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Fitch Affirms Realkredit Danmark at 'A+'; Outlook Stable

Fitch Ratings - Warsaw - 22 Nov 2024: Fitch Ratings has affirmed Realkredit Danmark A/S's Long-Term Issuer Default Rating (IDR) at 'A+' The Outlook is Stable. Fitch has also affirmed the Viability Rating (VR) at 'a'. A full list of rating actions is below.

Key Rating Drivers

Support-Driven IDRs: Realkredit Danmark's IDRs and Shareholder Support Rating (SSR) reflect Fitch's view of a very high probability of support from Danske Bank A/S (A+/Stable), if ever required. The Stable Outlook on Realkredit Danmark's Long-Term IDR mirrors that on the parent.

Shareholder Support: In Fitch's view, Danske has a very high propensity to support Realkredit Danmark, given the latter's role as the group's domestic mortgage provider (about 40% of the group's total loans). This is because mortgage lending is an integral part of Danske's domestic business.

We also take into consideration the high level of management and operational integration, and capital and funding fungibility between Danske and Realkredit Danmark. We believe any potentially required support could be material, albeit manageable, relative to Danske's ability to provide it. Realkredit Danmark is exempt from bail-in and subsequently MREL, but it must observe its own debt buffer requirement, which comprises equity and bonds issued to the parent.

Strong Intrinsic Creditworthiness: Realkredit Danmark's VR reflects its low risk appetite and strong asset-quality metrics, which balance its monoline business model and undiversified but stable earnings. They also reflect Realkredit Danmark's entrenched mortgage lending franchise in Denmark, strong capitalisation and manageable reliance on wholesale funding.

Low Risk Profile: Credit risk exposure solely comprises mortgage lending, with tight underwriting standards underpinned by conservative Danish covered bond and mortgage lending legislation. Realkredit Danmark's loan book is geographically concentrated in Denmark and strongly linked to the performance of the Danish economy and real estate market.

Strong Asset Quality: Realkredit Danmark'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. We expect Realkredit Danmark's impaired loan ratio of 1.1% at end-June 2024 to remain broadly stable over 2024-2025, while LICs should be very low.

Stable Earnings: Realkredit Danmark's profitability is weaker than that of similarly-rated banks as its

income almost solely relies on lending. However, the lack of revenue diversification is offset by limited credit losses and robust cost efficiency. We expect Realkredit Danmark's operating profit to remain broadly stable at around 3.5% of risk-weighted assets (RWAs) over 2H24-2025. This is because we expect slightly decreasing net interest income from its securities portfolio, which is offset by lower LICs.

Strong Capitalisation: Realkredit Danmark's capitalisation is underpinned by its low-risk business model and solid capital surplus over regulatory minimums. We also consider Realkredit Danmark's high product concentration and potential ordinary capital support from the parent. Capital fungibility across the Danske group is constrained by Realkredit Danmark's standalone prudent capital requirements.

Solely Wholesale Funded: Realkredit Danmark relies exclusively on wholesale funding. This is because of the matched funding and a pass-through principle for payments for Danish mortgage banks, which may only be achieved by the issuance of covered bonds. We believe the risk of Realkredit Danmark 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 also mitigated by the bank's good liquidity buffer and potential ordinary support from Danske, if needed.

Rating Sensitivities

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

Realkredit Danmark's IDR and SSR would be downgraded if Danske's IDR was downgraded, as Realkredit's ratings are driven by institutional support. Realkredit Danmark's IDR and SSR are also sensitive to a weakening of Danske's propensity to support the subsidiary, for example, if Realkredit Danmark became a less strategic entity for the group, or if the entity became significantly less integrated within the group, which we do not expect.

We would downgrade Realkredit Danmark's VR if we expected its impaired loans ratio to increase durably above 2.5% and its common equity Tier 1 (CET1) ratio to shrink durably below 14%.

An adverse change in investor sentiment requiring extraordinary support from the parent, due to a material weakening of Realkredit Danmark's ability to access competitively priced covered-bond funding, would be negative for the bank's VR. An increased reliance on international debt investors, that could prove less stable during periods of financial stress, would also put negative pressure on the ratings.

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

Realkredit Danmark's IDR and SSR could be upgraded if Danske's IDR was upgraded, assuming Realkredit Danmark retains its important role within the group.

Realkredit Danmark's VR is constrained by its limited product range. In the longer term, an upgrade would be contingent on the bank broadening its product offering, providing it with significantly more diversified revenue streams.

VR ADJUSTMENTS

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

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

Realkredit Danmark's ratings are linked to the ratings of its parent, Danske.

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>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Realkredit Danmark A/S	LT IDR	A+ 	Affirmed	A+ 
	ST IDR	F1	Affirmed	F1
	Viability	a	Affirmed	a
	Shareholder Support	a+	Affirmed	a+

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.15 Mar 2024\) \(including rating assumption sensitivity\)](#)

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