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Nykredit Realkredit A/S

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Nykredit Realkredit A/S

SACP	a-

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

+

Support	+2

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

+

Additional Factors	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. • Resilient core earnings and profitability, even in the COVID-19-induced downturn.	• Concentration in Danish mortgage market. • High reliance on wholesale funding for mortgage loans, although its maturity profile has improved.

Outlook: Stable

The stable outlook reflects our expectation that Nykredit Realkredit and its subsidiary Nykredit Bank A/S will remain resilient to the current downturn, 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 will remain stable over the next two years.

The impairment charge increased significantly in 2020 but we think Nykredit Realkredit has significantly frontloaded provisions and will be solidly profitable for the full year, with a cost of risk of less than 21 basis points (bps).

Downside scenario

We could lower the long-term rating should 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 significant decrease in the bank's risk-adjusted capitalization below 10% or additional loss-absorbing capacity (ALAC) buffer below 8%, 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 and stable earnings, supporting its already strong capital buffers.

Nykredit Realkredit's earnings and asset quality displayed resilience amid the COVID-19-induced downturn in 2020, and we expect this will continue in 2021. The group has strengthened its financial flexibility and loss-absorbing capacity by releasing the initially proposed dividend for 2019 to equity and it holds sizable impairment provisions based on management estimates, which mitigates the downside risks in 2021, in our view. 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 as well as the turbulence observed in March 2020, further supports the current rating. Furthermore, we expect the group's ALAC reserves are likely to remain above 8% of S&P Global Ratings' risk-weighted assets (RWAs) over the next two years, further protecting senior creditors. However, uncertainty and downside risks remain in 2021 as the pandemic continue to influence the Danish economy.

We equalize our ratings on Nykredit Bank 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'.

Our assessment of low economic risks for Denmark balances the anticipated downturn 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 will contract by 4% in 2020 before bouncing back to 3.3% growth in 2021.

We expect the structure of the Danish economy will lead to greater resilience amid the 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 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 bps of total sector loans, mostly from nonmortgage credit exposures toward small and midsize enterprises (SMEs), a level that 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. Overall, we expect generally sound supply and demand fundamentals will continue to support the Danish housing market, and that house prices will continue their slow appreciation in real terms through 2022.

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-in-able 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) will fall to 4% in 2020, close to the average of Denmark's peer countries, but below the remaining Nordic countries.

In our assessment, we consider the banking sector's higher reliance than peers' on functioning wholesale markets. However, the Danish covered bond market demonstrates a continued stable and strong track record, even during the March 2020 market turbulence. We view the regulatory environment in Denmark as 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. However, local banks and regulators have made progress in strengthening the country's overall AML framework, and we expect this focus will continue, given the significant public attention and overall political consensus.

Our assessment for both economic and industry risk trends for the Danish banking sector remains stable.

Table 1

Nykredit Realkredit A/S--Key Figures

	--Year ended Dec. 31--				
(Mil. DKK)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	1,631,150	1,608,155	1,447,710	1,426,583	1,400,362
Customer loans (gross)	1,413,485	1,361,342	1,281,215	1,228,294	1,188,757
Adjusted common equity	78,516	75,332	70,374	66,976	63,481
Operating revenues	10,296	15,107	12,303	15,528	12,284
Noninterest expenses	4,283	5,239	4,804	4,838	5,185

Table 1

Nykredit Realkredit A/S--Key Figures (cont.)					
	--Year ended Dec. 31--				
(Mil. DKK)	**2020***	**2019**	**2018**	**2017**	**2016**
Core earnings	3,385	7,530	5,821	8,220	5,118

*Data as of September 30. DKK--Danish krone.

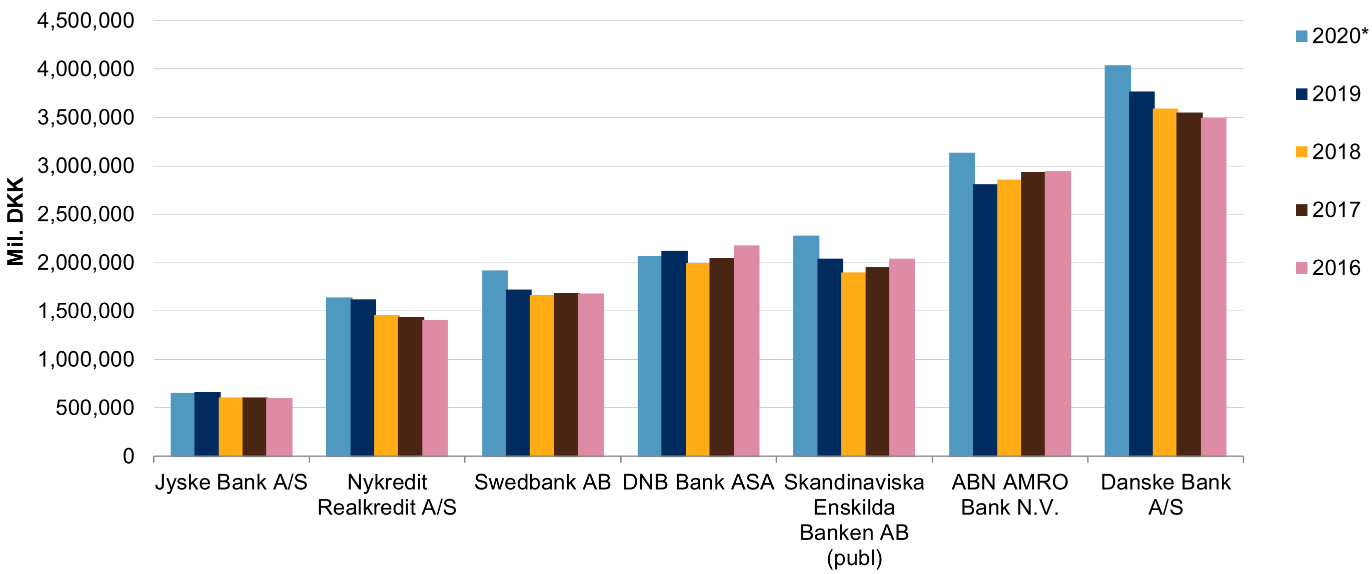
Business position: Denmark's premier mortgage provider, with stable returns

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 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 its wealth management services 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) 1.63 trillion (€219 billion) as of third quarter 2020. 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 43%. 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 Is The Leading Mortgage Bank In Denmark
Nykredit Realkredit asset size compared with peers



*As of Sept. 30. DKK--Danish krone. Source: S&P Global Ratings.

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 plans to 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 like 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 a material share of new mortgage lending in 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 will 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 profitability both through an emphasis on cost efficiency and by raising mortgage administrative fees to achieve higher 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 2020-2021, 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 to its owner 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					
	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Loan market share in country of domicile	33.5	32.3	31.4	31.0	30.8
Total revenues from business line (mil. DKK)	10,296	15,107	12,303	15,528	12,653
Commercial banking/total revenues from business line	20.0	17.1	19.8	23.8	14.4
Retail banking/total revenues from business line	70.9	66.3	76.7	63.7	64.8
Commercial & retail banking/total revenues from business line	90.9	83.4	96.5	87.5	79.3
Asset management/total revenues from business line	11.1	7.7	7.0	5.6	8.2
Other revenues/total revenues from business line	(2.0)	8.9	(3.5)	6.9	12.6
Return on average common equity	5.5	9.5	7.6	11.4	8.3

*Data as of September 30. DKK--Danish krone.

Capital and earnings: Retained earnings continue to support steady capital buildup

We expect Nykredit Realkredit's capital and earnings will remain strong, despite earnings pressure from the COVID-19-induced downturn. The group has raised its profit outlook throughout 2020, and we expect that the group's risk-adjusted capital (RAC) ratio, which stood at 13.6% on June 30, 2020, 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 2020 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, 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 distribute part of the proposed 2019 dividends it released to equity through 2021. That said, we expect Forenet Kredit will continue to pay back a large part of the proceeds to fund Nykredit Realkredit's reward profit-sharing program KundeKroner.

Furthermore, we project that Nykredit Realkredit's cost of risk will increase to 18bps in 2020, which we expect will be lower than our estimate for domestic peers owing to the group's mortgage-heavy balance sheet and its limited exposure to corporate sectors that are sensitive to the impact of COVID-19. Additionally, we expect the bank's loan growth will slow to 5% in 2020 and settle at that level until 2022.

The group has, in recent years, focused on maintaining margins and cost efficiency. Core earnings to adjusted assets stood at 0.47% on Dec. 31, 2019, up from 0.40% at Dec. 31, 2018. The same ratio was 0.28% in third-quarter 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 this level for the full-year 2020 and then return to 0.3%-0.4% in 2021-2022, which is slightly lower than peers'.

Nykredit Realkredit's two-pronged 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 strategy. We expect the group will be able to limit cost increases to achieve a stable cost-to-income ratio of about 38%-43% in 2020-2022, which we consider somewhat better than that of peers.

Table 3

Nykredit Realkredit A/S--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	19.3	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	90.4	90.1	89.3	89.1	88.6
Double leverage	73.5	73.4	65.3	62.7	54.7
Net interest income/operating revenues	81.8	73.1	88.4	74.0	93.4
Fee income/operating revenues	0.0	(2.9)	(4.0)	(1.5)	(2.4)
Market-sensitive income/operating revenues	7.9	14.1	5.9	24.2	7.2
Noninterest expenses/operating revenues	41.6	34.7	39.0	31.2	42.2
Preprovision operating income/average assets	0.5	0.7	0.5	0.8	0.5
Core earnings/average managed assets	0.3	0.5	0.4	0.6	0.4

*Data as of September 30. 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	87,360,397.3	110,321.7	0.1	1,834,711.2	2.1
Institutions and CCPs	40,546,023.3	6,374,826.9	15.7	6,461,720.7	15.9
Corporate	373,601,526.8	130,871,084.2	35.0	225,528,701.9	60.4
Retail	1,062,646,016.1	150,369,439.1	14.2	260,489,584.4	24.5
Of which mortgage	1,030,949,006.4	140,688,664.1	13.6	239,490,489.5	23.2
Other assets†	3,460,798.9	22,682,450.9	655.4	3,844,223.2	111.1
Total credit risk	1,567,614,762.4	310,408,122.8	19.8	498,158,941.4	31.8

Table 4

Nykredit Realkredit A/S--Risk-Adjusted Capital Framework Data (cont.)					
Credit valuation adjustment					
Total credit valuation adjustment	--	700,635.2	--	--	--
Market risk					
Equity in the banking book	3,687,003.3	17,464,121.3	473.7	28,814,497.4	781.5
Trading book market risk	--	49,298,714.2	--	65,179,558.2	--
Total market risk	--	66,762,835.5	--	93,994,055.7	--
Operational Risk					
Total operational risk	--	28,108,812.6	--	33,397,543.6	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	405,980,406.1	--	625,550,540.7	100.0
Total diversification/ concentration adjustments	--	--	--	106,574,416.0	17.0
RWA after diversification	--	405,980,406.1	--	732,124,956.8	117.0
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		81,644,677.1	20.1	84,951,000.0	13.6
Capital ratio after adjustments‡		81,644,677.1	20.1	84,951,000.0	11.6

*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--Danisk krone. Sources: Company data as of June 30, 2020, S&P Global Ratings.

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

We expect that Nykredit Realkredit's asset quality will remain comparable with or somewhat better than that of its peers, both domestic and international. 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 Sept. 30, 2020, with 95% of exposures within Denmark and only 5% in Sweden, Germany, and other European countries.

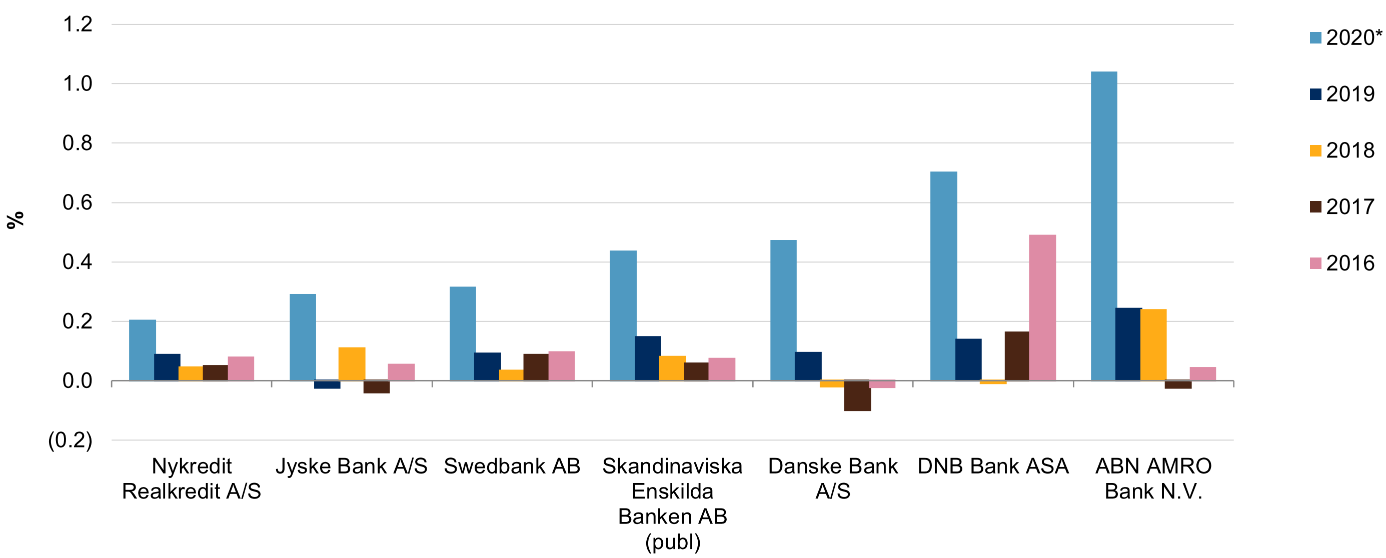
We expect credit conditions in Denmark to weaken in 2020-2021, due to deep downturn in 2020 leading to increased unemployment and weaker private-sector debt-servicing capacity, especially from SMEs. However, we continue to expect the credit losses from the private household sector and mortgages will remain moderate.

We therefore expect that Nykredit Realkredit's frontloaded loan loss provisions will total about 18 bps in 2020 and then decrease to 7-15 bps over 2021-2022. Observed impairments and stage migrations to stage 2 and stage 3 remain limited so far. As of third-quarter 2020, the group reported loan impairment charges of DKK2.0 billion, mainly based on management estimates. Still, we expect Stage 3 transfers will lag, and given the continued negative operating environment, we expect nonperforming assets will increase slightly to about 1.7% of gross loans in 2021-2022. That said, the bank has quite limited exposures (about 5% of loan book) to sectors greatly affected by COVID-19 (hotels/restaurants, non-food retail, transportation, construction, and manufacturing).

Furthermore, the Danish agriculture sector (about 7% of loan portfolio) will have a minor impact on Nykredit Realkredit's asset quality through 2021, in our view. 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

Nykredit Realkredit's Cost Of Risk Compares Well With Peers'
New loan loss provisions/average customer loans



*As of Sept. 30. Source: S&P Global Ratings.

The bank's mortgage portfolio includes personal customers, which form 64% of mortgage loans; commercial loans form 29%, and agriculture loans the remaining 7%. Overall, the loan-to-value ratio for the entire mortgage loan book was at a sound level of about 61.6% at end-September 2020, slightly down from 61.8% at year-end 2019. We consider the bank's risk management practices adequate and believe that management is prudent in its lending and underwriting standards.

Table 5

Nykredit Realkredit A/S--Risk Position					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Growth in customer loans	5.1	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)	20.8	21.4	20.6	21.3	22.1
New loan loss provisions/average customer loans	0.2	0.1	0.0	0.0	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.5	1.6	1.6	2.0	2.4
Loan loss reserves/gross nonperforming assets	44.5	35.6	37.5	32.1	28.7

*Data as of September 30. N/A--Not applicable. RWA--Risk-weighted assets.

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

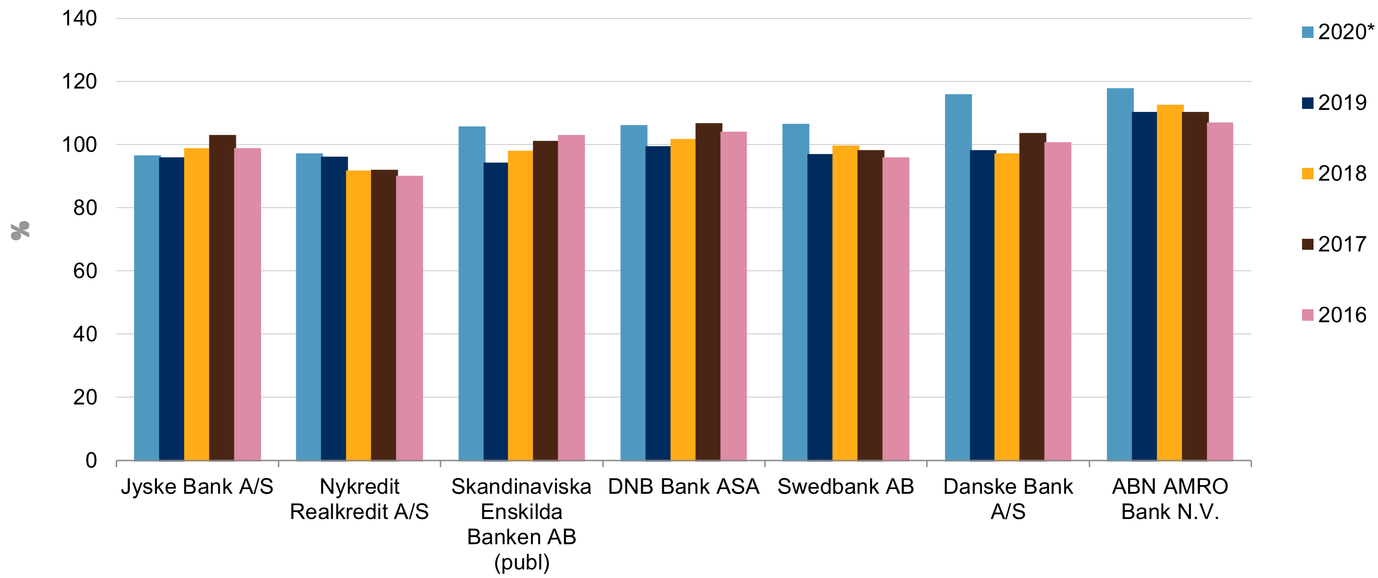
Since 2012, Nykredit Realkredit has materially extended the term structure of its funding, primarily in the form of covered bonds, as it prepared for tightened regulations with respect to the share of short-term loan refinancing. Nykredit Realkredit has reduced the share of one-year adjustable-rate mortgages (and corresponding one-year covered bonds, thanks to the match principle) to about 3% of the portfolio on Sept. 30, 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 Sept. 30, 2020, Nykredit Realkredit's ratio of broad liquid assets as a share of short-term funding (BLAST) was 0.8x (2019: 0.8x, 2018: 0.6x), compared with 0.4x at year-end 2014. We expect the long-term average of Nykredit Realkredit's BLAST will likely be moderately lower than the 0.8x recorded in 2019 and third-quarter 2020, since this was boosted by very high levels of remortgaging activity. Its stable funding ratio was about 97% 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.

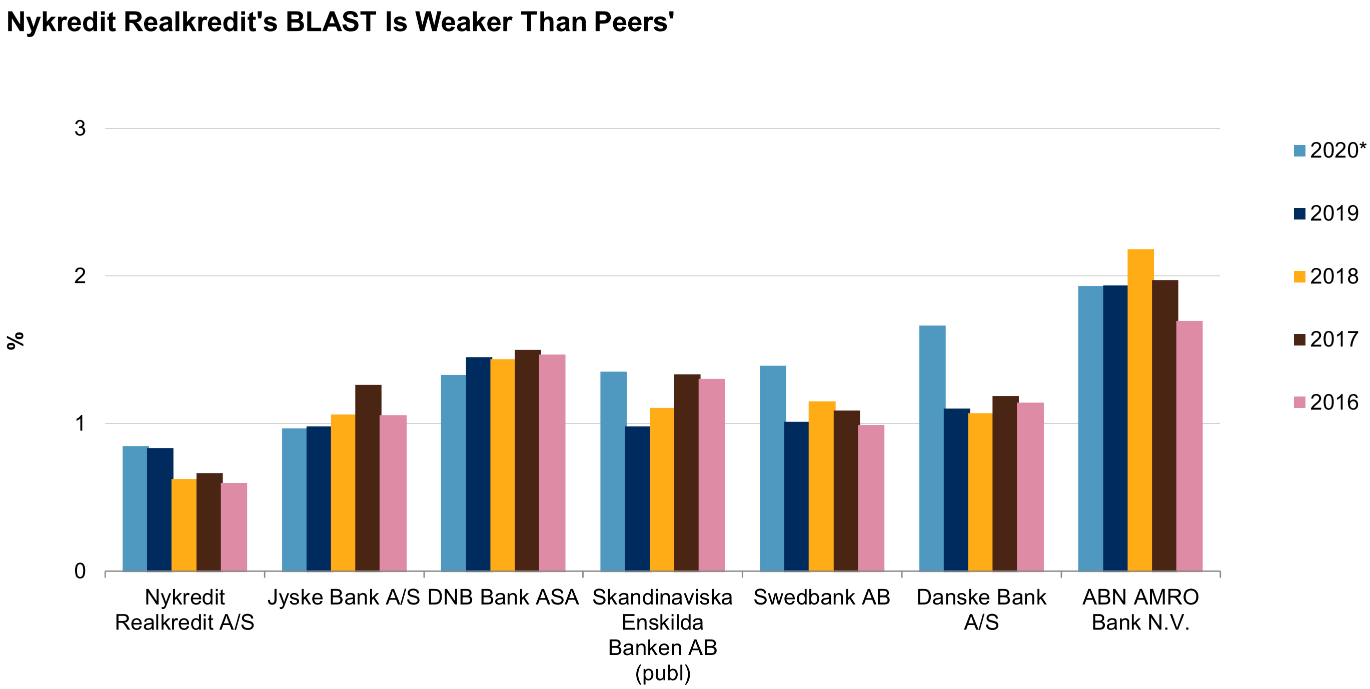
Chart 3

Nykredit Realkredit's Funding Ratio Is Somewhat Weaker Than Peers'



*As of Sept. 30. Source: S&P Global Ratings.

Chart 4



*As of Sept. 30. 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 Danish banking industry and regulator have worked to significantly reduce the volume of one-year bond refinancing, resulting in longer and more balanced debt maturity profiles for Danish banks. 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 on refinancing risks to investors and repricing risks on to 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 than peers'. 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					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Core deposits/funding base	5.6	5.7	7.0	5.8	5.1
Customer loans (net)/customer deposits	1,640.2	1,584.9	1,366.6	1,607.7	1,804.5
Long-term funding ratio	84.1	81.6	81.5	80.6	80.1
Stable funding ratio	96.9	95.8	91.5	91.8	89.8
Short-term wholesale funding/funding base	16.9	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	17.8	20.5	21.0	21.8	22.1

*Data as of September 30.

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

We include two notches of uplift for 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 pandemic or the Danish resolution authority's relaxation of the minimum requirement for own funds and eligible liabilities (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 Realkredit's subordination requirement, since 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 940 bps as of year-end 2019.

Additional rating factors: None

No additional factors affect this rating.

Environmental, social, and governance (ESG)

We believe ESG credit factors influence Nykredit Realkredit'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 Realkredit 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 Realkredit 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 carbon footprint and supporting customers to do so, for example, by launching green loans and covered bonds for energy-efficient buildings.

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 the Bank Recovery And Resolution Directive is equivalent to a contractual write-down clause.

We rate Nykredit Realkredit's additional Tier 1 instruments with a going-concern trigger at 'BB+', four notches lower than the bank's SACP, reflecting our deduction of:

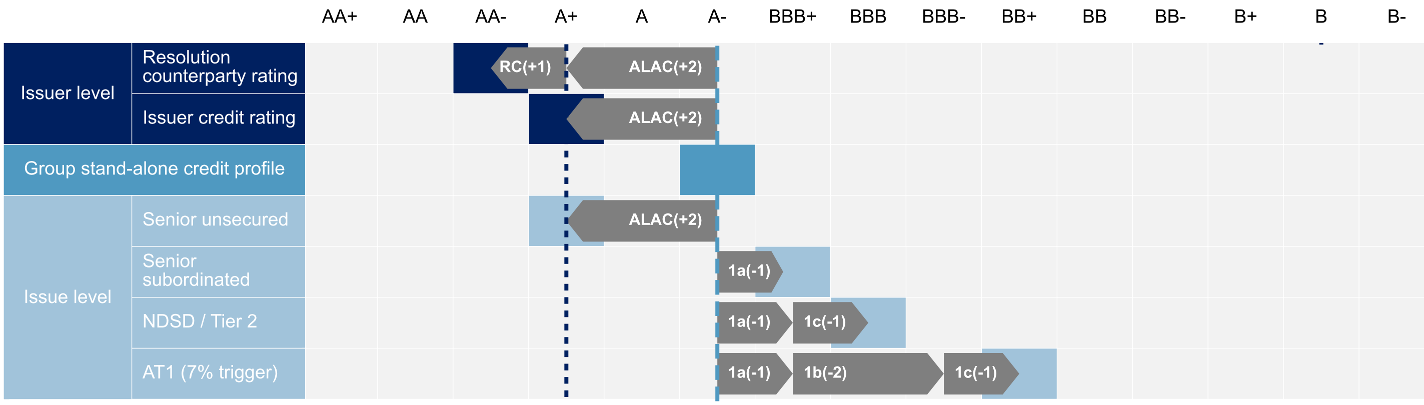
- One notch for contractual subordination;
- Two notches for the instruments' status as Tier 1 regulatory capital; and
- One notch because the instruments allow for the full or partial temporary write-down of the principal amount.

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

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.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

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: Hybrid Capital: Methodology And Assumptions - July 01, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings - April 19, 2018
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Banking Industry Country Risk Assessment Update: December 2020, Dec. 15, 2020
- Nordic Spotlight: COVID-19 Weighs On Creditworthiness, Nov. 18, 2020
- How COVID-19 is affecting Bank Ratings: October 2020 Update, Oct. 22, 2020
- Banking Industry Country Risk Assessment: Denmark, Aug. 27, 2020
- 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

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 January 20, 2021)*	
Nykredit Realkredit A/S	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Junior Subordinated	BB+
Junior Subordinated	BBB

Ratings Detail (As Of January 20, 2021)*(cont.)	
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
08-Jul-2016	A/Stable/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.