MOODY'S
INVESTORS SERVICE

CREDIT OPINION
23 September 2019

Update

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Danske Bank A/S

Update to credit analysis

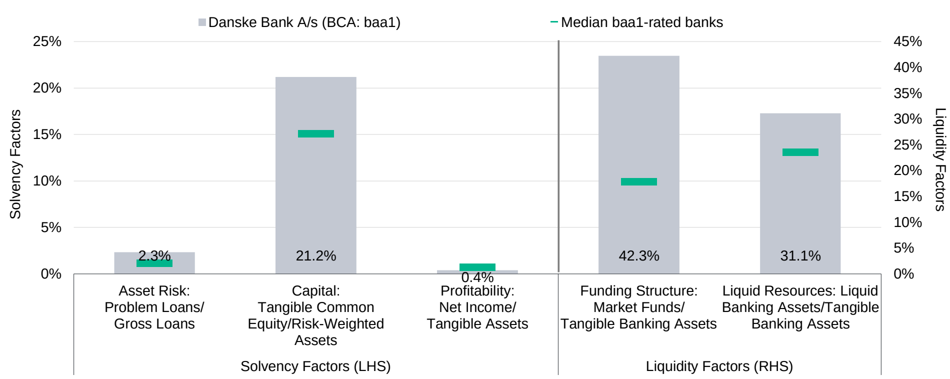
Summary

We assign a baa1 Baseline Credit Assessment (BCA) and A2 long-term (LT) deposit and senior unsecured debt ratings, along with Baa2 junior senior debt (often referred to as senior non-preferred) ratings to Danske Bank A/S (Danske). The long-term deposit and senior unsecured debt ratings carry a negative outlook.

Danske's baa1 BCA reflects the strengthening of its asset quality and capitalisation in the aftermath of the financial crisis, balanced against the profitability pressures the bank faces from higher funding costs and operational expenses related to ongoing investigations, at a time of low interest rates and increased competition. The negative outlook captures further related operational and reputational risks stemming from ongoing investigations, which could affect negatively Danske's franchise.

Danske's A2 LT deposit, senior unsecured and junior senior debt ratings incorporate our forward looking view incorporating the bank's MREL (Minimum Requirements for own funds and Eligible Liabilities) requirements.

Exhibit 1
Rating scorecard - Key financial ratios



These represent our Banks methodology scorecard ratios, whereby asset risk and profitability reflect the weaker of either the three-year average and the latest annual figure. Capital ratio is the latest reported figure. Funding structure and liquid resource ratios reflect the latest fiscal year-end figures.
Source: Moody's Investors Service

RATINGS

Danske Bank A/S

Domicile	Denmark
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Negative
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Credit strengths

» Improving asset quality, but still below those of its Nordic peers

» Solid capitalisation

Credit challenges

» Profitability under pressure from higher funding costs and operational expenses, at a time of low interest rates and increased competition

» Potential fines and other regulatory penalties arising from past money laundering through the bank's Estonian branch between 2007-15

» High dependence on market funding, mitigated by more stable covered bonds and adequate liquidity

Outlook

The negative outlook reflects the balance of forward-looking operational and reputational risks stemming from the ongoing investigations, which could strain Danske's financial profile and franchise.

In addition to the direct financial and potentially criminal impacts that could result from penalties, Danske faces reputational and operational risks because the money laundering findings could dampen the confidence of some customers, investors and counterparties.

Factors that could change the outlook to stable

» The outlook could revert to stable if the company demonstrates it has fully addressed compliance shortcomings and that the repercussions of the historical issues in Estonia will not have a material negative impact on Danske's financial profile or its franchise compared with the current positioning of the BCA.

» The bank would also need to demonstrate satisfactory levels of profitability without any significant deterioration in its funding profile, along with a reduction of the potential risk of further material financial penalties.

Factors that could lead to a downgrade

» The ratings could be downgraded if we observe relapses in terms of governance, control functions or compliance, along with any indications of a renewed aggressive strategy resulting in heightened credit or operational risks.

» The rating would also come under pressure if there is (1) a sustained loss in clients or business, which could strain the bank's financial profile; (2) firmer evidence of monetary penalties, which would strain not only the bank's earnings, but also its capital; or (3) an indication that funding has become significantly more costly or access to certain markets or instruments has become more limited.

Key indicators

Exhibit 2

Danske Bank A/S (Consolidated Financials) [1]

	06-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (DKK Million)	3,568,080.0	3,409,010.0	3,357,457.0	3,242,070.0	3,055,864.0	4.5[4]
Total Assets (USD Million)	544,412.6	522,217.5	541,490.4	459,897.4	444,825.8	5.9[4]
Tangible Common Equity (DKK Million)	161,441.0	161,674.0	165,604.0	159,638.0	154,726.0	1.2[4]
Tangible Common Equity (USD Million)	24,632.4	24,766.4	26,708.6	22,645.1	22,522.6	2.6[4]
Problem Loans / Gross Loans (%)	2.3	2.4	1.9	2.6	3.0	2.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	21.2	21.6	22.0	19.6	18.6	20.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	23.5	24.1	18.1	24.5	30.3	24.1[5]
Net Interest Margin (%)	0.8	0.9	0.9	1.0	1.1	0.9[5]
PPI / Average RWA (%)	2.5	2.5	3.1	3.0	2.5	2.7[6]
Net Income / Tangible Assets (%)	0.4	0.4	0.6	0.6	0.5	0.5[5]
Cost / Income Ratio (%)	59.7	60.3	51.5	50.4	53.4	55.1[5]
Market Funds / Tangible Banking Assets (%)	43.2	42.2	43.6	44.6	43.6	43.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	34.2	31.1	37.3	35.8	27.5	33.2[5]
Gross Loans / Due to Customers (%)	196.6	200.8	191.3	201.1	225.7	203.1[5]

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel III - fully-loaded or transitional phase-in; IFRS. [3]May include rounding differences due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel III periods presented.

Source: Moody's Investors Service; Company Filings

Profile

Danske Bank A/S is part of the Danske Bank Group, which also comprises Realkredit Denmark (a mortgage credit institution), Danica Pension (a life insurance company), Danske Hypotek AB (a covered bond issuer in Sweden), Danske Mortgage Bank Plc (a covered bond issuer in Finland), AO Danske Bank (provides corporate banking services in Russia) and Northern Bank Plc (commercial bank in Northern Ireland). As of the end of June 2019, the bank held 26% of the domestic market share in terms of loans and 29% in terms of deposits, and reported total consolidated assets of DKK3.8 trillion (€508.9 billion).

Danske is a universal bank, and it provides a broad range of products and services, including deposits, loans and other credit, insurance, pensions, leasing, asset management, and trading in fixed-income products, foreign exchange and equities. As of the end of December 2018, it distributed its products through 95 domestic and 142 international branches in Sweden, Norway, Finland, Northern Ireland, and the Baltic States, although the Baltic operations will be closed down.

Danske was established in 1871 as Den Danske Landmandsbank. In 1976, it was renamed Den Danske Bank. In 2000, the name was changed to Danske Bank. Its shares are listed on the NASDAQ OMX Copenhagen Stock Exchange (Ticker: DANSKE). As of year-end 2018, its largest shareholder was the A.P. Møller Holding Group, which held 20% of the bank's total share capital.

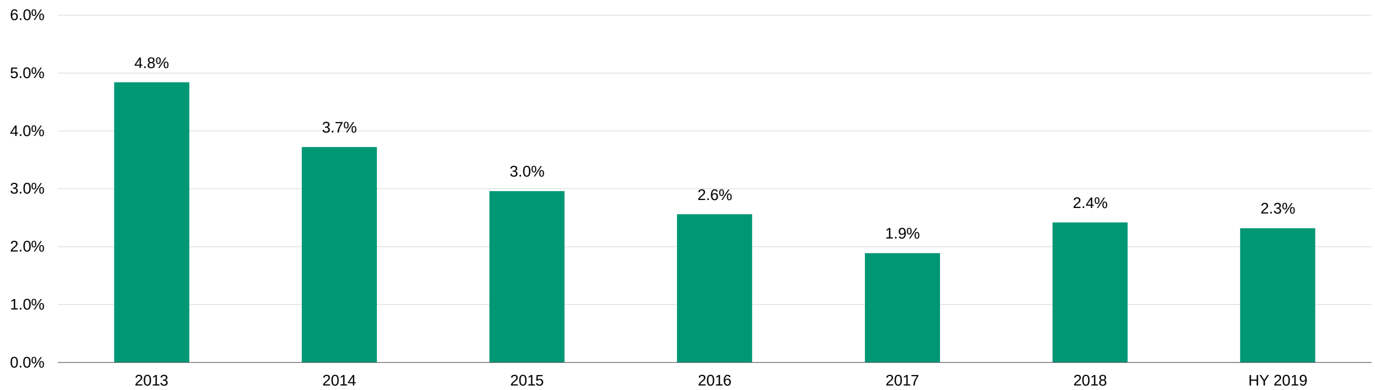
Detailed credit considerations

Improving asset quality, which is still below those of its peers

Our assigned baa1 Asset Risk score reflects our assessment that the recent positive underlying trends in asset quality are sustainable. The bank's problem loans (defined as IFRS 9 stage 3 loans) were 2.3% as of 30 June 2019. Problem segments are shipping and agriculture.

Exhibit 3

Danske's problem loans as a percentage of gross loans



Source: Company reports, Moody's Investors Service

Danske has been gradually disposing its noncore assets, which were previously mainly performing residential mortgages in Estonia and Ireland only. In February 2019, Estonia's Financial Supervision Authority (FSA) ordered Danske to cease operating in Estonia within eight months. Danske also announced the same day the intention to close down its other Baltic operations in Lithuania and Latvia (with the exception of the bank's shared services centre in Lithuania), as well as in Russia because the bank wants to focus on its Nordic core markets.

We expect the low interest rates and the relatively robust economic growth in Denmark to continue to support the bank's asset quality over the next 12-18 months.

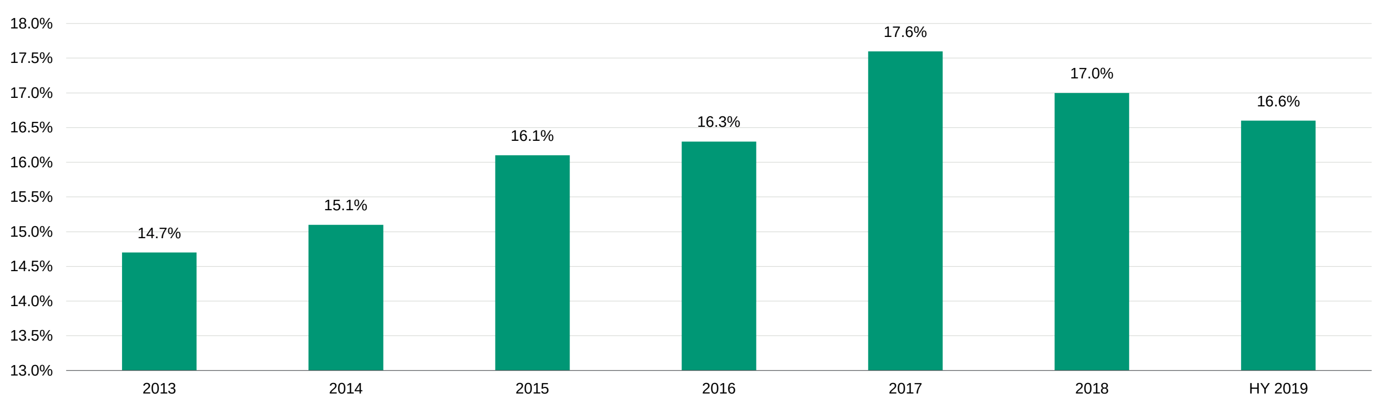
The bank's Asset Risk score includes negative adjustments to reflect our view that Danske faces potential reputational and operational risks because the money laundering findings and the bank's delayed response to previous concerns by internal and external stakeholders have cast doubts over the corporate culture of the bank.

Solid capitalisation

Danske's solid capital buffers is a relative strength for its credit profile. The bank's capital ratios improved up to year-end 2017, increasing the bank's ability to absorb potential future losses, although we note a weakening by 1 percentage point since then. As of 30 June 2019, the bank's Common Equity Tier 1 (CET1) capital ratio was 16.6% (see Exhibit 4).

Exhibit 4

Danske's CET1 ratio



Source: Company reports

As a response to the Danish FSA's decision that Danske needs to set aside a minimum of DKK10 billion (around $1.7 billion) in Pillar II capital (in the form of CET1) to cover for what the Danish regulatory authority characterised as "heightened compliance and reputational risks," the bank has increased its short- to medium-term CET1 target to around 16% from the previous 14%-15%. Danske also cancelled its share buyback program in response.

The bank's capital requirements are subject to change because the bank anticipates that the Danish FSA will impose an additional Pillar II add-on in the mid-single digit billion range. This is as a result of a "general product governance risk," following inspection of the bank's IT governance structure in response to the ongoing investigation on the overcharging of clients who invested in the bank's Flexinvest Fri product.

The bank has a target of a 40%-60% payout ratio of net profit.

Our assigned a1 Capital score reflects the bank's solid capital position, but also takes into account the bank's high leverage. Tangible common equity stood at 4.5% of total assets as of 30 June 2019, which is at the lower end of its large Nordic peers.

Profitability under pressure from margin compression and increased costs

We expect Danske's profitability to continue to be under pressure because competition and more expensive senior non-preferred debt issuances are compressing margins during a period of extremely low interest rates and elevated costs from additional remediation relating to the Estonia case.

Danske's net income fell to 0.4% of tangible assets in the first half of 2019 (first half of 2018: 0.5%) because of a combination of lower net interest income and higher costs. The bank's primary source of revenue is net interest income (around half of total income in the first half of 2019), which declined by 8% in H1 2019 compared with H1 2018, mainly because of a fall in lending margin and higher funding costs from the issuance of more expensive (compared with deposits and senior unsecured) senior non-preferred debt.

Net income was importantly negatively affected by lower trading income, which fell to DKK 2.1 billion in H1 2019 (from 2.5 bn in H1 2018), and had an even more significant impact on the full year of 2018 4.7 bn (from 7.1 bn in 2017).

The bank's operating expenses increased by 12% in H1 2019 compared with H1 2018 mainly because of upstaffing and investments in compliance and Anti-Money Laundering (AML) capabilities, the compensation payable to Flexivest Fri customers, and finally the continuous ambitious digital transformation.

As a result, the bank's efficiency metrics have deteriorated, with a cost/income (as per our definition) of 60% in H1 2019, up from 54% in H1 2018, widening the efficiency gap against its peers.

Danske recorded low impairments in core activities during H1 2019, with loan-loss provisions at 0.09% of gross loans, reflecting the stable macroeconomic environment and focus on a high quality loan book. This is, however, higher than in the year-earlier period, when the bank had reversals.

In this environment, we see Danske's ability to maintain tight cost control as very important.

We expect the bank's net income to continue to be negatively affected going forward by additional remediation costs, higher funding costs along with potential fines linked to the Estonian affair, which is reflected in our forward-looking assigned ba2 profitability score. While we acknowledge the high degree of uncertainty surrounding the magnitude of any potential fines resulting from the US investigations, an analysis of past money laundering cases involving US authorities suggests financial penalties alone (that is, excluding internal operational and remediation costs) could represent a sizable figure relative to the bank's annual net income.

High dependence on market funding, particularly covered bonds; liquidity is adequate

While the share of deposit funding has increased in recent years to around 28% of total non-equity funding as of June 2019, Danske relies heavily on wholesale funding. Market funds accounted for 43.2% of its tangible banking assets as of June 2019.

This high reliances exposes the bank to changes in market conditions, and renders Danske more sensitive to swings in investor confidence. The current situation, with increased regulatory scrutiny around the money laundering in Estonia, has resulted in widening spreads for the bank's senior unsecured and senior non-preferred debt, and downside risks to funding costs remain. Nevertheless, the bank has retained good access to the market, and issued about DKK65 billion of senior non-preferred instruments since 2018.

Most of the group's market funds are covered bonds (mainly taken up by Realkredit Danmark, the bank's mortgage subsidiary). As indicated in our Banks methodology, we reflect the greater stability of covered bonds compared with unsecured market funding through a standard adjustment to the funding structure ratio. Given the long history of the Danish covered bond markets, local currency and deep domestic investor base, we make additional (positive) adjustments for local-currency denominated covered bonds issued in this market. The assigned ba2 Funding Structure score also reflects our view of the Danish covered bond market.

We take some comfort from Danske's sizeable reported liquidity buffer — most of which can be used as collateral for central bank liquidity — amounting to DKK512 billion, or 15% of tangible banking assets as of 30 June 2019, leading to a baa1 assigned Liquidity score. As of the same date, Danske's liquidity coverage ratio, according to the new European Union standards, was 129% (down from 171% as of year-end 2017 because of reduced carry-trades in US dollars).

Environmental, social and governance considerations

In line with our general view for the banking sector, Danske has a low exposure to environmental risks (See our Environmental risk heat maps) and moderate exposure to social risks.

In terms of governance, Danske is being affected by a range of past governance failures, revealed in September 2018, that allowed money laundering of a significant scale at its Estonian branch between 2007-2015. In October 2018, the US Department of Justice announced that Danske is subject to criminal investigations, running in parallel with investigations in Denmark and Estonia, including for potential criminal activities.

We recognise that Danske has already taken a number of steps to address its Board and Executive level governance and control, and specifically its money laundering process control deficiencies since 2015 (following earlier investigations by the Danish regulator). However, with the recently launched investigations, the bank is now exposed to (1) a heightened risk of material monetary penalties, and (2) reputational strain that could lead to loss of business and franchise erosion.

The identified governance failures are influencing the assigned scores in our scorecard, as well as our negative outlook, thereby capturing our assessment of the likely near-term crystallization of governance failing risks. The risks manifest themselves in higher capital requirements and higher funding costs and operational costs, on the back of dampened customer and investor confidence and higher spending on AML capabilities. Given the remedial actions taken by the bank in terms of its governance structure, we do not apply a qualitative adjustment under corporate behavior in our scorecard. However, our negative outlook also takes into account potential fines linked to the Estonian affair, which whilst highly uncertain could be significant.

Support and structural considerations

Loss Given Failure analysis

Danske is subject to the European Union's Bank Recovery and Resolution Directive, which we consider to be an operational resolution regime. We apply our Advanced LGF analysis to Danske's liabilities, considering the risks faced by the different deposit and debt classes across its liability structure at failure. We assume residual tangible common equity of 3% and losses post failure of 8% of tangible banking assets, a 25% run-off in “junior” wholesale deposits and a 5% run-off in preferred deposits. These are in line with our standard assumptions.

Our LGF reflects our expectation that Danske will continue to issue senior non-preferred debt to comply with the Danish MREL decision. The deposit and senior unsecured debt ratings therefore reflect our advanced LGF analysis of the group's current balance sheet structure and its capital and funding plans up to 1 January 2022, when the subordination requirement for MREL is applicable. Our Advanced LGF analysis indicates that Danske's depositors and senior creditors are likely to face low loss given failure, because of the loss absorption provided by additional loss-absorbing debt, generated by the senior non-preferred issuance. This results in a one notch of uplift for junior deposits and senior unsecured debt.

We attach a high degree of confidence to the likelihood that the bank will fullfil the regulatory MREL requirement, along with a buffer, with the subordination required as of 2022, and therefore apply a forward-looking time horizon as per our updated methodology. We expect that depositors and senior unsecured creditors of Danske would benefit from sufficient subordination in the liability structure by year-end 2021, which would likely reduce the loss given failure, resulting in a one notch uplift.

Government support considerations

Although the implementation of the Bank Recovery and Resolution Directive has prompted us to reconsider the potential for government support to benefit certain creditors, we continue to consider a moderate probability of government support for Danske, resulting in a one notch of government support uplift in the bank's A2 long-term deposit and senior unsecured debt ratings. This reflects the fact that Danske is Denmark's largest financial institution, and the market leader in most financial products.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CRA is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

Danske's CR Assessment is positioned at Aa3(cr)/Prime-1(cr)

The CR Assessment is positioned four notches above the Adjusted BCA of baa1, based on the substantial buffer against default provided to the senior obligations represented by the CRA by subordinated instruments. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CRA captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

Danske's CRRs are positioned at Aa3/Prime-1

The CRR of Aa3 reflects the Adjusted BCA of baa1, four notches of uplift reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities. The CRR also benefits from one notch of systemic support, as an assumption of a moderate likelihood of government support. The short-term CRR is P-1.

Rating methodology and scorecard factors

Exhibit 5

Danske Bank A/S

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.3%	a2	←→	baa1	Operational risk	Collateral and provisioning coverage
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	21.2%	aa1	←→	a1	Nominal leverage	
Profitability						
Net Income / Tangible Assets	0.4%	ba1	←→	ba2	Expected trend	
Combined Solvency Score		a2		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	42.2%	b1	←→	ba2	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	31.1%	a2	←→	baa1	Quality of liquid assets	
Combined Liquidity Score		ba1		baa3		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
Scorecard Calculated BCA range				baa1 - baa3		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		

Balance Sheet	**in-scope (DKK Million)**	**% in-scope**	**at-failure (DKK Million)**	**% at-failure**
Other liabilities	1,816,269	60.5%	1,911,660	63.7%
Deposits	935,211	31.1%	839,819	28.0%
Preferred deposits	692,056	23.0%	657,453	21.9%
Junior deposits	243,155	8.1%	182,366	6.1%
Senior unsecured bank debt	84,677	2.8%	84,677	2.8%
Junior senior unsecured bank debt	65,243	2.2%	65,243	2.2%
Dated subordinated bank debt	11,255	0.4%	11,255	0.4%
Equity	90,082	3.0%	90,082	3.0%
Total Tangible Banking Assets	3,002,737	100.0%	3,002,737	100.0%

Debt Class	**De Jure waterfall**		**De Facto waterfall**		**Notching**		**LGF Notching Guidance vs. Adjusted BCA**	**Assigned LGF notching**	**Additional Notching**	**Preliminary Rating Assessment**
	Instrument volume + subordination	**Sub-ordination**	**Instrument volume + subordination**	**Sub-ordination**	**De Jure**	**De Facto**				
Counterparty Risk Rating	14.4%	14.4%	14.4%	14.4%	3	3	3	3	0	a1
Counterparty Risk Assessment	14.4%	14.4%	14.4%	14.4%	3	3	3	3	0	a1 (cr)
Deposits	14.4%	5.5%	14.4%	8.4%	1	2	1	1	0	a3
Senior unsecured bank debt	14.4%	5.5%	8.4%	5.5%	1	0	1	1	0	a3

Junior senior unsecured bank debt	5.5%	3.4%	5.5%	3.4%	-1	-1	-1	-1	0	baa2
Non-cumulative bank preference shares	3.0%	3.0%	3.0%	3.0%	-1	-1	-1	-1	-2	ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	1	Aa3	Aa3
Counterparty Risk Assessment	3	0	a1 (cr)	1	Aa3(cr)	
Deposits	1	0	a3	1	A2	A2
Senior unsecured bank debt	1	0	a3	1		A2
Junior senior unsecured bank debt	-1	0	baa2	0		Baa2
Non-cumulative bank preference shares	-1	-2	ba1	0	Ba1 (hyb)	Ba1 (hyb)

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
DANSKE BANK A/S	
Outlook	Negative
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A2
Senior Unsecured	A2
Junior Senior Unsecured	Baa2
Junior Senior Unsecured MTN	(P)Baa2
Pref. Stock Non-cumulative	Ba1 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1
DANSKE BANK A/S (LONDON BRANCH)	
Outlook	Negative
Deposit Note/CD Program	(P)A2/(P)P-1
DANSKE CORPORATION	
Bkd Commercial Paper	P-1

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454