

Nykredit Realkredit A/S

Update

Key Rating Drivers

Leading Franchise: Nykredit Realkredit A/S 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) and wealth management 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 rating strength, underpinned by low arrears and defaults, prudent collateralisation and underwriting standards, contained growth and low levels of loan impairment charges (LICs) through the cycle. At end-March 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, and concentration risks.

These would have been sufficient to absorb credit losses of 18bp of loans. We expect the impaired loans ratio to remain strong at 1.3% at end-2024 (end-March 2024: 1.2%), despite the economic slowdown.

Moderate Profitability: The bank's results benefit from healthy and recurring revenue, tight cost control, and historically contained LICs. We expect the operating profit/risk-weighted assets (RWAs) ratio to be close to 3% in 2024, and to reduce below 3% in 2025. This mainly reflects pressure on the net interest income (NII) from declining interest rates.

Robust Capitalisation: Nykredit's capitalisation is underpinned by its low-risk business model, limited exposure to high-risk assets, a solid capital surplus over regulatory minimums and potential ordinary support from its majority shareholder, Forenet Kredit. The bank has sufficient cushion to absorb higher capital requirements and RWA inflation stemming from the implementation of Basel IV. Its regulatory leverage ratio of about 5% is acceptable, and comparable to that of similarly rated banks.

Low Refinancing Risk: Nykredit relies extensively on wholesale funding as mortgage lending is, by law, entirely funded by covered bonds in Denmark. We believe the risk of Nykredit not being able to access the covered bond market is low due to strong demand for these bonds from Danish financial institutions, insurance companies and pension funds. Refinancing risk is mitigated by the bank's low share of short-term debt maturities and significant liquidity.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1

Viability Rating a

Government Support Rating ns

Sovereign Risk (Denmark)

Long-Term Foreign-Currency IDR AAA

Long-Term Local-Currency IDR AAA

Country Ceiling AAA

Outlooks

Long-Term Foreign-Currency IDR Stable

Sovereign Long-Term Foreign-Currency IDR Stable

Sovereign Long-Term Local-Currency IDR Stable

Applicable Criteria

[Bank Rating Criteria \(March 2024\)](#)

Related Research

[Global Economic Outlook \(June 2024\)](#)

[What Investors Want to Know: The Moving Parts of Nordic CRE and the Impact on Banks \(June 2024\)](#)

[Fitch Affirms Denmark at 'AAA'; Outlook Stable \(May 2024\)](#)

[Fitch Affirms Nykredit Realkredit A/S at 'A'; Outlook Stable \(September 2023\)](#)

Analysts

Markus Glabach
+49 69 768076 195
markus.glabach@fitchratings.com

Erik Brasar
+46 85024 8687
erik.brasar@fitchratings.com

Rating Sensitivities

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

Fitch believes the bank's financial profile is likely to remain resilient against the current economic slowdown, with limited asset-quality deterioration and manageable LICs. We would downgrade Nykredit's ratings if we expect its impaired loans ratio to increase durably above 2.5% and its common equity Tier (CET1) capital ratio to durably shrink below 14%. This could be due to a more severe and prolonged economic downturn than we expect.

Negative pressure on the ratings would also arise from an adverse change in investor sentiment, materially affecting Nykredit's ability to access competitively priced funding or from weaker liquidity management. Increased reliance on international debt investors who may prove less stable during financial stress, or increasing risk appetite – particularly at Nykredit Bank – would also put negative pressure on the ratings.

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

An upgrade of Nykredit's ratings would be contingent on a strengthened, and sustainable, earnings contribution by Nykredit Bank that translates into materially stronger earnings capacity for the group.

Other Debt and Issuer Ratings

Rating Level	Rating
Senior preferred	A+/F1
Senior non-preferred	A
Subordinated debt and Tier 2 capital notes	BBB+
Additional Tier 1 notes	BBB-

Source: Fitch Ratings

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 'A+' 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. At end-March 2024, the buffer was 14% of RWAs. 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 its 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 comfortably above maximum distributable amounts thresholds, and our expectation that this will continue.

Significant Changes from Last Review

Since the last review in December 2023, Nykredit's performance has been strong and above our expectations. Nykredit Bank has also organically increased assets under management by 13% (yoy) to almost DKK500 billion, driven by both net inflows and positive value adjustments.

The annualised operating profit/RWAs ratio was a high 4.1% in 1Q24, supported by strong NII and reversals of LICs. NII peaked in 4Q23, falling by 3% in 1Q24 due to compression of net interest margins, mainly at Nykredit Bank, but also to weaker administration margin income. We expect NII to contract further in light of recent and upcoming interest rate cuts affecting interest margins at Nykredit Bank. Administration margin income in mortgage lending is not directly sensitive to interest rates as covered bond investors carry the interest rate risk. We forecast Nykredit's

operating profit/RWAs ratio at about 3% in 2024, which is commensurate with the bank's guidance, which was raised in connection with the publishing of the 1Q24 interim report.

Operating expenses have remained broadly stable yoy, reflecting Nykredit's efficient cost management. The cost/income ratio of 27% in 1Q24 is strong by international standards and meets the bank's target of below 40%.

Asset quality has remained stable within both mortgage and bank lending, and group's impaired loans ratio stood at 1.2% at end-March 2024. Nykredit made net reversals of loan loss provisions, but still maintains prudent buffers to cushion potential asset quality pressures.

The Danish housing market has performed well, with housing prices growing by about 3.5% in 2023. Fitch forecasts Danish housing prices to grow by 1%–3% in 2024 and 2%–4% in 2025, supported by low unemployment and high wage growth. However, the new property tax regime could slow house price growth in large urban areas.

Capitalisation remained strong, with a CET1 ratio of 20.5% at end-March 2024 compared with its 12.9% requirement and 500bp above Nykredit's target. The bank estimates the implementation of a sector-specific systemic risk buffer on commercial real estate exposures will increase the requirement by a small 70bp. Deposit volumes in Nykredit bank fell in 1Q24 compared to the previous quarter, but the subsidiary maintains its deposit surplus over lending.

Ratings Navigator

Nykredit Realkredit A/S							ESG Relevance:	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%	aaa	aaa	aaa	AAA
							aa+	aa+	aa+	AA+
							aa	aa	aa	AA
							aa-	aa-	aa-	AA-
							a+	a+	a+	A+
							a	a	a	A Sta
							a-	a-	a-	A-
							bbb+	bbb+	bbb+	BBB+
							bbb	bbb	bbb	BBB
							bbb-	bbb-	bbb-	BBB-
							bb+	bb+	bb+	BB+
							bb	bb	bb	BB
							bb-	bb-	bb-	BB-
							b+	b+	b+	B+
							b	b	b	B
							b-	b-	b-	B-
							ccc+	ccc+	ccc+	CCC+
							ccc	ccc	ccc	CCC
							ccc-	ccc-	ccc-	CCC-
							cc	cc	cc	CC
							c	c	c	C
							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

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

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

Financials

Financial Statements

	31 Mar 24		31 Dec 23	31 Dec 22	31 Dec 21
	3 months - 1st quarter (USDm)	3 months - 1st quarter (DKKm)	Year end (DKKm)	year end (DKKm)	Year end (DKKm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	628	4,332	15,973	12,394	11,440
Net fees and commissions	14	95	134	88	174
Other operating income	237	1,637	4,354	5,271	5,345
Total operating income	879	6,064	20,461	17,753	16,959
Operating costs	239	1,647	6,555	6,319	6,340
Pre-impairment operating profit	641	4,417	13,906	11,434	10,619
Loan and other impairment charges	-8	-53	-177	-80	-115
Operating profit	648	4,470	14,083	11,514	10,734
Other non-operating items (net)	0	0	0	0	0
Tax	134	926	3,191	2,060	1,864
Net income	514	3,544	10,892	9,454	8,870
Other comprehensive income	2	14	6	-72	-18
Fitch comprehensive income	516	3,558	10,898	9,382	8,852
Summary balance sheet					
Assets					
Gross loans	211,946	1,461,476	1,458,691	1,388,603	1,466,970
- of which impaired	2,501	17,249	15,815	17,053	22,450
Loan loss allowances	1,235	8,517	8,699	9,051	9,270
Net loans	210,711	1,452,959	1,449,992	1,379,552	1,457,700
Interbank	1,841	12,697	3,004	3,416	3,795
Derivatives	882	6,084	6,663	8,004	16,935
Other securities and earning assets	20,404	140,697	145,825	147,180	145,265
Total earning assets	233,839	1,612,437	1,605,484	1,538,152	1,623,695
Cash and due from banks	6,815	46,993	61,056	49,659	40,129
Other assets	2,142	14,771	15,065	12,318	9,649
Total assets	242,796	1,674,201	1,681,605	1,600,129	1,673,473
Liabilities					
Customer deposits	15,528	107,071	114,208	107,392	92,697
Interbank and other short-term funding	2,740	18,896	18,209	34,117	33,126
Other long-term funding	204,123	1,407,527	1,407,664	1,326,347	1,433,654
Trading liabilities and derivatives	2,251	15,525	15,956	19,164	8,781
Total funding and derivatives	224,642	1,549,019	1,556,037	1,487,020	1,568,258
Other liabilities	3,770	25,995	24,562	16,280	11,624
Preference shares and hybrid capital	551	3,800	3,759	3,751	3,729
Total equity	13,833	95,387	97,247	93,078	89,862
Total liabilities and equity	242,796	1,674,201	1,681,605	1,600,129	1,673,473
Exchange rate		USD1 = DKK6.8955	USD1 = DKK6.764	USD1 = DKK6.994	USD1 = DKK6.5749

Source: Fitch Ratings, Fitch Solutions, Nykredit

Key Ratios

	31 Mar 24	31 Dec 23	31 Dec 22	31 Dec 21
(%)				
Profitability				
Operating profit/risk-weighted assets	4.1	3.3	2.6	2.7
Net interest income/average earning assets	1.1	1.0	0.8	0.7
Non-interest expense/gross revenue	27.2	32.1	35.6	37.4
Net income/average equity	14.8	11.6	10.5	10.1
Asset quality				
Impaired loans ratio	1.2	1.1	1.2	1.5
Growth in gross loans	0.2	5.1	-5.3	2.4
Loan loss allowances/impaired loans	49.4	55.0	53.1	41.3
Loan impairment charges/average gross loans	-0.0	-0.0	-0.0	-0.0
Capitalisation				
Common equity Tier 1 ratio	20.5	20.4	19.5	20.6
Tangible common equity/tangible assets	5.6	5.7	5.7	5.2
Basel leverage ratio	5.1	5.1	5.1	4.8
Net impaired loans/common equity Tier 1	9.8	8.0	9.3	15.9
Funding and liquidity				
Gross loans/customer deposits	1,365.0	1,277.2	1,293.0	1,582.5
Gross loans/customer deposits + covered bonds	101.3	100.7	101.9	100.8
Liquidity coverage ratio	568.0	310.0	283.0	591.0
Customer deposits/total non-equity funding	6.9	7.4	7.3	5.9
Net stable funding ratio	156.0	147.0	149.0	157.0

Source: Fitch Ratings, Fitch Solutions, Nykredit

Support Assessment

Commercial Banks: Government Support

Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a+ to a-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns

Government ability to support D-SIBs

Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive

Government propensity to support D-SIBs

Resolution legislation	Negative
Support stance	Neutral

Government propensity to support bank

Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

Nykredit's Government Support Rating of 'ns' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event of the bank becoming non-viable. The EU's Bank Recovery and Resolution Directive provides a framework for resolving banks that will require senior creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

Subsidiaries and Affiliates

Nykredit Bank A/S

Rating Level	Rating
Long-Term IDR	A/Stable
Short-Term IDR	F1
Shareholder Support Rating	a
Short term senior unsecured debt	F1
Long- and short-term deposit ratings	A+/F1

Source: Fitch Ratings

Nykredit Bank's IDRs and Shareholder Support Rating 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 defaults. We have not assigned a VR to Nykredit Bank because it does not have a meaningful standalone franchise that could exist without the ownership of the parent given the close integration into the larger group.

Nykredit Bank's long-term deposits are rated one notch above its Long-Term IDR, because Fitch expects preferred creditors to be protected by Nykredit's resolution buffers.

Nykredit Bank's short-term senior preferred debt and deposit ratings are mapped to their respective long-term ratings and also reflect our assessment of the group's funding and liquidity.

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

Environmental, Social and Governance Considerations

FitchRatings Nykredit Realkredit A/S

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Nykredit Realkredit A/S has 5 ESG potential rating drivers ➔ Nykredit Realkredit A/S has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. ➔ Governance is minimally relevant to the rating and is not currently a driver.	key driver	0	issues	5	
	driver	0	issues	4	
	potential driver	5	issues	3	
	not a rating driver	4	issues	2	
		5	issues	1	

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact. Scores of 3, 4 or 5) and provides a brief explanation for the score.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific issues draw on the classification standards published by the United Nations' Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance	CREDIT-RELEVANT ESG SCALE How relevant are E, S and G issues to the overall credit rating?
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5	5 Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4	4 Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3	3 Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2	2 Irrelevant to the entity rating but relevant to the sector.
				1	1 Irrelevant to the entity rating and irrelevant to the sector.

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>.

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