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28 October 2022



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Danske Bank A/S

Danske's money laundering saga approaches an end, credit positive

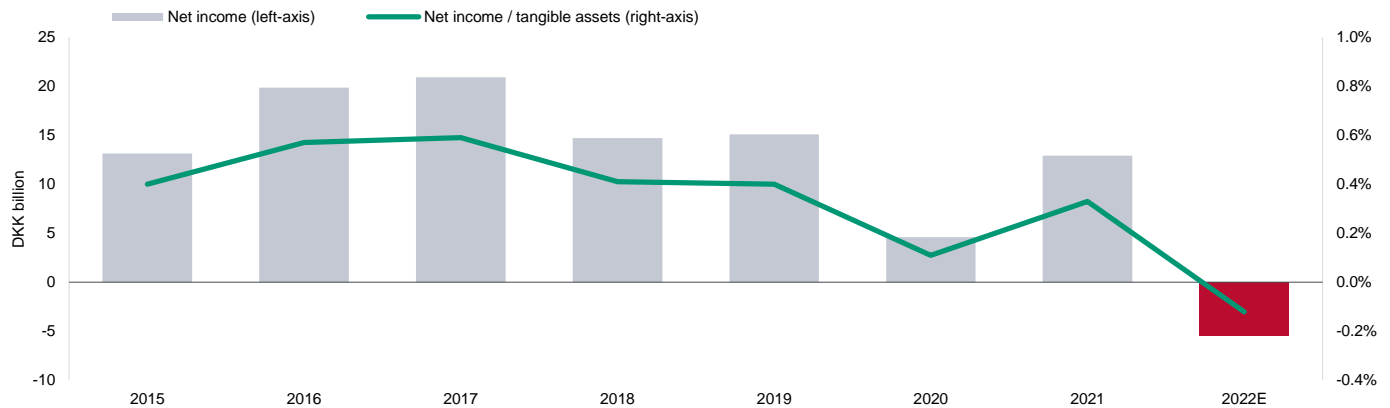
On 27 October, [Danske Bank A/S](#) (A2/A3 stable, baa2)¹ announced that it now has a high degree of certainty that its expected settlement with US and Danish authorities over alleged money laundering at its former Estonian branch 2007-15 will be about DKK15.5 billion (\$2.1 billion). The likely financial settlement is lower than markets may have expected as Danske's share price rose by about 10% when the announcement was made. More importantly, this will not affect Danske's capital negatively as the bank was allowed to release DKK7.5 billion of its Pillar 2 add-on that it previously needed to hold for the Estonian issue. This will more than cover the bank's expected loss of DKK 5.5 billion (\$0.73 billion) for the full year of 2022. Once the settlement is finalized, Danske's money laundering issue, which has dragged on for more than four years, will be behind it, a credit positive.

The bank's remediation of the money laundering issue, including strengthening its Know Your Customer (KYC) and Anti-Money Laundering (AML) framework and addressing the authorities' investigations, has consumed financial and human resources and managerial focus. The investigations also hit Danske's franchise, making it difficult to attract new customers in its home jurisdiction, Denmark.

Capital will not be negatively affected. CET1 was 16.9% in Q3 2022, which is above the bank's 16% target and 4.5 percentage points above the 12.4% regulatory requirement. Danske is now able to release DKK7.5 billion of its DKK10 billion Pillar 2 add-on that the Danish Financial Supervisory Authority requested it hold for the Estonian issue. The release of regulatory capital fully compensates for this year's loss and the fine will not affect capital. Additionally, Danske's board of directors decided to cancel 2021 year's dividends, and will not recommend any for 2022.

Even though the DKK15.5 billion expected settlement will result in a 2022 net loss of up to DKK5.5 billion (which is a significant downward revision from the bank's previous guidance of a gain of DKK10-DKK12 billion), it is within our expectations (Exhibit 1). Our analysis of past money laundering cases involving US authorities suggested that financial penalties alone (i.e., excluding internal operational and remediation costs) could be sizable relative to the bank's annual net income, as with Danske.

Exhibit 1

Danske Bank's profitability 2015-22E

2022 is an estimate

Sources: Danske and Moody's Investors Service

Endnotes

¹ The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.

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REPORT NUMBER

1347072

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