

# Nykredit Realkredit A/S

## Key Rating Drivers

**Strong Credit Profile:** Nykredit Realkredit A/S's ratings reflect its low-risk profile, demonstrated 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, very high wholesale funding reliance and ample liquidity.

**Leading Franchise:** Nykredit is a leading Danish mortgage lender with a high and stable market share of 44%. The group provides a full range of services that supplement its core mortgage products, including banking products (7% 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 underwriting 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 2022, the bank's large buffer of allowances – on top of what was already accounted for in its internal model – related to the pandemic and geopolitical risks, would have been sufficient to absorb credit losses of about 15bp of loans.

We expect impaired loans to moderately increase, due to the current economic downturn, but the impaired loans ratio should remain below 2% through 2023 (end-June 2022: 1.4%).

**Healthy Profitability:** The bank's results benefit from healthy and recurring revenue, tight cost control and historically contained LICs. We expect operating profit to weaken to about 2% of risk-weighted assets (RWAs) in 2022 and 2023. This is due to higher LICs and RWAs inflation driven by the overhaul of internal ratings-based models, and also because the exceptionally high trading income of 2021 is unlikely to repeat. The rising interest rates will be broadly neutral for the profitability of mortgage lending, which is not directly linked to market interest rates.

**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 with 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.

## Ratings

### Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1

Viability Rating	a
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Government Support Rating	ns
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### Sovereign Risk

Long-Term Foreign- and Local-Currency IDRs	AAA
Country Ceiling	AAA

### Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDR	Stable

## Applicable Criteria

[Bank Rating Criteria \(September 2022\)](#)

## Related Research

[Global Economic Outlook \(September 2022\)](#)

[Fitch Affirms Denmark at 'AAA'; Outlook Stable \(August 2022\)](#)

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## 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

Nykredit's ratings are constrained in the near term by its limited product range. In the longer term, an upgrade would be contingent on Nykredit broadening its product offering, providing it with significantly more diversified revenue streams.

## Other Debt and Issuer Ratings

Rating level	Rating
Long-and short-term senior preferred debt	A+/F1
Senior non-preferred debt	A
Subordinated debt and Tier 2 contingent capital notes	BBB+
Additional Tier 1 notes	BBB-

Source: Fitch Ratings

Nykredit's long-term senior preferred debt rating is one notch above the bank's Long-Term IDR, and its long-term senior non-preferred debt is equalised with the Long-Term IDR. This reflects the protection that could accrue to senior preferred debt from the bank's resolution debt and equity buffers. At end-June 2022, this buffer was 16% of RWAs. We expect Nykredit's resolution debt buffer to remain comfortably above 10% of RWAs in the long term.

Nykredit is subject to Danish resolution requirements, including minimum requirements for eligible liabilities at Nykredit Bank and (from 2022) a debt buffer consisting of the group's own funds and liabilities eligible for bail-in of at least 8% of the consolidated balance sheet. At end-June 2022, the bank met both requirements with a comfortable and sustainable surplus, in our view.


Nykredit's short-term senior preferred debt is mapped to the respective long-term rating and also reflects our assessment of the bank's funding and liquidity at 'a'.

The Tier 2 subordinated and additional Tier 1 debt issued by Nykredit is notched down from its Viability Rating (VR). We rate the Tier 2 subordinated debt two notches below the VR to reflect poor recovery prospects for this type of debt.

Nykredit's additional Tier 1 securities are rated four notches below the VR to reflect these securities' poor recovery prospects (two notches) and high risk of non-performance (two notches). Our assessment is based on our expectation that Nykredit will continue operating with a CET1 capital ratio comfortably above its maximum distributable amount thresholds.

Nykredit's additional Tier 1 securities' rating is sensitive to changes in the VR. It is also sensitive to our assessment of their incremental non-performance risk relative to the risk captured in the VR.

Ratings Navigator

Nykredit Realkredit A/S							ESG Relevance: 	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%	aaa	aaa	aaa	AAA
							aa+	aa+	aa+	AA+
							aa	aa	aa	AA
							aa-	aa-	aa-	AA-
							a+	a+	a+	A+
							a	a	a	A Sta
							a-	a-	a-	A-
							bbb+	bbb+	bbb+	BBB+
							bbb	bbb	bbb	BBB
							bbb-	bbb-	bbb-	BBB-
							bb+	bb+	bb+	BB+
							bb	bb	bb	BB
							bb-	bb-	bb-	BB-
							b+	b+	b+	B+
							b	b	b	B
							b-	b-	b-	B-
							ccc+	ccc+	ccc+	CCC+
							ccc	ccc	ccc	CCC
							ccc-	ccc-	ccc-	CCC-
							cc	cc	cc	CC
							c	c	c	C
							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

**VR - Adjustments to Key Rating Drivers**

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).

The funding and liquidity score of 'a' is above the implied score of 'b and below' due to the following adjustment reasons: non-deposit funding (positive) and liquidity coverage (positive).

## Company Summary and Key Qualitative Factors

### Operating Environment

Nykredit's operations are concentrated in Denmark, which presents very good opportunities for banks to be consistently profitable. The economic environment and sovereign credit profile are strong and structural weaknesses are very limited, underpinned by strong levels of employment and a healthy sovereign fiscal position. We have materially revised down our 2022 and 2023 GDP growth expectations to 2.6% and 0.5%, respectively, as the European gas crisis, high inflation and a sharp acceleration in the pace of monetary policy tightening take a heavy toll on economic prospects.

Danish banks enter the current economic downturn from a strong position given their swift post-pandemic economic recovery in 2021. The banks' residual risks from the pandemic are low and adequately cushioned by coronavirus-related provisions, which we expect to be gradually used to cushion asset quality deterioration. The banks' robust capital ratios offer large loss-absorption capacity that could withstand a severe stress. Liquidity in the banking sector is ample and we anticipate wholesale funding markets to operate normally.

Danish household debt is high in an international context, due to high house ownership financed by mortgage loans. The high inflation and aggressive rise in long-term interest rates will dampen real spending power, but should be manageable for Danish households, which have accumulated sizeable savings during the pandemic.

We expect a moderate rise in bankruptcies, largely coming from financially weaker SMEs in the sectors worst-hit by the pandemic, as well as from those vulnerable to higher commodity and energy prices, and the interest rate hike cycle. This should also increase appetite for bank credit, which has been dampened during the pandemic by government liquidity support measures and loan schemes.

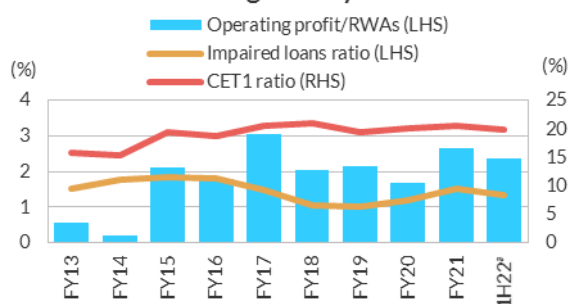
### Business Profile

Nykredit's own franchise is underpinned by fully-owned Totalkredit A/S, the largest provider of residential mortgage loans in Denmark. Totalkredit originates loans through 45 partner banks and offers the lowest administration margins in the market on the most popular types of mortgage loans.

Nykredit's business model is less diversified than that of higher-rated peers, but it has a healthy balance between low risk appetite and stable income. Nykredit's revenue predominantly comprises net interest income sourced from mortgage lending. However, Nykredit is less vulnerable to negative interest rates than commercial banks given the mortgage financing pass-through model. The bank has improved its wealth management offer and is one of the largest asset managers in Denmark. This segment provides moderate revenue diversification (about 15% contribution recently), which we expect to continue. Nykredit is (by law) financed predominantly through covered bonds and is a large international issuer of these bonds.

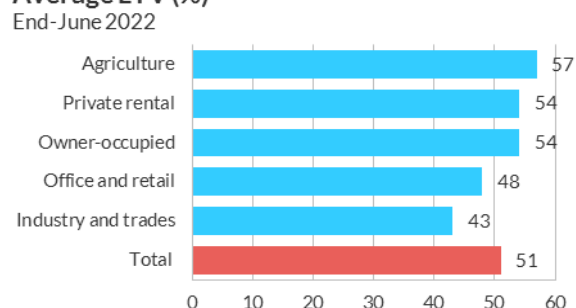
Competitive pricing is Nykredit's competitive advantage. A sizeable portion of the dividend paid to Forenet Kredit (the majority owner holding an almost 80% stake) is channelled back through the bank to borrowers in the form of discounts on their mortgage loan repayments and other products.

### Performance Through the Cycle



\* Annualised  
Source: Fitch Ratings, Nykredit

### Average LTV (%)



Source: Fitch Ratings, Nykredit

### Risk Profile

Personal and business mortgage loans amounted to 60% and 35%, respectively, of total loans at end-June 2022. The remaining about 5% of loans are predominantly diversified non-retail loans from Nykredit Bank. Credit risk outside the loan book is low. Nykredit invests its surplus liquidity in highly rated (mainly 'AAA') and liquid covered bonds issued by domestic mortgage banks.

Nykredit’s strong ability to control credit risk is demonstrated by its low credit losses through the cycle. It observes tight underwriting standards for mortgage loans, underpinned by the conservative Danish covered bond legislation and regulatory constraints set by the Danish FSA. Nykredit applies a loan-to-value (LTV) cap of 80% for most mortgage loans and 60% for riskier lending, such as financing agricultural, office or retail properties. Single name concentration in the mortgage book is moderate. The regulations for mortgage banks cap the sum of the 20 largest exposures at the bank’s CET1 capital level.

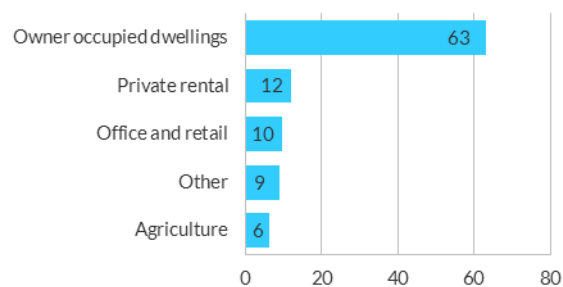
The bank’s management aims to grow and gradually diversify its franchise in Denmark, although Fitch expects this to be achieved without an increase in the bank’s risk appetite. This is because growth is focused on broadening the bank’s product offering with existing clients.

We expect subdued credit expansion in in the coming quarters given the economic slowdown and a small correction in the property market. Nykredit’s loan book growth has been moderate recently, but in 1H22 the loan book, which is predominantly carried at fair value, contracted by 5% due to higher interest rates. This has triggered a significant refinancing by customers, which opted predominantly for variable-rate loans as they are currently cheaper than fixed-rate loans. We do not believe that this trend materially changes the retail lending profile because of prudent LTV ratios, stress testing of repayment capacity at considerably higher rates, and the still relatively long interest-rate fixation periods in variable lending by international standards (generally at least one year).

Nykredit’s market risk exposure is low. The structural interest rate risk in the banking book is insignificant because there is no interest rate mismatch between mortgage loans and covered bonds and both are carried at fair value. Nykredit’s trading activity is small and appropriately hedged. At end-June 2022, Nykredit held a small portfolio of equities, which represented about 9% of CET1 capital.

**Mortgage Lending Split by Sector (%)**

End-June 2022



Source: Fitch Ratings, Nykredit

## Financial Profile

### Asset Quality

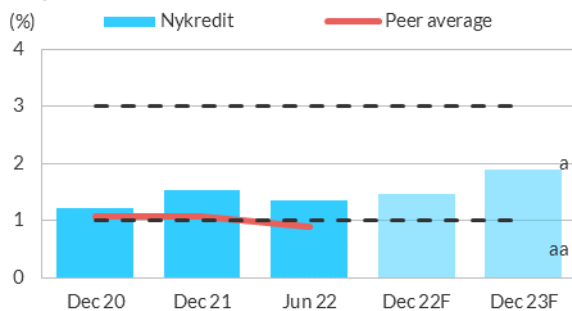
The loan portfolio is well diversified across Denmark and the average ticket size is small, resulting in limited obligor concentration. Potential asset quality pressure in Danish mortgage loans in the event of a material increase in covered bond rates (automatically passed on to retail borrowers) is low because only a small share of loans is refinanced annually (14% share at end-June 2022).

Nykredit is predominantly exposed to the real estate market as mortgage loans comprise 95% of its loan book. We expect a moderate fall in residential property prices from 2H22, which we view as a healthy cool off after a pandemic-driven surge in prices in 2020–2021. Between March 2020 and May 2022 the prices of single-family homes and apartments grew by 23% and 30%, respectively, and we expect prices to remain above pre-pandemic levels.

Defaults will likely increase from late 2022 and will continue in 2023 affecting the vulnerable industries which, however, represented only about 5% of the loan book. We expect property-management companies to perform well. A large share of this segment is concentrated in residential real estate, which should remain resilient to the economic slowdown. The most vulnerable segments remain office and retail space due to heightened risks that the price projections could lower, but most lending is at low LTV ratios.

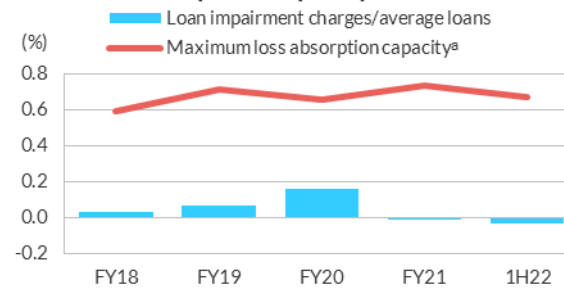
The impaired loans ratio at Nykredit Bank of 2.7% at end-June 2022 was higher than at the mortgage bank (1.3%) due to a higher risk appetite and a lower share of secured lending. We view Nykredit Bank's weaker impaired loans ratio in light of healthy specific coverage by loan loss allowances of 79% at end-June 2022 and a well-diversified loan book. The lower reserve coverage of impaired loans at the mortgage bank (15%) reflects robust collateralisation (underpinned by low LTVs), high granularity and historically low LICs. The Danish legislative framework enforces creditor rights and incentivises mortgage repayment.

### Impaired Loans/Gross Loans



Source: Fitch Ratings, FitchSolutions

### P&L Loss Absorption Capacity



<sup>a</sup> Pre-impairment operating profit/average loans

Source: Fitch Ratings, FitchSolutions

### Earnings and Profitability

The bank's overall profitability is moderate, mainly because of thin margins (partly due to the mutual ownership business model), but it is mitigated by its low-risk business model, healthy and recurring revenue, tight cost control and historically contained credit losses.

The bank's net interest margin has been broadly stable in the low-rate environment of the past five years. Mortgage loans in Denmark are funded by covered bonds, the cost of which is directly passed on to borrowers, while Nykredit charges administrative margins, which have remained stable. Increasing interest rates drove a large amount of re-mortgaging activity in Denmark in 1H22, which has significantly reduced the market value of the bank's loan book (-5% since end-2021). New lending was dominated by variable-rate loans, which normally have higher administrative margins, but the overall positive impact from the changing loan mix is offset by lower LTVs for refinanced loans.

The higher interest rates should increase contribution from the bank's investment portfolio and Nykredit Bank (about 20% contribution to the consolidated net interest income). The NII improvement at Nykredit Bank is slowed down by the withdrawal of negative interest rates for deposits (including retail savings) following the recent rate hikes by the Danish central bank.

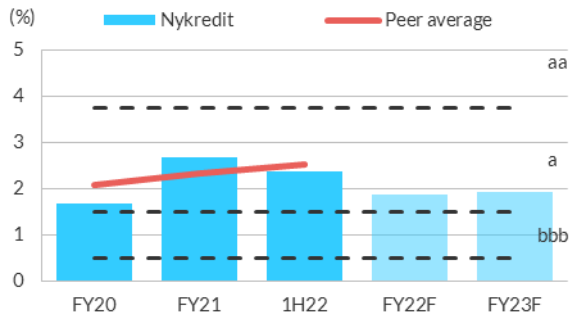
Nykredit strong cost efficiency benefits from economies of scale (monoline business model), automation and synergies with partner banks. We expect Nykredit's cost/income ratio to weaken slightly due to inflationary pressure, but it should remain at about 40% on average.

**Capital and Leverage**

At end-June 2022, the bank's CET1 ratio of 19.8% was comfortably above its capital policy target of 15–16%, or about 650bp above the fully loaded CET1 ratio requirement (including 2.5% countercyclical buffer binding from end-March 2023).

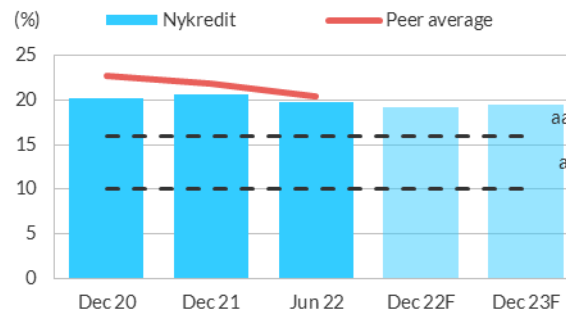
In our assessment we also take into consideration ordinary support from the bank's main owners, which have earmarked about DKK14 billion (Forenet Kredit) and DKK7.5 billion (Danish pension funds) to recapitalise the bank if needed. This amount represented about 5% of RWAs at end-June 2022.

**Operating Profit/Risk-Weighted Assets**



Source: Fitch Ratings, Fitch Solutions

**CET1 Ratio**



Source: Fitch Ratings, Fitch Solutions

**Funding and Liquidity**

Nykredit issues covered bonds (almost 90% of all funding) on an ongoing basis and loan origination is not dependent on available liquidity. The bank's refinancing risk is mitigated by an efficient Danish covered-bond market (including through numerous stress periods), distributed quarterly refinancing auctions and loan pricing promoting loans with less frequent refinancing periods.

The covered bond law transfers the refinancing risk at adjustable-rate bonds (about 25% share) to the investor in the event of a failed auction, but this has not been tested yet. Consequently, it is important for Nykredit to maintain a significant liquidity portfolio to ensure investor confidence. This may be particularly important in the case of foreign investors (about 25% of all covered bond investors).

High balance sheet encumbrance is mitigated by Nykredit's strong loan book quality and sizeable liquidity buffer that comfortably covers unsecured funding. Alongside mortgage bonds, the group has access to diversified funding sources. The Danish regulator requires mortgage banks to keep liquid assets of at least 2.5% of total mortgage lending. At end-June 2022 the ratio had a significant buffer.

**About Fitch Forecasts**

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Realkredit Danmark A/S (VR: a), Landshypotek Bank AB (a), Nationwide Building Society (a), Svenska Handelsbanken AB (aa), Swedbank AB (aa-), Yorkshire Building Society (a-), de Volksbank N.V. (a-).

Financial year end for Nationwide Building Society is 4 April. Latest average uses FY21 data for Nationwide Building Society.



## Financials

### Financial Statements

	30 Jun 22		31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(DKKm)	(DKKm)	(DKKm)	(DKKm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
<b>Summary income statement</b>					
Net interest and dividend income	835	5,982	11,440	11,287	11,207
Net fees and commissions	-16	-117	174	68	-433
Other operating income	282	2,018	5,345	3,467	3,769
Total operating income	1,101	7,883	16,959	14,822	14,543
Operating costs	432	3,091	6,340	5,759	5,346
Pre-impairment operating profit	669	4,792	10,619	9,063	9,197
Loan and other impairment charges	-32	-226	-115	2,272	995
Operating profit	701	5,018	10,734	6,791	8,202
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	564
Tax	134	959	1,864	1,118	1,339
Net income	567	4,059	8,870	5,673	7,427
Other comprehensive income	-2	-17	-18	-27	22
Fitch comprehensive income	564	4,042	8,852	5,646	7,449
<b>Summary balance sheet</b>					
<b>Assets</b>					
Gross loans	194,607	1,393,775	1,466,970	1,432,087	1,361,342
- Of which impaired	2,628	18,825	22,450	17,343	13,683
Loan loss allowances	1,253	8,973	9,270	9,786	7,891
Net loans	193,354	1,384,802	1,457,700	1,422,301	1,353,451
Interbank	987	7,070	3,795	40,953	48,927
Derivatives	1,294	9,270	16,935	22,364	21,500
Other securities and earning assets	18,580	133,067	145,265	153,471	167,968
Total earning assets	214,215	1,534,209	1,623,695	1,639,089	1,591,846
Cash and due from banks	5,614	40,204	40,129	16,146	7,210
Other assets	1,958	14,021	9,649	10,532	11,263
Total assets	221,786	1,588,434	1,673,473	1,665,767	1,610,319
<b>Liabilities</b>					
Customer deposits	13,565	97,154	92,697	88,113	85,375
Interbank and other short-term funding	3,980	28,506	33,126	24,485	29,195
Other long-term funding	188,405	1,349,354	1,433,654	1,429,971	1,381,228
Trading liabilities and derivatives	1,226	8,782	8,781	21,747	17,580
Total funding and derivatives	207,176	1,483,796	1,568,258	1,564,316	1,513,378
Other liabilities	1,609	11,527	11,624	11,677	12,575
Preference shares and hybrid capital	523	3,748	3,729	3,753	3,777
Total equity	12,477	89,363	89,862	86,021	80,589
Total liabilities and equity	221,786	1,588,434	1,673,473	1,665,767	1,610,319
Exchange rate		USD1 = DKK7.162	USD1 = DKK6.5749	USD1 = DKK6.1138	USD1 = DKK6.6759

Source: Fitch Ratings, Fitch Solutions, Nykredit



## Key Ratios

	30 Jun 22	31 Dec 21	31 Dec 20	31 Dec 19
<b>Ratios (annualised as appropriate)</b>				
<b>Profitability</b>				
Operating profit/risk-weighted assets	2.4	2.7	1.7	2.2
Net interest income/average earning assets	0.8	0.7	0.7	0.7
Non-interest expense/gross revenue	39.2	37.4	38.9	36.8
Net income/average equity	9.2	10.1	6.9	9.6
<b>Asset quality</b>				
Impaired loans ratio	1.4	1.5	1.2	1.0
Growth in gross loans	-5.0	2.4	5.2	7.8
Loan loss allowances/impaired loans	47.7	41.3	56.4	57.7
Loan impairment charges/average gross loans	0.0	0.0	0.2	0.1
<b>Capitalisation</b>				
Common equity Tier 1 ratio	19.8	20.6	20.2	19.5
Tangible common equity/tangible assets	5.5	5.2	5.0	4.9
Basel leverage ratio	5.1	4.8	4.8	4.4
Net impaired loans/common equity Tier 1	11.6	15.9	9.3	7.8
<b>Funding and liquidity</b>				
Gross loans/customer deposits	1,434.6	1,582.5	1,625.3	1,594.5
Liquidity coverage ratio	530.0	591.0	771.0	955.0
Customer deposits/total non-equity funding	6.6	5.9	5.7	5.7
Net stable funding ratio	151.0	157.0	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Nykredit

## Support Assessment

### Commercial Banks: Government Support

Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
<b>Government ability to support D-SIBs</b>	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
<b>Government propensity to support D-SIBs</b>	
Resolution legislation	Negative
Support stance	Neutral
<b>Government propensity to support bank</b>	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.

■ Higher influence 
 ■ Moderate influence 
 ■ Lower influence

## Subsidiaries and Affiliates

### Nykredit Bank A/S

Rating level	Rating
Long-Term IDR	A/Stable
Short-Term IDR	F1
Shareholder Support Rating	a
Long- and short-term senior unsecured debt	A+/F1
Long- and short-term deposit ratings	A+/F1

Source: Fitch Ratings

Nykredit Bank's ratings are aligned with Nykredit's. This reflects 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.

Nykredit Bank's Shareholder Support Rating of 'a' reflects a very high probability of external support from Nykredit if needed.

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

Environmental, Social and Governance Considerations

FitchRatings Nykredit Realkredit A/S

Banks  
Ratings Navigator

Credit-Relevant ESG Derivation

			Overall ESG Scale	
Nykredit Realkredit A/S has 5 ESG potential rating drivers				
➔	Nykredit Realkredit A/S has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.			
➔	Governance is minimally relevant to the rating and is not currently a driver.			
key driver	0	issues	5	
driver	0	issues	4	
potential driver	5	issues	3	
not a rating driver	4	issues	2	
	5	issues	1	

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale	
GHG Emissions & Air Quality	1	n.a.	n.a.	5	
Energy Management	1	n.a.	n.a.	4	
Water & Wastewater Management	1	n.a.	n.a.	3	
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2	
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1	

**How to Read This Page**  
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the individual components of the scale. The right hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale	
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5	
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4	
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3	
Employee Wellbeing	1	n.a.	n.a.	2	
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1	

**Classification of ESG issues** has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

**Sector references** in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale	CREDIT-RELEVANT ESG SCALE
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "low er" relative importance within Navigator.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2	Irrelevant to the entity rating but relevant to the sector.
				1	Irrelevant to the entity rating and irrelevant to the sector.

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).

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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