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Nykredit Realkredit A/S

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Nykredit Realkredit A/S

Ratings Score Snapshot

Global Scale Ratings
Issuer Credit Rating
A+/Stable/A-1
Resolution Counterparty Rating
AA-/--/A-1+

SACP: a-			Support: +2		Additional factors: 0					
Anchor	bbb+		ALAC support	+2	<table border="1"> <thead> <tr> <th>Issuer credit rating</th> </tr> <tr> <td>A+/Stable/A-1</td> </tr> <tr> <th>Resolution counterparty rating</th> </tr> <tr> <td>AA-/A-1+</td> </tr> </thead></table>		Issuer credit rating	A+/Stable/A-1	Resolution counterparty rating	AA-/A-1+
Issuer credit rating										
A+/Stable/A-1										
Resolution counterparty rating										
AA-/A-1+										

Business position	Adequate	0	GRE support	0	
Capital and earnings	Strong	+1	Group support	0	
Risk position	Adequate	0	Sovereign support	0	
Funding	Adequate	0			
Liquidity	Adequate				
CRA adjustment		0			

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	Key risks
Leading mortgage bank in Denmark's wealthy and competitive economy.	High exposure to Danish residential real estate markets.
Highly collateralized loan book and good asset quality.	Reliance on wholesale funding.
Strong risk-adjusted capitalization and substantial additional loss-absorbing capacity (ALAC).	

We expect Nykredit Realkredit (Nykredit) to remain Denmark's premier mortgage provider and its largest lender by domestic volumes. We anticipate that Nykredit will defend its strong domestic franchise as Denmark's second-largest banking group with total assets of Danish krone (DKK) 1.6 trillion (€214 billion), and its largest mortgage provider with a 44.7% share of the mortgage market as of third-quarter 2023. Nykredit benefits from a partnership with domestic banks through its subsidiary Totalkredit. This enables higher growth in new lending and provides a cost-efficient business model with low distribution costs, as evident from the low cost-to-income ratio of 31% in third-quarter 2023. Other banking services via Nykredit Bank, including wealth management services and the Sparinvest partnership, complement the mortgage offering. Thanks to net inflows and positive returns, assets under management grew by

6.5% to DKK432.3 billion (€58 billion) in the first nine months of 2023.

Sound earnings generation will continue to underpin Nykredit's capitalization and market-leading pricing programs.

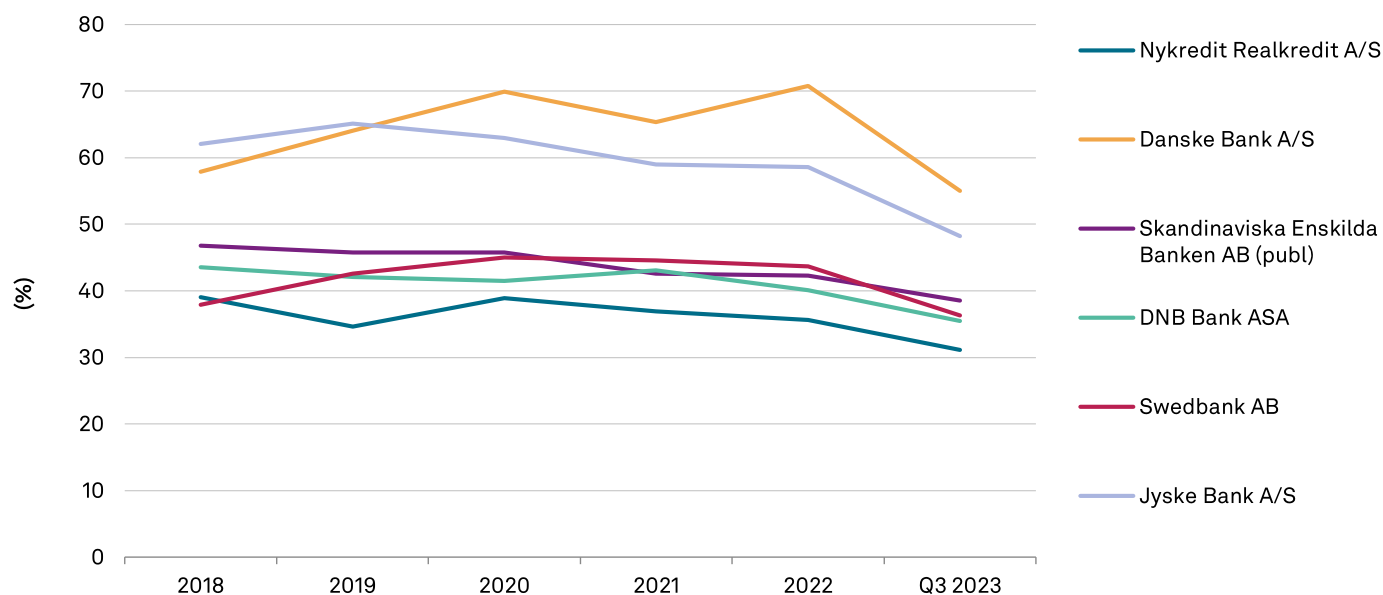
We believe that Nykredit's capitalization will remain its key rating strength, reflected in a projected risk-adjusted capital (RAC) ratio of 13.3%-14.3% over 2023-2025. While we anticipate that interest margins will gradually tighten over the next two years, after peaking in 2023, we expect them to remain historically high over the two-year forecast period. Alongside projected loan growth of around 2%-3% and growing wealth management income, this should support operating revenue of DKK19 billion-DKK20 billion (€2.5 billion-€2.7 billion) over 2024-2025, compared to DKK15.4 billion as of the first nine months of 2023 and DKK17.8 billion in 2022.

Moreover, we expect that Nykredit will maintain sound cost control despite moderate inflationary pressures, while containing the cost of risk to 1-3 basis points. As a result, we forecast net income of DKK8.7 billion-DKK9.7 billion in 2024-2025, compared to DKK8.3 billion as of the first three quarters of 2023, and a return on average equity of 8.5%-10.5% (11.8%). In our base case, we expect that Nykredit will distribute around 50% of its net income in dividends and that its majority shareholder, Forenet Kredit, will continue to reinject around 70%-80% of the proceeds to fund Nykredit's market-leading discount programs, like "KundeKroner," "ErhvervsKroner," and "GrønneFordele."

Chart 1

Nykredit's cost-efficiency ratio continues to outperform domestic peers

Cost-to-income ratio



Source: S&P Global Ratings.

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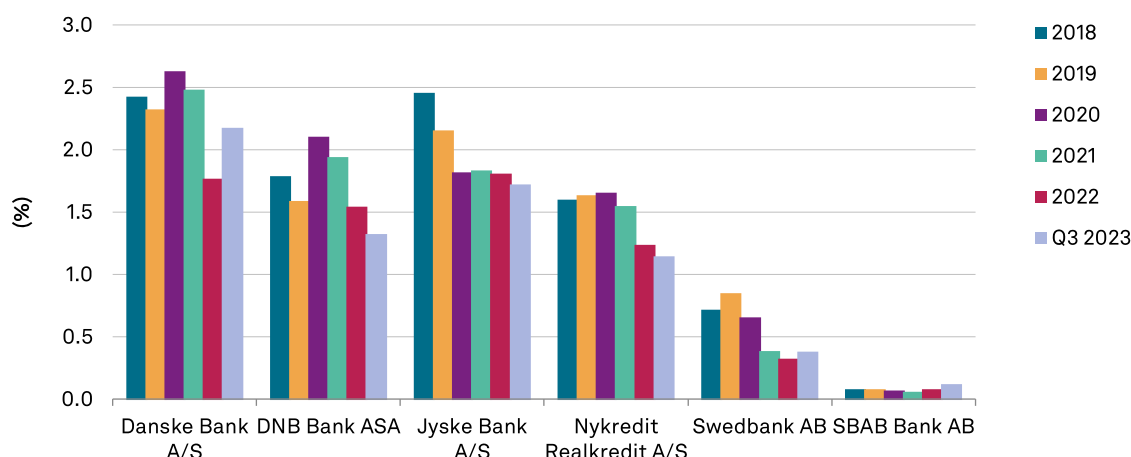
We project that Nykredit's highly collateralized loan book and the strongly performing domestic labor market will sustain the bank's asset quality despite higher interest rates and tight financial conditions for borrowers. We expect moderate pressure on Nykredit's asset quality over the next two years, with the nonperforming assets ratio rising to 1.2%-1.4% from 1.1% as of Sept. 30, 2023. Supporting our view is historically low domestic unemployment, as well as Nykredit's adequate loan loss coverage--55% of nonperforming loans as of third-quarter 2023--and highly collateralized loan portfolio. As of Sept. 30, 2023, mortgage loans formed 93% of the loan book. Lower-risk residential mortgages accounted for 81% of total loans, with the majority being owner-occupied mortgages, accounting for 62% of total loans. The average loan-to-value ratio remained sound, at 56% for owner-occupied dwellings and 52% for the entire mortgage book.

Moreover, we expect that Nykredit's asset quality will remain highly correlated with the Danish economy and domestic house prices, which we anticipate will recover moderately over the next two years following a relatively steep correction in 2022-2023. Potential pockets of risks include exposures to sectors within commercial real estate and agriculture, in our view.

Chart 2

Nykredit Realkredit's asset quality remains robust

Nonperforming assets*



*Gross nonperforming assets/customer loans + other real estate owned. Source: S&P Global Ratings.

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The deep and well-functioning domestic covered bond market will continue to support Nykredit's funding profile, in our view. We expect that Nykredit will continue to manage its funding and liquidity profile soundly over the next two years. Nykredit posted a moderate 96% stable funding ratio in third-quarter 2023. In our view, Nykredit's matched funding profile based on the Danish balance principle and the supportive characteristics of the Danish covered bond market mitigate its significant dependence on wholesale funding and weaker funding and liquidity metrics than those of international peers.

We anticipate that the Danish covered bond market, as a key investment target for Danish pension funds, will continue

to perform as it has done in times of financial turmoil, such as during the COVID-19 pandemic and more recent episodes over 2022-2023. The 2014 Danish covered bond legislation that extends bond maturities by 12 months in the event of a failed auction--and thereby effectively passes on refinancing risk to investors--is a further supporting factor. Nykredit has ample buffers of good-quality liquid assets, mainly comprising Danish and European sovereign and covered bonds. As of Sept. 30, 2023, our one-year liquidity metric measuring broad liquid assets to short-term funding stood at 0.88x.

We anticipate that the long-term issuer credit rating on Nykredit will continue to include two notches of ALAC uplift.

In line with its internal targets, we expect that Nykredit will continue to manage its bail-inable buffers comfortably above the Danish debt buffer requirement of 8% of total liabilities and own funds. We therefore forecast that the bank will maintain an ALAC ratio sustainably above our 6% threshold for two notches of ALAC support over 2024-2026. As of Dec. 31, 2023, the bank had an outstanding stock of ALAC-eligible Tier 2 and senior nonpreferred notes of DKK48.2 billion (€6.5 billion), equivalent to 7.3% of our projected risk-weighted assets at year-end 2023.

Outlook

The stable outlook reflects our expectation that stable funding and liquidity, strong capitalization and earnings capacity, and a substantial ALAC buffer will support the ratings on Nykredit and its subsidiary Nykredit Bank A/S over the next two years.

Downside scenario

We could lower the long-term ratings if Nykredit's asset quality and earnings came under greater pressure than we expect. This could materialize if lower earnings retention resulted in a significant decrease in the bank's RAC ratio to below 10%. Similarly, we could lower our long-term ratings if ALAC fell below 6%, reducing the protection that this buffer provides to senior unsecured creditors.

Upside scenario

We consider an upgrade a remote possibility at this point.

Key Metrics

Nykredit Realkredit A/S--Key ratios and forecasts

	--Fiscal year ended Dec. 31 --				
(%)	2021a	2022a	2023f	2024f	2025f
Growth in operating revenue	13.5	5.5	14.5-15.3	(2.0)-(2.1)	(4.6)-(4.8)
Growth in customer loans	2.4	-5.3	1.9-2.0	1.9-2.0	2.9-3.1
Growth in total assets	0.5	-4.4	2.1-2.2	2.3-2.4	3.2-3.3
Net interest income/average earning assets (NIM)	0.7	0.8	0.9-1.0	0.9-1.0	0.8-0.9
Cost-to-income ratio	36.9	35.6	31.6-32.2	32.9-33.5	35.2-35.9

Nykredit Realkredit A/S--Key ratios and forecasts (cont.)

(%)	--Fiscal year ended Dec. 31 --				
	2021a	2022a	2023f	2024f	2025f
Return on average common equity	10.0	10.3	10.8-11.3	9.7-10.2	8.5-8.9
Return on assets	0.5	0.6	0.6-0.7	0.5-0.6	0.5-0.6
New loan loss provisions/average customer loans	0.0	0.0	0.0-0.0	0.0-0.0	0.0-0.0
Gross nonperforming assets/customer loans	1.5	1.2	1.1-1.3	1.2-1.4	1.2-1.3
Net charge-offs/average customer loans	0.0	0.0	0.0-0.0	0.0-0.0	0.0-0.0
Risk-adjusted capital ratio	13.2	13.3	13.2-14.0	13.5-14.3	13.6-14.4

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Environmental, Social, And Governance

We believe that ESG credit factors influence Nykredit's credit quality in a similar way to those of its industry and Danish peers.

Social factors have always been important for the bank as its owner, Forenet Kredit, an association of Nykredit and Totalkredit customers, shares its profits with both personal and business customers through benefits and discounts. "ForeningsFordele," established in 2021, is an extension of this program and aims to enhance the bank's profile as a customer-owned, responsible, and sustainable financial provider.

Apart from agriculture, the bank has limited exposure to sectors that are vulnerable to climate transition risks thanks to its modest commercial banking footprint. The main environmental risks Nykredit faces consist of managing the potential impact of climate change on its borrowers, such as mortgage customers that are vulnerable to increasing flood or other climate-related risks.

Nykredit increasingly promotes the climate transition and has launched several green products to private, business, agricultural, and investment customers. It also sets emissions targets for owner-occupied dwellings and other real estate. In 2023, the bank published a new fossil fuels policy, as a result of which it stopped providing new loans for fossil fuel activities and divested its investment holdings in oil, gas, and coal companies.

Issue Ratings

We rate Nykredit's senior nonpreferred debt 'BBB+', one notch below the bank's stand-alone credit profile (SACP). This reflects the debt's contractual subordination to senior preferred notes.

We rate Nykredit's nondeferrable subordinated debt instruments 'BBB', two notches below the bank's SACP. The rating reflects our view of the debt's contractual subordination as a Tier 2 instrument and the fact that the Bank Recovery And Resolution Directive is equivalent to a contractual write-down clause.

We rate Nykredit's additional Tier 1 instruments with a going-concern trigger 'BB+', four notches lower than the bank's SACP, reflecting our deduction of:

- One notch for contractual subordination;
- Two notches for the instruments' status as Tier 1 regulatory capital; and
- One notch because the instruments allow for the full or partial temporary write-down of the principal amount.

Resolution Counterparty Ratings (RCRs)

We assign RCRs of 'AA-/A-1+' to Nykredit, one notch above the long-term issuer credit rating. The RCRs relate to certain senior liabilities that we consider to be explicitly protected from default in an effective bail-in resolution process.

Key Statistics

Table 1

Nykredit Realkredit A/S--Key figures						
	--Year-ended Dec. 31--					
(Mil. DKK)	2023 Q3	2022	2021	2020	2019	2018
Adjusted assets	1,609,436.0	1,596,974.0	1,671,268.0	1,663,476.0	1,608,155.0	1,447,710.0
Customer loans (gross)	1,407,135.0	1,388,597.0	1,466,970.0	1,432,087.0	1,361,342.0	1,281,215.0
Adjusted common equity	87,837.0	81,627.2	79,716.3	78,144.2	75,332.0	70,374.2
Operating revenues	15,428.0	17,754.0	16,825.0	14,822.0	15,107.0	12,303.0
Noninterest expenses	4,802.0	6,320.0	6,207.0	5,760.0	5,239.0	4,804.0
Core earnings	8,331.0	9,454.0	8,870.0	5,673.0	7,530.0	5,821.0

DKK--Danish krone.

Table 2

Nykredit Realkredit A/S--Business position						
	--Year-ended Dec. 31--					
(%)	2023 Q3	2022	2021	2020	2019	2018
Loan market share in country of domicile	34.9	34.6	34.6	33.7	32.3	31.4
Total revenues from business line (DKK mil.)	15,428.0	17,754.0	16,528.0	14,822.0	15,107.0	12,303.4
Commercial banking/total revenues from business line	21.4	18.5	18.5	19.3	17.1	19.8
Retail banking/total revenues from business line	60.9	62.2	59.9	65.9	66.3	76.7
Commercial and retail banking/total revenues from business line	82.2	80.7	78.5	85.3	83.4	96.5
Asset management/total revenues from business line	10.9	10.9	10.8	10.2	7.7	7.0
Other revenues/total revenues from business line	6.9	8.5	10.7	4.6	8.9	(3.5)
Return on average common equity	11.8	10.3	10.0	6.8	9.5	7.6

Table 3

Nykredit Realkredit A/S--Capital and earnings						
	--Year-ended Dec. 31--					
(%)	2023 Q3	2022	2021	2020	2019	2018
Tier 1 capital ratio	21.0	20.4	21.5	21.1	20.5	22.1

Table 3

Nykredit Realkredit A/S--Capital and earnings (cont.)						
--Year-ended Dec. 31--						
(%)	2023 Q3	2022	2021	2020	2019	2018
S&P Global Ratings' RAC ratio before diversification	N/A	13.3	13.2	13.5	14.0	12.2
S&P Global Ratings' RAC ratio after diversification	N/A	11.4	11.0	11.6	11.9	10.2
Adjusted common equity/total adjusted capital	95.9	95.6	95.5	90.5	90.1	89.3
Double leverage	80.9	76.9	78.3	73.0	73.4	65.3
Net interest income/operating revenues	75.5	68.7	67.1	75.8	73.1	88.4
Fee income/operating revenues	0.8	0.5	1.0	0.5	(2.9)	(4.0)
Market-sensitive income/operating revenues	16.3	21.8	21.3	14.2	14.1	5.9
Cost-to-income ratio	31.1	35.6	36.9	38.9	34.7	39.0
Preprovision operating income/average assets	0.9	0.7	0.6	0.6	0.6	0.5
Core earnings/average managed assets	0.7	0.6	0.5	0.3	0.5	0.4

N/A--Not applicable.

Table 4

(Thousands DKK)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	110,865,052.2	0.0	0.0	1,836,172.9	1.7
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	65,178,766.6	6,635,389.2	10.2	13,060,288.0	20.0
Corporate	402,102,757.6	119,953,217.8	29.8	249,698,420.6	62.1
Retail	1,023,218,410.8	134,490,641.4	13.1	249,430,887.5	24.4
Of which mortgage	995,714,124.7	125,638,122.7	12.6	231,209,609.2	23.2
Securitization	0.0	0.0	0.0	0.0	0.0
Other assets	3,564,857.5	40,393,142.6	1,133.1	4,030,343.9	113.1
Of which deferred tax assets	333,406.1	--	--	833,515.2	2.5
Total credit risk	1,604,929,844.6	301,472,391.0	18.8	518,056,112.9	32.3
Credit valuation adjustment	--				
Total credit valuation adjustment	--	467,379.6	--	0.0	--
Market risk					
Equity in the banking book	3,723,898.5	22,078,951.5	592.9	30,043,118.2	806.8
Trading book market risk	--	42,442,712.1	--	59,546,729.6	--
Total market risk	--	64,521,663.6	--	89,589,847.8	--
Operational risk					
Total operational risk	--	29,737,531.8	--	35,181,644.8	--

Table 4

Nykredit Realkredit A/S--Risk-adjusted capital framework data (cont.)					
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	438,263,274.5	--	642,827,605.5	100.0
Total diversification/concentration adjustments	--	--	--	108,757,645.7	16.9
RWA after diversification	--	438,263,274.5	--	751,585,251.2	116.9
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		89,446,391.2	20.4	85,378,189.9	13.3
Capital ratio after adjustments (5)		89,446,391.2	20.4	85,378,189.9	11.4

*Exposure at default. Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. CCP--Central counterparty. RAC--Risk-adjusted capital. DKK--Danisk krone. Sources: Company data as of Dec. 31, 2022, S&P Global Ratings.

Table 5

Nykredit Realkredit A/S--Risk position						
	--Year-ended Dec. 31--					
(%)	2023 Q3	2022	2021	2020	2019	2018
Growth in customer loans	1.3	(5.3)	2.4	5.2	6.3	4.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	16.9	19.2	17.0	17.7	20.3
Total managed assets/adjusted common equity (x)	18.4	19.6	21.0	21.3	21.4	20.6
New loan loss provisions/average customer loans	(0.0)	0.0	0.0	0.2	0.1	0.0
Net charge-offs/average customer loans	0.0	0.0	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	1.1	1.2	1.5	1.6	1.6	1.6
Loan loss reserves/gross nonperforming assets	54.9	53.0	41.0	41.0	35.6	37.5

N/A--Not applicable. RWA--Risk-weighted assets.

Table 6

Nykredit Realkredit A/S--Funding and liquidity						
	--Year-ended Dec. 31--					
(%)	2023 Q3	2022	2021	2020	2019	2018
Core deposits/funding base	7.26	7.27	5.94	5.69	5.71	6.96
Customer loans (net)/customer deposits	1,299.86	1,284.59	1,572.54	1,614.31	1,584.91	1,366.63
Long-term funding ratio	84.27	83.38	84.81	84.25	81.65	81.48
Stable funding ratio	95.93	95.98	97.75	97.47	95.85	91.50
Short-term wholesale funding/funding base	16.75	17.68	16.08	16.68	19.41	19.68
Broad liquid assets/short-term wholesale funding (x)	0.88	0.86	0.89	0.87	0.83	0.62
Net broad liquid assets/short-term customer deposits	(26.52)	(31.31)	(27.08)	(33.71)	(49.76)	(111.61)
Short-term wholesale funding/total wholesale funding	18.01	19.02	17.05	17.59	20.47	21.01

Nykredit Realkredit A/S--Rating component scores

Issuer credit rating	A+ / Stable / A-1
SACP	a-
Anchor	bbb+
Economic risk	2
Industry risk	4
Business position	Adequate
Capital and earnings	Strong
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+2
ALAC support	+2
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Sector And Industry Variables Published For Banking Industry Country Risk Assessment Update For December 2023, Dec. 20, 2023
- Banking Industry Country Risk Assessment: Denmark, Dec. 7, 2023
- Leading Nordic Banks Enjoy Record Profits Amid Higher Interest Rates, Nov. 1, 2023
- Nordic Banks: Resilient To Economic Weakening, Oct. 18, 2023

- Credit Conditions Europe Q4 2023: Resilience Under Pressure Amid Tighter Financial Conditions, Sept. 26, 2023
- Research Update: Denmark 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Aug. 11, 2023

Ratings Detail (As Of January 31, 2024)*

Nykredit Realkredit A/S

Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Junior Subordinated	BB+
Junior Subordinated	BBB
Senior Secured	AA/Stable
Senior Secured	AAA/Stable
Senior Subordinated	BBB+
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB

Issuer Credit Ratings History

05-Nov-2019	A+/Stable/A-1
13-Jul-2018	A/Positive/A-1
08-Jul-2016	A/Stable/A-1

Sovereign Rating

Denmark	AAA/Stable/A-1+
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Related Entities

Nykredit Bank A/S

Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Certificate Of Deposit	
<i>Local Currency</i>	A-1
Senior Subordinated	BBB+
Senior Unsecured	A+
Subordinated	BBB

Totalkredit A/S

Senior Secured	AAA/Stable
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*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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