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## Research Update: Danske Bank Rating Affirmed on Northern Bank and National Irish Bank Acquisition; Outlook Stable

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**Credit Rating:** AA-/Stable/A-1+

### ■ Rationale

On Dec. 14, 2004, Standard & Poor's Ratings Services affirmed its 'AA-/A-1+' counterparty credit ratings on Denmark-based Danske Bank A/S. The outlook remains stable.

The affirmation follows the announcement that Danske Bank has reached an agreement to acquire Northern Ireland-based Northern Bank (not rated) and Republic of Ireland-based National Irish Bank (NIB; not rated) from National Australia Bank Ltd. (NAB: AA-/Stable/A-1+).

The affirmation reflects Standard & Poor's expectation that the integration of the Irish banks will be successful. This expectation is based on management's proven track record on previous acquisitions, for example in Sweden and Norway, although Danske has less experience in the Irish markets.

The transaction is valued at Danish krone (Dkr) 10.3 billion (British pound sterling 967 million) or 2.13x book equity, equaling 16% of group equity at Sept. 30 2004. Total assets acquired amount to Dkr74.6 billion (£7,003.5 million).

Although there will be integration and transformation risk in developing the Irish banks (particularly NIB, which has lagged behind peers), Standard & Poor's expects the downside risk to be limited, given that both banks focus on retail and small and midsize corporate clients. Both institutions have shown slower growth than market peers in recent years (due partly to their less consistent role within NAB), and will require investment in systems, processes, and franchise. Nevertheless, they provide Danske Bank with a distribution platform for expansion in the increasingly competitive, but still attractive, Irish market.

Danske Bank will finance the acquisition by issuing Dkr1.5 billion in hybrid Tier 1 securities and Dkr5 billion in other subordinated debt. Danske will also reduce its planned share-buybacks in the shorter term.

Danske Bank has actively managed its capitalization to maintain its regulatory Tier 1 capital ratio at about 7%. In light of today's news, its announcement in November 2004 that it will close its New York Branch and substantially reduce its London wholesale banking operations should be seen as a way of reducing the strain on group capital by reducing significantly risk-weighted assets deployed in non-retail banking. Capital ratios will weaken in 2005 due to the acquisition, but the impact is expected to be temporary.

### ■ Outlook

The stable outlook anticipates sustained earnings for the Danske Bank group, despite the prolonged low interest rate environment, heightened competition, and modest volume growth. The outlook also reflects a continued positive efficiency trend, broadly maintained profit levels, and still-good loan portfolio quality. Failure to successfully integrate the operations in Northern Bank and NIB would have a negative impact on the outlook or the ratings.

Danske Bank is expected to continue to manage its capital cautiously. Capital composition and quality has altered somewhat as a result of hybrid capital issues and the continuation of the share buyback program. The financing of the Irish acquisitions through hybrid capital and subordinated debt will, at least temporarily, erode the quality of group capital. Standard & Poor's will therefore increase its focus on Danske's ability to restore core capital ratios to the pre-acquisition level over the short term.

## ■ Ratings List

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Danske Bank A/S	
Counterparty credit rating	AA-/Stable/A-1+
Certificate of deposit	AA-/A-1+
Commercial paper	A-1+
Senior unsecured debt	AA-
Subordinated debt	A

NB: This list does not include all ratings affected.

## ■ Group E-Mail Address

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