

Danske Bank A/S

Key Rating Drivers

Leading Danish Bank: Danske Bank A/S's ratings reflect the bank's strong universal banking franchise in Denmark and to a growing extent, across the Nordic region, providing stable revenue generation across a wide range of products. The ratings also consider Danske's strong capitalisation and funding access, although wholesale reliance makes the bank sensitive to a loss of investor confidence.

AML Investigations: The Negative Outlook reflects uncertainty relating to the ultimate impact on Danske's capitalisation, franchise and funding profile from investigations by regulators on the bank's serious deficiencies of its anti-money laundering (AML) controls, in particular in its Estonian non-resident portfolio.

Reputational Damage Hurts Franchise: Customer outflow in Denmark has appeared manageable so far. Domestic franchise pressure should ease if customer outflows reduce in a notable and prolonged way, but expansion into other Nordic countries could be slowed down. In February 2019, the Estonian FSA ordered Danske to cease its operations in the country.

High Management Turnover: We expect more stability and a reduction in managerial uncertainty, but the largely new management team needs time to fully restore trust from the various stakeholders. The substantial strengthening of the financial crime and compliance departments should help to alleviate management distractions from AML investigations.

Good Profitability: Danske enjoys strong and stable revenue generation as well as good cost control. Margins are low but have proven resilient to negative interest rates. Profit generation has been affected by higher investments and funding costs related to the AML issues.

Improving Asset Quality: We expect asset quality to continue to improve due to strengthened risk-management framework, in particular through more stress testing and portfolio analysis.

Solid Capitalisation: Risk-weighted capital ratios compare well with international peers. Leverage is slightly high compared with peers, although still acceptable and decreasing, with a reported fully loaded regulatory leverage ratio of 4.4% at end-September 2019.

Healthy Wholesale Funding Access: Danske's well-diversified funding base has proven resilient to the negative news from the AML investigations. The spread-widening has increased funding costs but these remain manageable. Liquidity is healthy, as it is important for Danske to maintain a significant liquidity portfolio to mitigate refinancing risk.

Rating Sensitivities

Capital-Depleting Fine: Fitch Ratings could downgrade Danske's ratings if the bank is likely to incur fines that would materially erode its capital, especially if this causes a material loss of franchise strength or a weaker funding profile. Negative rating pressure could also arise from asset-quality deterioration that materially affects capitalisation, although this is not expected.

Abating AML Risks: Fitch could revise the Outlook to Stable if the risk of a capital-depleting fine diminishes, and if the bank can put the Estonian case behind it without materially damaging its franchise or funding profile. In addition, this would require the management to successfully restore stakeholders' confidence in the bank and continue to implement its current strategy, with a clear focus on the Nordic home markets.

Financial Metrics Improvement: Longer term, a sustained and material improvement in asset quality and profitability, while maintaining solid capital, funding and liquidity ratios, could be rating-positive.

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1
Derivative Counterparty Rating	A+(dcr)

Viability Rating a

Support Rating 5
 Support Rating Floor NF

Sovereign Risk

Long-Term	AAA
Foreign-Currency IDR	
Long-Term	AAA
Local Currency IDR	
Country Ceiling	AAA

Outlooks

Long-Term	Negative
Foreign-Currency IDR	
Sovereign Long-Term	Stable
Foreign-Currency IDR	
Sovereign Long-Term	Stable
Local-Currency IDR	

Applicable Criteria

[Bank Rating Criteria \(October 2018\)](#)

[Short-Term Ratings Criteria \(May 2019\)](#)

Related Research

[Realkredit Danmark A/S \(January 2020\)](#)

[Large European Banks Quarterly Credit Tracker - 3Q19 \(December 2019\)](#)

[Fitch Ratings 2020 Outlook: Western European Banks \(December 2019\)](#)

[Danske Banks A/S - Ratings Navigator \(July 2019\)](#)

[Fitch Affirms Danske Bank at 'A', Negative Outlook \(July 2019\)](#)

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Subsidiaries' Issuer Ratings

Rating Level	Realkredit Danmark A/S
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Support Rating	1
Outlook	Stable

Source: Fitch Ratings

Realkredit Danmark A/S (RD) is Danske's largest subsidiary, primarily providing real-estate lending. Its Issuer Default Ratings (IDRs) are based on its standalone financial strength, despite sharing some central functions and distribution channels with its parent bank. Fitch believes that RD's risk profile has been relatively unaffected by the Estonian AML issues at its parent. However, given that we believe that capital is to some extent fungible between Danske and RD, we are likely to retain the Viability Ratings (VRs) within one notch of each other.

RD's IDRs and VR reflect its strong domestic franchise as the second-largest mortgage lender, its strong capitalisation and its resilient asset quality. The ratings are constrained by the bank's monoline business model and wholesale funding reliance, although risks associated with the latter are mitigated by a large, deep and liquid domestic covered bond market, and access to funding from its parent, if needed.

RD's Support Rating of '1' reflects an extremely high probability that support would be provided by Danske, if required. In Fitch's view, Danske would have a high propensity to support RD given the latter's role as the group's main domestic mortgage provider, and the significant reputational risk Danske would face in the event of RD's default. Required support would likely be manageable relative to Danske's ability to provide it.

Debt Rating Classes

Rating Level	Rating
Deposits	A+/F1
Senior preferred debt	A+/F1
Senior non-preferred debt	A
Subordinated debt	A-
Additional Tier 1 capital instruments	BB+

Preferred Debt and Deposit Ratings

Danske's long-term senior preferred debt and deposit ratings are one notch above the bank's Long-Term IDR because deposits and senior unsecured preferred notes have preferential status over the bank's large buffers of qualifying junior debt and senior non-preferred debt. Danske's resolution strategy excludes RD. On this basis, Fitch calculates that the buffer of qualifying junior debt and senior non-preferred debt was over 18% of risk-weighted assets (RWAs) at end-September 2019. We believe that these buffers should be sufficient to recapitalise the bank after a resolution without causing losses to senior preferred creditors.

We assume that the regulator would intervene when Danske's common equity Tier 1 (CET1) capital is close to the bank's CET1 Pillar 1 and Pillar 2 requirements (excluding the capital conservation and systemic risk buffers), which on a forward-looking basis are 7.6%. We assume the regulator would then likely require the group to be recapitalised to meet its total minimum capital requirements, which are 18%, including the capital conservation and systemic risk buffers but excluding the countercyclical buffer. This results in an estimated recapitalisation amount of about 10%. Therefore, a combined buffer of 10%-11% should be sufficient to recapitalise the bank after a resolution without causing losses to senior preferred creditors. We view the buffers as sustainable given that the bank's minimum requirement for own funds and eligible liabilities (MREL) has been in force since 1 July 2019.

Subordinated Debt and Other Hybrid Capital

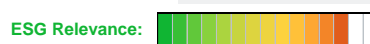
Subordinated debt and CRD IV-compliant Tier 2 instruments are rated one notch below Danske's VR to reflect the above-average loss severity of this type of debt. The narrow notching partly reflects the absence of contractual full write-down or conversion language. Fitch rates Danske's other Tier 2 instruments three notches below the VR to reflect loss severity (one notch) and incremental non-performance risk (two notches). Fitch has applied two notches for incremental non-performance risk because of the issuer's ability to defer coupons. Additional Tier 1 securities are rated five notches below Danske's VR to reflect the higher-than-average loss-severity risk of these securities (two notches) as well as high risk of non-performance (an additional three notches).

The ratings on the subordinated debt and other hybrid securities issued by Danske are broadly sensitive to the same considerations that affect its VR. Additional Tier 1 securities are also sensitive to Fitch changing its assessment of the probability of their non-performance risk relative to the risk captured in Danske's VR.

On 15 November 2019 Fitch published *Exposure Draft: Bank Rating Criteria*, which included proposals to alter the notching of certain debt securities.

Ratings Navigator – Standalone Assessment

Danske Bank AS



Banks
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A Negative
a-										a-	A-	A-
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC	CCC
ccc-										ccc-	CCC-	CCC-
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Significant Changes

AML Investigations

Danske is subject to money laundering investigations from multiple jurisdictions including the US regarding its Estonian non-resident portfolio, which was active between 2007 and 2015 and generated about EUR200 billion of flows. The timing of the outcome of these investigations is still uncertain. Danske expects its internal investigation to be completed by end-2020.

New Top Management Team to Build Credibility

The executive board has had significant turnover over the past 24 months. In September and November 2019, a new chief financial officer and a new chief operating officer were appointed, following the appointment of a new chief executive in May 2019 and the dismissal in June 2019 of the head of Banking Denmark for his responsibilities in the miss-selling of a savings product. The new management team needs to build its credibility through delivering on the bank's strategic objectives.

AML-Related Expenses Will Drag on Profitability Until 2023

Danske's new financial targets aim at a return on equity (ROE) of 9%-10% and a cost/income ratio in the low 50s by 2023. The bank expects its ROE in 2020 to fall to 5%-6% owing to investments and revenue challenges, notably from increasing funding costs.

The substantial strengthening of its financial crime and compliance departments is leading to an increase in compliance expenses, expected to peak at DKK3.3 billion-3.5 billion in 2020, up from DKK1 billion in 2017. The plan to reduce these expenses, to a steady-state level of DKK1.5 billion-1.7 billion by 2023 via digitalisation and automation of core AML processes, is a key driver of the bank's plan to restore its ROE.

In addition, Danske's 2023 strategic plan includes the restructuring of its fixed income & currency unit, which faces significant structural and cyclical revenue challenges, and initiatives to drive income growth, focused on developing digital platforms, investing in data and analytics and integrating its private banking operations within its banking sales channel.

Bar Chart Legend

Vertical bars – VR range of Rating Factor
 Bar Colors – Influence on final VR
 ■ Higher influence
 ■ Moderate influence
 ■ Lower influence

Bar Arrows – Rating Factor Outlook
 ↑ Positive ↓ Negative
 ⇅ Evolving □ Stable

Company Summary and Key Qualitative Assessment Factors

Leading Domestic Universal Bank

Danske is Denmark's largest universal bank, with domestic lending and deposit market shares of 26% and 28%, respectively, at end-September 2019. It also has smaller operations in Northern Ireland (market shares of about 20% (private) and 25% (corporate)) as well as other Nordic countries. Since end-September 2018, Danske has lost slightly less than 3% of its personal customers in Denmark. However, customer attrition in 2Q19 and 3Q19 was lower than in 1Q19.

Mortgage financing is mainly carried out through RD (total lending at end-September 2019: DKK780 billion, almost 45% of group loans (excluding repo)). Danske also provides investment banking and capital markets, asset management, private banking, real-estate brokerage and leasing services. It has a significant Nordic fixed income & currency business, in particular in interest-rate swaps, cash management and trade finance. It owns Denmark's second-largest life insurer/pension company, which has a market share of just over 10%.

Even Profit Contribution from Divisions

The bank's revenue generation has been stable over time, with the business model focused on traditional, commercial banking, and capturing a larger share of customers' wallet by also offering wealth/life insurance products. Revenue and profitability are evenly split between divisions. The revenue and profit contribution from Sweden and Norway is increasing, in line with the group's strategy to expand into other Nordic countries.

Conservative Risk Appetite

Following the appointment of the new chief compliance officer in November 2018, Danske has reorganised and strengthened its compliance organisation including the nomination of the chief compliance officer to the executive board and the set-up of a specific conduct and compliance committee. The bank has closed its banking activities in Estonia and Russia (Latvia and Lithuania will soon be closed), following the order in February 2019 by the Estonian regulator to cease its operations in the country.

Danske improved its underwriting standards since the financial crisis with a greater focus on cash-flow generation and client selection. In recent years, it has been building a more holistic risk-management framework, in particular making use of portfolio analysis and stress tests to more proactively capture emerging risk. The bank is also using this to set portfolio concentrations on selected industries. We believe the new risk-management framework has resulted in better consistency across risk functions and clearer accountability, and that over time it will translate into a loan portfolio more resilient to a stress scenario.

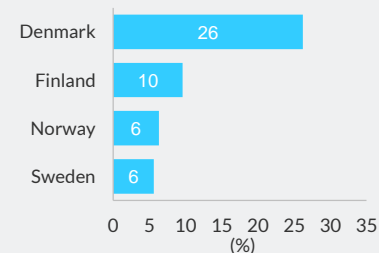
Customer lending is about 55% of total assets; the rest consists of securities and insurance assets (both about 15% of assets), repo lending and interbank exposures. Household lending is just below 39% of total gross credit exposure at end-September 2019 (of which about 90% are mortgage loans).

Danske has a limited exposure to high-risk sectors, which is unlikely to expand. Exposures to shipping, oil & gas and to Danish agriculture are limited (each at 3% of total gross exposure at end-September 2019). The rest of the corporate loan portfolio is well diversified by industry, and obligor concentration is satisfactory. Danske also benefits from good and improving geographical loan diversification. Lending to commercial property (about 13% of the loan book) includes residential (about 40%) and non-residential properties. The bank's focus is on steering the portfolio towards better-quality clients, and the proportion of clients with good risk classification has increased in recent years, notably with growth in Swedish residential-commercial property. Fitch expects the overall asset quality of the commercial property portfolio to remain good and to continue to improve moderately.

Fitch expects Danske to maintain limited loan growth in the medium term. Danske is growing in both personal and business banking in Sweden and Norway. The former is largely driven by mortgage lending, and is, to a significant extent, driven by agreements signed with a few white-collar unions. The bank charges slightly below the leading domestic banks but Swedish and Norwegian mortgage lending is very low risk.

Leading Nordic Bank

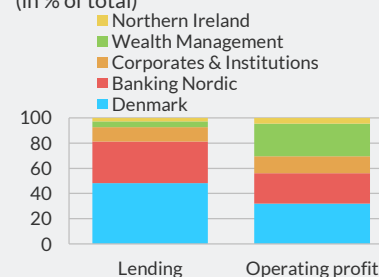
Retail banking market shares, end-September 2019



Source: Fitch Ratings, Danske Bank

Business by Segment

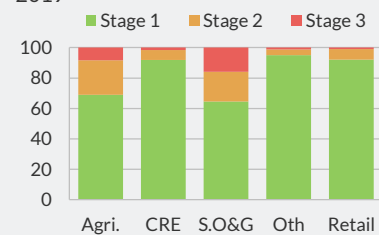
(in % of total)



Lending at Sep 19 and operating profit 9M19
Source: Fitch Ratings, Danske Bank

Few High-Risk Exposures

% of gross exposure, end-September 2019



S.O&G: Shipping, Oil & Gas Corp.
Source: Fitch Ratings, Danske Bank

Summary Financials and Key Ratios

	30 Sep 19 9 Months (DKKkM) Reviewed - unqualified (emphasis of matter)	31 Dec 18 Year End (DKKkM) Audited - unqualified	31 Dec 17 Year End (DKKkM) Audited - unqualified	31 Dec 16 Year End (DKKkM) Audited - unqualified
Summary income statement				
Net interest & dividend income	20,739	29,022	29,863	32,329
Net fees and commissions	7,285	10,497	10,823	10,147
Other operating income	7,256	7,437	9,896	5,961
Total operating income	35,280	46,956	50,582	48,437
Operating costs	21,587	28,021	25,876	24,647
Pre-impairment operating profit	13,693	18,935	24,706	23,790
Loan & other impairment charges	1,131	-387	-1,582	-168
Operating profit	12,562	19,322	26,288	23,958
Other non-operating items (net)	n.a.	n.a.	n.a.	1,400
Tax	2,531	4,633	5,388	5,500
Net Income	10,031	14,689	20,900	19,858
Other comprehensive income	149	-482	-265	-736
Fitch comprehensive income	10,180	14,207	20,635	19,122
Summary balance sheet				
Assets				
Gross loans	1,808,836	1,801,254	1,747,808	1,733,476
- Of which impaired	42,600	44,990	34,479	40,406
Loan loss allowances	20,885	19,113	20,057	25,460
Net loans	1,787,951	1,782,141	1,727,751	1,708,016
Interbank	121,218	169,258	277,661	200,559
Derivatives	390,905	244,274	256,891	326,433
Other securities & earning assets	1,510,308	1,240,654	1,159,405	1,161,894
Total earning assets	3,810,382	3,436,327	3,421,708	3,396,902
Cash and due from banks	96,803	40,997	82,817	53,211
Other assets	55,533	101,143	35,003	33,557
Total assets	3,962,718	3,578,467	3,539,528	3,483,670
Liabilities				
Customer deposits	928,053	896,894	913,777	861,801
Interbank and other short-term funding	417,483	580,420	477,294	429,993
Other long-term funding	1,176,484	1,064,520	1,086,584	1,069,473
Trading liabilities and derivatives	541,809	240,992	400,596	478,301
Total funding	3,063,829	2,782,826	2,878,251	2,839,568
Other liabilities	719,225	622,583	488,356	464,931
Pref. shares and hybrid capital	28,600	24,081	19,004	26,898
Total equity	151,064	148,977	153,917	152,273
Total liabilities and equity	3,962,718	3,578,467	3,539,528	3,483,670

Summary Financials and Key Ratios

	30 Sep 19 9 Months (DKKm) Reviewed - unqualified (emphasis of matter)	31 Dec 18 Year End (DKKm) Audited - unqualified	31 Dec 17 Year End (DKKm) Audited - unqualified	31 Dec 16 Year End (DKKm) Audited - unqualified
Ratios (annualised as appropriate)				
Profitability				
Operating profit/RWAs	2.2	2.6	3.5	2.9
Net interest Income/average earning assets	0.8	0.8	0.9	1.0
Non-interest expense/gross revenues	61.2	60.3	51.7	51.9
Net Income/average equity	9.1	9.9	13.9	13.4
Asset quality				
Impaired loans ratio	2.4	2.5	2.0	2.3
Growth in gross loans	0.4	3.1	0.8	4.2
Loan loss allowances/impaired loans	49.0	42.5	58.2	63.0
Loan impairment charges/average gross loans	0.1	0.0	-0.1	0.0
Capitalisation				
Fitch Core Capital ratio	15.7	16.1	17.7	16.2
Tangible common equity ratio	3.5	3.9	4.2	4.2
CET 1 ratio	16.4	17.0	17.6	16.3
Basel leverage ratio	4.4	4.6	4.4	4.6
Net impaired loans/FCC	17.9	21.8	11.0	11.5
Funding & Liquidity				
Loans/customer deposits	194.9	200.8	191.3	201.2
LCR	134.0	120.6	171.0	158.0
Customer deposits/funding	34.3	35.0	34.5	34.0
NSFR	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions

Key Financial Metrics – Latest Developments

Improving Asset Quality

Danske's asset quality has been improving in recent years, driven by a solid domestic economy, enhanced underwriting standards and ongoing wind-down of the non-core Irish portfolio. Stage 3 exposure in the corporate portfolio, at 2.6% of gross exposure at end-September 2019, is somewhat higher than Nordic peers'. Of these, commercial property, agriculture and shipping are heavily overrepresented. These segments are all well collateralised.

Loan impairment charges (LICs) have been low in recent years as the bank benefited from reversals, largely driven by increasing collateral values in Denmark. LICs increased in 9M19 to a modest 8bp of gross loans and we expect LICs to increase, to a degree, in 2020 owing to greater downside risks in the Danish and Nordic economies, which may affect shipping, and oil and offshore exposure. We believe that asset quality will remain good.

Profitability to Benefit from Lower Costs in the Longer Term

Danske's profitability is facing challenges in addition to higher costs related to AML and compliance. These include negative structural and cyclical trends in trading income, negative policy rates in all home markets except Norway, and higher funding costs relative to its main competitors caused by the combination of a rapid issuance of MREL-eligible debt and wider-than-peers spreads.

The operating profit/RWAs will be under pressure relative the bank's rating level in 2020. Danske plans to restore its profitability through cost savings, including lowering staff cost by up to 15% and investing to further digitalise its operations, and through growth initiatives, such as improving pricing discipline and customer differentiation and increasing cross-selling of savings products. The new targets are reliant on the management's ability to execute on its plan to preserve the bank's franchise and make the organisation more agile while competitive pressure is increasing.

Strong Capitalisation

Danske's capital adequacy ratios are strong. Danske's CET1 ratio modestly declined in 9M19. Danske targets a CET1 ratio above 16% and needs to maintain confidence of wholesale funding providers. In addition to a 120bp management buffer, Danske's capital requirement includes Pillar 2 add-ons due to AML and conduct risks.

Danske's fully loaded CET1 capital requirement was 14.8% at end-September 2019. This includes a DKK10 billion Pillar 2 requirement (1.3% of RWAs) to create a buffer to cover for compliance and reputational risks related to the Estonian AML issues, and a DKK5 billion Pillar 2 requirement, ordered by the Danish FSA in 2019, related to contingent liability from the mis-selling of savings products (Flexinvext Fri case) and IT governance. Danske's dividend policy is to pay out 40%-60% of net profit.

Wholesale Funding Reliance; Deep Domestic Covered Bond Market

Danske relies extensively on wholesale funding, like most Nordic banks. Its mortgage business, via RD, is entirely funded by mortgage covered bonds. Although these securities are effectively 'pass-through', the structure creates a significant maturity concentration each year. It is not Fitch's base case, but asset quality could be negatively affected if low investor demand during bond auctions materially increased funding costs. These increased costs would be passed on directly to the ultimate borrower.

Fitch expects continued strong demand for Danish mortgage bonds, given the supportive dynamics of this market. Nonetheless, it is important for Danske to maintain a significant liquidity portfolio to mitigate refinancing risk. At end-September 2019, its liquidity buffer was DKK464 billion (about 1.2x wholesale funding excluding RD).

The bank's MREL is 2x its total capital requirements, excluding RD, representing 37.1% of RWAs at end-September 2019. Danske had issued DKK85 billion of senior non-preferred bonds as of end-September 2019, and plans to issue additional DKK40 billion until 2022, when senior preferred bonds will no longer be MREL-eligible. Spreads have been wider compared with peers post the Estonia revelations, but they have been manageable.

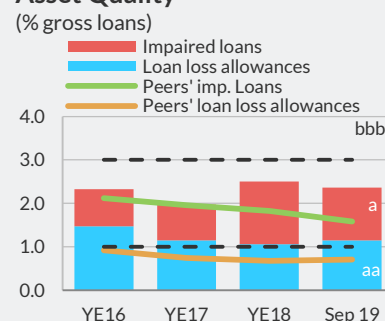
Note on peer charts:

Peer average includes Danske (VR: a), Nordea Bank Abp (aa-), Cooperatieve Rabobank U.A. (a+), Skandinaviska Enskilda Banken AB (publ) (aa-), Svenska Handelsbanken AB (aa), Lloyds Banking Group plc (a), ING Bank N.V. (a+) and ABN AMRO Bank N.V. (a).

Rabobank and Lloyds' interim six-months results were included in the latest average calculation.

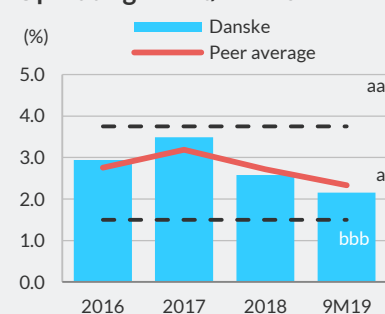
Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category.

Asset Quality



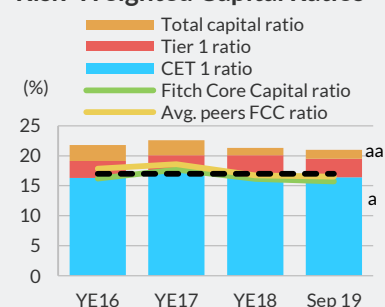
Source: Fitch Ratings, Banks

Operating Profit/RWAs



Source: Fitch Ratings, Banks

Risk-Weighted Capital Ratios



Fitch Core Capital used as benchmark line
Source: Fitch Ratings, Banks

Sovereign Support Assessment

Support Rating Floor		Value		
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)		A+ to A-		
Actual country D-SIB SRF		NF		
Support Rating Floor:		NF		
Support Factors	Positive	Neutral	Negative	
Sovereign ability to support system				
Size of banking system relative to economy			✓	
Size of potential problem	✓			
Structure of banking system			✓	
Liability structure of banking system		✓		
Sovereign financial flexibility (for rating level)			✓	
Sovereign propensity to support system				
Resolution legislation with senior debt bail-in			✓	
Track record of banking sector support		✓		
Government statements of support		✓		
Sovereign propensity to support bank				
Systemic importance		✓		
Liability structure of bank		✓		
Ownership		✓		
Specifics of bank failure		✓		
Policy banks				
Policy role				
Funding guarantees and legal status				
Government ownership				

Danske's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event of the bank becoming non-viable. The EU's Bank Recovery and Resolution Directive provides a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings Danske Bank AS

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

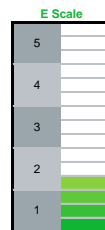
Danske Bank AS has 1 ESG key rating driver and 5 ESG potential rating drivers

- Danske Bank AS has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions which, on an individual basis, has a significant impact on the rating.
- Danske Bank AS has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Danske Bank AS has exposure to shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices but this has very low impact on the rating.
- Danske Bank AS has exposure to operational implementation of strategy but this has very low impact on the rating.
- Danske Bank AS has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership but this has very low impact on the rating.
- Danske Bank AS has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.

			Overall ESG Scale
key driver	1	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	3	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

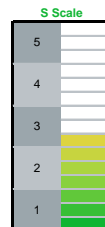
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

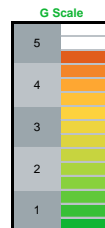
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	3	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	5	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Danske has an ESG Relevance Score of '5' for governance structure due to its potential involvement in money laundering, which has a negative impact on the credit profile and is highly relevant to the rating, resulting in the ratings being on Negative Outlook.

Other ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information in our ESG Relevance Score, visit www.fitchratings.com/esg.

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