

## Danske Bank A/S 'AA-/A-1+' Ratings Affirmed On Acquisition Of Sampo Bank PLC; Outlook Stable

### Rationale

On Nov. 9, 2006, Standard & Poor's Ratings Services affirmed its 'AA-/A-1+' counterparty credit ratings on Denmark-based Danske Bank A/S. The outlook is stable.

The affirmation follows Danske Bank's announced acquisition of Finland-based Sampo Bank PLC (A/Watch Pos/A-1). The ratings reflect Standard & Poor's favorable opinion of the acquisition when considering the combined entities' prospective strategic position in the Nordic banking market, business profile, and improved diversification and operating performance.

The transaction will make Danske Bank the third-largest bank in Finland in terms of size, and the first or second largest in some segments such as asset management and mutual funds. As a result, the bank will not only remain the market leader in its domestic market, but will also have good coverage in all other Nordic countries. In addition, the acquisition will give Danske Bank access to the fast-growing Baltic countries and will likely strengthen Danske Bank's position among large pan-Nordic and multinational corporations in the Nordic region.

Despite the rating affirmation, however, Standard & Poor's does not see this transaction as being entirely neutral for the ratings on Danske Bank. The introduction of a substantial amount of goodwill and further leverage through the issuance of new hybrid and senior debt financing is viewed negatively. The acquisition of Sampo Bank will entail a further deterioration of Danske Bank's capitalization in an already low-capitalized entity.

**Primary Credit Analyst:**

Miguel Pintado  
Stockholm  
(46) 8-440-5904  
miguel\_pintado@standardandpoors.com

**Secondary Credit Analyst:**

Martin Noreus  
Stockholm  
(46) 8-440-5933  
martin\_noreus@standardandpoors.com

Additional Contact: Financial  
Institutions Ratings Europe  
FIG\_Europe@standardandpoors.com

**RatingsDirect  
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With the financing scheme as announced, Danske Bank's core adjusted common equity (ACE)-to-risk-weighted assets ratio would be further stressed to a rather low 3.8%, the lowest among Scandinavian peers' and significantly lower than at other similarly rated institutions in Western Europe. This core ACE calculation may vary slightly depending on the fourth-quarter 2006 results and the dividends finally paid out to shareholders. As part of this calculation, we have assumed that Danske Bank will maintain its stated dividend payout ratio at 30%-50%. This assumption also factors in the offsetting effect of a reduction of risk-weighted assets through two securitization transactions planned in early 2007.

Danske Bank has a very successful track record in acquiring and rapidly integrating banks in other countries, particularly on the IT side, as proved only last year with the acquisition of Northern Ireland-based Northern Bank and Republic of Ireland-based National Irish Bank. Nevertheless, the increased level of operational and integration risk in the near term, with two major acquisitions in such a short time period, will entail significant effort and dedication from management. Standard & Poor's believes the combination of additional financial risk and integration risk are negative rating factors.

## Outlook

The stable outlook reflects Standard & Poor's expectation of sustained earnings and efficiency, despite the prolonged low interest rate environment and heightened competition. The loan portfolio should continue to exhibit strong quality. Capital was strained by the Irish acquisitions and will further deteriorate as a result of the Sampo Bank transaction. Standard & Poor's expects Danske Bank's capitalization to remain weak compared with that for similarly rated peers.

An unexpected sharp deterioration of asset quality or failure to integrate the recently acquired operations of Sampo Bank in Finland could have a negative impact on the outlook or the ratings. Further capitalization tightening in the wake of new Basel II capital regulations may also put pressure on the ratings.

A positive rating action would require additional uplifts to earnings quality, strengthened capitalization, successful integration of the operations in Finland, and proof that the Irish operations have turned to profitability once the IT systems have been completely integrated during 2006.

## Ratings List

Counterparty credit ratings	AA-/Stable/A-1+
Nordic national scale rating	—/—/K-1
CDs	AA-/A-1+
Senior unsecured debt	AA-
Subordinated debt	A
CP	A-1+
CP (Nordic national rating scale)	K-1

NB: This list does not include all ratings affected.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating

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