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Ratings

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Research Update:

Denmark-Based Saxo Bank Outlook Revised To Negative On Compliance Framework Deficiencies; 'A-' Rating Affirmed

May 8, 2024

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Overview

- Saxo Bank A/S (Saxo) recently received eight enforcement orders from the Danish financial supervisory authority (FSA) relating to shortcomings in its compliance framework.
- We see this as credit relevant but expect Saxo will implement effective remediation.
- We have affirmed our 'A-' long-term rating on Saxo and revised our outlook to negative from stable.
- The negative outlook on Saxo reflects the downside risks the bank faces in the next 12-24 months until it strengthens its compliance and risk control framework.

Rating Action

On May, 8 2024, S&P Global Ratings affirmed its 'A-' long-term issuer credit rating on Saxo Bank A/S, its 'A' long-term resolution counterparty rating (RCR) on the bank, and its ratings on the bank's securities (see Ratings List below). At the same time, we revised our outlook on Saxo Bank to negative from stable.

Rationale

Saxo's compliance and risk control deficiencies are being monitored by the Danish regulator. On April 24, 2024, the Danish FSA published the findings of its November 2023 inspection of Saxo's compliance function and related oversight and governance. As a result, it issued eight enforcement orders to ensure Saxo improves the processes, procedures, and documentation of compliance risk management. Recent organizational changes should support Saxo in its efforts, though we recognize that finding sufficient staff to ensure full adherence to the orders will take time. In addition, the Danish FSA increased the bank's Pillar II capital requirement by Danish krone (DKK)150 million (approximately €20 million).

Despite some mitigating factors, we consider this a credit-relevant event. In our view, the Danish FSA is more transparent than some other regulators in publishing these findings. Further, Saxo previously self-identified certain deficiencies and had already made some progress on remediation. Nevertheless, we see the announcement as credit relevant:

- Compliance is a key operational risk for Saxo
- The deficiencies are compliance-specific (not relating to enterprise risk management as a whole) but in our view, they are fundamental since they relate to resourcing, oversight, and governance.
- The deficiencies will take some time to remediate; and
- This event follows the Danish FSA's previous identification of deficiencies in Saxo's anti-money laundering and transaction monitoring framework, which similarly led it to impose a Pillar II capital add-on.

We expect the regulatory actions will have a minimal effect on Saxo's financial standing. Saxo remains very well-capitalized and profitable. As of year-end 2023, we calculate the bank's risk-adjusted capital (RAC) ratio to be 19.3% and expect the RAC ratio will be about 18%-19% for the next two years. It similarly reported a regulatory common equity tier 1 ratio of 24.5% at year-end 2023, comfortably exceeding its requirement. Although remediation costs could increase over the coming quarters, we continue to anticipate that Saxo will generate solid earnings through 2024-2025 with no associated franchise damage.

Outlook

The negative outlook on Saxo reflects the downside risks the bank faces in the next 12-24 months until it strengthens its compliance and risk control framework. We assume that Saxo will continue to employ robust processes in other key areas of risk management, such as client and counterparty.

Downside scenario

We could lower the long-term rating over the next 12-24 months if further material control deficiencies come to light or if Saxo fails to correct the existing deficiencies.

While less likely, we could also lower the rating if we observe evidence of franchise damage, or if we expect a weakening of tangible capitalization that leads to an RAC ratio below 15%. Furthermore, we could lower the rating if Saxo fails to maintain an additional loss-absorbing capacity buffer beyond 8%, or if the Danish regulator revises its preferred resolution approach.

Upside scenario

We could revise the outlook to stable if Saxo demonstrates sustained improvement in its risk and control framework.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	**A-/Negative/--**	**A-/Stable/--**
SACP	bbb	bbb
Anchor	bbb-	bbb-
Business position	Moderate (-1)	Moderate (-1)
Capital and earnings	Very strong (+2)	Very strong (+2)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Strong and strong (+1)	Strong and strong (+1)
Comparable ratings analysis	-1	-1
Support	+2	+2
ALAC support	+2	+2
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. GRE--Government related entity. ALAC—Additional loss-absorbing capacity.

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Risk management, culture, and oversight

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Research Update: Saxo Bank A/S Upgraded To 'A-' On Increasing Resolvability; Outlook Stable, March 28, 2024
- Bulletin: Saxo Bank To Boost Anti-Money-Laundering Framework After Financial Authorities' Check; Capital Impact Manageable, Feb. 16, 2024
- The Resolution Story For Europe's Banks: Making The Regime Fit For Purpose, Oct. 4, 2023
- Bulletin: Saxo Bank's Systemically Important Bank Designation Reflects Its Role In Denmark's Banking Sector Stability, June 26, 2023
- Denmark-Based Securities Brokerage Firm Saxo Bank A/S Assigned 'BBB' Rating; Outlook Positive, April 12, 2023
- What's Next For Resolution Counterparty Ratings?, March 2, 2020

Ratings List

Ratings Affirmed		
Saxo Bank A/S		
Resolution Counterparty Rating	A/--/--	
Saxo Bank A/S		
Senior Unsecured	A-	
Senior Subordinated	BBB-	
Subordinated	BB+	
Ratings Affirmed; Outlook Action		
	To	**From**
Saxo Bank A/S		
Issuer Credit Rating	A-/Negative/--	A-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.