

Scope Ratings affirms Realkredit Danmark's A+ Issuer rating with a Negative Outlook

Realkredit Danmark's rating and outlook are aligned with those of its parent, Danske Bank A/S, within which it is closely integrated. The outlook on all ratings is Negative.

Rating action

Scope Ratings has affirmed the A+ Issuer rating and S-1+ Short-term debt rating of Realkredit Danmark A/S ("Realkredit"). The Outlook on all ratings remains negative.

Rating rationale

The ratings of Realkredit are aligned with its parent company Danske Bank A/S ("Danske Bank"). The negative outlook reflects concerns triggered by the alleged money laundering activity by clients of Danske Bank's Estonian operations (ESG Factor). Realkredit has no direct exposure to these events, though it is indirectly affected by the reputational fall-out that has contributed to a fall in market share in Denmark.

Realkredit's stand-alone financial profile is supported by strong asset quality, high capitalisation and its position as a major covered bond issuer in Denmark. Scope considers the well-tested pass-through funding model a key strength of Realkredit's credit profile. Nevertheless, falling margins and market share put pressure on its financial performance at a time when prudential requirements are rising.

Nordic countries have weathered the Covid-related growth disruption well compared to other regions in Europe. This is reflected in Realkredit's asset quality that remains supported by low and stable LTVs across its portfolio. The credit quality of the commercial real estate assets, such as retail, rental and tourism properties, could weaken in the future but at this stage the risks appear well contained.

Rating drivers

RD is a core subsidiary of the Danske Bank group, and closely integrated into it, with a consistent strategy and risk management principles. The parent company provides a first loss guarantee for a substantial number of mortgages originated through its own network.

A solid risk position as Denmark's second largest mortgage lender, provides Realkredit with a strong starting point to withstand the economic recession, though asset quality could weaken in commercial real estate.

Realkredit is dependent on wholesale funding; however, Denmark's covered bond market is well-established and liquid, with a broad range of domestic and international investors.

Profitability has been under pressure due to falling margins that Realkredit struggles to offset because it has limited ability to grow volume in a mature market or reduce an already very low cost base. RoE will remain under pressure from rising regulatory requirements, elevated impairments and falling market share.

Rating-change drivers

Realkredit's Issuer Rating is aligned to that of its parent; therefore, any change is likely to lead to a concurrent change for Realkredit.

Weakening of Realkredit's positioning as a core subsidiary within the Danske Bank Group.

Material weakening in Realkredit's standalone financial position and market share in Denmark. This would be of concern if coupled with any sign of reduced parent commitment.

Stress testing & cash flow analysis

No stress testing was performed. No cash flow analysis was performed.

Methodology

The methodology/ies used for this rating(s) and/or rating outlook(s) (Bank Rating Methodology, 4 May 2020) is available on <https://www.scooperatings.com/#!/methodology/list>.

Information on the meaning of each rating category, including definitions of default and recoveries can be viewed in the "Rating Definitions - Credit Ratings and Ancillary Services" published on <https://www.scooperatings.com/#!/governance-and-policies/rating-scale>. Historical default rates of the entities rated by Scope Ratings can be viewed in the rating performance report on <https://www.scooperatings.com/#!/governance-and-policies/regulatory-ESMA>. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope's definitions of default and rating notations can be found at <https://www.scooperatings.com/#!/governance-and-policies/rating-scale>. Guidance and information on how Environmental, Social or Governance factors (ESG factor) are incorporated into the rating can be found in the respective sections of the methodologies or guidance documents provided on <https://www.scooperatings.com/#!/methodology/list>.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The rated entity and/or its agents participated in the rating process.

The following substantially material sources of information were used to prepare the credit rating: public domain, the rated entity and Scope internal sources.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the rating or outlook action, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0.

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The ratings/outlooks were first released by Scope on 29 August 2018. The ratings/outlooks were last updated on 27 September 2018.

Potential conflicts

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