

## Scope affirms Realkredit Danmark's issuer rating at A+/Stable

**Realkredit Danmark's rating and Outlook are aligned with those of its parent, Danske Bank A/S, of which it has the full support.**

### Rating action

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

### Rating rationale

RD's ratings are aligned with those of its parent, Danske Bank A/S (Danske), as Scope considers RD to be fully supported by Danske and therefore applies its top-down approach to the analysis. In determining the reliability and stability of the parent company's support for the subsidiaries, Scope considers the extent to which the subsidiary is aligned with the group's strategic objectives, its integration into the group's operations and the fact that the absence of support would be highly detrimental to Danske group.

RD's standalone financial profile continues to be supported by its high asset quality, strong capitalisation and position as a major covered bond issuer in Denmark. Scope considers RD's proven pass-through funding model to be a key credit strength. However, RD's monoline business model is focused on mortgage lending and its revenue streams are not diversified. Profitability is also under pressure due to lower lending activity, somewhat offset by higher interest margins. Return on equity remains solid, supported by good cost efficiency and low risk costs, but is expected to be challenged by increasing regulatory requirements and rising provisioning in the coming years.

Credit quality remained very sound in 2022 and H1 2023. This continues to be supported by low and stable loan-to-value ratios across the portfolio. A solid risk position as Denmark's second largest mortgage lender puts RD in a good position to weather the current recession, even though asset quality in commercial real estate may weaken.

RD is dependent on wholesale funding. However, the Danish covered bond market is well established and liquid with a wide range of domestic and foreign investors.

### Rating-change drivers

- Any change in the parent's issuer rating is likely to lead to a concurrent change for RD as the bank's

rating is aligned with that of its parent

- A weakening of the strategic importance of RD as a core subsidiary for Danske, resulting in a lower likelihood of support, could lead to in a rating downgrade

## 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: parent support (full support)

Issuer rating: A+

### Stress testing & cash flow analysis

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

### Methodology

The methodology used for these Credit Ratings and Outlooks, (Financial Institutions Rating Methodology, 7 February 2023), is available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

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.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://scoperatings.com/governance-and-policies/regulatory/eu-regulation>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerp.esma.europa.eu/cerp-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. 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://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

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

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## 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 9 November 2022.

## Potential conflicts

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