

Realkredit Danmark A/S

Key Rating Drivers

Standalone Strength Drives Ratings: Realkredit Danmark A/S's (RD) ratings reflect the bank's strong domestic franchise as Denmark's second-largest mortgage lender, its strong capitalisation and resilient asset quality. However, the ratings are constrained by the bank's monoline business model and wholesale funding reliance. The risks associated with the latter are mitigated by a large, deep and liquid domestic covered bond market, and access to funding from its parent, if needed.

Contagion Risk from Parent: RD shares some central functions and distribution channels with its parent, Danske Bank A/S (A/Negative/a). RD's risk profile has been relatively unaffected by the Estonian money-laundering issues affecting Danske. However, given that we believe that capital is, to some extent, fungible between Danske and RD, we are likely to retain the Viability Ratings (VRs) within one notch of each other.

Low-Risk Loan Portfolio: RD's low-risk appetite and prudent underwriting standards support the bank's asset quality. The bank's assets are the majority of Danske's mortgage loan exposure. The loan book remains well collateralised and has performed very well in the wake of the financial crisis. The impaired loans-to-gross loans ratio was 1.4% at end-September 2019. Fitch Ratings expects the quality of this portfolio to remain strong, supported by a strong and stable Danish economy.

Low, but Stable Profitability: RD's profitability reflects its low-margin, low-risk mortgage lending business, resilient revenue generation, tight cost control and a continued focus on underwriting.

Entirely Wholesale-Funded: RD is almost solely funded through Danish mortgage bonds. Refinancing risks are reduced given the supportive dynamics of the Danish mortgage bond market, Denmark's law on maturity extensions and a significant liquidity portfolio.

Strong Capitalisation: Capital adequacy ratios compare well with domestic and international peers. Low-risk weights on mortgage loans boost capital ratios while leverage is good in a European context.

Parental Support: RD's Support Rating of '1' reflects an extremely high probability that support would be provided by Danske, if required. In Fitch's view, Danske would have a high propensity to support RD given the latter's role as the group's main domestic mortgage provider, and the significant reputational risk Danske would face in the event of a default of RD. Any required support would likely be manageable for Danske.

Rating Sensitivities

Stable Outlook: We believe that RD will maintain its focus on asset quality, continue to generate capital internally, and that its franchise is less affected by Danske's Estonian case.

Upgrade Unlikely: An upgrade of RD's ratings is unlikely given its already high VR for a monoline business model. An upgrade of Danske's IDRs, which is unlikely given the Negative Outlook, would likely result in an upgrade of RD's IDRs, at which point RD's IDRs would be driven by parent support. A downgrade of RD's Long-Term IDR would require a downgrade of its VR and Danske's ratings.

Potential Reduced Funding Access: A downgrade of RD's VR would most likely be a result of it being unable to competitively access wholesale funding markets or if it significantly increases its reliance on international debt investors, who may prove less stable during financial stress. A reduced focus on liquidity would also be negative for the VR.

Ratings

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

Viability Rating	a
Support Rating	1

Sovereign Risk	
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 \(October 2018\)](#)

[Short-Term Ratings Criteria \(May 2019\)](#)

Related Research

[Danske Bank A/S \(January 2020\)](#)

[Large European Banks Quarterly Credit Tracker - 3Q19 \(December 2019\)](#)

[Fitch Ratings 2020 Outlook: Western European Banks \(December 2019\)](#)

[Realkredit Danmark A/S - Ratings Navigator \(August 2019\)](#)

[Fitch Affirms Danske Bank at 'A', Negative Outlook \(July 19\)](#)

Analysts

Francis Dallaire
+46 85510 9444
francis.dallaire@fitchratings.com

Michal Bryks, FCCA
+48 22 338 6293
michal.bryks@fitchratings.com

Ratings Navigator – Standalone Assessment

Realkredit Danmark A/S

ESG Relevance:

Banks
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Institutional Support	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A Stable
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	NF	D or RD

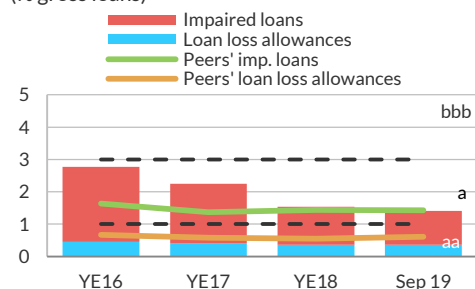
Institutional Support Assessment

Institutional Support	Value		
Parent IDR	A		
Total Adjustments (notches)	+0		
Institutional Support:	A		
Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
Parent/group regulation	✓		
Relative size		✓	
Country risks	✓		
Parent Propensity to Support			
Role in group	✓		
Potential for disposal	✓		
Implication of subsidiary default	✓		
Integration	✓		
Size of ownership stake	✓		
Support track record	✓		
Subsidiary performance and prospects	✓		
Branding		✓	
Legal commitments			✓
Cross-default clauses			✓

Bar Chart Legend

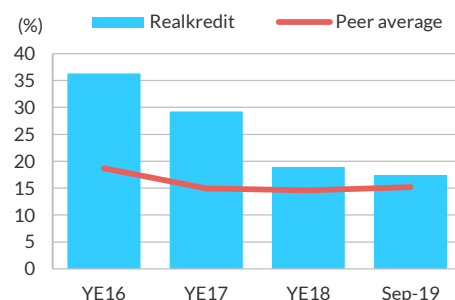
Vertical bars – VR range of Rating Factor
 Bar Colors – Influence on final VR
 ■ Higher influence
 ■ Moderate influence
 ■ Lower influence
 Bar Arrows – Rating Factor Outlook
 ↑ Positive ↓ Negative
 ⇅ Evolving □ Stable

Asset Quality (% gross loans)



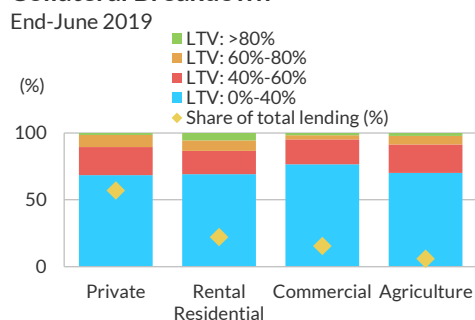
Source: Fitch Ratings, Banks

Net Impaired Loans/Fitch Core Capital



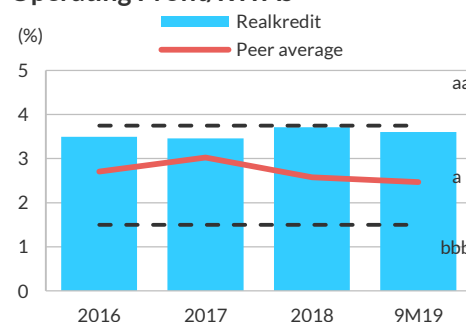
Source: Fitch Ratings, Banks

Collateral Breakdown



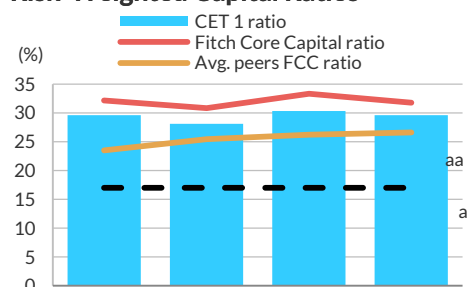
Source: Fitch Ratings, Realkredit Danmark A/S

Operating Profit/RWAs



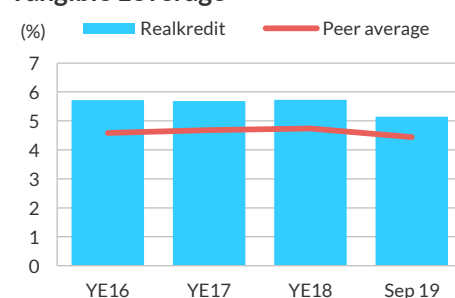
Source: Fitch Ratings, Banks

Risk-Weighted Capital Ratios



Fitch Core Capital used as benchmark line
Source: Fitch Ratings, Banks

Tangible Leverage^a



^a Tangible equity/Tangible assets
Source: Fitch Ratings, Banks

Note on Peer Charts

Peer average includes:

Realkredit Danmark A/S (VR: a), Nationwide Building Society (a), Nykredit Realkredit A/S (a), Santander UK plc (a) and Danske Bank A/S (a).

Santander UK plc was excluded from the latest average calculation due to data unavailability.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category.

Summary Financials and Key Ratios

	30 Sep 19 9 Months (DKKm) Unaudited	31 Dec 18 Year End (DKKm) Audited - unqualified	31 Dec 17 Year End (DKKm) Audited - unqualified	31 Dec 16 Year End (DKKm) Audited - unqualified
Summary income statement				
Net interest & dividend income	5,131	7,008	6,940	6,860
Net fees and commissions	-431	-617	-601	-611
Other operating income	329	58	147	80
Total operating income	5,029	6,449	6,486	6,329
Operating costs	590	703	736	790
Pre-impairment operating profit	4,439	5,746	5,750	5,539
Loan & other impairment charges	294	196	147	182
Operating profit	4,145	5,550	5,603	5,357
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.
Tax	912	1,213	1,235	1,176
Net Income	3,233	4,337	4,368	4,181
Other comprehensive income	-13	-13	-24	-80
Fitch comprehensive income	3,220	4,324	4,344	4,101
Summary balance sheet				
Assets				
Gross loans	811,691	799,449	792,619	771,902
- Of which impaired	11,449	12,293	17,809	21,412
Loan loss allowances	2,933	2,855	3,227	3,505
Net loans	808,758	796,594	789,392	768,397
Interbank	86,557	21,285	29,799	31,285
Derivatives	98	66	64	231
Other securities & earning assets	50,040	51,158	54,851	59,582
Total earning assets	945,453	869,103	874,106	859,495
Cash and due from banks	49	161	273	206
Other assets	4,016	1,953	2,511	2,976
Total assets	949,518	871,217	876,890	862,677
Liabilities				
Customer deposits	n.a.	n.a.	n.a.	n.a.
Interbank and other short-term funding	8,265	778	4,294	6,355
Other long-term funding	887,681	815,043	816,666	799,844
Trading liabilities and derivatives	32	68	10	85
Total funding	895,978	815,889	820,970	806,284
Other liabilities	4,705	5,413	6,029	7,046
Pref. Shares and Hybrid Capital	n.a.	n.a.	n.a.	n.a.
Total equity	48,835	49,915	49,891	49,347
Total liabilities and equity	949,518	871,217	876,890	862,677

Summary Financials and Key Ratios (Cont.)

	30 Sep 19 9 Months (DKKm) Unaudited	31 Dec 18 Year End (DKKm) Audited - unqualified	31 Dec 17 Year End (DKKm) Audited - unqualified	31 Dec 16 Year End (DKKm) Audited - unqualified
Ratios (annualised as appropriate)				
Profitability				
Operating profit/RWAs	3.6	3.7	3.5	3.5
Net interest income/average earning assets	0.8	0.8	0.8	0.8
Non-interest expense/gross revenues	11.7	10.9	11.4	12.5
Net Income/average equity	9.0	8.9	9.0	8.7
Asset quality				
Impaired loans ratio	1.4	1.5	2.3	2.8
Growth in gross loans	1.5	0.9	2.7	3.0
Loan loss allowances/impaired loans	25.6	23.2	18.1	16.4
Loan impairment charges/average gross loans	0.1	0.0	0.0	0.0
Capitalisation				
Fitch Core Capital ratio	31.8	33.3	30.8	32.1
Tangible Common Equity ratio	5.1	5.7	5.7	5.7
CET 1 ratio	29.6	30.3	28.1	29.6
Basel leverage ratio	n.a.	5.1	5.1	5.2
Net impaired loans/FCC	17.4	18.9	29.2	36.3
Funding & liquidity				
Loans/customer deposits	n.a.	n.a.	n.a.	n.a.
LCR	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	n.a.	n.a.	n.a.	n.a.
NSFR	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions

Environmental, Social and Governance Considerations

FitchRatings **Realkredit Danmark A/S**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

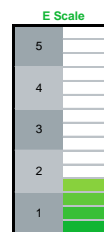
Realkredit Danmark A/S has 5 ESG potential rating drivers

- 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.

				Overall ESG Scale	
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)

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



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

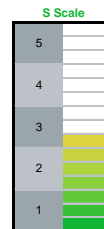
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

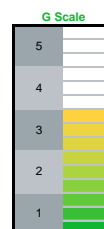
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
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; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
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.
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.
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.
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'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on our ESG relevance scores, visit www.fitchratings.com/esg.

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