

Various Rating Actions Taken On Danish Banks On Signs Of Reducing Economic Risks; Outlooks Positive

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- The Danish private sector's leverage and households' vulnerability to interest rate hikes are receding, and the share of amortizing mortgage loans is rising.
- Consequently, we now see the economic risk trend for the Danish banking industry as positive rather than stable.
- We are therefore revising our outlooks on Nykredit Realkredit and DLR Kredit to positive from stable, while affirming our ratings on Danske Bank and Jyske Bank.
- The positive outlook on Jyske Bank still rests on our expectation that the bank could materially increase its loss-absorbing capacity through 2020 by issuing sizeable buffers of senior nonpreferred debt.
- The positive outlooks on Danske Bank, Nykredit Realkredit, and DLR Kredit indicate that we could raise our ratings if the positive economic developments support the continued strengthening of the banks' credit profiles over the next 12-24 months.

STOCKHOLM (S&P Global Ratings) July 13, 2018--S&P Global Ratings said today that it has revised its outlooks on Denmark-based Nykredit Realkredit A/S and DLR Kredit A/S to positive from stable, while maintaining its positive outlooks on Danske Bank A/S and Jyske Bank A/S. We affirmed our ratings on all four banks (see the ratings list for details).

Our ratings and outlooks on Danmarks Skibskredit are unaffected, due to the institution's comparably lower exposure to the Danish banking market.

The rating actions stem from our review of the Danish banking sector, and reflect that we now see economic risks, in particular credit risk, as reducing. We now see the economic risk trend for the Danish banking industry as positive rather than stable. Household and corporate leverage, measured as a share of GDP, have been constantly decreasing in recent years, as GDP growth has outpaced overall flat nominal credit growth between 2011 and 2017. Over the period, Danish household debt reduced to 115% of GDP from 136%, still one of the highest levels globally, and corporate debt to 110% from 122%.

We believe initiatives, such as reducing the tax deductibility of interest expenses, limiting the share of interest-only loans on banks' books, and making short-term loan interest rates less attractive, continue to reduce incentives for taking on more debt. We expect these trends to continue and that household and corporate debt will decrease to 109% and 102% of GDP, respectively, by year-end 2020.

Banks' loan losses decreased to 1 basis point (bp) in 2017, and we forecast that they will remain below 6 bps over the next two years, given the high provisioning of the agricultural segment and further potential for recoveries. We could conclude that credit risk in the economy has reduced sustainably if household debt as a share of GDP reduced in line with our forecast, and measures to encourage amortization and improve the funding of mortgage loans continue to bear fruit. If risk and leverage in the household and corporate sectors began to increase and other positive developments reverse, we could view the economic risk trend stable.

Furthermore, we expect national house prices to increase nominally by 4%-5% annually through 2020. We see a risk of overheating in some market segments, such as apartments in larger cities. However, in our view, their faster growth rate is a consequence of increased urbanization in Denmark and extremely low interest rates, and we expect recently introduced macroprudential measures will limit further growth acceleration. This, together with our expectation of continued deleveraging in the private sector as a share of national GDP, supports our view that economic imbalances will remain a low risk for banks in Denmark, supporting our view that economic risks in Denmark are diminishing. We could, however, revise this view if risks of overheating became more apparent.

Overall, we expect Denmark's economy and banks' performance will remain high, supported by a balanced fiscal policy, strong external position, and improving profitability of the banking sector.

NYKREDIT REALKREDIT A/S

We affirmed the ratings given our view that Nykredit Realkredit will maintain its dominant role in the Danish mortgage market and efficient operations,

supporting its already strong capital buffers. The ratings also reflect stability in Nykredit Realkredit's mortgage book and access to the well-functioning Danish covered bond market, even as the bank continues to reshape the maturity profile of its issued securities.

The outlook revision reflects our view of decreasing economic risks associated with receding credit risks in the Danish economy. We could raise the ratings in the next 24 months if the positive trend we see for economic risk led us to revise upward our anchor for banks operating in Denmark to 'a-' from 'bbb+', and we concluded that the bank's credit profile was comparable with that of international peers with a higher rating.

Alternatively, we could upgrade Nykredit Realkredit if increased debt buffer requirements led the bank to accumulate additional loss-absorbing capacity (ALAC) buffers exceeding 8% of risk-weighted assets (RWAs).

We could revise the outlook to stable if we considered that the positive economic risk trend was reversing, particularly if private-sector leverage or households' interest-rate sensitivity started to increase substantially.

DLR KREDIT A/S

We affirmed the ratings because of our expectation that the majority DLR Kredit's mortgage portfolio will continue to be covered by efficient loss-mitigation agreements with its owner banks, offsetting the risks arising from its revenue concentration in the Danish agriculture and real estate sectors. The ratings also reflect our expectation that the bank will maintain stable capital levels and its access to the well-functioning Danish covered bond market, even as it continues to reshape the maturity profile of its issued securities. Finally, we incorporate one notch of uplift into the long-term rating on DLR Kredit, reflecting our forecast that the bank's ALAC ratio will remain sustainably above 5.5% through 2020.

The outlook revision on DLR Kredit reflects our view of decreasing economic risks associated with receding credit risk in the Danish economy. We could raise the ratings in the next 24 months if this positive trend materializes and supports further improvement in the bank's credit profile, while DLR Kredit's ALAC buffers remain significant. If our assessment of economic risks in Denmark remained unchanged, we could still upgrade DLR Kredit if its ALAC buffers increased to more than 8.5% of RWAs.

We could revise the outlook to stable if we consider that the economic risk trend was reversing, particularly if private-sector leverage or households' interest-rate sensitivity increased substantially.

DANSKE BANK A/S

We now include one notch of uplift in the long-term rating, since we believe Danske Bank will build up a significant amount of ALAC in the coming years

(see "Danske Bank Affirmed At 'A/A-1' On Improving Economic Trend In Denmark; Outlook Remains Positive," published today). This positive development is, in our view, counterbalanced by uncertainty relative to the potential impact of Danske Bank's alleged involvement in money laundering activities in the Baltics during 2007-2015.

The positive outlook on Danske Bank stems from our view of decreasing economic risks in Denmark, associated with receding credit risk in the economy. We expect that Danske Bank will maintain its strong capital and improved profitability, with the risk-adjusted capital (RAC) ratio staying within the 10%-11% range over the next two years.

We could raise the ratings in the next 24 months if Denmark's improving economy supports further strengthening of Danske Bank's business and financial profiles. However, this would also depend on greater clarity over the likely outcome of the anti-money laundering (AML) case in Estonia and its potential impact on the bank. We could raise the long-term issuer credit rating by up to two notches if economic risk decreases sustainably and risks from the AML investigation do not materialize.

We could revise the outlook to stable if, in our view, the positive economic risk trend was reversing, particularly if private-sector leverage or households' interest-rate sensitivity increased substantially.

Although unlikely, we could revise the outlook to negative or even lower the issuer credit rating if Danske Bank comes under significant market pressure. This could result from continued charges with regards to the AML investigation, a drop in market confidence, or unexpected events that weaken its credit profile.

We revised the outlook on Danske Bank's subsidiary Danica Pension Livsforsikringsaktieselskab to positive from stable so that it now reflects that on the parent (see "Danske Bank Affirmed At 'A/A-1' On Improving Economic Trend In Denmark; Outlook Remains Positive").

JYSKE BANK A/S

We affirmed the ratings because of our expectation that the bank will maintain its position as Denmark's fourth-largest banking group, and that its growth ambitions and payout will not lead its strong capitalization to deteriorate, or materially increase credit risk in its lending book. The ratings also reflect the bank's access to the well-functioning Danish covered bond market, and our expectation that the bank will not materially increase short-term wholesale funding.

The positive outlooks on Jyske Bank and its core subsidiary BRFkredit A/S indicate that we could raise the long-term ratings by one notch if Jyske Bank realizes its issuance plans for the minimum requirements for own funds and

eligible liabilities in 2018-2020, such that the ALAC ratio rises above the 5% threshold consistent with a one-notch rating uplift.

A stronger anchor for Danish banks is unlikely to trigger a further upgrade of Jyske Bank, considering the bank's comparably narrow focus on Danish banking, its domestic market share and profitability, and level of nonperforming assets that is higher than peers'.

We could revise our outlook to stable if we expect issuance of ALAC-eligible instruments will total less than 5% of RWAs. In addition, we could lower the ratings if capital distributions, or asset growth weakened Jyske Bank's capital adequacy more than we currently expect, resulting in our RAC ratio remaining below 10%, although we think this scenario is highly unlikely.

RELATED CRITERIA

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- 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: National And Regional Scale Credit Ratings, Sept. 22, 2014
- 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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment 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

RELATED RESEARCH

- Danske Bank Affirmed At 'A/A-1' On Improving Economic Trend In Denmark; Outlook Remains Positive, July 13, 2018

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BICRA SCORE SNAPSHOT*

Denmark	To	From
BICRA Group	3	3
Economic risk	3	3
Economic resilience	Very low risk	Very low risk
Economic imbalances	Low risk	Low risk
Credit risk in the economy	High risk	High risk
Trend	Positive	Stable
Industry risk	3	3
Institutional framework	Intermediate risk	Intermediate risk
Competitive dynamics	Low risk	Low risk
Systemwide funding	Intermediate risk	Intermediate risk
Trend	Stable	Stable

*Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

Ratings List

Ratings Affirmed; Outlook Action

	To	From
DLR Kredit A/S		
Issuer Credit Rating	A-/Positive/A-2	A-/Stable/A-2

Ratings Affirmed

DLR Kredit A/S	
Resolution Counterparty Rating	A/--/A-1

Ratings Affirmed; Outlook Action

	To	From
Nykredit Realkredit A/S		
Nykredit Bank A/S		
Issuer Credit Rating	A/Positive/A-1	A/Stable/A-1

Ratings Affirmed

Nykredit Realkredit A/S	
Nykredit Bank A/S	

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Resolution Counterparty Rating A+/--/A-1

Ratings Affirmed

Danske Bank A/S

Issuer Credit Rating A/Positive/A-1

Nordic Regional Scale --/--/K-1

Resolution Counterparty Rating A+/--/A-1

Danske Bank A/S, Swedish Branch

Issuer Credit Rating A/Positive/A-1

Ratings Affirmed; Outlook Action

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

Ratings Affirmed

Jyske Bank A/S

Issuer Credit Rating A-/Positive/A-2

Nordic Regional Scale --/--/K-1

BRFkredit A/S

Issuer Credit Rating A-/Positive/A-2

Jyske Bank A/S

BRFkredit A/S

Resolution Counterparty Rating A/--/A-1

NB: This list does not include all ratings affected.

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