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## Fitch Affirms Nykredit Realkredit A/S at 'A'; Outlook Stable

Fitch Ratings - Warsaw - 15 Sep 2023: Fitch Ratings has affirmed Nykredit Realkredit A/S's (Nykredit) and its subsidiary Nykredit Bank A/S's Long-Term Issuer Default Ratings (IDRs) at 'A' with Stable Outlooks. Fitch has also affirmed Nykredit's Viability Rating (VR) at 'a'. A full list of rating actions is below.

### Key Rating Drivers

**Strong Credit Profile:** Nykredit's ratings reflect its low-risk profile, shown by its healthy and resilient through-the-cycle asset quality and robust capitalisation. They also reflect its leading mortgage lending franchise in Denmark, moderate profitability dependent predominantly on net interest income and very high wholesale funding reliance.

**Leading Franchise:** Nykredit is a leading Danish mortgage lender with a high and stable market share of 45%. The group provides a full range of services that supplement its core mortgage products, including banking products (8% market share in lending) through Nykredit Bank A/S, which has a deposit licence.

**Low Risk Profile:** The bank's underwriting standards are prudent; its risk controls are robust and its market risk exposure is low. Credit risk exposure is dominated by mortgage lending with tight origination standards underpinned by conservative Danish covered bond and mortgage lending legislation. Its loan book is geographically concentrated in Denmark and strongly linked to the performance of the Danish economy and real estate market.

**Resilient Asset Quality:** Nykredit's asset quality is a rating strength, underpinned by low arrears and defaults, prudent collateralisation and underwriting standards, contained growth and low levels of loan impairment charges (LICs) through the cycle. At end-June 2023, the bank's large buffer of allowances - on top of what was already accounted for by its internal model - mainly related to geopolitical risks and agriculture, would have been sufficient to absorb credit losses of 14bp of loans.

We expect impaired loans to moderately increase due to the current economic downturn, and the impaired loans ratio to reach 1.3% by end-2023 and 1.5% by end-2024 (end-June 2023: 1.2%).

**Moderate Profitability:** The bank's results benefit from healthy and recurring revenue, tight cost control and historically contained LICs. We expect operating profit to increase to almost 3% of risk-weighted assets (RWAs) in 2023 and 2024, reflecting higher net interest income from Nykredit Bank and the debt securities portfolio, which will offset most of the negative impact from rising LICs and

RWA inflation.

**Robust Capitalisation:** Nykredit's capitalisation is underpinned by its low-risk business model, limited exposure to high-risk assets, a solid capital surplus over regulatory minimums and potential ordinary support from its majority shareholder, Forenet Kredit. The bank has sufficient cushion to absorb losses and RWA inflation from likely rating migrations due to the economic downturn. Its regulatory leverage ratio of about 5% is acceptable and comparable to that of similarly rated banks.

**Low Refinancing Risk:** Nykredit relies extensively on wholesale funding as mortgage lending is by law entirely funded by covered bonds in Denmark. We believe the risk of Nykredit not being able to access the covered bond market is low due to strong demand for these bonds from Danish financial institutions, insurance companies and pension funds. Refinancing risk is mitigated by the bank's low share of short-term debt maturities and significant liquidity.

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Fitch believes the bank's financial profile is likely to remain resilient against the current economic slowdown, with limited asset-quality deterioration and manageable LICs. We would downgrade Nykredit's ratings if we expect its impaired loans ratio to increase durably above 2.5% and its common equity Tier (CET1) capital ratio to durably shrink below 14%. This could be due to a more severe and prolonged economic downturn than we currently expect.

Negative pressure on the ratings would also arise from an adverse change in investor sentiment materially affecting Nykredit's ability to access competitively priced funding or from weaker liquidity management. Increased reliance on international debt investors who may prove less stable during financial stress, or increasing risk appetite - particularly at Nykredit Bank - would also put negative pressure on the ratings.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of Nykredit's ratings would be contingent on a strengthened earnings contribution by Nykredit Bank that is sustainable and translates into materially stronger earnings capacity for the group.

## OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Nykredit's long-term senior preferred debt rating of 'A+' is one notch above its Long-Term IDR. This reflects the protection that accrues to senior preferred creditors from the bank's junior bank resolution debt and equity buffers. The short-term senior preferred debt rating of 'F1' is the only option mapping to the bank's respective long-term ratings.

We expect Nykredit's resolution debt buffer to remain comfortably above 10% of RWAs in the long term, and at end-June 2023, the buffer was 13% of RWAs. For the same reason, Nykredit's long-term

senior non-preferred debt is equalised with the Long-Term IDR, reflecting Fitch's view that the default risk of the notes is equivalent to that of the IDR and their average recovery prospects.

Nykredit's Tier 2 subordinated debt and additional Tier 1 (AT1) securities are notched down from its VR. We rate the Tier 2 debt two notches below the VR to reflect the poor recovery prospects of this type of debt. The AT1 securities are four notches below the VR to reflect the poor recovery prospects of these securities (two notches) as well as their high risk of non-performance (two notches). Our assessment is based on the bank operating with a CET1 ratio that is comfortably above maximum distributable amounts thresholds and our expectation that this will continue.

**No Government Support:** Nykredit's GSR of 'ns' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event of the bank becoming non-viable. The EU's Bank Recovery and Resolution Directive provides a framework for resolving banks that will require senior creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

## **OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES**

The Short-Term IDR is sensitive to changes in Nykredit's Long-Term IDR and the funding and liquidity score.

Nykredit's senior preferred and non-preferred debt ratings are sensitive to changes in the bank's IDRs. They are also sensitive to our expectation that Nykredit will maintain, on a sustained basis, a buffer of subordinated and senior non-preferred debt of at least 10% of adjusted RWAs, and could be downgraded otherwise.

The ratings of Nykredit's AT1 securities and Tier 2 subordinated debt are sensitive to changes in its VR. The ratings of the AT1 securities are also sensitive to Fitch's assessment of their incremental non-performance risk relative to the risk captured in Nykredit's VR.

An upgrade of the GSR would be contingent on a positive change in Denmark's propensity to support domestic banks. While not impossible, this is highly unlikely in Fitch's view.

## **SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS**

Nykredit Bank's IDRs and Shareholder Support Rating are aligned with Nykredit's IDRs. This reflects a very high probability of support from Nykredit, if needed, in light of the subsidiary's core role within the group and high reputational risk for Nykredit if Nykredit Bank defaults. We have not assigned a VR to Nykredit Bank because it does not have a meaningful standalone franchise that could exist without the ownership of the parent given the close integration into the larger group.

Nykredit Bank's long-term senior preferred debt and deposits are rated one notch above its Long-Term IDR, because Fitch expects preferred creditors to be protected by Nykredit's resolution buffers.

Nykredit Bank's short-term senior preferred debt and deposit ratings are mapped to their respective long-term ratings and also reflect our assessment of the group's funding and liquidity.

## **SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES**

Nykredit Bank's ratings are sensitive to changes in Nykredit's ratings.

## **VR ADJUSTMENTS**

The business profile score of 'a-' is above the 'bbb' category implied score due to the following adjustment reason: market position (positive).

The capitalisation and leverage score of 'a' is below the 'aa' category implied score due to the following adjustment reasons: risk profile and business model (negative).

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **Public Ratings with Credit Linkage to other ratings**

Nykredit Bank's ratings are linked to the ratings of Nykredit.

## **ESG Considerations**

The highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on our ESG relevance scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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### Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Nykredit Realkredit A/ S	LT IDR	A 	Affirmed	A 
	ST IDR	F1	Affirmed	F1
	Viability	a	Affirmed	a
	Government Support	ns	Affirmed	ns
• Senior non- preferred	LT	A	Affirmed	A
• Senior preferred	LT	A+	Affirmed	A+
• subordinated	LT	BBB+	Affirmed	BBB+
• subordinated	LT	BBB-	Affirmed	BBB-
• Senior preferred	ST	F1	Affirmed	F1

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Nykredit Bank A/S	LT IDR	A	Affirmed	A
	ST IDR	F1	Affirmed	F1
	Shareholder Support	a	Affirmed	a
• senior unsecured	LT	A+	Affirmed	A+
• long-term deposits	LT	A+	Affirmed	A+
• senior unsecured	ST	F1	Affirmed	F1
• short-term deposits	ST	F1	Affirmed	F1

#### RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

#### Applicable Criteria

[Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)

## Additional Disclosures

### Solicitation Status

### Endorsement Status

Nykredit Bank A/S            EU Issued, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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