

Scope affirms Realkredit Danmark's issuer rating at A+ with a Negative Outlook

Realkredit Danmark's rating and Outlook are aligned with those of its parent, Danske Bank A/S, with which it is closely integrated.

Rating action

Scope Ratings GmbH (Scope) has affirmed the A+ issuer rating and S-1+ short-term debt rating of Realkredit Danmark A/S (RD). The Outlook on all ratings remains Negative.

Rating rationale

The ratings of RD are aligned with that of its parent company Danske Bank A/S (Danske). The Negative Outlook reflects concerns triggered by the alleged money laundering by clients of Danske's Estonian operations (ESG factor). RD has no direct exposure to these events, but indirect effects from the reputational fall-out has contributed to a fall in its Danish market share.

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

Nordic countries have weathered the Covid-related growth disruption better than other regions in Europe. This is reflected in RD's asset quality, which remains supported by the low and stable loan-to-value ratios across its portfolio. The credit quality of the commercial real estate assets, such as retail, rental and tourism properties, could still weaken but the risks appear well contained at this stage. A solid risk position as Denmark's second largest mortgage lender provides RD with a strong starting point to withstand the current recession, though asset quality could weaken in commercial real estate.

RD 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, which RD struggles to offset because it has a limited ability to grow volume in its mature market or reduce an already very low cost base. Return on equity will also remain under pressure from rising regulatory requirements, increasing impairments and the falling market share.

Rating drivers

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

Rating-change drivers

- As RD's issuer rating is aligned with that of its parent, any change for the parent is likely to lead to a concurrent change for RD.
- Weakening of RD's positioning as a core subsidiary within Danske Group.
- Material weakening in RD's standalone financial position and market share in Denmark. This would be of concern if coupled with any sign of reduced parent commitment.

Overview of the rating construct

Operating environment: not applicable

Business model: not applicable

Initial mapping refinement: not applicable

Initial mapping: not applicable

Long-term sustainability: not applicable

Adjusted anchor: not applicable

Earnings capacity and risk exposures: not applicable

Financial viability management: not applicable

Additional rating factors: not applicable

Standalone assessment: not applicable

External support: group membership (fully integrated subsidiary)

Issuer rating: A+

One or more key drivers for the credit rating action are considered ESG factors.

Stress testing and cash flow analysis

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

Methodology

The methodology used for these Credit Ratings and Outlooks, (Bank Rating Methodology, 26 January 2021), is available on <https://www.scooperatings.com/#!/methodology/list>.

Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be

viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other 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 Credit Rating performance report at <https://www.scooperatings.com/#governance-and-policies/regulatory-ESMA>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerrep.esma.europa.eu/cerrep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit 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 factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://www.scooperatings.com/#!methodology/list>.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting these Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and Outlooks and the principal grounds on which the Credit Ratings and Outlooks are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

These Credit Ratings and Outlooks are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and Outlooks are UK-endorsed.

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The Credit Ratings/Outlooks were first released by Scope Ratings on 29 August 2018. The Credit Ratings/Outlooks were last updated on 19 August 2020.

Potential conflicts

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