

Realkredit Danmark A/S

Update

Key Rating Drivers

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

Shareholder Support: In Fitch's view, Danske has a very high propensity to support Realkredit, given the latter's role as the group's domestic mortgage provider (about 40% of the group's total loans). Mortgage lending is an integral part of Danske's domestic business and, as a result, a potential default of Realkredit would constitute huge reputational risk for Danske, and would materially hurt its domestic franchise.

We also take into consideration the high level of management and operational integration, and capital and funding fungibility between Danske and Realkredit. We believe any potentially required support could be material, albeit manageable, relative to Danske's ability to provide it. Realkredit is not included in Danske's single-point-of-entry resolution strategy, but it must observe its own bail-in-able debt buffer requirement, which comprises equity and bonds issued to the parent.

Strong Intrinsic Creditworthiness: Realkredit'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'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. Its 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'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's impaired loan ratio to remain broadly stable around 1.1% in 2H24, while LICs should be very low.

Stable Earnings: Realkredit'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's operating profit to remain broadly stable at around 3.7% of risk-weighted assets (RWAs) in 2H24. This is because we expect slightly decreasing net interest income (NII) from its securities portfolio, which is offset by lower LICs.

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

Solely Wholesale Funded: Realkredit 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 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.

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1

Viability Rating	a
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Shareholder Support Rating	a+
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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 \(June 2024\)](#)

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

[Fitch Upgrades Realkredit to 'A+'; Outlook Stable \(September 2023\)](#)

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Rating Sensitivities

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

Realkredit's IDR and SSR would be downgraded if Danske's IDR were downgraded, as Realkredit's ratings are driven by institutional support. Realkredit's IDR and SSR are also sensitive to a weakening of Danske's propensity to support the subsidiary, for example, if Realkredit 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'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's ability to access competitively priced covered-bond funding, would be negative for the bank's VR. An increased reliance on international debt investors, who 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's IDR and SSR could be upgraded if Danske's IDRs were upgraded, assuming Realkredit retains its important role within the group.

Realkredit'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.

Significant Changes from Last Review

Realkredit's performance in the first half of 2024 was solid, in line with the banks' ratings and Fitch's expectations. Realkredit's operating profit to RWAs was stable at 3.7% relative to 1H23, as higher NII was offset by higher loan impairment charges.

The still high interest rates in combination with repricing of the securities portfolio have strengthened NII, while the administrative margin on mortgage loans remained broadly stable. Interest-rate cycles have a limited impact on net interest income because the income from mortgage lending is not directly linked to market interest rates. We expect NII to decrease slightly from current high levels, as the securities portfolio is reinvested at lower yields.

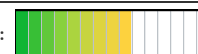
Asset quality at Realkredit remains strong and performed slightly better than our expectations. The impaired loans ratio of 1.1% at end-June 2024 remained stable from end-2023. LICs remained low at about 6bp of gross loans in 1H24, having no material impact on earnings. The LICs were largely driven by a model adjustment and a net increase in post-model adjustments related to the agriculture segment to counter potential CO2 taxation. We expect LICs to remain muted in 2H24.

Fitch forecasts nominal home price growth of low-single digits in 2024 and 2025, following the positive trend since 2023. This will be driven by low unemployment, higher real wages while mortgage rates stabilise in 2024 and fall in 2025. Higher nominal disposable income and lower inflation will alleviate affordability and boost housing demand. Additionally, property supply lagging behind demand due to increasing construction costs supports the upward price trend for 2024 and 2025. However, the introduction of the new property tax regime from January 2024 could limit the growth in home prices, especially for flats in large urban areas.

Ratings Navigator

Realkredit Danmark A/S

ESG Relevance:



Banks
Ratings Navigator

	Operating Environment	Business Profile	Financial Profile				Implied Viability Rating	Viability Rating	Shareholder Support	Issuer Default Rating
			Risk Profile	Asset Quality	Earnings & Profitability	Capitalisation & Leverage				
		20%	10%	20%	15%	25%	10%			
aaa										AAA
aa+										AA+
aa										AA
aa-										AA-
a+										A+ Sta
a										A
a-										A-
bbb+										BBB+
bbb										BBB
bbb-										BBB-
bb+										BB+
bb										BB
bb-										BB-
b+										B+
b										B
b-										B-
ccc+										CCC+
ccc										CCC
ccc-										CCC-
cc										CC
c										C
f										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' 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).

Financials

Summary Financials

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	6 months - interim (USDm)	6 months - interim (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	459	3,195	6,257	6,110	6,285
Net fees and commissions	8	53	-70	18	-127
Other operating income	52	361	717	-152	-191
Total operating income	518	3,609	6,904	5,976	5,967
Operating costs	73	511	1,055	1,105	995
Pre-impairment operating profit	445	3,098	5,849	4,871	4,972
Loan and other impairment charges	33	227	-114	212	269
Operating profit	412	2,871	5,963	4,659	4,703
Tax	107	742	1,569	1,033	1,034
Net income	306	2,129	4,394	3,626	3,669
Other comprehensive income	0	1	-48	-21	13
Fitch comprehensive income	306	2,130	4,346	3,605	3,682
Summary balance sheet					
Assets					
Gross loans	107,292	747,436	756,559	727,504	813,477
- Of which impaired	1,138	7,925	8,017	8,858	17,139
Loan loss allowances	415	2,894	2,716	2,862	2,930
Net loans	106,876	744,542	753,843	724,642	810,547
Interbank	119	830	3,543	3,149	14,969
Derivatives	1	10	31	114	40
Other securities and earning assets	6,897	48,045	49,580	46,722	46,435
Total earning assets	113,893	793,427	806,997	774,627	871,991
Cash and due from banks	1,608	11,200	8,075	5,612	3,674
Other assets	261	1,820	1,191	1,989	1,334
Total assets	115,762	806,447	816,263	782,228	876,999
Liabilities					
Interbank and other short-term funding	287	2,000	2,000	2,000	2,000
Other long-term funding	107,148	746,434	756,509	724,105	820,950
Trading liabilities and derivatives	4	25	233	14	16
Total funding and derivatives	107,438	748,459	758,742	726,119	822,966
Other liabilities	809	5,635	7,298	6,632	4,561
Total equity	7,515	52,353	50,223	49,477	49,472
Total liabilities and equity	115,762	806,447	816,263	782,228	876,999
Exchange rate		USD1 = DKK6.9664	USD1 = DKK6.764	USD1 = DKK6.994	USD1 = DKK6.5749

Source: Fitch Ratings, Fitch Solutions, Realkredit

Key Ratios

	30 Jun 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (% , annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.7	3.7	2.9	2.6
Net interest income/average earning assets	0.8	0.8	0.8	0.7
Non-interest expense/gross revenue	14.2	15.3	18.5	16.7
Net income/average equity	8.4	8.9	7.4	7.6
Asset quality				
Impaired loans ratio	1.1	1.1	1.2	2.1
Growth in gross loans	-1.2	4.0	-10.6	-0.8
Loan loss allowances/impaird loans	36.5	33.9	32.3	17.1
Loan impairment charges/average gross loans	0.1	0.0	0.0	0.0
Capitalisation				
Common equity Tier 1 ratio	31.6	31.1	28.6	24.9
Tangible common equity/tangible assets	6.5	6.2	6.3	5.6
Basel leverage ratio	6.1	6.0	5.7	5.1
Net impaired loans/common equity Tier 1 capital	10.1	10.6	13.2	31.1
Funding and liquidity				
Gross loans/customer deposits + covered bonds	100.1	100.0	100.5	99.1

Source: Fitch Ratings, Fitch Solutions, Realkredit

Support Assessment

Shareholder Support	
Parent IDR	A+
Total Adjustments (notches)	0
Shareholder Support Rating	a+
Shareholder ability to support	
Shareholder Rating	A+/ Stable
Shareholder regulation	Equalised
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	Equalised
Support record	Equalised
Subsidiary performance and prospects	Equalised
Legal commitments	2+ Notches

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

Higher influence Moderate influence Lower influence

Realkredit's SSR is equalised with Danske's Long-Term IDR. We believe Danske would have a strong propensity to provide extraordinary support as we consider Realkredit a core and integral part of the group. Danske originates all mortgage loans in Denmark through Realkredit and overall mortgage lending represents the majority of all domestic lending. Realkredit's management and corporate culture are highly integrated into Danske's, and Realkredit shares some central functions and distribution channels with its parent bank, which we regard as ordinary support. Realkredit also benefits from shared risk-management practices within the group. Any support required for Realkredit would be likely to be manageable relative to the ability of Danske to provide it.

Environmental, Social and Governance Considerations

FitchRatings Realkredit Danmark A/S

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Realkredit Danmark A/S has 5 ESG potential rating drivers ➔ Realkredit Danmark 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.

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.

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

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	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	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	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	Irrelevant to the entity rating but relevant to the sector.
				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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