FitchRatings

Banks
Retail & Consumer Banks
Denmark

Nykredit Realkredit A/S

Key Rating Drivers

Low Credit Risk: Nykredit Realkredit A/S's (Nykredit) ratings reflect its conservative risk appetite, demonstrated in healthy and resilient through-the-cycle asset quality and robust capitalisation. They also consider its leading Danish mortgage lending franchise, moderate profitability, wholesale funding and ample liquidity.

Resilient Asset Quality: Nykredit's asset quality is a key rating strength. Although Fitch Ratings expects impaired loans to increase, credit quality in personal mortgage loans (about 60% of all loans) should hold up reasonably well, assuming an only moderate spike in unemployment.

Low Risk Appetite: The bank has limited direct exposure to industries vulnerable to the economic implications of the coronavirus pandemic. Its loan book is geographically concentrated in Denmark and strongly linked to the performance of the Danish economy.

Robust Capitalisation: Nykredit's capitalisation is underpinned by its low-risk business model and limited exposure to high-risk assets. Its regulatory leverage ratio is only adequate but the bank maintains a solid capital surplus over regulatory minimums, giving it a sufficient cushion to absorb losses and inflationary pressure on risk-weighted assets (RWAs) from rating migrations.

Healthy Profitability: Nykredit's operating profit benefits from healthy and recurring revenue, tight cost control and historically contained loan impairment charges (LICs). We expect the bank's ratio of operating profit/RWAs to return to pre-pandemic levels by 2022 as a result of lower LICs and resilient income. In 2020 Nykredit's results benefited from solid loan growth, stronger wealth management income (following the acquisition of Sparinvest) and resilient remortgaging activity, which partly offset the pandemic-driven increase in LICs.

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 the strong demand for these bonds from Danish financial institutions, insurance companies and pension funds. Refinancing risk is mitigated by the bank's limited use of short-term debt and significant liquidity.

Rating Sensitivities

Stable Outlook: In our view the bank's financial profile is likely to remain resilient under various possible downside scenarios to our baseline expectation of steady economic recovery, with limited asset quality deterioration and manageable LICs.

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

Material Capital Erosion: We would downgrade Nykredit's ratings if we expected it was not able to maintain its common equity Tier 1 (CET1) ratio above 14% or restore it to that level within a short period of time. This could be due to significantly higher than-expected LICs driven by a prolonged recession, high unemployment and material property price correction.

Constrained Funding Access: 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. An increased reliance on international debt investors who may prove less stable during financial stress, or increasing risk appetite - particularly at its subsidiary Nykredit Bank A/S - would also put pressure on the ratings.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Support Rating	5
Support Rating Floor	NF

Sovereign Risk	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	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 (February 2020)

Related Research

Global Economic Outlook (June 2021)

Fitch Affirms Nykredit Realkredit A/S at 'A'; Outlook Stable (June 2021)

Fitch Affirms Denmark at 'AAA'; Outlook Stable (February 2021)

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Nykredit Bank A/S

Rating Level	Rating
Long-Term IDR	A/Stable
Short-Term IDR	F1
Support Rating	1
Long- and short-term senior preferred debt	A+/F1

Source: Fitch Ratings

Nykredit Bank A/S is Nykredit's 100%-held universal banking subsidiary. Its Issuer Default Ratings (IDRs) and debt ratings are aligned with Nykredit's. This reflects the subsidiary's core role within the Nykredit group and high reputational risk for the parent in the event of the subsidiary's default. We have not assigned a Viability Rating (VR) to the subsidiary 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 (including various shared services).

Nykredit Bank's long-term senior preferred debt and long-term deposits are rated one notch above its Long-Term IDR because Fitch expects senior preferred creditors to be protected from losses by Nykredit's resolution buffers. Nykredit Bank's short-term senior preferred debt and deposit ratings of 'F1' are mapped from the respective long-term ratings and reflect our assessment of the group's funding and liquidity.

Nykredit Bank's Support rating of '1' reflects the extremely high likelihood of support being made available from its parent if needed.

Debt Rating Classes - Nykredit Realkredit A/S

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

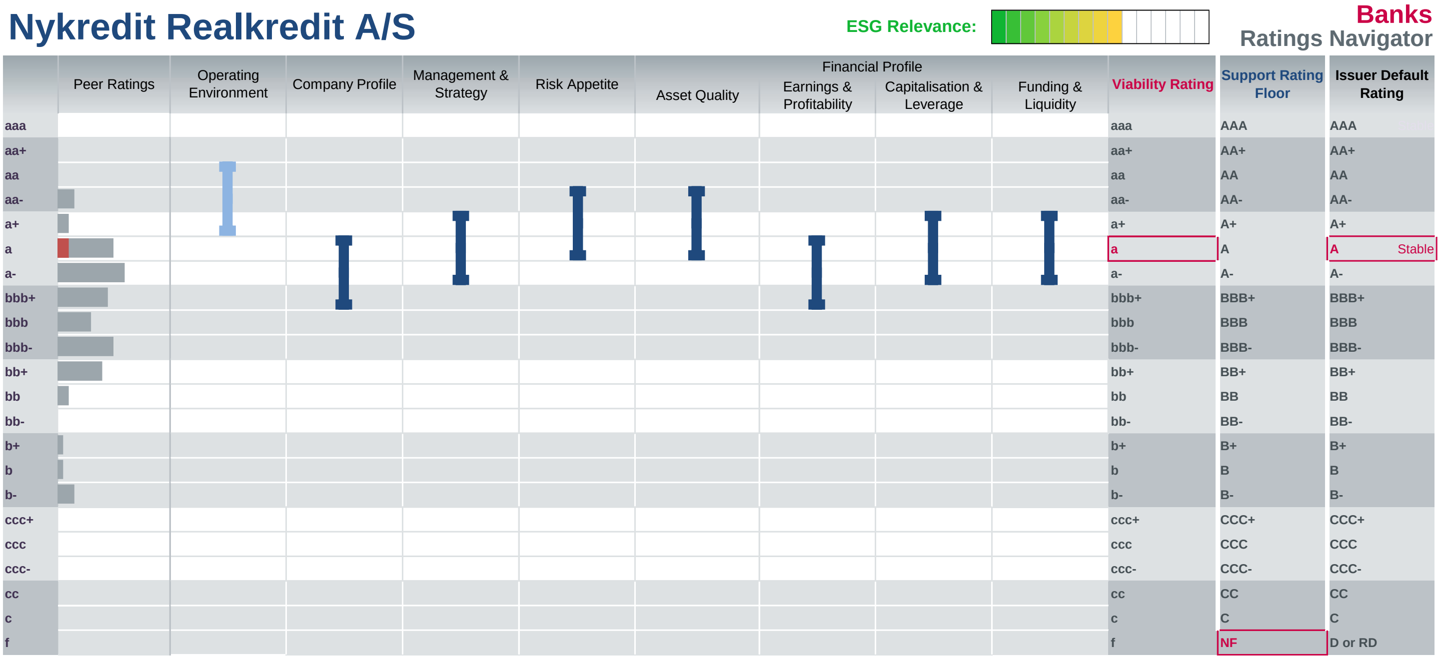
Nykredit's long-term senior preferred debt rating is one notch above the entity's Long-Term IDR because preferred notes have preferential status over the large buffers of qualifying junior debt and senior non-preferred debt. At end-March 2021 this buffer was 14% of RWAs and we expect it to remain comfortably above 10%.

Nykredit is subject to Danish resolution requirements, including a debt buffer equal to at least 2% of mortgage lending for the mortgage institution and minimum requirements for eligible liabilities (MREL) at Nykredit Bank. In addition, from 2022, the group's own funds, liabilities eligible for bail-in and debt buffer should be at least 8% of the consolidated balance sheet.

Subordinated debt and additional Tier 1 debt issued by Nykredit are all notched down from its VR. We rate subordinated debt two notches below Nykredit's VR, in line with the baseline notching under our criteria, reflecting poor recovery prospects for this type of debt.

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

Ratings Navigator



Significant Changes

Recovery in the Operating Environment

We revised the outlook on the Danish operating environment to stable from negative in June 2021. This reflects the better-than-expected (in mid-2020) performance of the economy and the limited deterioration in asset quality and resilient profitability in the banking sector. Denmark's lockdown was less restrictive than in most European countries, though tighter than in other Nordic countries. Denmark's low dependence on tourism, favourable macro fundamentals (which include its highly flexible labour market, less cyclically sensitive export sector, and strong social safety net) help explain the milder recession. The decline in household incomes in 2020 was relatively limited due to extensive income compensation measures for those who have been made redundant, whether temporarily or permanently.

Preliminary indicators in 2021 point to only a moderate decline in activity during the winter lockdown. This, together with a major boost from the fast reopening, has strengthened confidence in a strong economic recovery in 2021. We forecast the Danish economy to expand by 3.1% in 2021 and 3.5% in 2022, with output surpassing pre-pandemic levels already this year.

Resilient Banking Sector

Risks attached to the pandemic remain elevated in the banking sector, but we expect asset quality and profitability to remain broadly resilient. Capital ratios are sound, the banking sector has ample liquidity, and access to wholesale funding has been uninterrupted. The number of bankruptcies has been limited so far. We expect a manageable pick-up in defaults once government support measures are wound down.

Stable Property Market

The activity on the housing market has been strong leading to a rapid increase in prices in late 2020 and 1Q21. In March 2021 the prices for single family homes and flats were about 17% and 13% higher, respectively, year-over-year. The price growth will remain elevated in 2021 but we expect it to start slowing down in 2H21 as households shift towards other expenditures when the economy reopens. A material price correction is unlikely given low housing supply and interest rates levels. The systemic risk council has recently proposed a tightening in underwriting standards for interest-only mortgage loans for highly indebted borrowers. The council also recommended the reactivation of the countercyclical capital buffer at 1% from 30 September 2022, and indicated a potential further increase to 2% (binding from 2023).

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧ Positive	⇩ Negative
⇳ Evolving	▫ Stable

Brief Company Summary

Strong Market Position

Nykredit is a leading Danish mortgage lender. Its market share has been stable (43.7% at end-March 2021), reflecting the bank's well-entrenched market position. The group provides a full range of services that supplement its core mortgage products, including banking products through Nykredit Bank (which has a deposit licence).

Nykredit's own franchise is underpinned by a fully-owned Totalkredit (the largest provider of residential mortgage loans in Denmark). Totalkredit originates loans through 47 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 benefits from 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. Nykredit is (by law) financed predominantly through covered bonds and is internationaly a large 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 almost 80% stake) is channelled back through the bank to borrowers in the form of discounts on their mortgage loan repayments and other products

Well-Executed Strategy

Nykredit's management is strong with a high degree of depth and experience and its strategic goals are well-articulated and consistent. The group has a good record of stable financial metrics and achieving business and financial targets through the cycle. Nykredit wants to defend its leading mortgage bank position in Denmark, and gradually develop a full-service offer for customers, but also expand its partnership with Totalkredit partner banks.

Conservative Risk Appetite

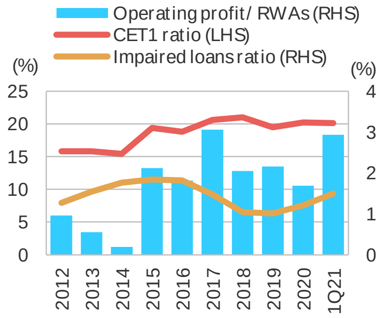
Nykredit's loan book is dominated by personal and business mortgage loans, which amounted to 61% and 34% respectively of total loans at end-March 2021. The remaining 5% of loans are predominantly diversified non-retail loans from Nykredit Bank. Credit risk outside the loan book is low. Nykredit invests its surplus liquidity in highly rated (mainly 'AAA') and liquid covered bonds issued by domestic mortgage banks. Its strong historical ability to control credit risk is demonstrated by its low credit losses through the cycle.

Nykredit observes tight underwriting standards for mortgage loans. These standards are underpinned by the conservative Danish covered bond legislation and regulatory constraints set by the Danish FSA. Nykredit applies a loan/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 equity level.

Nykredit's loan book grew by a moderate 5% in 2020. The 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.

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-March 2021, Nykredit held a moderate portfolio of equities and legacy exposure to interest-rate swaps, which represented almost 9% and about 6% of of CET1 capital, respectively. The latter is a source of volatility in the income statement given the weak credit standing of counterparties (housing cooperatives), but this portfolio is in run-off.

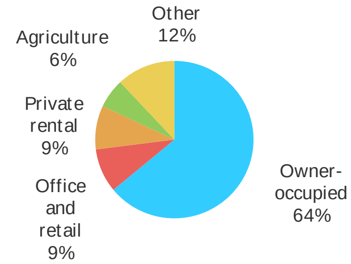
Results Through-The-Cycle



Source: Fitch Ratings

Mortgage Book Split

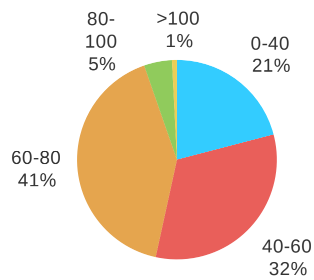
End-March 2021



Source: Fitch Ratings, Nykredit

LTV in Mortage Lending

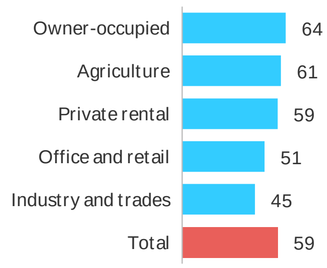
End-March 2021



Source: Fitch Ratings, Nykredit

Average LTV (%)

End-March 2021



Source: Fitch Ratings, Nykredit

Summary Financials and Key Ratios

	31 Mar 21		31 Dec 20	31 Dec 19	31 Dec 18
	3 months - 1st quarter	3 months - 1st quarter	Year end	Year end	Year end
	(USDm)	(DKKm)	(DKKm)	(DKKm)	(DKKm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	458	2,908	11,287	11,207	11,019
Net fees and commissions	9	55	68	-433	-488
Other operating income	236	1,497	3,467	3,769	1,772
Total operating income	703	4,460	14,822	14,543	12,303
Operating costs	228	1,447	5,759	5,346	4,890
Pre-impairment operating profit	475	3,013	9,063	9,197	7,413
Loan and other impairment charges	14	91	2,272	995	380
Operating profit	461	2,922	6,791	8,202	7,033
Other non-operating items (net)	n.a.	n.a.	n.a.	564	0
Tax	84	535	1,118	1,339	1,293
Net income	376	2,387	5,673	7,427	5,740
Other comprehensive income	0	-2	-27	22	-7
Fitch comprehensive income	376	2,385	5,646	7,449	5,733
Summary balance sheet					
Assets					
Gross loans	225,285	1,429,004	1,432,087	1,361,342	1,262,502
- Of which impaired	3,388	21,490	17,343	13,683	13,088
Loan loss allowances	1,508	9,564	9,786	7,891	7,643
Net loans	223,777	1,419,440	1,422,301	1,353,451	1,254,859
Interbank	3,080	19,539	40,953	48,927	19,188
Derivatives	3,074	19,496	22,364	21,500	18,457
Other securities and earning assets	24,527	155,577	153,471	167,968	138,549
Total earning assets	254,458	1,614,052	1,639,089	1,591,846	1,431,053
Cash and due from banks	5,344	33,897	16,146	7,210	8,861
Other assets	2,055	13,036	10,532	11,263	8,062
Total assets	261,857	1,660,985	1,665,767	1,610,319	1,447,976
Liabilities					
Customer deposits	13,485	85,536	88,113	85,375	76,918
Interbank and other short-term funding	2,693	17,079	24,485	29,195	31,937
Other long-term funding	225,838	1,432,510	1,429,971	1,381,228	1,229,830
Trading liabilities and derivatives	3,997	25,351	21,747	17,580	17,323
Total funding	246,012	1,560,476	1,564,316	1,513,378	1,356,008
Other liabilities	1,668	10,580	11,677	12,575	12,085
Preference shares and hybrid capital	597	3,789	3,753	3,777	3,772
Total equity	13,580	86,140	86,021	80,589	76,111
Total liabilities and equity	261,857	1,660,985	1,665,767	1,610,319	1,447,976
Exchange rate		USD1 = DKK6.3431	USD1 = DKK6.1138	USD1 = DKK6.6759	USD1 = DKK6.5194

Source: Fitch Ratings, Fitch Solutions, Nykredit Realkredit A/S

Summary Financials and Key Ratios

	31 Mar 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.9	1.7	2.2	2.1
Net interest income/average earning assets	0.7	0.7	0.7	0.8
Non-interest expense/gross revenue	32.5	38.9	36.8	39.7
Net income/average equity	11.3	6.9	9.6	7.7
Asset quality				
Impaired loans ratio	1.5	1.2	1.0	1.0
Growth in gross loans	-0.2	5.2	7.8	2.8
Loan loss allowances/impaired loans	44.5	56.4	57.7	58.4
Loan impairment charges/average gross loans	0.0	0.2	0.1	0.0
Capitalisation				
Common equity Tier 1 ratio	20.1	20.2	19.5	21.0
Tangible common equity/tangible assets	5.1	5.0	4.9	5.2
Basel leverage ratio	4.8	4.8	4.4	4.8
Net impaired loans/common equity Tier 1	14.7	9.3	7.8	7.5
Funding and liquidity				
Loans/customer deposits	1,670.7	1,625.3	1,594.5	1,641.4
Liquidity coverage ratio	883.0	771.0	955.0	752.0
Customer deposits/funding	5.5	5.7	5.7	5.7

Source: Fitch Ratings, Fitch Solutions, Nykredit Realkredit A/S

Key Financial Metrics – Latest Developments

Resilient Asset Quality

Asset quality in the mortgage and commercial bank is robust underpinned by low arrears and defaults, prudent collateralisation and underwriting standards and no excessive growth. The portfolio is well diversified across Denmark and 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 (10% at end-March 2021).

Defaults will likely increase when government support ends and bankruptcies in the vulnerable industries start to materialise. However, we expect the impaired loans ratio to remain below 2%. The ratio at Nykredit Bank (2.4% at end-March 2021) is higher than at the mortgage bank (1.4%), due to Nykredit Bank's higher risk appetite and lower share of secured lending.

Nykredit Bank's weaker asset quality is mitigated by its adequate specific coverage of Stage 3 loans by loan loss allowances (62.5% at end-March 2021) and well diversified loan book. The lower reserve coverage of impaired loans at the mortgage bank (14.4%) reflects robust collateralisation (underpinned by low LTVs), high granularity and historically low LICs. Danish legislative framework enforces creditor rights and incentivises mortgage repayment.

We do not expect material LICs in 2021. Nykredit's sizeable DKK2 billion management overlay (recognised in 2020) could cushion LICs amounting to about 15bp of loans.

Moderate But Stable Profitability

The bank's overall profitability is moderate, mainly due to thin margins, but it should be seen in light of its low-risk business model, healthy and recurring revenue, tight cost control and historically contained credit losses. In 2021 the bank expects 20%-30% higher pre-tax profit, which is realistic due to steady growth in lending and savings business and likely lower LICs.

The profitability of mortgage lending does not suffer from deposit margin pressure (loans financed by covered bonds), while at the commercial bank Nykredit charges negative interest rates for retail deposits (in line with the market). Cost efficiency has been solid with expenses representing less than 40% of income and about 35bp of total assets.

Solid Capitalisation and Leverage

At end-March 2021, the bank's CET1 ratio of 20.1% was about 400bp above its capital policy target, or about 950bp above the capital requirement. In our assessment we take into consideration sizeable capital reserves available from the bank's shareholders. Forenet Kredit, together with a number of Danish pension funds, have earmarked about DKK16.6 billion (about 4% of RWAs at end-March 2021) to recapitalise the bank if needed.

Nykredit estimates that Basel IV implementation will decrease its CET1 ratio to about 16.5%, compared with the bank's Basel IV CET1 ratio target of 14.5%-15.5%. We expect the bank will restore its internal capital generation (a normalised rate of at least 1.5% of RWAs) before the beginning of the Basel IV RWAs phase-in.

Stable Funding, Low Refinancing Risk

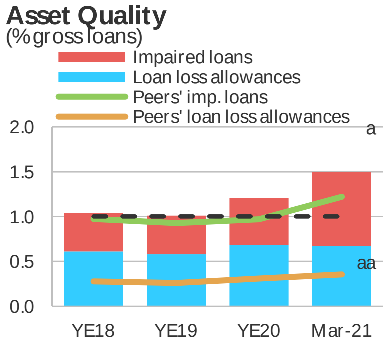
Nykredit issues covered bonds (about 90% of all funding) on an ongoing basis and loan origination is not dependent on available liquidity. Nykredit has successfully reduced the annual refinancing volumes to about DKK 172 billion (13% of outstanding covered bonds at end-March 2021). The bank's refinancing risk is mitigated by an efficiently functioning Danish bond market (including 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 to the investor (in the event of a failed auction), but this has not been tested yet. Consequently, it is important for to maintain a significant liquidity portfolio to assure investor confidence. This may be particularly important in the case of foreign investors (about 25% of all covered bond investors).

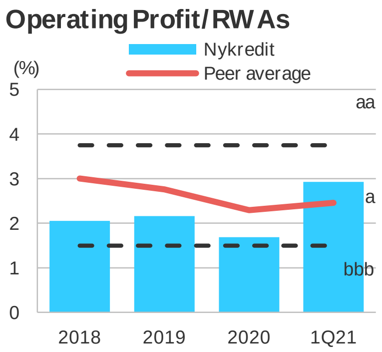
High balance sheet encumbrance is mitigated by its strong loan book quality and sizeable liquidity buffer that comfortably covers unsecured funding. Alongside mortgage bonds, the group has access to diversified funding sources.

Black dashed lines in the charts represent indicative quantitative ranges and corresponding implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category.

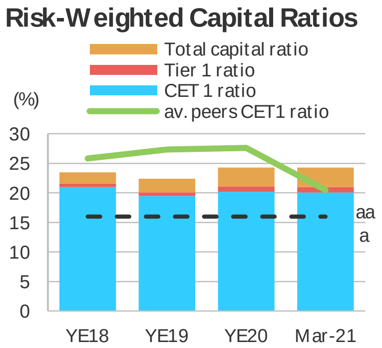
Peer average includes Nykredit Realkredit A/S (VR: 'a'), Realkredit Danmark A/S (a), Landshypotek Bank AB (a), Leeds Building Society (a-) and Skipton Building Society (a-). Leeds Building Society and Skipton Building Society were excluded from the latest average calculation due to data unavailability.



Source: Fitch Ratings, banks



Source: Fitch Ratings, banks



Source: Fitch Ratings, banks

Sovereign / Institutional Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A+ to A-
Actual country D-SIB SRF			NF
Support Rating Floor:			**NF**
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)			✓
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

Nykredit's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors cannot rely on receiving extraordinary support from the Danish sovereign in the event that the bank becomes non-viable. The EU's Bank Recovery and Resolution Directive provides a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of, or ahead of, a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings **Nykredit Realkredit A/S** Banks Ratings Navigator

Credit-Relevant ESG Derivation

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.

			Overall ESG Scale
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	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

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	Company Profile; Management & Strategy; Risk Appetite	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; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	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	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				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.

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.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

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.
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.
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 "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, 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 Nykredit, either due to their nature or the way in which they are being managed by the bank. For more information on Fitch's ESG Relevance Scores, visit 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.