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Research Update:

Danske Bank Outlook Revised To Negative, Hybrids Downgraded, On Further Disclosure On Money Laundering Issues In Estonia

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Overview

- On Sept. 19, Danske Bank disclosed additional information on failures in client onboarding and the prevention of money laundering and corrupt practices at its Estonian branch in 2007-2015.
- In light of the control and governance deficiencies highlighted in the investigation, we consider Danske Bank's risk position to be moderate rather than adequate, and have therefore revised our assessment of the stand-alone credit profile downward to 'a-'.
- As a result, we are revising our outlook on Danske Bank to negative from positive, affirming our 'A/A-1' ratings, and lowering our issue ratings on the bank's subordinated debt by one notch.
- We are also lowering our ratings on Danske Bank's insurance subsidiary Danica to 'A-' from 'A'.
- The negative outlook reflects ongoing regulatory investigations into Danske Bank's Estonian branch and the ensuing damage to the bank's reputation.

Rating Action

On Sept. 25, 2018, S&P Global Ratings revised its outlook on Denmark-based Danske Bank A/S to negative from positive. We affirmed our 'A/A-1' long- and short-term issuer credit ratings on the bank.

At the same time, we lowered by one notch our ratings on Danske Bank's senior nonpreferred, Tier 2, and additional Tier 1 debt (see the ratings list for details).

We have also lowered our long-term issuer credit and insurer financial strength ratings on Danica Pension Livsforsikringsaktieselskab to 'A-' from 'A'. The outlook is negative.

Rationale

The rating actions follow Danske Bank's release on Sept. 19, 2018, of the results of an internal investigation into its Estonian branch. The report

revealed additional information on material organizational and management failures in client onboarding and the prevention of money laundering and corrupt practices at the operations in Estonia in 2007-2015. It also concluded that a series of major deficiencies in governance and control systems allowed Danske Bank's branch in Estonia to be used for suspicious transactions, and that only some of those transactions were historically reported to the authorities. The report also states that, in general, the Estonian branch had not focused sufficiently on the risk of money laundering, and branch management was more concerned with procedures than with identifying actual risk. After the publication of this report, Danske Bank's CEO decided to step down. We understand that a number of regulators may look into this case and the amount of any penalties remains uncertain.

In light of this new information, we now consider Danske Bank's risk position to be moderate rather than adequate; this takes into account the failures in risk management and our view that it is too early to gauge the effectiveness of the bank's ongoing actions to address the identified shortcomings. Consequently, we have revised our assessment of Danske Bank's stand-alone credit profile (SACP) to 'a-' from 'a'.

As a result, we have lowered by one notch our issue ratings on Danske Bank's subordinated debt, namely, the senior nonpreferred, Tier 2, and additional Tier 1 instruments, which we rate by notching down from the SACP.

We are affirming our issuer credit ratings because Danske Bank still has a strong balance sheet, leading market share in Denmark, and robust capital generation via retained core earnings. Our assessment of Danske Bank's funding and liquidity is unchanged. Danske Bank has now obtained Danish krone (DKK) 58 billion (about \$9 billion) of its DKK60 billion-DKK80 billion funding plan for 2018. Although spreads have widened, we observe that markets remain open to Danske Bank and the bank's liquidity buffers are sufficient.

We lowered our ratings on Danica to the level of the SACP since we view Danica as a core group entity, but don't believe it will benefit from the additional loss-absorbing capacity of its parent, Danske Bank.

Outlook

The negative outlook on Danske Bank reflects the uncertain outcome of the ongoing regulatory investigations into the Estonian branch, and the ensuing damage to its reputation.

We could lower our issuer credit ratings within the next 18-24 months if Danske Bank's franchise suffers lasting damage or if we believe potential regulatory penalties would weaken the bank's capital and earnings. At present, we expect our risk-adjusted capital ratio for Danske Bank will remain within the 10%-11% range, but we see possible risks to this outcome. We could also lower the ratings if further control and governance weaknesses are identified,

or if Danske Bank fails to address the organizational and management deficiencies revealed by the Estonian branch investigation.

We could consider revising the outlook to stable if we have greater clarity over the likely outcome of the regulatory investigations, if Danske Bank's business position shows resilience, and if we see an improving economic environment in Denmark.

Our negative outlook on Danica reflects that on the parent because we consider Danica to be a core subsidiary.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A/Negative/A-1	A/Positive/A-1
SACP	a-	a
Anchor	bbb+	bbb+
Business Position	Strong (1)	Strong (1)
Capital and Earnings	Strong (1)	Strong (1)
Risk Position	Moderate (-1)	Adequate (0)
Funding and Liquidity	Average and (0)	Average and (0)
Support	0	0
ALAC Support	+1	+1
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	-1

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29,

2015

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Danske Bank A/S		
Danske Bank A/S, Swedish Branch		
Issuer Credit Rating	A/Negative/A-1	A/Positive/A-1

Downgraded; Outlook Action

	To	From
Danica Pension Livsforsikringsaktieselskab		
Issuer Credit Rating	A-/Negative/--	A/Positive/--
Financial Strength Rating	A-/Negative/--	A/Positive/--

Downgraded

	To	From
Danske Bank A/S		
Senior Subordinated	BBB+	A-
Subordinated	BBB	BBB+
Junior Subordinated	BB+	BBB-
Danica Pension Livsforsikringsaktieselskab		
Subordinated	BBB	BBB+

Ratings Affirmed

Danske Bank A/S	
Issuer Credit Rating	
Nordic Regional Scale	--/--/K-1
Resolution Counterparty Rating	A+/--/A-1

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Senior Unsecured	A
Commercial Paper	A-1
Commercial Paper	K-1
Certificate Of Deposit	A/A-1

Danske Corp., Delaware	
Commercial Paper	A
Commercial Paper	A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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