

**Rating Action: Moody's downgrades six Danish banks after review**

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Global Credit Research - 19 May 2011

**Systemic support retained at lower levels**

London, 19 May 2011 -- Moody's Investors Service has today concluded the review that was initiated in February 2011 of six Danish banks following the use of the Bank Package III law on Amagerbanken. The long-term ratings of the six banks have been downgraded by one notch. The financial strength ratings for 5 of these banks also have been downgraded by one notch, reflecting Moody's assessment of the banks' weakened intrinsic strength.

The following banks had both their long-term ratings and financial strength ratings downgraded today by one notch: Jyske Bank A/S, Sydbank A/S, Spar Nord Bank A/S, Ringkjøbing Landbobank A/S, and BankNordik P/F. Danske Bank A/S had its long-term rating downgraded by one notch and its bank financial strength rating (BFSR) affirmed.

The deposit ratings of Danske Bank, Jyske Bank and Sydbank will continue to include one notch of systemic uplift.

Refer to the end of this press release for a full list of affected ratings. This press release does not address the ratings of Nordea Bank Danmark A/S (Aa2 long-term ratings on review for possible downgrade, C bank financial strength, mapping to A3 on the long-term scale), for which a separate press release is being published, nor does it address Danske Bank's or Realkredit Danmark A/S's covered bond ratings. Further, the Aaa ratings on Danish government-guaranteed debt are not affected. Moody's continues the review of FIH Erhvervsbank's ratings (Ba1 on review for possible downgrade, D BFSR, mapping to Ba2 with a negative outlook), pending legal developments.

**RATINGS RATIONALE**

**DANSKE BANK DOWNGRADE TRIGGERED BY REDUCED SYSTEMIC SUPPORT**

Moody's has downgraded Danske Bank's debt and deposit ratings to A2 from A1, which will continue to include one notch of systemic support above its A3 standalone credit strength (mapped from the C BFSR). The outlook on the bank's debt and deposit ratings remains negative, reflecting the negative outlook on the bank's standalone financial strength rating.

The negative outlook on Danske Bank's C BFSR, Baa2(hyb) junior subordinated and Baa3(hyb) hybrid debt ratings primarily reflects Moody's expectation that asset-quality issues will continue to exert pressure on the bank's performance, notably in respect of both the Irish and Danish banking operations, and that it will take time before profitability returns to pre-crisis levels.

The downgrade for Danske Bank's senior debt and deposit ratings is driven by a reduction in systemic support uplift (from 2 notches to 1 notch) for the bank. In Moody's opinion, the use of Bank Package III for Amagerbanken clarified that the Danish government would favour market solutions in future bank bailouts. Moody's believes that this position has been strengthened via the recent amendments to the package proposed in parliament, which would allow the use of the Deposit Guarantee Fund to provide support for market takeovers of ailing banks.

Moody's acknowledges that Bank Package III would be challenging to apply to the larger and more complex banks, including Danske Bank, Jyske Bank and Sydbank. Several factors would substantially complicate any short-term assessment of these banks' value and trigger several impracticalities in transferring these banks' assets and liabilities to Financial Stability:

- (i) Their market shares, each accounting for between 5% and 25% of the country's bank lending and deposits;
- (ii) Their more complex exposures and breadth of national exposures; and
- (iii) For Danske Bank, the extent of its international operations.

Due to these factors, transferring these banks' assets and liabilities to Financial Stability would also have a considerable negative impact on the Danish financial sector and wider economy.

However, we expect that over time, the Danish authorities will continue to develop the necessary legal and regulatory tools to enable the practical application of bail-in procedures even to large banks.

Overall, we see a clear reduction in the levels of systemic support for Danish banks compared with pre-crisis levels. Although the banks that retain systemic support vary in size, we believe that for all these banks, there is now only a low to moderate probability that the government would provide support to prevent the banks from becoming insolvent. This probability translates into one notch of systemic support rating uplift in these banks' ratings.

**DOWNGRADES TRIGGERED BY FINANCIAL STRENGTH RATINGS**

The downgrades to the financial strength ratings and debt and deposit ratings of Jyske Bank, Sydbank, Spar Nord Bank, Ringkjøbing Landbobank and BankNordik principally reflect several issues affecting the standalone credit quality of these banks, namely (i) increased concerns on the viability of market funding in the sector following the application of Bank Package III; (ii) weakened profitability projections in a low-growth economic environment; and (iii) continued concerns on asset quality, especially with regards to agriculture, real estate and exposures to small and medium-sized enterprises (SMEs).

**JYSKE BANK AND SYDBANK**

Whilst the rating agency downgraded Jyske Bank and Sydbank's financial strength ratings and debt and deposit ratings by one notch, one notch of systemic support remains in each case.

Increased deposit competition and market concerns related to Bank Package III have increased the vulnerability of Jyske Bank and Sydbank's funding and liquidity positions. The downgrade of Jyske Bank's BFSR to C from C+ and debt and deposit ratings to A2 from A1 in addition reflects Moody's assessment that core profitability will remain weak going forward, in a low-growth environment with increasing funding costs. For Sydbank, Moody's considers the effect of Bank Package III to be credit negative, combined with a weakened assessment of the bank's asset quality in the challenging Danish economy. Moody's considers that these banks are better placed at the C/A3 standalone rating level, and assigns a stable outlook to the banks' A2 debt and deposit ratings, C BFSRs, Baa2(hyb) junior subordinated and Baa3(hyb) hybrid ratings.

#### SPAR NORD BANK AND RINGKJOBING LANDBOBANK

The ratings of Spar Nord Bank and Ringkjøbing Landbobank were also downgraded due to weakened intrinsic strength; these banks' ratings do not benefit from systemic uplift. The downgrade of Spar Nord Bank's debt and deposit ratings to Baa2 from Baa1 (mapped from the C- BSFR) mainly reflects the bank's vulnerability to the prospective refinancing of more than DKK4.5 billion of government guaranteed debt in 2012 and 2013, in an environment where access to market funding will likely be more limited and less cost-effective. Moreover, Moody's considers that the bank's problem loan levels will remain elevated going forward, supporting a negative outlook on Spar Nord's BFSR and debt ratings.

The downgrade of Ringkjøbing Landbobank's financial strength rating to C from C+, and deposit ratings to A3 from A2, reflects Moody's assessment of deteriorated asset quality, as illustrated by gross loans subject to individual impairments increasing to 6.2% as at year-end 2010, from 5% in 2009. Moreover, the bank has a higher-than-average share of exposure to the ailing agricultural sector. Better-than-average capitalisation and profitability support a stable outlook on the bank's BFSR and deposit rating.

#### BANKNORDIK

BankNordik's long-term rating was downgraded to Baa2 from Baa1. Though the rating no longer benefits from systemic uplift, the rating continues to benefit from one notch of regional support from the home government of the Faroe Islands (Aa3 negative), given its key position in deposit taking and lending to the wider economy on the Faroe Islands. In Moody's opinion, the bank has weathered the financial crisis well, though with some use of Danish government support programmes.

In the absence of these support programmes -- and with the added negative short-term impact of Bank Package III on overall Danish bank funding -- Moody's considers that BankNordik is more vulnerable to external shocks going forward, especially in the context of the smaller Faroese economy. Moody's considers that a Baa2 rating better reflects the bank's credit quality. Stable outlooks were assigned to the BFSR and the deposit rating.

#### DETAILED RATING ACTIONS

##### BankNordik P/F

- BFSR downgraded to D+ (mapping to Baa3 on the long-term scale, stable outlook) from C- (Baa2)
- Long-term deposit rating downgraded to Baa2 from Baa1
- Short-term deposit rating confirmed at P-2
- The outlook on the BFSR and deposit ratings changed to stable

##### Danske Bank A/S

- C BFSR affirmed (mapping to A3 on the long-term scale, negative outlook)
- Long-term deposit rating, issuer rating and senior unsecured debt ratings downgraded to A2 from A1
- P-1 short-term deposit rating and commercial paper rating affirmed
- Baa2(hyb) junior subordinated debt rating affirmed
- Baa3(hyb) Tier 1 Hybrid rating affirmed
- The outlook on the BFSR and debt and deposit ratings remains negative

##### Jyske Bank A/S

- BFSR downgraded to C (mapping to A3 on the long-term scale, stable outlook) from C+(A2)
- Long-term deposit rating and senior unsecured debt ratings downgraded to A2 from A1
- P-1 short-term rating and commercial paper rating affirmed
- Junior subordinated debt rating downgraded to Baa2(hyb) from Baa1(hyb)
- Tier 1 Hybrid rating downgraded to Baa3(hyb) from Baa2(hyb)
- The outlook on the BFSR and debt and deposit ratings is changed to stable from negative

##### Ringkjøbing Landbobank A/S

- BFSR downgraded to C (mapping to A3 on the long-term scale, stable outlook), from C+(A2)
- Long-term deposit rating downgraded to A3 from A2
- Short-term bank deposit rating downgraded to P-2 from P-1

- The outlook on the BFSR and deposit ratings is changed to stable from negative

#### Spar Nord Bank A/S

- C- BFSR affirmed (mapping to Baa2 on the long-term scale, negative outlook), from C-(Baa1)
- Long-term deposit rating and senior unsecured debt ratings downgraded to Baa2 from Baa1
- P-2 short-term rating and commercial paper rating affirmed
- Junior subordinated debt rating downgraded to (P)Ba1(hyb) from (P)Baa3(hyb)
- Tier 1 hybrid rating downgraded to Ba2(hyb) from Ba1(hyb)
- The outlook on the BFSR and debt and deposit ratings remains negative

#### Sydbank A/S

- BFSR downgraded to C (mapping to A3 on the long-term scale, stable outlook), from C+(A2)
- Long-term deposit rating and senior unsecured debt ratings downgraded to A2 from A1
- P-1 short-term rating and commercial paper rating affirmed
- Junior subordinated debt rating downgraded to (P)Baa2(hyb) from (P)Baa1(hyb)
- Tier 1 hybrid rating downgraded to Baa3(hyb) from Baa2(hyb)
- The outlook on the BFSR and debt and deposit ratings is changed to stable from negative

#### PREVIOUS RATING ACTIONS

Moody's most recent rating action on BankNordik P/F was implemented on 16 February 2011, when it downgraded the long term deposit rating to Baa1 from A3, placed the rating on review for further possible downgrade along with the P-2 short term rating and changed the outlook to negative on the C- BFSR.

Moody's most recent rating action on Danske Bank A/S was implemented on 16 February 2011, when it downgraded the long term debt & deposit rating to A1 from Aa3 and placed the rating on review for further possible downgrade.

Moody's most recent rating action on Jyske Bank A/S was implemented on 16 February 2011, when it placed on review for possible downgrade the A1 long term debt and deposit rating and changed the outlook on the C+ BFSR to negative.

Moody's most recent rating action on Sydbank A/S was implemented on 16 February 2011, when it placed on review for possible downgrade the A1 long term debt and deposit rating and changed the outlook on the C+ BFSR to negative.

Moody's most recent rating action on Spar Nord Bank A/S was implemented on 16 February 2011, when it downgraded the long term debt and deposit rating to Baa1 from A2 and the outlook changed to negative, the short term debt and deposit rating was downgraded to P-2 from P-1 and the outlook was changed to negative on the C- BFSR.

Moody's most recent rating action on Ringkjøbing Landbobank A/S was implemented on 16 February 2011, when it downgraded the long term deposit rating to A2 from A1.

The principal methodologies used in this rating were Bank Financial Strength Ratings: Global Methodology published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007.

#### BANK DISCLOSURES

Based in Tórshavn, Faroe Islands, BankNordik reported consolidated assets of DKK 13.5 billion (EUR2 billion) as of March 31 2011.

Based in Copenhagen, Denmark, Danske Bank reported consolidated assets of DKK 3,126 billion (EUR419 billion) as of March 31 2011.

Based in Silkeborg, Denmark, Jyske Bank reported consolidated assets of DKK 233 billion (EUR31 billion) as of March 31 2011.

Based in Ringkjøbing, Denmark, Ringkjøbing Landbobank reported consolidated assets of DKK18 billion (EUR2 billion) as of March 31 2011.

Based in Aalborg, Denmark, Spar Nord Bank reported consolidated assets of DKK 68 billion (EUR9 billion) as of March 31 2011.

Based in Aabenraa, Denmark, Sydbank reported consolidated assets of DKK 141 billion (EUR19 billion) as of March 31 2011.

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