

# 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 well, assuming an only moderate increase in unemployment. Fitch expects its impaired loans ratio to remain below 2% (end-March 2022: 1.5%).

**Low Risk Appetite:** The bank's low risk appetite and business model reflects prudent underwriting standards, robust risk controls, reasonable loan growth and low market risk exposure. Credit risk exposure is dominated by mortgage lending, the tight underwriting of which is 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.

**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. This gives it a sufficient cushion to absorb losses and inflationary pressure on risk-weighted assets (RWAs) from rating migrations. Nykredit's leverage ratio of about 5% is acceptable and comparable with that of similarly rated banks.

**Healthy Profitability:** The bank's operating profit benefits from healthy and recurring revenue, tight cost control and historically contained loan impairment charges (LICs). The operating profit/RWAs should remain above 2% despite pressure from weaker asset management fees, modestly higher LICs and RWAs inflation due to the IRB models overhaul.

**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

**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:** Fitch believes the bank's financial profile is likely to remain resilient under the current economic slowdown, with limited asset quality deterioration and manageable LICs. 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

<b>Foreign Currency</b>	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Support Rating	5
Support Rating Floor	NF
<b>Sovereign Risk</b>	
Long-Term Foreign- and Local-Currency IDR	AAA
Country Ceiling	AAA
<b>Outlooks</b>	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDR	Stable

## Applicable Criteria

[Bank Rating Criteria \(November 2021\)](#)

## Related Research

[Global Economic Outlook \(June 2022\)](#)  
[Fitch Affirms Denmark at 'AAA'; Outlook Stable \(February 2022\)](#)  
[Nordic Banks' Credit Profiles Resilient \(January 2022\)](#)

## Analysts

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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. This is 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 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 2022 this buffer was 16% of RWAs and we expect it to remain comfortably above 10%.

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

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 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

### Nykredit Realkredit A/S

ESG Relevance: 

Banks  
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Financial Profile Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A Stable
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	NF	D or RD

## Significant Changes

### Resilient Danish 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 healthy sovereign fiscal position. For 2022, we expect real GDP growth of 2.4%, compared with 3.1% expectation at the beginning of the year, which is in line with Denmark's pre-pandemic five-year average growth rate. The economy will decelerate after a recent post-pandemic cyclical upswing, driven by high levels of domestic and foreign demand, expansionary fiscal and financial conditions and a pronounced recovery in the labour market.

Danish household indebtedness is high in an international context, due to high house ownership financed by mortgage loans. The high inflation, the rise in long-term interest rates and the projected monetary tightening will dampen real spending power, but should be manageable for Nordic 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 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. Banks in Denmark have sufficient liquidity to meet higher corporate loan demand.

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 should be seen 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 the pre-pandemic levels.

We expect the 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 downside risks to the price projections, but most lending is at low loan/value (LTV) ratios. Refinancing risk at commercial real estate companies is manageable, despite a significant widening of funding spreads. Nordic banks are able to temporarily replace short-term borrowing needs.

## Brief Company Summary

### Strong Market Position

Nykredit is a leading Danish mortgage lender with high and stable market share of about 44%, 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 (about 7% market share in lending) through Nykredit Bank, which has a deposit licence.

Nykredit's own franchise is underpinned by fully-owned Totalkredit (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 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 internationally 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 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

### Well-Executed Strategy

Nykredit 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 expand its partnership with Totalkredit partner banks.

### Conservative Risk Appetite

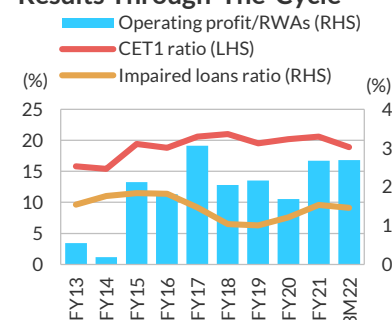
Nykredit's loan book is dominated by personal and business mortgage loans, which amounted to 60% and 34% respectively of total loans at end-March 2022. The remaining about 5% of loans are predominantly diversified non-retail loans from Nykredit Bank. Credit risk outside the loan book is low. Nykredit invests its surplus liquidity in highly rated (mainly 'AAA') and liquid covered bonds issued by domestic mortgage banks. Its strong 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 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. Nykredit's loan book grew by a moderate 2.4% in 2021 and we do not expect faster credit expansion in 2022 given expensive mortgage loans and a small correction in the property market.

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 2022, Nykredit held a small portfolio of equities and legacy exposure to interest-rate swaps, which represented 9% and 5% 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.

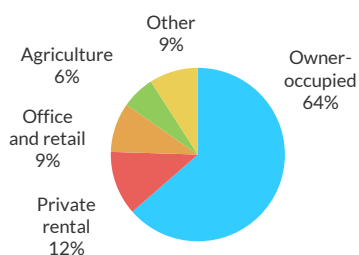
### Results Through-The-Cycle



Source: Fitch Ratings

### Mortgage Book Split

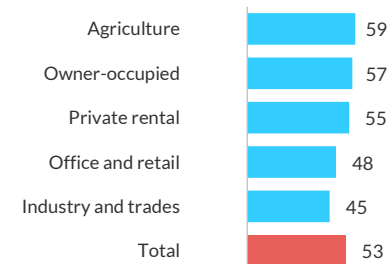
End-March 2022



Source: Fitch Ratings, Nykredit

### Average LTV (%)

End-March 2022



Source: Fitch Ratings, Nykredit

## Summary Financials and Key Ratios

	31 Mar 22		31 Dec 21	31 Dec 20	31 Dec 19
	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
<b>Summary income statement</b>					
Net interest and dividend income	442	2,960	11,440	11,287	11,207
Net fees and commissions	4	29	174	68	-433
Other operating income	194	1,300	5,345	3,467	3,769
Total operating income	640	4,289	16,959	14,822	14,543
Operating costs	231	1,547	6,340	5,759	5,346
Pre-impairment operating profit	409	2,742	10,619	9,063	9,197
Loan and other impairment charges	-24	-162	-115	2,272	995
Operating profit	433	2,904	10,734	6,791	8,202
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	564
Tax	74	497	1,864	1,118	1,339
Net income	359	2,407	8,870	5,673	7,427
Other comprehensive income	-2	-13	-18	-27	22
Fitch comprehensive income	357	2,394	8,852	5,646	7,449
<b>Summary balance sheet</b>					
<b>Assets</b>					
Gross loans	213,953	1,433,529	1,466,970	1,432,087	1,361,342
- Of which impaired	3,114	20,862	22,450	17,343	13,683
Loan loss allowances	1,357	9,092	9,270	9,786	7,891
Net loans	212,596	1,424,437	1,457,700	1,422,301	1,353,451
Interbank	1,077	7,218	3,795	40,953	48,927
Derivatives	2,023	13,557	16,935	22,364	21,500
Other securities and earning assets	21,212	142,122	145,265	153,471	167,968
Total earning assets	236,908	1,587,334	1,623,695	1,639,089	1,591,846
Cash and due from banks	5,660	37,926	40,129	16,146	7,210
Other assets	1,761	11,798	9,649	10,532	11,263
Total assets	244,330	1,637,058	1,673,473	1,665,767	1,610,319
<b>Liabilities</b>					
Customer deposits	13,147	88,085	92,697	88,113	85,375
Interbank and other short-term funding	4,412	29,560	33,126	24,485	29,195
Other long-term funding	208,219	1,395,110	1,433,654	1,429,971	1,381,228
Trading liabilities and derivatives	3,262	21,855	8,781	21,747	17,580
Total funding and derivatives	229,039	1,534,610	1,568,258	1,564,316	1,513,378
Other liabilities	1,616	10,825	11,624	11,677	12,575
Preference shares and hybrid capital	565	3,785	3,729	3,753	3,777
Total equity	13,110	87,838	89,862	86,021	80,589
Total liabilities and equity	244,330	1,637,058	1,673,473	1,665,767	1,610,319
Exchange rate	USD 1 = DKK6.7002    USD 1 = DKK6.5749    USD 1 = DKK6.1138    USD 1 = DKK6.6759				

Source: Fitch Ratings, Fitch Solutions, Nykredit

## Summary Financials and Key Ratios

	31 Mar 22	31 Dec 21	31 Dec 20	31 Dec 19
<b>Ratios (annualised as appropriate)</b>				
<b>Profitability</b>				
Operating profit/risk-weighted assets	2.7	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	36.1	37.4	38.9	36.8
Net income/average equity	11.0	10.1	6.9	9.6
<b>Asset quality</b>				
Impaired loans ratio	1.5	1.5	1.2	1.0
Growth in gross loans	-2.3	2.4	5.2	7.8
Loan loss allowances/impaired loans	43.6	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	18.9	20.6	20.2	19.5
Tangible common equity/tangible assets	5.2	5.2	5.0	4.9
Basel leverage ratio	4.9	4.8	4.8	4.4
Net impaired loans/common equity Tier 1	14.2	15.9	9.3	7.8
<b>Funding and liquidity</b>				
Gross loans/customer deposits	1,627.4	1,582.5	1,625.3	1,594.5
Liquidity coverage ratio	722.0	591.0	771.0	955.0
Customer deposits/total non-equity funding	5.8	5.9	5.7	5.7
Net stable funding ratio	156.0	157.0	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Nykredit

## 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 (about 10% at end-March 2022).

Defaults will likely increase later in 2H22 and will continue in 2023 affecting the vulnerable industries which, however, represented only about 5% of the loan book. At end-March 2022 the bank's large management overlay related to the pandemic and the war in Ukraine would have been sufficient to cushion credit losses of about 15bp of loans.

The impaired loans ratio at Nykredit Bank of 1.8% was modestly higher than at the mortgage bank (1.4%) due to a higher risk appetite and a lower share of secured lending. Nykredit Bank's weaker impaired loans ratio should be seen in light of healthy specific coverage by loan loss allowances of 68% at end-March 2022 and a 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. The Danish legislative framework enforces creditor rights and incentivises mortgage repayment.

### 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.

The interest rate hike cycle will be broadly neutral for the profitability of mortgage lending because it is largely not directly linked to market interest rates. This is visible in the bank's stable net interest margin in the low-rate environment in the last 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.

Nykredit superior cost efficiency benefits from economies of scale (monoline business model), automation and synergies with partner banks. In the last four years the bank's expenses accounted for about 36% of income and about 35bp of total assets on average.

### Solid Capitalisation and Leverage

At end-March 2022, the bank's CET1 ratio of 18.9% was comfortably above its capital policy target of 15-16%, or about 560bp above the fully loaded CET1 ratio requirement (including 2.5% countercyclical buffer). In our assessment we also take into consideration ordinary support from the bank's main owners, which have earmarked DKK10 billion (Forenet Kredit) and DKK7.5 billion (Danish pension funds) to recapitalise the bank if needed. This amount represented a solid 4% of RWAs at end-March 2022.

### Stable Funding, Low Refinancing Risk

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 efficiently functioning Danish covered 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 Nykredit 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 a sizeable liquidity buffer that comfortably covers unsecured funding. Alongside mortgage bonds, the group has access to diversified funding sources.

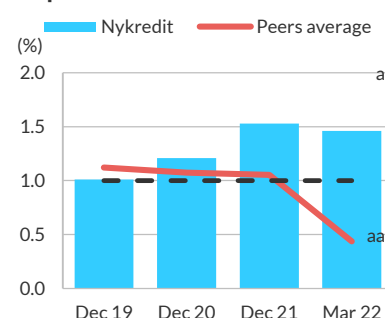
#### Note on Charts

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

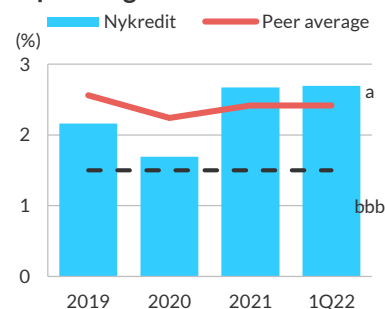
The financial year end of Nationwide Building Society is 4 April. The latest average does not include Realkredit Danmark A/S, Nationwide Building Society, Yorkshire Building Society, de Volksbank N.V.

### Impaired Loans/Gross Loans



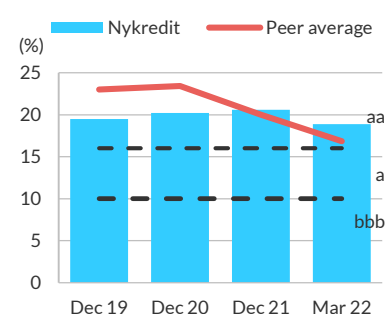
Source: Fitch Ratings, banks

### Operating Profit/RWAs



Source: Fitch Ratings, banks

### CET1/RWAs



Source: Fitch Ratings, banks



## Government Shareholder Support

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			
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		✓	

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

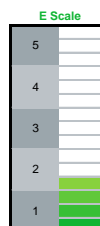
Nykredit Realkredit A/S has 5 ESG potential rating drivers

- 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
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
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



## 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.

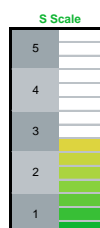
The **Credit-Relevant ESG Derivation** table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the 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.

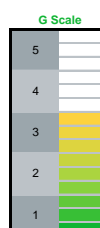
## Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
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
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
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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



## Governance (G)

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



## 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](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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