	As of Dec. 31, 2022
	Shipping loans (%)	
Bulk carriers	20.5	20.5
Car carriers	5.75	6.16
Chemical tankers	3.85	6.31
Container feeder	3.56	0.87
Container liners	0.25	10.77
Crude tankers	20.55	10.34

Table 8

Collateral type (cont.)

	As of Dec. 31, 2024	As of Dec. 31, 2022
Ferries/RO-RO	5.2	8.71
LNG	7.08	0
LPG	7.53	7.47
Offshore units	0	3.63
Offshore vessels	6.52	3.55
Others	0.4	0.69
Product tankers	18.8	20.98

RO-RO--Roll--on/roll-off. LNG--Liquefied natural gas. LPG--Liquified petroleum gas.

Counterparty risk

We analyze counterparty risks under our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

Account providers

The program has bank accounts held with various unrelated counterparties. Under our counterparty risk criteria for unrelated account bank exposures, we consider that the issuer has an incentive to manage the risk and that the risk does not reduce the likelihood of jurisdictional support to the covered bond program. Therefore, bank account risk does not reduce the covered bond rating below the higher of the RRL on the issuer plus one notch, the JRL on the covered bond program, or the applicable counterparty rating under these criteria.

Swaps

The program includes derivative agreements with various unrelated counterparties. In the absence of replacement provisions or other structural mitigants, our counterparty criteria consider that for derivatives with unrelated counterparties that are collateralized but with no replacement framework, the covered bond rating is limited based on the applicable table from these criteria (see "Related Criteria").

Sovereign risk

We assess sovereign risk by applying our structured finance sovereign risk criteria. As we are currently not assigning any collateral-based uplift, the main constrain to the rating would be to the jurisdictional-based uplift, which is capped at the long-term ICR on the sovereign of the issuing entity. Based on the current sovereign rating on Denmark (unsolicited; AAA/Stable/A-1+), sovereign risk does not constrain our ratings on the covered bonds.

Environmental, Social, And Governance

Environmental, social, and governance factors have no material influence on our credit rating analysis of DSF's ship covered bonds. The issuer is not committed to maintaining a minimum level of overcollateralization above the legal minimum in the program. On a net basis, we consider funding under the balance principle to mitigate the risk caused by the lack of a committed overcollateralization. Additionally, since we do not assign collateral support, the lack of such commitments does not affect the rating.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 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: Covered Bonds Criteria, Dec. 9, 2014
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Transaction Update: Danmarks Skibskredit A/S Capital Center A (Ship Covered Bond Program), Feb. 18, 2025
- Danmarks Skibskredit A/S Capital Center A & General Covered Bond Ratings Raised; Outlook Stable, Jan. 10, 2025
- Sector And Industry Variables Updated For Covered Bonds Criteria, Jan. 2, 2025
- Global Covered Bond Insights Q1 2025, Dec. 18, 2024
- S&P Global Ratings Definitions, Dec. 2, 2024
- Danmarks Skibskredit A/S, Sept. 12, 2024
- Magellan Holding Assigned 'BBB-/A-3' Ratings On Completed Acquisition Of Danmarks Skibskredit; Outlook Stable, July 15, 2024
- Danmarks Skibskredit 'BBB+/A-2' Ratings Affirmed On Announced Sale To Magellan Holding; Outlook Stable, June 10, 2024
- The Danish Covered Bond Legal Framework: A Closer Look, June 5, 2024
- S&P Global Ratings' Covered Bonds Primer, June 20, 2019
- Glossary Of Covered Bond Terms, April 27, 2018