



Moody's Investors Service

## Rating Action: **Moody's reviews 11 Danish financial institutions' ratings for downgrade**

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Global Credit Research - 22 Jul 2009

London, 22 July 2009 -- Moody's Investors Service today placed on review for possible downgrade the bank financial strength ratings (BFSRs) and/or long-term ratings of seven Danish banks: Amagerbanken A/S, Nykredit Bank A/S, Nordea Bank Danmark A/S, Jyske Bank A/S, Ringkjøbing Landbobank A/S, Spar Nord Bank A/S and Sydbank A/S.

In addition, the issuer ratings of three mortgage credit institutions -- BRFkredit a/s, Nykredit Realkredit A/S and DLR Kredit A/S -- and one specialised lender -- Danmarks Skibskredit A/S -- were placed on review for possible downgrade. At the same time, the rating agency affirmed the ratings of Danske Bank A/S and P/F Foroya Banki.

Moody's also notes that all the ratings of FIH Erhvervsbank A/S remain on review for possible downgrade, the review having been initiated on 25 March 2009.

Moody's expects to conclude its reviews on the majority of these entities within a few weeks.

The rating agency anticipates that in most cases downgrades of the long-term debt and deposit ratings will be limited to one or two notches. Although Moody's expects the banks' BFSRs to come under increasing pressure, it believes that banks in highly rated countries are likely to receive support, depending on their level of systemic importance. This should in general result in a more limited impact on the debt and deposit ratings than the BFSRs.

The full list of the ratings affected for these institutions can be found below.

Today's rating actions on the BFSRs were prompted by Moody's expectation that Danish banks will experience increasing deterioration in asset quality over the coming quarters. This is likely to lead to higher credit-related write-downs than previously anticipated in the ratings, exerting adverse pressure on profitability and capitalisation. The anticipated deterioration in asset quality derives from the economic weakness in the corporate sector especially, but Moody's also cautions that Danish households are suffering from a very high level of indebtedness. Although the economic slowdown in Denmark started earlier than in the other Nordic countries, GDP contraction is expected to continue into 2010 and unemployment is increasing, albeit from a very low level.

Moody's has recently described the assumptions behind its framework for estimating Nordic banks' credit losses in a special comment entitled "Moody's Approach to Estimating Nordic Banks' Credit Losses" published on 16 July 2009.

In this context, those Danish banks whose ratings have been placed on review for downgrade today are those whose key credit drivers Moody's views as being the most vulnerable to weaker performance in their BFSR rating categories, under its anticipated (base) and worse-than-expected (stressed) scenarios. Among the key credit drivers, Moody's focus is in particular on current capital adequacy levels in relation to the banks' specific asset composition and their respective anticipated loss levels. The rating agency's expected macroeconomic scenario, referenced in the preceding paragraph, is used to establish its baseline expectations for a bank's performance, while its worse-than-expected case helps to measure a bank's potential vulnerability in the event of a shift to a more adverse environment.

More specifically, the banks that are most likely to have their BFSRs downgraded are those with lower capital adequacy levels compared with their exposures to asset classes embedding the highest expected losses, in accordance with Moody's published assumptions in the aforementioned Special Comment. These asset classes include for example exposures to construction, shipping and real estate.

The financial performance of Danish banks has been affected by the deteriorating economic outlook for Denmark, which has been particularly impacted by the performance of the corporate sector. Bankruptcies have increased significantly, in particular in the real estate sector. Therefore, Moody's has in the past 12 months taken certain rating actions on selected Danish banks with significant exposure to the property sector. In addition, the rating agency notes that the downgrade of Danske Bank earlier this year was prompted partly by deteriorating asset quality in its exposures outside Denmark, including in Ireland and the Baltic states.

### REVIEW OF SENIOR DEBT AND DEPOSIT RATINGS

In reviewing each bank's deposit and senior debt ratings, Moody's will consider (i) the support currently available to the bank, as well as the probability of support once stability returns to the markets and the system, (ii) the systemic importance of the rated institution, (iii) the bank's intrinsic financial strength rating, (iv) other sources of external support, in particular parental support, and (v) the long-term viability of the bank's franchise and its ability to withstand the current

financial crisis without being permanently impaired.

#### REVIEW OF BANK FINANCIAL STRENGTH RATINGS

Moody's review of the BFSRs will focus in particular on: (i) the amount of capital the bank has available to absorb expected credit losses on its risk assets; and (ii) the entity's internal capital generation capacity to replenish its capital cushion in the context of lower revenue growth in the deteriorating economic environment.

Banks that would be more affected by the BFSR downgrades would be the ones with lower capital adequacy levels and larger exposures to asset classes embedding the highest expected losses, in accordance with Moody's assumptions, including, for example, those with exposures to construction, real estate, shipping and agriculture. Moody's notes that the majority of Danish banks and credit institutions have applied for or already received hybrid capital from the government and will take this into account in its analysis.

Moody's BFSR methodology remains unchanged, although the weight attached to certain rating considerations, particularly capital and future earnings prospects, has been increased to better reflect the present conditions. The refinement to Moody's approach to rating banks in this environment is discussed in a Special Comment entitled "Calibrating Bank Ratings in the Context of the Global Financial Crisis", which was published in February 2009.

#### REVIEWS FOR POSSIBLE DOWNGRADE OF BFSRs AND/OR DEBT AND DEPOSIT RATINGS

The rating action on Nordea Bank Danmark A/S and other Nordea subsidiaries -- BFSR and long-term ratings placed on review for possible downgrade -- is commented on a separate press release together with its parent, Nordea Bank AB.

##### Amagerbanken A/S

Moody's placed Amagerbanken's D- BFSR and Baa2 long-term rating on review for possible downgrade. The review will focus on potential losses on the loan portfolio; Moody's is particularly concerned about the bank's commercial real estate exposures, which have already resulted in significant provisions and the rating agency cautions that the outlook for the sector remains negative.

The following ratings of Amagerbanken were affected:

- D- BFSR on review for possible downgrade;
- Baa2 long-term deposit rating on review for possible downgrade;
- Prime-2 short-term deposit rating on review for possible downgrade.

Moody's last rating action on Amagerbanken was on 26 February 2009 when the BFSR was downgraded to D- and the deposit ratings to Baa2/Prime-2.

##### Nykredit Bank A/S

Moody's placed Nykredit Bank's Aa3 long-term ratings on review for possible downgrade. The rating action reflects the fact that the parent, Nykredit Realkredit A/S, was also placed on review. The C+ BFSR remains on review for possible downgrade.

The following ratings of Nykredit Bank were affected:

- C+ BFSR remains on review for possible downgrade;
- Aa3 long-term debt and deposit ratings on review for possible downgrade;
- A1 subordinate ratings on review for possible downgrade;
- A2 junior subordinate ratings on review for possible downgrade;
- Prime-1 short-term ratings affirmed.

Moody's last rating action on Nykredit Bank was on 19 May 2009 when the BFSR was placed on review for possible downgrade following the announcement that Forstaedernes Bank (unrated) will be merged into Nykredit Bank over the next year.

##### Jyske Bank A/S

Moody's placed Jyske Bank's B- BFSR and Aa2 long-term ratings on review for possible downgrade. The review will focus

on potential losses on the bank's loan portfolio, especially in relation to its exposures to agriculture and SMEs as well as its exposure to structured investments and their impact on the bank's financial fundamentals. The rating agency says that the potential downgrade of the ratings could be of several notches.

The following ratings of Jyske Bank were affected:

- B- BFSR on review for possible downgrade;
- Aa2 long-term debt and deposit ratings on review for possible downgrade;
- A2 subordinate ratings on review for possible downgrade;
- A3 junior subordinate ratings on review for possible downgrade;
- Prime-1 short-term ratings affirmed.

Moody's last rating action on Jyske Bank was on 25 March 2009 when the ratings of its subordinated and hybrid debt instruments were downgraded.

Ringkjøbing Landbobank A/S

Moody's placed Ringkjøbing Landbobank's C+ BFSR and A1 long-term rating on review for possible downgrade. The review will focus on potential losses on the loan portfolio, which exhibits high exposure to the agricultural sector and SMEs, and the sustainability of the bank's high earnings generation.

The following ratings of Ringkjøbing Landbobank were affected:

- C+ BFSR on review for possible downgrade;
- A1 long-term deposit rating on review for possible downgrade;
- Prime-1 short-term deposit rating affirmed.

Moody's last rating action on Ringkjøbing Landbobank was on 22 May 2007 when the ratings were assigned.

Spar Nord Bank A/S

Moody's placed Spar Nord Bank's C BFSR and A1 long-term ratings on review for possible downgrade. The review will focus on potential losses on the loan portfolio, which exhibits high exposure to the agricultural sector and SMEs.

The following ratings of Spar Nord Bank were affected:

- C BFSR on review for possible downgrade;
- A1 long-term debt and deposit ratings on review for possible downgrade;
- Baa1 subordinate ratings on review for possible downgrade;
- Prime-1 short-term ratings affirmed.

Moody's last rating action on Spar Nord Bank was on 25 March 2009 when its subordinate rating was downgraded.

Sydbank A/S

Moody's placed Sydbank's Aa3 long-term ratings on review for possible downgrade. The outlook on C+ BFSR was changed to negative. The review will focus on potential losses on the loan portfolio, especially in relation to exposures to agriculture and SMEs and their impact on the entity's financial strength and potential transition risk in the event that the bank's financials deteriorate beyond Moody's expectations.

The following ratings of Sydbank were affected:

- C+ BFSR affirmed, outlook changed to negative;
- Aa3 long-term debt and deposit ratings on review for possible downgrade;
- A3 subordinate ratings affirmed, outlook changed to negative;
- Baa1 preferred stock ratings affirmed, outlook changed to negative;

- Prime-1 short-term ratings affirmed.

Moody's last rating action on Sydbank was on 25 March 2009 when the ratings of its subordinated and hybrid debt instruments were downgraded.

Please note that backed ratings assigned by Moody's under the Bank Package I and Bank Package II are not affected by this rating action.

#### REVIEWS FOR POSSIBLE DOWNGRADE OF ISSUER RATINGS

##### BRFkredit a/s

Moody's placed BRFkredit's A2 issuer rating on review for possible downgrade. The review will focus on potential losses in BRFkredit's loan portfolio and their impact on the entity's financial strength. Moody's is particularly concerned about the bank's exposure to commercial real estate where arrears have increased significantly.

The following rating of BRFkredit was affected:

- A2 long-term issuer rating on review for possible downgrade.

Moody's last rating action on BRFkredit was on 29 August 2003 when the rating was assigned.

##### Danmarks Skibskredit A/S (Danish Ship Finance)

Moody's placed Danish Ship Finance's Aa3 issuer rating and senior unsecured ratings on review for possible downgrade. The review will focus on Moody's expectation of credit losses given the significant deterioration of the shipping industry and its potential impact on Danish Ship Finance's financial fundamentals and overall creditworthiness. Given the significant deterioration in the global shipping industry combined with high credit concentrations in the entity's loan portfolio, Moody's cautions that any downgrade might not be limited to one notch.

The following ratings of Danish Ship Finance were affected:

- Aa3 long-term issuer and senior unsecured ratings on review for possible downgrade.

Moody's last rating action on Danish Ship Finance was on 18 December 2006 when the Aa3 rating was confirmed.

##### DLR Kredit A/S

Moody's placed DLR Kredit's A1 issuer rating on review for possible downgrade. The review will focus on potential losses in the loan portfolio, which is concentrated on agricultural lending and also has exposure to commercial properties, and their impact on the entity's financial strength. In the review process, the rating agency will also consider the financial strength of the owner banks, which provide guarantees for the majority of loans transferred to DLR Kredit.

The following ratings of DLR Kredit were affected:

- A1 long-term issuer rating on review for possible downgrade;

- A3 preferred stock rating on review for possible downgrade.

Moody's last rating action on DLR Kredit was on 11 September 2003 when the rating was assigned.

##### Nykredit Realkredit A/S

Moody's placed Nykredit Realkredit's Aa3 issuer rating on review for possible downgrade. The review will focus on potential losses in the loan portfolio, especially in light of the weaker outlook for commercial property and agriculture in Denmark and the impact on the entity's financial strength.

The following ratings of Nykredit Realkredit were affected:

- Aa3 long-term issuer rating on review for possible downgrade;

- A1 subordinate rating on review for possible downgrade;

- A2 junior subordinate rating on review for possible downgrade;

- Prime-1 short term issuer rating affirmed.

Moody's last rating action on Nykredit Realkredit was on 25 August 2004 when the rating was assigned.

Please note that this press release does not deal with the possible implications for the covered bond ratings of Danish mortgage credit institutions.

#### AFFIRMATION OF RATINGS

##### Danske Bank A/S

Moody's affirmed Danske Bank's C BFSR and Aa3 ratings. The outlook on the BFSR remains negative and stable on the debt and deposit ratings.

The following ratings of Danske Bank were affirmed:

- C BFSR with negative outlook;
- Aa3 long-term debt, deposit and issuer ratings with stable outlook;
- A3 subordinate ratings with negative outlook;
- Baa1 junior subordinate ratings with negative outlook;
- Prime-1 short-term ratings.

Moody's last rating action on Danske Bank was on 25 March 2009 when the ratings of its subordinated and hybrid debt instruments were downgraded.

##### P/F Foroya Banki

Moody's affirmed Foroya Banki's C- BFSR and A3 rating with stable outlook.

The following ratings of Foroya Banki were affirmed:

- BFSR of C- with stable outlook;
- A3 long-term deposit rating with stable outlook;
- Prime-2 deposit ratings.

Moody's last rating action on Føroya Banki was on 16 May 2008 when it assigned first-time ratings to the bank.

#### RATING METHODOLOGIES

The principal methodologies used in the above rating actions are "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", "Bank Financial Strength Ratings: Global Methodology" and "Revised Methodology for Government Related Non-Bank Financial Institutions", which can be found at [www.moody.com](http://www.moody.com) in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered can also be found in the Credit Policy & Methodologies directory.

Amagerbanken, headquartered in Copenhagen, Denmark, reported total assets of DKK36 billion (EUR6.5 billion) at the end of March 2009.

BRFkredit a/s, headquartered in Lyngby, Denmark, reported total assets of DKK234 billion (EUR31 billion) at the end of December 2008.

Danmarks Skibskredit A/S, headquartered in Copenhagen, Denmark, reported total assets of DKK81.6 billion (EUR11 billion) at the end of December 2008.

Danske Bank A/S, headquartered in Copenhagen, Denmark, reported total assets of DKK3,344 billion (EUR449 billion) at the end of March 2009.

DLR Kredit A/S, headquartered in Copenhagen, Denmark, reported total assets of DKK131 billion (EUR17.5 billion) at the end of March 2009.

FIH Erhvervsbank A/S, headquartered in Copenhagen, Denmark, reported total assets of DKK127 billion (EUR17 billion) at the end of March 2009.

Foroya Banki, headquartered in Tórshavn, Faroe Islands, reported total assets of DKK10 billion (EUR1.3 billion) at the end of March 2009.

Jyske Bank A/S, headquartered in Silkeborg, Denmark, reported total assets of DKK225 billion (EUR30 billion) at the end of March 2009.

Nykredit Bank A/S, headquartered in Copenhagen, Denmark, reported total assets of DKK205 billion (EUR27.6 billion) at the end of March 2009.

Nykredit Realkredit A/S, headquartered in Copenhagen, Denmark, reported total assets of DKK938 billion (EUR126 billion) at the end of March 2009.

Ringkjøbing Landbobank A/S, headquartered in Ringkjøbing, Denmark, reported total assets of DKK18 billion (EUR2.4 billion) at the end of March 2009.

Spar Nord Bank A/S, headquartered in Aalborg, Denmark, reported total assets of DKK65 billion (EUR8.8 billion) at the end of March 2009.

Sydbank A/S, headquartered in Aabenraa, Denmark, reported total assets of DKK161 billion (EUR21.7 billion) at the end of March 2009.

London  
Reynold R. Leegerstee  
Managing Director  
Financial Institutions Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

London  
Janne Thomsen  
Senior Vice President  
Financial Institutions Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454



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