

Nykredit Realkredit A/S

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Nykredit Realkredit A/S

SACP	a-	+	Support	+2	+	Additional Factors	0
Anchor	bbb+		ALAC Support	+2		Issuer Credit Rating	
Business Position	Adequate	0	GRE Support	0		A+/Stable/A-1	
Capital and Earnings	Strong	+1	Group Support	0		Resolution Counterparty Rating	
Risk Position	Adequate	0	Sovereign Support	0		AA-/--/A-1+	
Funding	Average	0					
Liquidity	Adequate						

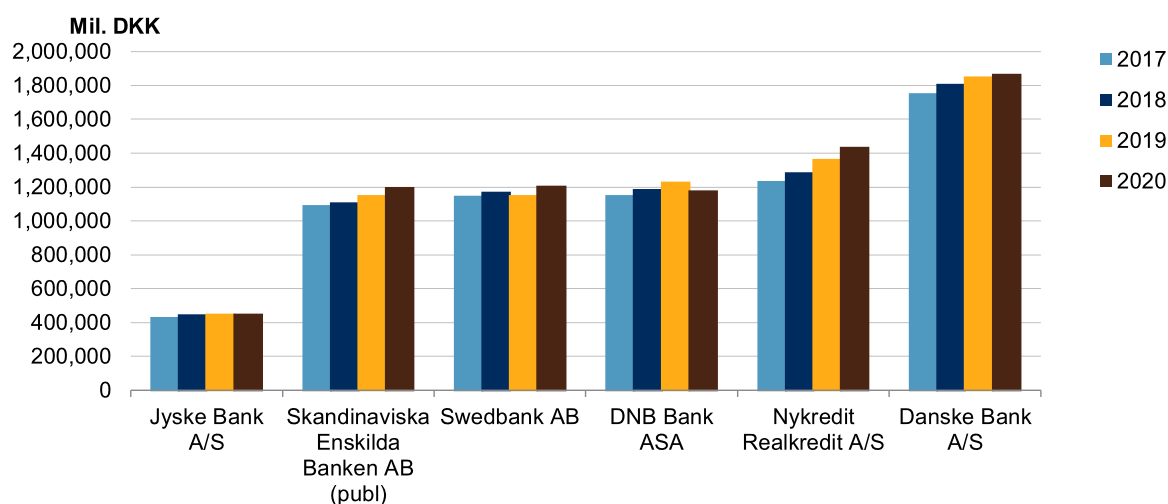
Credit Highlights

Overview	
Key strengths	Key risks
Leading mortgage bank in Denmark, a wealthy and competitive economy.	Concentration in the Danish mortgage market.
Highly collateralized nature of the loan book and good asset quality.	High reliance on wholesale funding for mortgage loans, although its maturity profile has improved.
Strong earnings, supporting both stable risk-adjusted capital and ALAC buffer.	

We expect Nykredit to maintain its dominant business position in the Danish mortgage market. The group's primary focus is mortgage lending in Denmark, while its market share of commercial banking services is still low at around 6%. We expect the expansion toward wealth management services (followed by the acquisition of Sparinvest in 2019) to improve its revenue diversification while completed IT and compliance investments will boost cost efficiency. We believe that Nykredit Realkredit will likely maintain its position as the primary provider of mortgage financing as well as the largest lender by domestic volume in Denmark with a market share of about 43%.

Chart 1

Stable Volume Growth For The Leading Danish Mortgage Provider



DKK--Danish krone. Source: S&P Global Ratings.

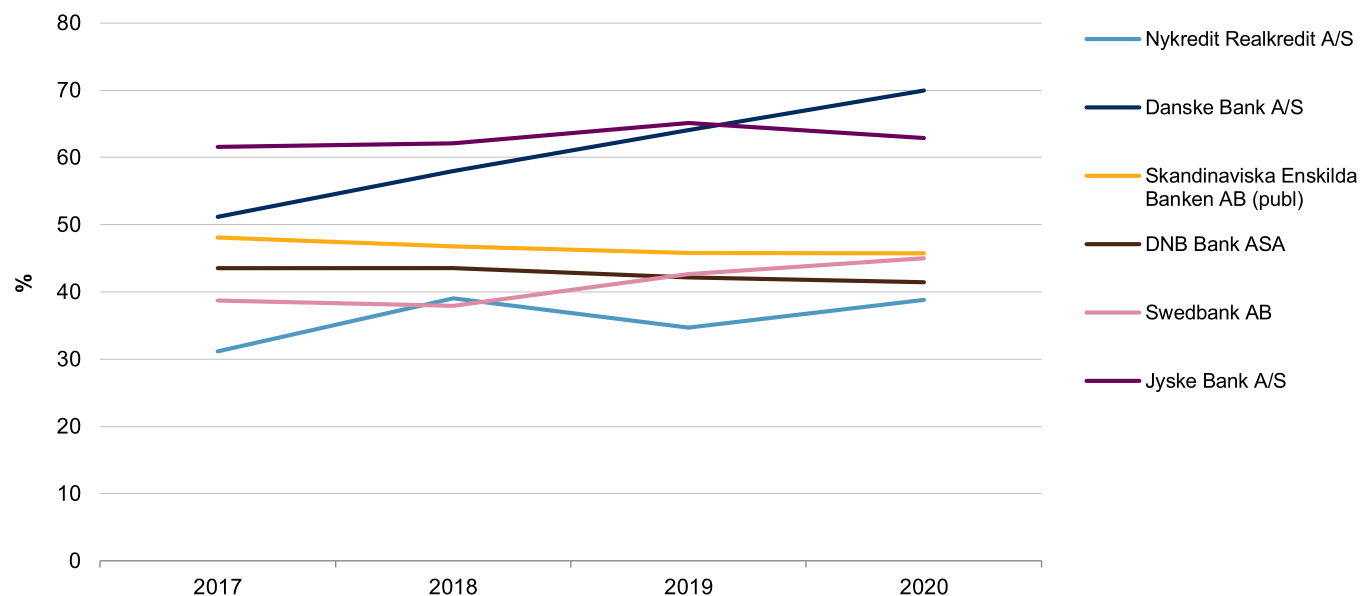
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The group aims to create stable earnings via its subsidiary Nykredit Bank by capturing more full-service customers with additional income streams. While assets under management amounted to a total of Danish kroner (DKK) 372 billion (€50 billion) by the end of 2020, asset growth still mainly stems from its subsidiary's (Totalkredit) partnership with domestic banks, which helps it to access a material share of new mortgage lending. This cooperation also enables a cost-efficient business model with low distribution costs, which the group's low cost-to-income ratio reflects.

Chart 2

Nykredit's Cost Efficiency Ratio Continues To Outperform Danish Peers

Cost-to-income ratio



Source: S&P Global Ratings.

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Nykredit Realkredit's mutual ownership model has contributed to lower margins for all Danish mortgage banks and increasing volumes for the group. Its focus on capital generation and profitability through an emphasis on cost efficiency and by raising mortgage administrative fees continues to benefit the group's margins. At the same time, the introduction of profit-sharing ("KundeKroner" and "ErhvervsKroner") and cash benefit programs ("KundeRabat") preserves the bank's brand and enhances its competitive mortgage price offering.

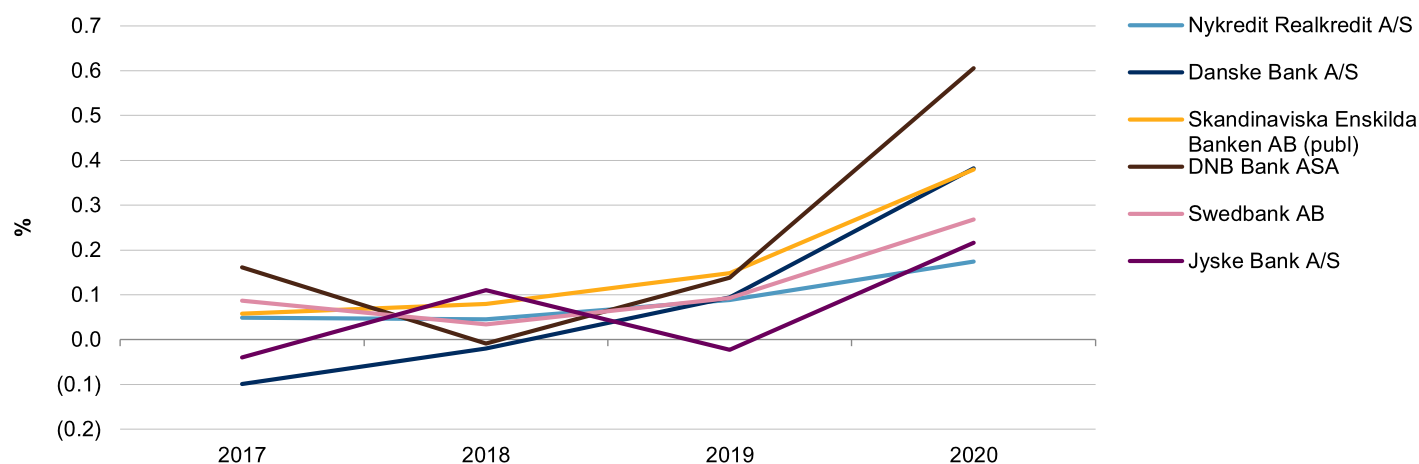
Despite COVID-19-related pressure, stable retained earnings will continue to support a strong capitalization. We expect the group's risk-adjusted capital (RAC) ratio to remain in the range of 12%-13% over the next 18-24 months compared with 13.53% at year-end 2020. We expect that capitalization will remain a rating strength despite Nykredit Realkredit's planned resumption of dividend payments of about 40%-50% of profit in 2021. That said, we anticipate that its majority shareholder Forenet Kredit will continue to pay back a large part of the proceeds (around 70%-80%) to fund Nykredit Realkredit's reward profit-sharing program.

Nykredit Realkredit's cost of risk stood at 20bps at end-2020. This was lower than domestic peers owing to the group's mortgage-heavy balance sheet and limited exposure to corporate sectors sensitive to the impact of COVID-19. We project that the bank's loan growth will settle at around 5% until 2022.

Chart 3

Nykredit Realkredit's Cost Of Risk Compares Well With Peers

New loan loss provisions/average customer loans



Source: S&P Global Ratings.

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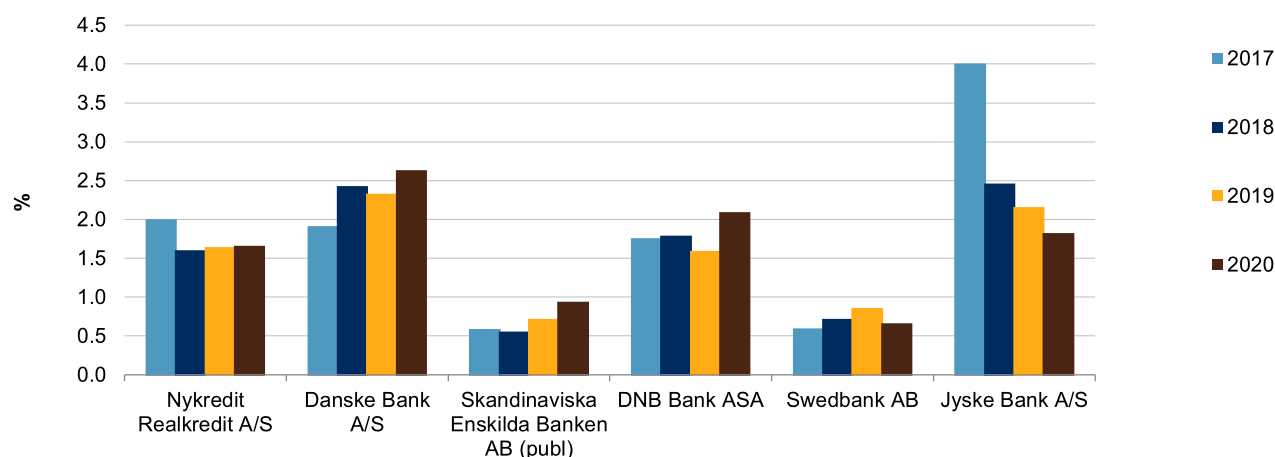
The granular, highly collateralized retail mortgage portfolio should sustain asset quality over the medium term.

Realkredit Nykredit's asset quality remains comparable with, or slightly better than, peers. The mortgage loans formed over 85% of total assets as of Dec. 31, 2020, with 95% of exposures within Denmark and only 5% in Sweden, Germany, and other European countries. The bank's mortgage portfolio includes mainly retail customers, which form 64% of mortgages, commercial loans form 29%, and agriculture loans the remaining 7%.

Chart 4

Nykredit Realkredit's Asset Quality Remained Stable During 2020

Nonperforming assets* (%)



*Adjusted nonperforming assets/customer loans + other real estate owned. Source: S&P Global Ratings.

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We expect improving credit conditions in Denmark in 2021 after a contained GDP drop in 2020. Credit losses at Nykredit Realkredit Group will likely remain low thanks to its sound risk management and underlying government support programs. As of first quarter 2021, the group reported loan impairment provisions of DKK91 million, compared with a total of DKK2,272 million in 2020.

Overall, the loan-to-value ratio for the entire mortgage loan book remained sound, at about 61% at end-2020, a slight decrease from 62% at year-end 2019. We consider the bank's risk management practices to be adequate and believe that management is prudent in its lending and underwriting standards.

We anticipate reduced reliance on short-term funding, as well as support from a well-functioning covered bond market in Denmark. Since 2012, Nykredit Realkredit has constantly reduced the share of one-year adjustable-rate mortgages (and corresponding one-year covered bonds, thanks to the Danish match principle) to about 2% of the portfolio on Dec. 31, 2020, from 27% of the portfolio at end-2012. This is well below the Danish supervisory diamond requirement for mortgage banks to have a maximum of 25% of its issued bonds maturing within a year.

On Dec. 31, 2020, Nykredit Realkredit's ratio of broad liquid assets as a share of short-term funding (BLAST) was 0.9x (2019: 0.8x, 2018: 0.6x), compared with 0.3x at year-end 2012. We expect the long-term average BLAST for Nykredit Realkredit to be moderately lower than the 0.9x recorded by end-2020, since very high levels of remortgaging activity boosted this figure. Its stable funding ratio was about 97% as of the same date (2019: 96%). While these ratios remain somewhat weaker than those of Nykredit Realkredit's international peers, we balance our view with the importance of supporting characteristics of the Danish covered bond market.

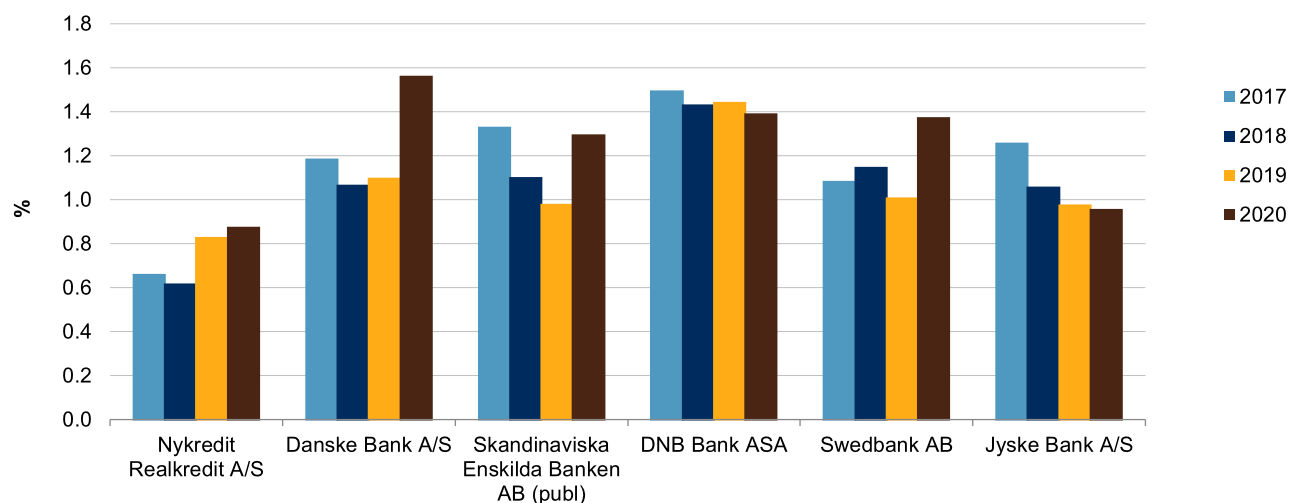
Overall, we still consider Nykredit Realkredit's funding and liquidity as neutral rating factors. We will likely maintain

this assessment as long as the institution does not return to a higher reliance on short-term wholesale funding.

Chart 5

Nykredit Realkredit's BLAST Is Weaker Than Peers

Broad liquid assets/short-term wholesale funding (x)



Source: S&P Global Ratings.

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The long-term issuer credit rating on Nykredit Realkredit includes two notches of ALAC uplift. We anticipate that Nykredit Realkredit's additional loss-absorbing capacity (ALAC) will remain well above 8% of our risk-weighted assets (RWA) metric over the next two years, allowing us to maintain the two notches of uplift for ALAC support in our long-term rating. The bank's ALAC buffer amounted to 9% of RWA at year-end 2020 versus our 8% threshold.

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 ALAC buffer, which we expect will remain stable over the next two years.

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.

Key Metrics

Nycredit Realkredit A/S--Key Ratios And Forecasts					
	-Fiscal year ended Dec. 31 -				
(%)	2019a	2020a	2021f	2022f	2023f
Growth in operating revenue	22.8	-1.9	(4.2)-(4.5)	2.8-2.9	4.0-4.2
Growth in customer loans	6.3	5.2	4.9-5.1	4.9-5.1	4.9-5.1
Net interest income/average earning assets (NIM)	0.7	0.7	0.6-0.7	0.6-0.7	0.6-0.7
Cost to income ratio	34.7	38.9	41.6-42.5	42.5-43.4	42.9-43.7
Return on average common equity	9.5	6.8	6.1-6.4	6.4-6.7	6.5-6.9
New loan loss provisions/average customer loans	0.1	0.2	0.1-0.1	0.1-0.1	0.0-0.1
Gross nonperforming assets/customer loans	1.6	1.6	1.6-1.7	1.6-1.8	1.6-1.8
Risk-adjusted capital ratio	14	13.5	13.2-13.9	12.6-13.3	12.5-13.2

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast.

Key Statistics

Table 1

Nycredit Realkredit A/S Key Figures					
	--Year-ended Dec. 31--				
(Mil. DKK)	2021*	2020	2019	2018	2017
Adjusted assets	1,658,697	1,663,476	1,608,155	1,447,710	1,426,583
Customer loans (gross)	1,429,004	1,432,087	1,361,342	1,281,215	1,228,294
Adjusted common equity	80,499	78,144	75,332	70,374	66,976
Operating revenues	4,459	14,822	15,107	12,303	15,528
Noninterest expenses	1,447	5,760	5,239	4,804	4,838
Core earnings	2,386	5,673	7,530	5,821	8,220

*Data as of March 31.

DKK--Danish krone. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 2

Nycredit Realkredit A/S Business Position					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Loan market share in country of domicile	34.3	33.7	32.3	31.4	31.0
Total revenues from business line (currency in millions)	4,460	14,822	15,107	12,303	15,528
Commercial banking/total revenues from business line	18.1	19.3	17.1	19.8	23.8
Retail banking/total revenues from business line	54.6	65.9	66.3	76.7	63.7
Commercial & retail banking/total revenues from business line	72.7	85.3	83.4	96.5	87.5
Asset management/total revenues from business line	9.6	10.2	7.7	7.0	5.6
Other revenues/total revenues from business line	17.8	4.6	8.9	(3.5)	6.9

Table 2

Nycredit Realkredit A/S Business Position (cont.)					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Return on average common equity	11.1	6.8	9.5	7.6	11.4

*Data as of March 31.

Table 3

Nycredit Realkredit A/S Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Tier 1 capital ratio	20.6	21.1	20.5	22.1	21.7
S&P Global Ratings' RAC ratio before diversification	N/A	13.5	14.0	12.2	12.1
S&P Global Ratings' RAC ratio after diversification	N/A	11.6	11.9	10.2	10.1
Adjusted common equity/total adjusted capital	90.8	90.5	90.1	89.3	89.1
Double leverage	72.5	73.0	73.4	65.3	62.7
Net interest income/operating revenues	64.0	75.8	73.1	88.4	74.0
Fee income/operating revenues	1.2	0.5	(2.9)	(4.0)	(1.5)
Market-sensitive income/operating revenues	26.6	14.2	14.1	5.9	24.2
Cost to income ratio	32.5	38.9	34.7	39.0	31.2
Preprovision operating income/average assets	0.7	0.6	0.6	0.5	0.8
Core earnings/average managed assets	0.6	0.3	0.5	0.4	0.6

*Data as of March 31.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Nycredit Realkredit A/S RACF [Risk-Adjusted Capital Framework] Data					
(DKK 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government & central banks	106,068,402	0	0	2,395,951	2
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	43,085,003	6,272,045	15	6,571,522	15
Corporate	386,179,252	129,311,954	33	236,188,438	61
Retail	1,094,853,100	154,157,921	14	267,991,196	24
Of which mortgage	1,062,725,695	144,121,820	14	246,713,738	23
Securitization§	0	0	0	0	0
Other assets†	2,768,398	24,217,412	875	3,117,905	113
Total credit risk	1,632,954,155	313,959,332	19	516,265,011	32
Credit valuation adjustment					
Total credit valuation adjustment	--	505,666	--	0	--
Market Risk					
Equity in the banking book	4,283,670	19,135,521	447	33,345,184	778

Table 4

Nykredit Realkredit A/S RACF [Risk-Adjusted Capital Framework] Data (cont.)					
Trading book market risk	--	40,127,504	--	54,585,103	--
Total market risk	--	59,263,025	--	87,930,288	--
Operational risk					
Total operational risk	--	28,108,813	--	33,819,019	--
(DKK 000s)	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global RWA	% of S&P Global RWA
Diversification adjustments					
RWA before diversification	--	401,836,835	--	638,014,318	100
Total Diversification/ Concentration Adjustments	--	--	--	108,252,316	17
RWA after diversification	--	401,836,835	--	746,266,633	117
(DKK 000s)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)	
Capital ratio					
Capital ratio before adjustments	84,948,525	21.1	86,345,200	13.5	
Capital ratio after adjustments†	84,948,525	21.1	86,345,200	11.6	

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †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. Sources: Company data as of Dec. 31, 2020, S&P Global Ratings.

Table 5

Nykredit Realkredit A/S Risk Position					
		--Year-ended Dec. 31--			
(%)	2021*	2020	2019	2018	2017
Growth in customer loans	(0.9)	5.2	6.3	4.3	3.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	17.0	17.7	20.3	20.4
Total managed assets/adjusted common equity (x)	20.6	21.3	21.4	20.6	21.3
New loan loss provisions/average customer loans	0.0	0.2	0.1	0.0	0.0
Net charge-offs/average customer loans	(0.0)	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	1.6	1.6	1.6	1.6	2.0
Loan loss reserves/gross nonperforming assets	40.9	41.0	35.6	37.5	32.1

*Data as of March 31.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 6

Nykredit Realkredit A/S Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	2021*	2020	2019	2018	2017
Core deposits/funding base	5.5	5.7	5.7	7.0	5.8
Customer loans (net)/customer deposits	1,659.5	1,614.3	1,584.9	1,366.6	1,607.7
Long-term funding ratio	84.4	84.3	81.6	81.5	80.6
Stable funding ratio	95.8	97.5	95.8	91.5	91.8
Short-term wholesale funding/funding base	16.6	16.7	19.4	19.7	20.7

Table 6

Nycredit Realkredit A/S Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Broad liquid assets/short-term wholesale funding (x)	0.8	0.9	0.8	0.6	0.7
Net broad liquid assets/short-term customer deposits	(63.4)	(33.7)	(49.8)	(111.6)	(126.8)
Short-term wholesale funding/total wholesale funding	17.4	17.6	20.5	21.0	21.8
Narrow liquid assets/3-month wholesale funding (x)	N/A	N/A	1.1	1.4	1.4

*Data as of March 31.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
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- 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, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- EMEA Financial Institutions Monitor 3Q2021: Resilience Amid The Search For Stronger Profitability, July 16, 2021
- Banking Industry Country Risk Assessment Update: June 2021, June 29, 2021
- Leading Nordic Banks Keep Calm And Carry On Despite COVID-19 Stress, Feb. 23, 2021
- Nordic Banks: Strong Fundamentals And Digital Preparedness Shield Against COVID-19 Stress, Feb. 18, 2021
- Capital Resilience Alone Won't Stabilize European Bank Ratings In 2021, Feb. 3, 2021
- Banking Industry Country Risk Assessment: Sweden, Sept. 14, 2020
- Various Rating Actions On Swedish Midsize Banks As Resolution Regime Gains Effectiveness, Feb. 28, 2020
- Banking Industry Country Risk Assessment: Denmark, Aug. 27, 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 August 10, 2021)*

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
08-Jul-2016	A/Stable/A-1

Sovereign Rating

Denmark	AAA/Stable/A-1+
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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

Ratings Detail (As Of August 10, 2021)*(cont.)

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.

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