FitchRatings

22 NOV 2024

# Fitch Upgrades Nykredit Realkredit A/S to 'A+'; Outlook Stable

Fitch Ratings - Frankfurt am Main - 22 Nov 2024: Fitch Ratings has upgraded Nykredit Realkredit A/S's (Nykredit) and its subsidiary Nykredit Bank A/S's Long-Term Issuer Default Ratings (IDRs) to 'A+' from 'A' with Stable Outlooks. Fitch has also upgraded Nykredit's Viability Rating (VR) to 'a+' from 'a' and its senior preferred and non-preferred debt ratings in tandem with its IDR. A full list of rating actions is below.

The upgrades primarily reflect Nykredit's improving revenue diversification, driven by strengthened earnings contributions from banking activities by Nykredit Bank A/S and growing revenues from wealth management services. Fitch believes Nykredit's business profile increasingly benefits from revenues beyond net interest income from mortgage lending, which provides greater earnings stability. Nykredit's enhanced profitability supports its ability to generate capital.

## Key Rating Drivers

**Strong Credit Profile:** Nykredit's ratings reflect its low risk profile, shown by its healthy and resilient through-the-cycle asset quality and robust capitalisation. They also reflect its leading mortgage lending franchise in Denmark, good profitability and very high wholesale funding reliance.

**Leading Franchise:** Nykredit is a leading Danish mortgage lender with a high and stable market share of 45%. The group provides a full range of services that supplement its core mortgage products, including banking products (8% market share in lending) through Nykredit Bank A/S, 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 origination 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 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. We expect the impaired loans ratio (end-September 2024: 1.1%) to slightly increase towards 1.3% by end-2026, due to a lagged impact from affordability pressures in recent years and a small expected increase in unemployment.

At end-September 2024, the bank's large buffer of allowances (on top of what was already accounted for by its internal model) mainly related to ESG, geopolitical risks and agriculture, would have been sufficient to absorb credit losses of 14bp of loans.

**Resilient Profitability:** We expect the bank's four-year average operating profit to remain above 2.5% of risk-weighted assets (RWA) through the economic cycle. The bank's results will continue to benefit from healthy and recurring revenue, tight cost control and low LICs. Loan growth has started to pick up, which we expect to continue as demand recovers as interest rates reduce. Net fee income should also benefit from the bank's strategic focus to grow its wealth management business, which we expect will cushion some of the impact of declining interest rates.

**Robust Capital:** Nykredit's common equity Tier 1 (CET1) ratio stood at 19.9% at end-September 2024, which is strong compared with peers. It provides a reasonable cushion against a more adverse economic environment and offers a reasonable buffer over regulatory requirements.

Our assessment of Nykredit's capitalisation also reflects its low-risk business model, and limited exposure to high-risk assets, which mitigates its exposure to high product concentration and exposure to the Danish real estate market. We also consider potential ordinary support from Nykredit's majority shareholder, Forenet Kredit. Its regulatory leverage ratio of about 5% is acceptable, and comparable to that of similarly rated peers.

**High Reliance on Wholesale Funding:** 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.

Fitch believes the deep Danish covered bond market will continue to function well even in more adverse environments, as seen during the pandemic and during recent stress periods in 2022-2023. Refinancing risk is mitigated by the bank's low share of short-term debt maturities, and significant buffers of high-quality liquid assets, including Danish government bonds and covered bonds.

## Rating Sensitivities

## Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

We would downgrade Nykredit's ratings if we expect its impaired loans ratio to increase durably above 2.0% or if its CET1 capital ratio converges towards 17% due to pressure from deteriorating asset quality or weaker earnings generation. We could also downgrade its ratings if operating profit declines below 2% of RWAs on a sustained basis without clear recovery prospects.

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 that may prove less stable during financial stress, or increasing risk appetite - particularly at Nykredit Bank A/S- would also put negative pressure on the ratings.

## Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of Nykredit's ratings is unlikely in light of the bank's limited size, business model and geographical diversification.

## OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

### Short-Term IDR

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+'.

### Derivative Counterparty Rating, Deposits and Senior Debt

Nykredit's long-term senior preferred debt rating of 'AA-' is one notch above its Long-Term IDR. This reflects the protection that accrues to senior preferred creditors from the bank's junior bank resolution debt and equity buffers. The short-term senior preferred debt rating of 'F1+' is mapped from the respective long-term rating and reflects our assessment of the bank's funding and liquidity.

We expect Nykredit's resolution debt buffer to remain comfortably above 10% of RWAs in the long term. It was 16% of RWAs at end-September 2024. For the same reason, Nykredit's long-term senior non-preferred debt is equalised with the Long-Term IDR, reflecting Fitch's view that the default risk of the notes is equivalent to that of the IDR and their average recovery prospects.

Nykredit's Tier 2 subordinated debt and additional Tier 1 (AT1) securities are notched down from Nykredit's VR. We rate the Tier 2 debt two notches below the VR to reflect the poor recovery prospects of this type of debt. The AT1 securities are four notches below the VR to reflect the poor recovery prospects of these securities (two notches) as well as their high risk of non-performance (two notches). Our assessment is based on the bank operating with a CET1 ratio that is comfortably above maximum distributable amounts thresholds, and our expectation that this will continue.

**No Government Support:** Nykredit's Government Support Rating (GSR) of 'no support' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign if the bank becoming non-viable. The EU's Bank Recovery and Resolution Directive provides a framework for resolving banks that requires 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

The Short-Term IDR is sensitive to changes in Nykredit's Long-Term IDR and the funding and liquidity score.

Nykredit's senior preferred and non-preferred debt ratings are sensitive to changes in the bank's IDRs. They are also sensitive to our expectation that Nykredit will maintain, on a sustained basis, a buffer of subordinated and senior non-preferred debt of at least 10% of adjusted RWAs, and could be downgraded otherwise.

The ratings of Nykredit's AT1 securities and Tier 2 subordinated debt are sensitive to changes in its VR. The ratings of the AT1 securities are also sensitive to Fitch's assessment of their incremental non-performance risk relative to the risk captured in Nykredit's 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 A/S's IDR and Shareholder Support Rating have been upgraded to 'A+' from 'A' and 'a+' from 'a', respectively. They are aligned with Nykredit's IDRs. This reflects a very high probability of support from Nykredit, if needed, in light of the subsidiary's core role within the group and high reputational risk for Nykredit if Nykredit Bank A/S defaults. We have not assigned a VR to Nykredit Bank A/S 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 A/S's long- and short-term deposit ratings have been upgraded to 'AA-' from 'A+' and 'F1+' from 'F1', respectively. The long-term deposit rating is rated one notch above its Long-Term IDR, because Fitch expects preferred creditors to be protected by Nykredit's resolution buffers. The short-term deposit rating is mapped to the respective long-term rating.

The ratings of Nykredit Bank's short-term senior preferred debt programme have also been upgraded to 'F1+' from 'F1' as it is mapped to its long-term rating and also reflect our assessment of the group's funding and liquidity.

## SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

Nykredit Bank A/S's ratings are sensitive to changes in Nykredit's ratings.

## VR ADJUSTMENTS

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).

## 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 A/S's ratings are linked to the ratings of Nykredit.

## ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

## Fitch Ratings Analysts

**Markus Glabach**
Director
Primary Rating Analyst
+49 69 768076 195
Fitch Ratings – a branch of Fitch Ratings Ireland Limited Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

**Erik Brasar**
Senior Analyst
Secondary Rating Analyst
+46 85024 8687

**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 |
|---|---|---|---|

| ENTITY/DEBT | RATING | | | RECOVERY | PRIOR |
|---|---|---|---|---|---|
| Nykredit Realkredit A/S | LT IDR | A+ | Upgrade | | A |
| | ST IDR | F1 | Affirmed | | F1 |
| | Viability | a+ | Upgrade | | a |
| | Government Support | ns | Affirmed | | ns |
| • Senior non-preferred | LT | A+ | Upgrade | | A |
| • Senior preferred | LT | AA- | Upgrade | | A+ |
| • subordinated | LT | A- | Upgrade | | BBB+ |
| • subordinated | LT | BBB | Upgrade | | BBB- |
| • Senior preferred | ST | F1+ | Upgrade | | F1 |
| Nykredit Bank A/S | LT IDR | A+ | Upgrade | | A |
| | ST IDR | F1 | Affirmed | | F1 |
| | Shareholder Support | a+ | Upgrade | | a |
| • long-term deposits | LT | AA- | Upgrade | | A+ |

| ENTITY/DEBT | RATING | | | RECOVERY | PRIOR |
|---|---|---|---|---|---|
| • short-term deposits | ST | F1+ | Upgrade | | F1 |
| • Senior preferred | ST | F1+ | Upgrade | | F1 |

| RATINGS KEY | OUTLOOK | WATCH |
|---|---|---|
| POSITIVE | | |
| NEGATIVE | | |
| EVOLVING | | |
| STABLE | | |

## Applicable Criteria

Bank Rating Criteria (pub.15 Mar 2024) (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

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 neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.



## 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.