

Danske Bank And Jyske Bank Outlooks Revised To Positive On Requirements To Issue Bail-In-Able Debt

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OVERVIEW

- The Danish regulator has specified its minimum requirement for own funds and eligible liabilities for systemically important institutions Danske Bank and Jyske Bank.
- In addition, we expect Denmark will implement legislation introducing a new asset class--senior nonpreferred debt--by July 2018.
- As a result, we expect both banks will issue sizeable amounts of bail-in-able senior nonpreferred debt in the coming four years, thereby providing additional protection to the banks' senior unsecured creditors.
- We are revising our outlooks on Danske Bank and Jyske Bank to positive from stable and affirming our ratings.

STOCKHOLM (S&P Global Ratings) April 5, 2018--S&P Global Ratings said today that it has revised its outlooks on Denmark-based Danske Bank A/S and Jyske Bank A/S to positive from stable.

At the same time, we affirmed our 'A/A-1' long- and short-term issuer credit and 'K-1' Nordic regional scale ratings on Danske Bank, and our 'A-/A-2' long- and short-term issuer credit ratings on Jyske Bank (see the Ratings List

below).

The rating actions stem from our expectation that Danske Bank and Jyske Bank will start issuing bail-in-able senior nonpreferred debt this year to build up meaningful buffers of additional loss-absorbing capacity (ALAC) to protect senior debtholders.

On March 28, 2018, the Danish Financial Services Authority (FSA)--Finanstilsynet--published its final principles for resolution and minimum requirement for own funds and eligible liabilities (MREL) for Danske Bank, Jyske Bank, and Sydbank (not rated).

The FSA has set the MREL at twice the level of capital requirements of systemic banks at all times, including capital buffer requirements. Danske Bank and Jyske Bank must fulfil their MREL from July 1, 2019, and can until Jan. 1, 2022, also include senior unsecured or senior preferred liabilities issued before Jan. 1, 2018, provided they fulfil all other MREL criteria. On March 14 this year, the Danish government proposed changes to the creditor hierarchy by introducing a senior nonpreferred asset class in Danish regulation. The law is expected to take effect on July 1, 2018, but will apply retroactively to instruments issued from Jan. 1, 2018.

To fulfil these requirements, we anticipate that Danske Bank and Jyske Bank will replace significant portions of maturing senior unsecured debt with senior nonpreferred debt from midyear 2018, thereby accumulating a material amount of ALAC capacity. We currently expect that Danske Bank will issue about Danish krone (DKK) 90 billion-DKK100 billion (€12.0 billion-€13.4 billion) of senior nonpreferred debt through 2021 to meet its current requirements, and Jyske Bank about DKK15 billion-DKK18 billion.

- **DANSKE BANK**

The positive outlooks on Danske Bank and Danske Bank A/S, Swedish Branch indicate that we could raise our long-term ratings by one notch if the bank realizes its issuance plans throughout 2018 and approaches its target for ALAC buffers stemming from the MREL. Progress in bringing ALAC above 5% of risk-weighted assets (RWA) would support an upgrade. We also expect that Danske Bank will maintain its strong capital and improved profitability. In our view, Danske Bank has some capital flexibility, since we forecast our risk-adjusted capital (RAC) ratio will likely stay within the 10.75%-11.25% range over the next two years.

We could revise our outlook to stable if we expect the issuance of ALAC-eligible instruments will total less than 5% of RWAs or we see a risk that generous dividend payouts or exposure growth could result in our projected RAC ratio declining below 10%.

The stable outlook on subsidiary Danica remains unchanged and continues to

reflect that on Danske Bank's unsupported group credit profile, since we view Danica as a core group entity, but not eligible for an uplift for ALAC support in the long-term rating.

- JYSKE BANK

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 in 2018-2019, approaching its target ALAC buffers stemming from the MREL. We expect Jyske Bank's ALAC buffer will increase to more than 3% of RWA in 2018 and eventually exceed 5% in 2020. This projection does not incorporate the potential impact of Jyske Bank's acquisition of Nordjyske Bank, although we anticipate that Jyske Bank would maintain a RAC ratio sustainably above 10% in such a scenario.

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 the bank's acquisition of Nordjyske Bank, capital distributions, or volume growth weakened Jyske Bank's capital adequacy more than we currently expect, resulting in our RAC ratio remaining below 10%.

In addition, we could lower the ratings if Jyske Bank's asset quality metrics weakened, leading us to take a negative view of the bank's combined risk and capital position, or if Jyske Bank's funding and liquidity profile deteriorated significantly.

The positive outlook on BRFKredit rests on our expectation that the entity's senior creditors would benefit in a resolution from the parent's ALAC buffer. We could revise this outlook to stable if we concluded that BRFKredit would not receive support via Jyske Bank's ALAC in such a scenario.

RELATED CRITERIA

- 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

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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

- Banking Industry Country Risk Assessment: Denmark, March 7, 2018
- Jyske Bank 'A-/A-2' Ratings Affirmed On Offer To Buy Nordjyske Bank, March 16, 2018
- Nykredit Realkredit Outlook Revised To Stable On Stronger Additional Loss-Absorption Capacity; 'A/A-1' Ratings Affirmed, July 8, 2016
- Nykredit Realkredit's Proposed Senior Subordinated Tier 3 Notes Rated 'BBB+', May 26, 2016
- Various Rating Actions On Four Danish Banks After Review Of Government Support And Additional Loss-Absorbing Capacity, July 13, 2015
- Various Rating Actions On Danish Banks On EU Bank Recovery And Resolution Directive To Be Implemented In Denmark, May 12, 2015

Ratings List

* * * * * Danske Bank A/S * * * * *

Ratings Affirmed; Outlook Action

	To	From
Danske Bank A/S		
Danske Bank A/S, Swedish Branch		
Issuer Credit Rating	A/Positive/A-1	A/Stable/A-1

Ratings Affirmed

Danske Bank A/S	
Nordic Regional Scale Rating	--/--/K-1
Certificate Of Deposit	A/A-1
Senior Unsecured	A
Subordinated	BBB+
Junior Subordinated	BBB-
Commercial Paper	A-1
Commercial Paper	K-1

Danske Corp., Delaware	
Commercial Paper	A/A-1

* * * * * Jyske Bank A/S * * * * *

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Ratings Affirmed; Outlook Action

	To	From
Jyske Bank A/S		
BRFKredit A/S		
Issuer Credit Rating	A-/Positive/A-2	A-/Stable/A-2

Ratings Affirmed

Jyske Bank A/S	
Nordic Regional Scale Rating	--/--/K-1
Certificate Of Deposit	
Foreign Currency	A-2
Senior Unsecured	A-
Subordinated	BBB
Junior Subordinated	BB+
Commercial Paper	A-2

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