04 OCT 2022

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

Fitch Ratings - Warsaw - 04 Oct 2022: Fitch Ratings has affirmed Nykredit Realkredit A/S's (Nykredit) and its subsidiary Nykredit Bank A/S's Long-Term Issuer Default Ratings (IDRs) at 'A' with Stable Outlooks. Fitch has also affirmed Nykredit's Viability Rating (VR) at 'a'. A full list of rating actions is below.

Fitch has withdrawn the Support Ratings of Nykredit and Nykredit Bank of '5' and '1', respectively, and the Support Rating Floor of Nykredit of 'No Floor' as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria in November 2021. In line with the updated criteria, Fitch has assigned Nykredit and Nykredit Bank a Government Support Rating (GSR) and a Shareholder Support Rating (SSR) of 'no support' (ns) and 'a', respectively.

Key Rating Drivers

Strong Credit Profile: Nykredit'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.

Nykredit's Short-Term IDR of 'F1' is the lower of two options mapping to a Long-Term IDR of 'A'. This reflects our assessment of the bank's funding and liquidity factor at 'a', compared with the minimum level of 'aa-' for a Short-Term IDR of 'F1+'.

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, 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 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 operating profit benefits 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 IRB models, and also because the exceptionally high trading income the bank saw in 2021 is unlikely to repeat. The current trend of 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.

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: KEY RATING DRIVERS

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 (MREL) 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 surplus that is sustainable, 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 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.

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

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Nykredit's long-term senior preferred and non-preferred debt ratings are sensitive to changes in the bank's IDRs. They are also sensitive to the bank maintaining a buffer of subordinated and senior non-preferred debt of at least 10% of RWAs, or could be downgraded otherwise.

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.

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

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

Nykredit Bank's 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.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

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

VR ADJUSTMENTS

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

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

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).

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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

Public Ratings with Credit Linkage to other ratings

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

ESG Considerations

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

Fitch Ratings Analysts

Michal Bryks
Director
Primary Rating Analyst
+48 22 103 3024
Fitch Ratings Ireland Limited spolka z ograniczona odpowiedzialnoscia oddzial w Polsce Krolewska 16, 00-103 Warsaw

Christian Scarafia
Managing Director
Secondary Rating Analyst
+44 20 3530 1012

Patrick Rioual
Senior Director
Committee Chairperson
+33 1 44 29 91 21

Media Contacts

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Nykredit Realkredit A/S	LT IDR	A	Affirmed		A
	ST IDR	F1	Affirmed		F1

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Viability	a	Affirmed		a
	Support	WD	Withdrawn		5
	Support Floor	WD	Withdrawn		NF
	Government Support	ns	New Rating		
• Senior non-preferred	LT	A	Affirmed		A
• Senior preferred	LT	A+	Affirmed		A+
• subordinated	LT	BBB+	Affirmed		BBB+
• subordinated	LT	BBB-	Affirmed		BBB-
• Senior preferred	ST	F1	Affirmed		F1
Nykredit Bank A/S	LT IDR	A	Affirmed		A
	ST IDR	F1	Affirmed		F1
	Support	WD	Withdrawn		1

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Shareholder Support	a	New Rating		
• senior unsecured	LT	A+	Affirmed		A+
• long-term deposits	LT	A+	Affirmed		A+
• senior unsecured	ST	F1	Affirmed		F1
• short-term deposits	ST	F1	Affirmed		F1

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⊙	◆
STABLE	⊚	

Applicable Criteria

Bank Rating Criteria (pub.07 Sep 2022) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Nykredit Bank A/S	EU Issued, UK Endorsed
Nykredit Realkredit A/S	EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that

Endorsement policy

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.