S&P Global
Ratings

Research

Nykredit Realkredit A/S

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2473173

Nykredit Realkredit A/S

SACP	a-

\+

Support	+2

\+

Additional Factors	0

Anchor	bbb+	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	+2
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
A+/Stable/A-1

Resolution Counterparty Rating
AA-/--/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Leading mortgage bank in Denmark. • Highly collateralized nature of the loan book. • Improved core earnings and profitability in 2019, despite the low interest rate environment.	• Concentration in Danish mortgage market. • High reliance on wholesale funding for mortgage loans, but improved maturity profile.

Outlook: Stable

The stable outlook reflects our expectation that Nykredit Realkredit and its subsidiary Nykredit Bank will remain resilient to the current recession, supported by the bank's stable funding and liquidity, strong capitalization and earnings capacity, and substantial additional loss-absorbing capacity (ALAC) buffer, which we expect to remain stable over the next two years.

The impairment charge increased significantly in first-quarter 2020 and caused Nykredit to report a loss for the quarter. We think it has significantly frontloaded provisions and will be solidly profitable for the full year, with a cost of risk around 21bp.

Downside scenario

We could lower the long-term rating if Nykredit Realkredit's asset quality and earnings come under greater pressure than we currently expect. This could materialize if increased credit losses combined with lower earnings retention resulted in a material decrease in the bank's risk-adjusted capitalization below 10% or ALAC buffer below the 8% mark, reducing the protection these buffers provide to senior unsecured creditors.

Upside scenario

We consider an upgrade a remote possibility at this point.

Rationale

The 'A+' long-term rating on Nykredit Realkredit reflects our assessment of the Danish banking industry. It also reflects our view that the bank will maintain its dominant role in the Danish mortgage market and maintain efficient operations, supporting its already strong capital buffers.

We expect the COVID-19-induced recession to put pressure on the group's earnings and asset quality in 2020. That said, the group has strengthened its financial flexibility and loss-absorbing capacity by releasing the initially proposed dividend for 2019. In addition, the stability in Nykredit Realkredit's low-risk mortgage book and access to the well-functioning Danish covered bond market, which has shown resilience in previous crises and during the turbulence observed in March 2020, further supports the current rating level. Furthermore, we expect the group to maintain its ALAC reserves likely to durably remain above 8% of S&P Global Ratings' risk-weighted assets (RWAs) over the next two years, further protecting senior creditors.

We equalize our ratings on Nykredit Bank A/S with those on its parent. This is based on our assessment of Nykredit Bank as a core subsidiary of the Nykredit group, as defined under our group rating methodology.

Anchor:'bbb+' for banks operating only in Denmark

Our anchor for a commercial bank operating only in Denmark is 'bbb+', based on an economic risk score of '2' and an industry risk score of '4'. Despite the COVID-19-induced recession, we maintain stable economic and industry risk trends for the Danish banking system (see "COVID-19: Resilient Fundamentals And Assertive Policy Measures Will Buoy Nordic Banking Systems," published on June 16, 2020).

Our assessment of low economic risks for Denmark balances the anticipated recession and profitability pressures for banking in the wake of the COVID-19 pandemic and elevated private-sector debt (vis-à-vis international peers) with our view that Danish banks operate in a resilient and competitive economy, with demonstrated monetary and fiscal flexibility, and a historical focus on prudent management of public finances. We currently forecast Denmark's GDP to contract by 5.4% in 2020 before bouncing back to 4.8% growth in 2021.

We expect the structure of the Danish economy to lead to greater resilience amid the COVID-19 pandemic than that of other Nordic countries. We view this, along with the robustness of the Danish welfare system and the government's policy response to the COVID-19 pandemic, as a key mitigating factor against potential pressure that the situation creates for banks' asset quality. Overall, we expect bank provisioning needs to peak in 2020 at 35 basis points of total sector loans, mostly driven by nonmortgage credit exposures toward small and midsize enterprises, a level which rated systemic Danish banks can accommodate within their capital buffers. We expect the retail mortgage sector, which represents two thirds of total lending, will continue to perform fairly well, supported by overall sound supply and demand fundamentals in the housing market. That said, we expect a modest house price correction in real terms as a result of the pandemic this year, followed by a return to slow appreciation.

Our industry risk assessment incorporates our expectation that higher credit losses and revenue attrition linked to COVID-19 will further hamper the sector's profitability. The frontloading of bail-inable debt issuances, negative interest rates, significant investments in compliance, and competitive pressure in corporate lending constrain Danish banks' profitability. We now expect Danish banks' return on equity (ROE) to fall to 4% in 2020, close to the average of Denmark's peer countries, but below the remaining Nordic countries.

We consider the banking sector's higher reliance than peers on functioning wholesale markets in our assessment. However, the Danish covered bond market demonstrates a continued stable and strong track record, even during the most recent market turbulence. We consider the regulatory environment in Denmark to be in line with that of other EU countries overall. This balances a generally robust track record of macroprudential policies and conservative bank supervision with the national anti-money laundering (AML) governance shortcomings highlighted in Danske Bank's Estonia case. We note, however, the progress made by local banks and regulators in strengthening the country's overall AML framework, and expect this focus to continue considering significant public attention and overall political consensus.

Table 1

Nykredit Realkredit A/S--Key Figures

	--Fiscal year ended Dec. 31--				
(mil. DKK)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	1,589,188	1,608,155	1,447,710	1,426,583	1,400,362
Customer loans (gross)	1,365,150	1,361,342	1,281,215	1,228,294	1,188,757
Adjusted common equity	74,341.0	75,332.0	70,374.2	66,975.5	63,481.3
Operating revenues	1,473.0	15,107.0	12,303.0	15,528.0	12,284.0
Noninterest expenses	1,416.0	5,239.0	4,804.0	4,838.0	5,185.0
Core earnings	(879.0)	7,530.0	5,821.0	8,220.0	5,117.8

*Data as of March 31. DKK--Danish krone.

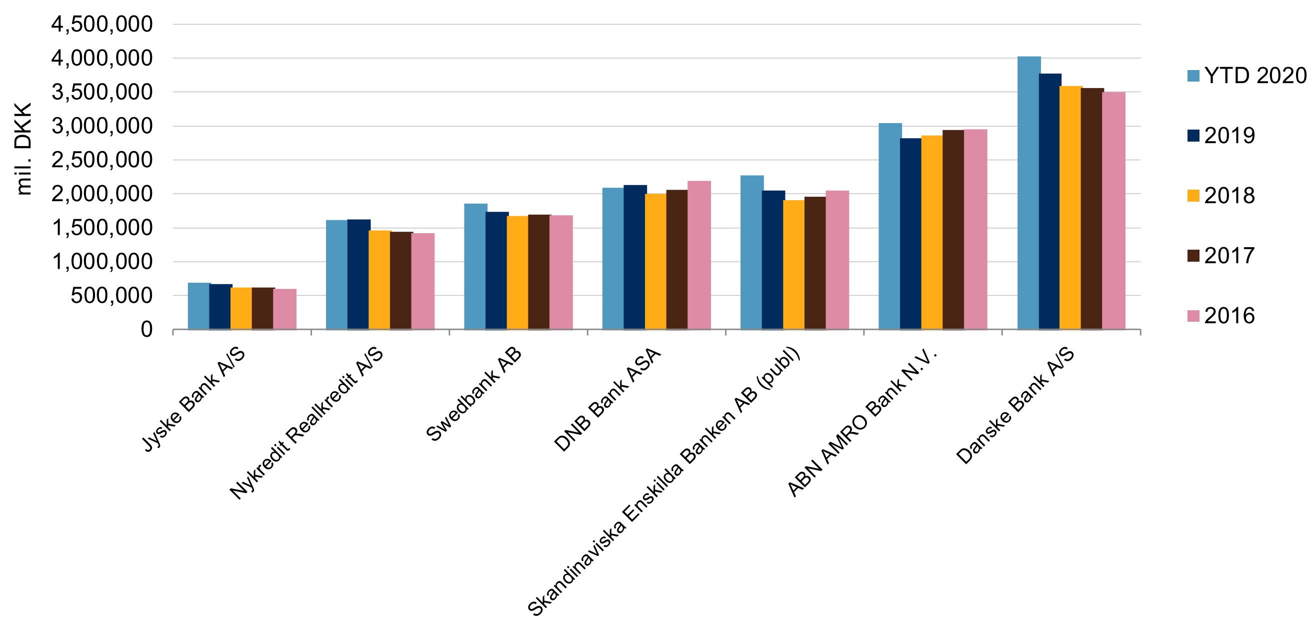
Business position: Denmark's premier mortgage provider, with stable returns

Our assessment of Nykredit Realkredit's business position reflects our expectation that the group will maintain its dominant position in the Danish mortgage market, with resilient earnings despite the economic consequences of the COVID-19 pandemic. Our expectation of continued limited business diversification partly offsets this stability, however. The group's primary focus is mortgage lending in Denmark, while commercial banking services--where Nykredit Bank has a market share of roughly 6%--are fairly limited. That said, the group is strengthening wealth management as a strategic priority, which we expect to somewhat improve its revenue diversification through 2022.

Nykredit Realkredit is Denmark's premier provider of mortgage financing and largest lender by domestic volume. It reported total assets of Danish krone (DKK) 1.61 trillion (€214 billion) as of year-end 2019. The bank's share of the domestic lending market varies by segment, but in terms of mortgage lending, its main segment, it has a market share of about 44%. Furthermore, it is the country's second-largest financial services group and, through its subsidiary Totalkredit's cooperation with domestic banks, we expect Nykredit Realkredit will remain the market leader in Danish mortgages.

Chart 1

Nykredit Realkredit Asset Size Compared With Peers



DKK--Danish krone. YTD--Year to date. Source: S&P Global Ratings.

Strategically, we believe Nykredit Realkredit aims to maintain its dominant position in mortgages while improving its market share in other products such as banking and asset management. It will achieve this, for instance, by providing its private individual retail clients with a full-service offering via its subsidiary Nykredit Bank (fifth-largest commercial bank in Denmark), thus competing more directly with other larger banking groups such as Nordea, Danske Bank, and Jyske Bank. In addition, the group has strengthened its presence in the wealth management area. Nykredit Realkredit acquired Sparinvest in 2019 and now has more than DKK300 billion (€40 billion) in assets under management, ranking among the three largest asset managers in Denmark.

Nykredit Realkredit benefits from Totalkredit's partnership with domestic banks, allowing it to size close to 100% of new mortgage lending at first-quarter 2020. The cooperation also enables a cost efficient business model with low distribution costs, which is reflected in the group's low cost-to-income ratio. Furthermore, we expect the increasing IT collaboration within the Totalkredit partnership to tighten the bonds between members and strengthen the group's position in the mortgage market over the next two years.

In our view, both Nykredit Realkredit's prominent role in the Danish mortgage market and its mutual ownership model have historically contributed to lower margins for all Danish mortgage banks than for similar international mortgage lenders. However, in recent years, Nykredit Realkredit has focused on improving capital generation and increased its profitability both through an intensified cost focus and increases in the mortgage administrative margins. Other market players followed these price hikes, which in our view illustrates that Nykredit Realkredit's market position benefits from significant pricing power. Furthermore, we expect the increased remortgage activity seen in 2019 to slow somewhat in 2020, lowering the risk for further downward pressure to the group's margins.

In July 2017, Nykredit Realkredit introduced a profit-sharing model ("KundeKroner") where the bank shares profits with customers in the form of discounts financed by dividends paid out to Forenet Kredit. We view this feature as supportive of the bank's brand and competitive mortgage price offering. The bank has extended this benefit program to its business customers by offering similar discounts under the brand ErhvervsKroner. They also provide a cash benefit program to their full service customers (MineMål).

Table 2

Nykredit Realkredit A/S--Business Position

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Loan market share in country of domicile	32.7	32.3	31.4	31.0	30.8
Total revenues from business line (mil. DKK)	1,473.0	15,107.0	12,303.0	15,528.0	12,653.0
Commercial banking/total revenues from business line	N/A	17.1	19.8	23.8	14.4
Retail banking/total revenues from business line	N/A	66.3	76.7	63.7	64.8
Commercial & retail banking/total revenues from business line	N/A	83.4	96.5	87.5	79.3
Asset management/total revenues from business line	N/A	7.7	7.0	5.6	8.2
Other revenues/total revenues from business line	N/A	8.9	(3.5)	6.9	12.6
Return on average common equity	(4.4)	9.5	7.6	11.4	8.3

*Data as of March 31. N/A--Not applicable. DKK--Danish krone.

Capital and earnings: Retained earnings support steady capital built over many years

We expect Nykredit Realkredit's capital and earnings will remain strong despite earnings pressure stemming from the COVID-19-induced recession. This reflects our expectation that the group's risk-adjusted capital ratio, which stood at 14% on Dec. 31, 2019, up from 12.2% at year-end 2018, will remain above 12.5% over the next 18-24 months.

The large increase in the RAC ratio in 2019 reflects the group's decision not to distribute any dividends for 2019. It also reflects our view of reduced economic risks in Denmark from 2019 onward, which results in lower risk weights on Danish assets, and therefore a positive impact on RAC calculations (see "Various Rating Actions Taken On Five Danish Banks As Denmark's Banking Market Offers Mixed Blessings," published on Oct. 23, 2019).

Our capital assessment also factors in our expectation that Nykredit Realkredit will continue paying dividends of about 50% of profit beyond 2020 and that part of the released dividend in 2019 will be distributed through 2021. That said, we expect Forenet Kredit to continue to pay back a large part of the proceeds to fund Nykredit's reward profit-sharing program KundeKroner.

Furthermore, we expect the loan growth to slow down to 5% in 2020 and to settle at that level until 2022. In addition, the cost of risk is projected to increase to 21 basis points (bps) in 2020, which we expect to be lower than our estimate for the domestic peers. This is a reflection of the group's mortgage-heavy balance sheet and its limited exposure to corporate sectors that are sensitive to the impact of COVID-19.

The group has, in recent years, focused on maintaining margins and cost efficiencies. Core earnings to adjusted assets was at 0.47% on Dec. 31, 2019, up from 0.40% at Dec. 31, 2018. The same ratio was -0.22% in the first quarter of 2020 due to the effect of adverse market conditions on its investment income and increased provisioning levels. We expect the ratio will be close to 0.13% for the full-year 2020 and then return to 0.3% in 2021-2022.

Nykredit Realkredit's dual objective strategy aims to create stable earnings by capturing more full-service customers with additional income streams, and to develop effective partnerships with local banks. In our view, the acquisition of Sparinvest has further strengthened this. We expect the group will be able to limit cost increases to achieve a stable cost-to-income ratio of about 40%-45% in 2021-2022 with a temporary bump in 2020, which we consider somewhat better than that of peers.

Table 3

Nykredit Realkredit A/S--Capital And Earnings

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	21.2	20.5	22.1	21.7	19.9
S&P Global Ratings' RAC ratio before diversification	N/A	14.0	12.2	12.1	11.6
S&P Global Ratings' RAC ratio after diversification	N/A	11.9	10.2	10.1	9.5
Adjusted common equity/total adjusted capital	90.0	90.1	89.3	89.1	88.6
Double leverage	74.3	73.4	65.3	62.7	54.7
Net interest income/operating revenues	193.3	73.1	88.4	74.0	93.4
Fee income/operating revenues	5.2	(2.9)	(4.0)	(1.5)	(2.4)
Market-sensitive income/operating revenues	(122.1)	14.1	5.9	24.2	7.2
Noninterest expenses/operating revenues	96.1	34.7	39.0	31.2	42.2
Preprovision operating income/average assets	0.0	0.7	0.5	0.8	0.5
Core earnings/average managed assets	(0.2)	0.5	0.4	0.6	0.4

*Data as of March 31. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Nykredit Realkredit A/S--Risk-Adjusted Capital Framework Data

(DKK 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government & central banks	118,563,467.2	92,324.7	0.1	2,575,044.2	2.2
Institutions and CCPs	40,960,470.7	6,389,481.9	15.6	6,389,891.9	15.6
Corporate	377,059,057.7	143,219,250.8	38.0	223,518,634.5	59.3
Retail	1,030,003,271.3	152,951,796.8	14.8	253,632,992.9	24.6
Of which mortgage	996,569,559.2	142,258,404.8	14.3	231,466,541.5	23.2
Other assets	3,271,792.1	3,271,792.1	100.0	3,236,737.2	98.9
Total credit risk	1,569,858,059.0	305,924,646.4	19.5	489,353,300.6	31.2
Credit valuation adjustment					
Total credit valuation adjustment	--	980,840.8	--	--	--
Market Risk					
Equity in the banking book	3,112,989.6	17,721,546.4	569.3	24,338,665.0	781.8
Trading book market risk	--	29,335,693.7	--	50,977,248.3	--
Total market risk	--	47,057,240.1	--	75,315,913.3	--
Operational Risk					
Total operational risk	--	25,499,013.6	--	32,179,440.2	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	379,461,741.0	--	596,848,654.0	100.0
Total Diversification/ Concentration Adjustments	--	--	--	105,829,341.7	17.7
RWA after diversification	--	379,461,741.0	--	702,677,995.8	117.7
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		78,036,237.0	20.6	83,580,000.0	14.0
Capital ratio after adjustments		78,036,237.0	20.6	83,580,000.0	11.9

*Exposure at default. Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. DKK -- Danish krone. CCP--Central clearing counterparty. Sources: Company data as of 'Dec. 31 2019', S&P Global Ratings.

Risk position: First-priority mortgages with track record of low loan losses

Our assessment reflects our expectation that Nykredit Realkredit's asset quality will remain comparable or somewhat better with that of its peers, both domestic and international, and aligned with the capital requirements we apply as part of our analysis of capital for its portfolio of mainly retail and commercial mortgages.

Owing to the group's position as the country's largest mortgage lender, Nykredit Realkredit's asset quality correlates strongly with developments in the Danish economy and the domestic property market. The mortgage loans formed over 80% of total assets as of March 30, 2020, with 95% of exposures within Denmark and only 5% in Sweden, Germany, and other European countries. Within Denmark, the loans are well diversified.

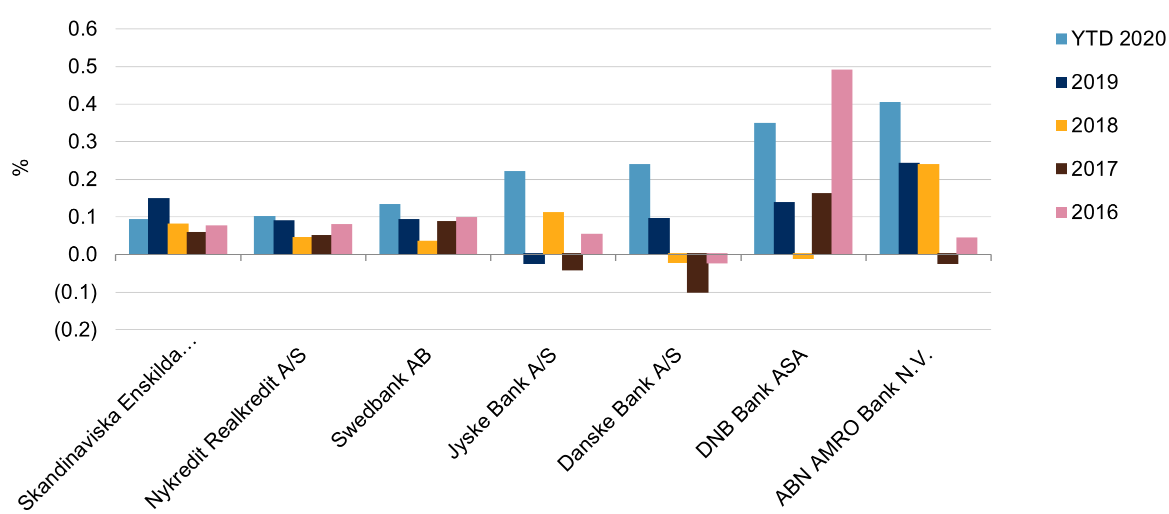
We expect credit conditions in Denmark to weaken in 2020-2021 due to our expectation of a deep recession leading to increased unemployment, weaker private-sector debt-servicing capacity, especially from SMEs (see "COVID-19: Resilient Fundamentals And Assertive Policy Measures Will Buoy Nordic Banking Systems,", published on June 16, 2020). That said, we expect the credit losses from the private household sector and mortgages to remain moderate.

We therefore expect that Nykredit Realkredit's provisions will gradually increase to about 21 bps in 2020 and then decrease to 7-15 bps over 2021-2022. Observed impairments remain limited so far. As of first-quarter 2020, the group reported loan impairment charges of DKK1.3 billion, driven mainly by management estimates. In addition, at around 5% of the loan book, the bank has quite limited exposures to sectors greatly affected by COVID-19 (hotels/restaurants, non-food retail, transportation, construction, and manufacturing).

We expect the Danish agriculture sector to have little impact on Nykredit Realkredit's asset quality through 2021. Although the sector remains burdened by its high financial leverage, its financial situation somewhat improved in 2019 and it has not been materially affected by the COVID-19 crisis.

Chart 2

New Loan Loss Provisions/Average Customer Loans



YTD--Year to date. Source: S&P Global Ratings.

The bank's mortgage portfolio includes personal customers, which form 63% of mortgage loans; commercial loans form 30%, and agriculture loans the remaining 7%. Overall, the loan-to-value (LTV) ratio for the entire mortgage loan book was at a sound level of about 61.8% at Dec. 31, 2019, down from 62.3% at year-end 2018. We consider the bank's risk management practices as adequate and believe that management is prudent in its lending and underwriting standards.

Table 5

Nykredit Realkredit A/S--Risk Position					
	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	1.1	6.3	4.3	3.3	1.2
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	17.7	20.3	20.4	22.0
Total managed assets/adjusted common equity (x)	21.4	21.4	20.6	21.3	22.1
New loan loss provisions/average customer loans	0,1**	0.1	0.0	0.0	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.6	1.6	1.6	2.0	2.4
Loan loss reserves/gross nonperforming assets	40.7	35.6	37.5	32.1	28.7

*Data as of March 31. **Not annualized for March 30. N/A--Not applicable. RWA--Risk-weighted assets.

Funding and liquidity: Reduced reliance on short-term funding and well-functioning covered bond market

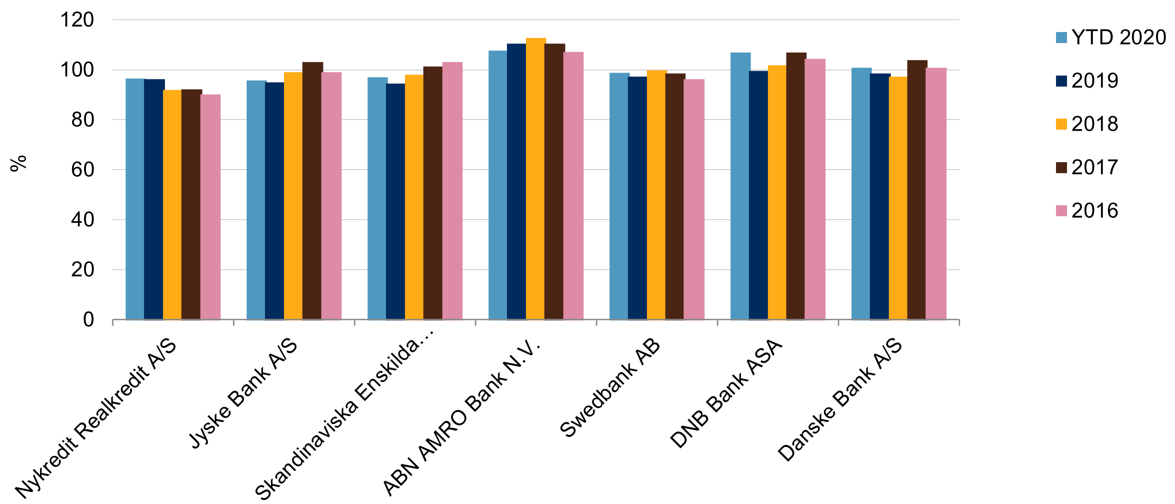
Since 2012, Nykredit Realkredit has materially extended the term structure of its funding, primarily in the form of covered bonds, as it prepared for tightened regulations with respect to the share of short-term loan refinancing. Nykredit Realkredit has reduced the share of one-year adjustable-rate mortgages (and corresponding one-year covered bonds, thanks to the match principle) to about 3% of the portfolio on March 31, 2020, from 27% of the portfolio at end-2012. With this reduction, Nykredit Realkredit has positioned itself well to adhere to the Danish supervisory diamond for mortgage banks, requiring a mortgage bank to have only 25% of its issued bonds maturing within a year.

On March 31, 2020, Nykredit Realkredit's ratio of broad liquid assets as a share of short-term funding (BLAST) was 0.8x (2019: 0.8%, 2018: 0.6%), compared with 0.4x at year-end 2014. We expect the long-term average of Nykredit's BLAST will likely be moderately lower than the 0.8x level recorded in 2019 and in the first quarter, as this was boosted by very high levels of remortgaging activity. Its stable funding ratio was about 96% as of the same date (2019: 96%).

While these ratios remain weaker than those of Nykredit Realkredit's international peers, we compare the ratios with the bank's domestic peers and consider the importance of supporting characteristics of the Danish covered bond market.

Chart 3

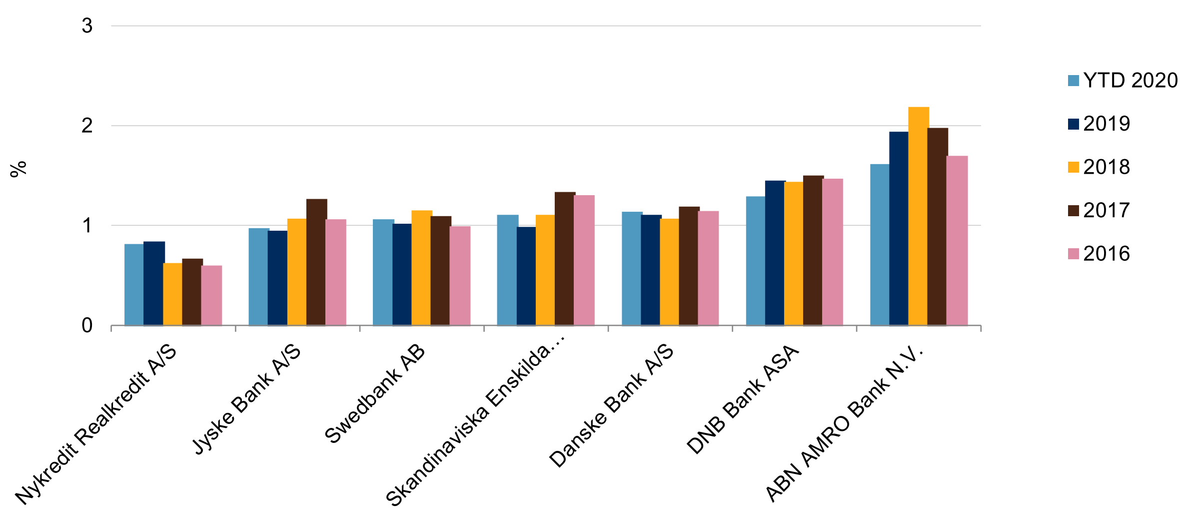
Nykredit Realkredit Funding Ratio Compared With Peers



YTD--Year to date. Source: S&P Global Ratings.

Chart 4

Nykredit BLAST Compared With Peers'



YTD--Year to date. Source: S&P Global Ratings.

In particular, we note that the "balance principle" results in cash flow matching (in addition to interest rate and currency matching) and that the industry and regulator have worked to significantly reduce the volume of one-year bond refinancing, resulting in longer and more balanced debt maturity profiles. In our view, this improvement in stability is complemented by the 2014 Danish covered bond legislation that extends bond maturities by 12 months in the event of a failed auction, thus effectively passing refinancing risks to investors and repricing risks onto borrowers. In addition, we note that the Danish covered bond market--a key investment target for Danish pension funds--has, over its long history, continued to perform well in several crises, not least during the recent COVID-19 turmoil. We expect pension funds' demand for low-risk domestic assets will continue to support stable demand for Danish covered bonds.

Overall, we consider Nykredit Realkredit's funding and liquidity as neutral rating factors, despite displaying weaker metrics. We will likely maintain this assessment as long as the institution does not return to a higher reliance on short-term wholesale funding.

Table 6

Nykredit Realkredit A/S--Funding And Liquidity

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	5.4	5.7	7.0	5.8	5.1
Customer loans (net)/customer deposits	1,683.7	1,584.9	1,366.6	1,607.7	1,804.5
Long-term funding ratio	83.5	81.6	81.5	80.6	80.1
Stable funding ratio	96.0	95.8	91.5	91.8	89.8
Short-term wholesale funding/funding base	17.5	19.4	19.7	20.7	21.1
Broad liquid assets/short-term wholesale funding (x)	0.8	0.8	0.6	0.7	0.6
Short-term wholesale funding/total wholesale funding	18.4	20.5	21.0	21.8	22.1

*Data as of March 31.

Support: Two notches of ALAC support on increasing bail-in buffers

We include two notches of uplift for additional loss-absorbing capacity (ALAC) in the long-term rating on Nykredit Realkredit based on our assessment of its bail-inable buffers. We view Denmark's resolution regime as effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process. Under this process, authorities would permit non-viable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We do not expect any material changes to the group's senior nonpreferred (SNP) issuance plans due to the crisis or the Danish resolution authority's relaxation of the MREL requirement, despite a momentary pause in issuance of SNP instruments during 2020 following less favorable market conditions. The relaxation will have little impact on Nykredit's subordination requirement, as the MREL requirement is determined on the basis of the group's banking activities only.

As a result, we expect Nykredit Realkredit's ALAC reserves will remain above the 800 bps threshold over the next two years compared with our estimate of 940 bps as of year-end 2019.

Issue ratings

We rate SNP and structurally similar Tier 3 senior resolution notes at 'BBB+', one notch below the bank's stand-alone credit profile (SACP) to reflect their contractual subordination to senior preferred notes.

We rate the nondeferrable subordinated debt instruments of Nykredit Realkredit at 'BBB', two notches below the bank's SACP.

The rating reflects our view of the debt's contractual subordination as a Tier 2 instrument and that BRRD is equivalent to a contractual write-down clause.

We rate Nykredit Realkredit's AT1 instruments with a going-concern trigger at 'BB+', four notches lower than the bank's SACP, reflecting our deduction of:

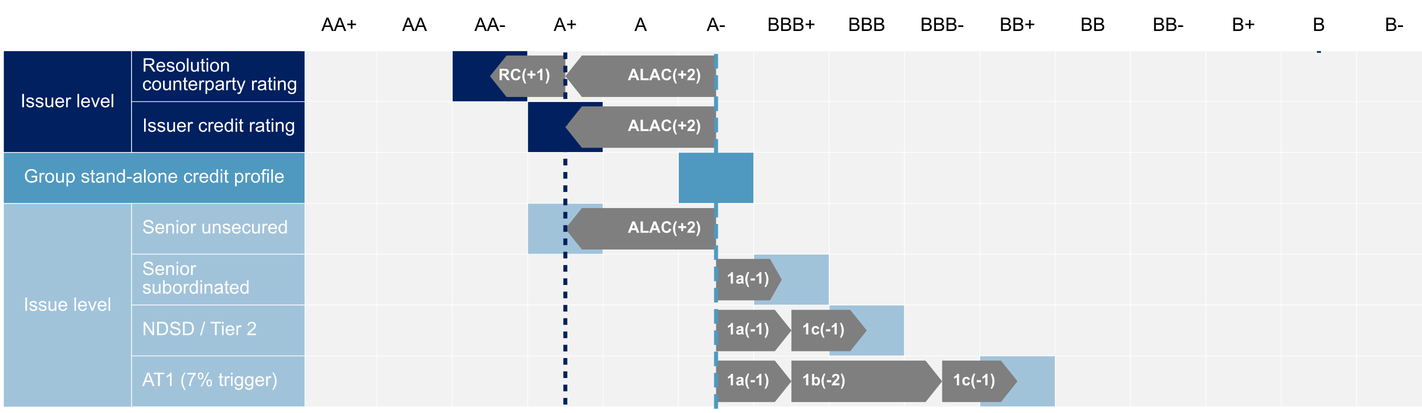
- One notch for contractual subordination;
- Two notches for the instruments' status as Tier 1 regulatory capital; and
- One notch because the instruments allow for the full or partial temporary write-down of the principal amount.

Resolution Counterparty Ratings (RCR)

Following the completion of our RCR jurisdiction assessments on Denmark, we assigned 'AA-/A-1' RCRs to Nykredit Bank and Nykredit Realkredit.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default with an effective bail-in resolution process for the issuing financial institution.

Nykredit Realkredit A/S: Notching



Key to notching

- - - - - Group stand-alone credit profile
- - - - - Issuer credit rating

RC	Resolution counterpartyliabilities (senior secured debt)
ALAC	Additional loss-absorbing capacity buffer
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent
2b	Other nonpayment or default risk not captured already

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.

Environmental, Social, and Governance

We believe ESG credit factors influence Nykredit's credit quality similarly to its industry and Danish peers.

Social factors have always been important for the bank due to its owner, Forenet Kredit, an association of customers of Nykredit and Totalkredit, which shares its profits with the customers.

Apart from agriculture, the bank has limited exposure to sectors that are vulnerable to transition risks due to its modest commercial banking footprint. We see the main environmental risks that Nykredit faces as managing the potential impact of climate change on its borrowers, such as mortgage customers vulnerable to increasing flood or other climate risks. The bank is also reducing its own carbon footprint and supporting customers to do likewise, for example, by launching green loans and covered bonds for energy-efficient buildings.

Additional rating factors: None

No additional factors affect this rating.

Core subsidiaries: Nykredit Bank A/S

We equalize the rating on core subsidiary Nykredit Bank with the ratings on Nykredit Realkredit, according to our group methodology. Nykredit Bank, the group's banking arm, is integral to the group for its payment services and market activities in relation to its funding operations. It also provides all the banking services that are not performed by the parent company.

Related Criteria

- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks - March 23, 2004
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity - April 27, 2015
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: Hybrid Capital: Methodology And Assumptions - July 01, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings - April 19, 2018

Related Research

- Various Rating Actions Taken On Five Danish Banks As Denmark's Banking Market Offers Mixed Blessings, Oct. 23, 2019
- COVID-19: Resilient Fundamentals And Assertive Policy Measures Will Buoy Nordic Banking Systems, June 16, 2020
- Tech Disruption In Retail Banking: Nordic Techies Make Mobile Banking Easy, Feb. 4, 2020
- ESG Industry Report Card: EMEA Banks, Feb. 11, 2020
- Banking Industry Country Risk Assessment Update: May 2020, May 27, 2020
- Nordic Banks' Capital And Earnings Can Weather The Weakening Credit Cycle, Nov. 14, 2019

Anchor Matrix

Industry Risk	Economic Risk									
	1	**2**	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	**bbb+**	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of July 3, 2020)*

Nykredit Realkredit A/S	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Junior Subordinated	BB+
Junior Subordinated	BBB
Senior Secured	AA/Stable
Senior Secured	AAA/Stable
Senior Subordinated	BBB+
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB
Issuer Credit Ratings History	
05-Nov-2019	A+/Stable/A-1
13-Jul-2018	A/Positive/A-1

Ratings Detail (As Of July 3, 2020)*(cont.)	
08-Jul-2016	A/Stable/A-1
13-Jul-2015	A/Negative/A-1
Sovereign Rating	
Denmark	AAA/Stable/A-1+
Related Entities	
Nykredit Bank A/S	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Certificate Of Deposit	
Local Currency	A-1
Senior Subordinated	BBB+
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB
Totalkredit A/S	
Senior Secured	AAA/Stable

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