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Danske Bank A/S

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Table Of Contents

Major Rating Factors

Outlook

Rationale

Environmental, Social, and Governance

Related Criteria

Related Research

Danske Bank A/S

SACP	a-		+	Support	+2	+	Additional Factors	-1
Anchor	bbb+			ALAC Support	+2		Issuer Credit Rating	A/Stable/A-1
Business Position	Strong	+1		GRE Support	0		Resolution Counterparty Rating	A+/--/A-1
Capital and Earnings	Strong	+1		Group Support	0			
Risk Position	Moderate	-1		Sovereign Support	0			
Funding	Average	0						
Liquidity	Adequate							

Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> Denmark's leading commercial bank, life insurer, and commercial pension provider. Diversified revenues by Pan-Nordic lines of business. Strong capitalization and earnings. 	<ul style="list-style-type: none"> Uncertainties related to alleged Estonian money-laundering case, particularly with regard to potential legal fine and additional reputational damages. Pressure on revenue and asset quality stemming from the COVID-19 pandemic. Dependence on wholesale funding and external debt, which causes higher confidence sensitivity.

Outlook: Stable

The stable outlook indicates that we expect Danske Bank to continue improving its compliance, control, and governance framework, and proactively tackle its remaining legacy control issues. We also expect the bank to maintain a sound financial profile, underpinned by sound capitalization and strong additional loss-absorbing capacity (ALAC) in the next 24 months, despite increased pressure on earnings and asset quality. We expect the loan loss provisions that Danske Bank posted in the first three quarters of 2020 will cover most of the year's overall impairment needs, and that its asset quality will remain broadly in line with domestic peers.

The stable outlook incorporates the likelihood of a weaker stand-alone credit profile (SACP) linked to the remaining uncertainties from the ongoing regulatory investigations. This could, for instance, occur if the Estonian money laundering case incurs higher damage to the bank's capitalization or franchise than in our central scenario. Similarly, we could revise down our view of the bank's business position if we saw that its management was unable to improve risk culture and governance.

If we were to revise down the SACP, we would lower our issue ratings on the bank's senior nonpreferred debt and other hybrids.

Downside scenario

We could downgrade Danske Bank if the Estonian case were to disrupt the bank's capitalization or business franchise more than we currently assume and for a longer period. We could also lower the rating if management changes hampered the bank's strategy formulation and execution, if its risk appetite significantly increases, or if asset quality erodes beyond our current expectations.

Upside scenario

Although currently remote, we could take a positive rating action on Danske Bank if:

- The bank's ongoing efforts to address historical control deficiencies were proving effective;
- We had greater clarity over the likely outcome of the regulatory investigations, with manageable financial impact; and
- The bank's franchise continued to show resilience.

Rationale

The 'A' long-term rating on Danske Bank reflects our assessment that the bank will maintain a robust capitalization and a very high loss-absorbing capacity through 2022, despite mounting pressure on its earnings and asset quality, particularly as a result of COVID-19. We also expect the bank to maintain its leading franchise as the second-largest bank in the Nordic banking markets, and a dominant domestic role.

However, our assessment also factors historical deficiencies in corporate governance and AML procedures at the bank's Estonian branch between 2007 and 2015, as well as uncertainty regarding the ultimate impact of ongoing investigations on the bank's capitalization and business franchise.

We expect that Danske Bank's funding and liquidity will be in line with that of the domestic peers and will remain neutral to its ratings, given our view that the bank will continue to have untarnished access to broad capital markets.

Anchor: 'bbb+' because the main operations are in Denmark

We use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Denmark is 'bbb+', based on an economic risk score of '2' and an industry risk score of '4'. For Danske Bank, we also consider beside Denmark (51% of group lending) its diversified exposure across a number of different countries, including Sweden (13% of group lending), Norway (10%), Finland (9%), the U.K. (3%), and other European countries. However, the bank's blended economic risk score is still '2' because the majority of exposures are in Denmark.

Our assessment of low economic risks for Denmark balances the anticipated recession and profitability pressures for banking in the wake of the COVID-19 pandemic and elevated private-sector debt (vis-à-vis international peers) with our view that Danish banks operate in a resilient and competitive economy, with demonstrated monetary and fiscal flexibility, and a historical focus on prudent management of public finances. We currently forecast Denmark's GDP to contract by 4.7% in 2020 before bouncing back to 3.3% growth in 2021.

We expect the structure of the Danish economy to lead to more resilience than among other Nordic countries in the midst of the pandemic. In addition to this, the robustness of the Danish welfare system and the government's policy response to COVID-19 are also, in our view, efficient mitigating factors against the potential pressure the situation creates for banks' asset quality. Overall, we expect bank provisioning needs to peak in 2020 at 35 basis points (bps) of the total sector loans, mostly driven by nonmortgage credit exposures toward small and midsize enterprises, a level which rated systemic Danish banks' can accommodate with their capital buffers. We expect the retail mortgage sector, which represents two-thirds of total lending, will remain largely performing, supported by overall sound supply and demand fundamentals in the housing market. Overall, we expect generally sound supply and demand fundamentals will continue to support the Danish housing market, and that house prices will continue their slow appreciation in real terms through 2022.

Our industry risk assessment incorporates our expectation that higher credit losses and revenue attrition linked to COVID-19 will further act as a headwind on the sector's profitability. The frontloading of bail-inable debt issuances, negative interest rates, significant investments in compliance and competitive pressure in corporate lending constrain profitability for Danish banks. We expect Danish banks' return on equity (ROE) to fall to 4% in 2020--close to the average of Denmark's peer countries, but below the remaining Nordic countries.

In our assessment, we consider the banking sector's higher reliance than peers' on functioning wholesale markets. However, the Danish covered bond market demonstrates a continued stable and strong track record, even during the March 2020 market turbulence. We view the regulatory environment in Denmark in line with that of other EU countries, overall. This balances a generally robust track record of macroprudential policies and conservative bank supervision with the national AML governance shortcomings highlighted in Danske Bank's Estonia case. However, local banks and regulators have made progress in strengthening the country's overall AML framework, and we expect this focus to continue given the significant public attention and overall political consensus.

Our assessment for both economic and industry risk trends for the Danish banking sector remains stable.

Table 1

Danske Bank A/S Key Figures					
--Year-ended Dec. 31--					
(Mil. DKK)	2020*	2019	2018	2017	2016
Adjusted assets	3,400,537	3,176,980	3,036,985	3,123,419	3,091,634
Customer loans (gross)	1,828,463	1,848,298	1,803,311	1,748,500	1,734,172
Adjusted common equity	123,608	124,456	109,693	122,764	120,337
Operating revenues	33,039	46,236	46,956	49,483	49,336
Noninterest expenses	23,621	29,613	27,204	25,321	24,190
Core earnings	2,177	16,519	15,505	20,581	19,922

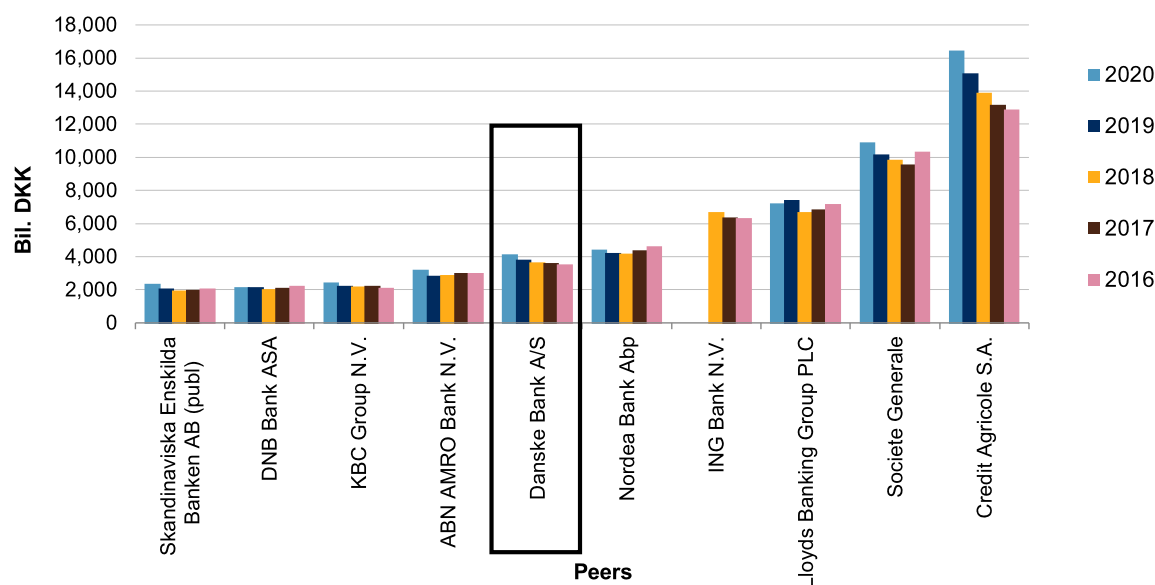
*Data as of Sept. 30. DKK--Danish krone.

Business position: A leading Danish commercial bank with a good market position in other Nordic countries, so far not significantly affected by the AML and misconduct cases

We expect that Danske Bank will maintain its diverse earnings capacity based on its leading franchise as the second-largest bank in the Nordic banking markets. Danske Bank has received significant negative attention since 2018, in connection with its Estonian AML case, the misselling of its Flexinvest Fri product, and errors in the bank's debt collection systems (on the latter, see Danske Bank Affirmed At 'A/A-1' On Limited Fallout Expected From FSA Inspection; Outlook Stable, Sept. 21, 2020). Overall, we believe that reputational damages to the bank's franchise will remain manageable and will not materially affect its market positions. Danske's proactive approach in retail and commercial customer outreach also supports the rating. We expect the group will remain highly diversified from solid operations, primarily in Denmark, Finland, Sweden, and Norway, with aggregate S&P Global Ratings- adjusted assets of Danish krone (DKK) 3,401 billion (about €457 billion) as of Sept. 30, 2020.

Chart 1

Danske Bank Is The Second-Largest Bank In The Nordics
 Danske's asset size versus other global peers

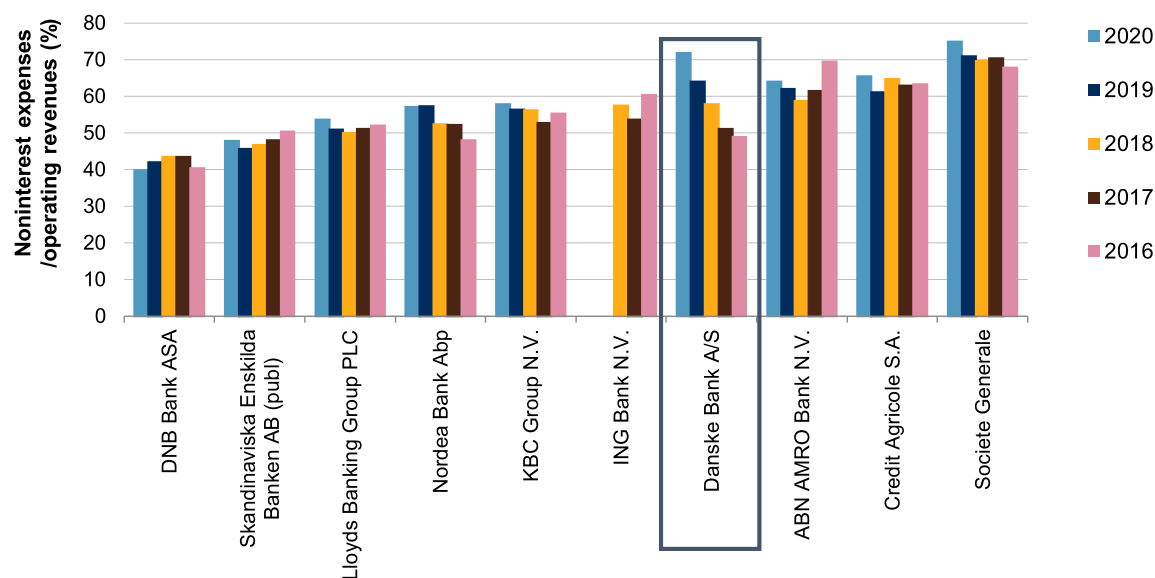


2020 Data as per June 2020. DKK--Danish krone. Source: S&P Global Ratings. Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Danske Bank remains committed to its Nordic Integrator plans, while delivering on its "Better Bank 2023" strategy. We expect that the bank will continue focusing on improving operational efficiencies until 2023, counterbalancing important investments in compliance and digitization, while working on further improving its brand and leveraging on strategic partnerships, including trade unions and fintech players. The bank should also continue building on its challenger position, in Sweden and Norway in particular. We view the bank as a leader in Denmark in terms of digital solutions, but see its further investments as key in supporting a diversified, efficient, and sustainable business model across the Nordics, which can also compete against increasing competition from various online, digital, and fintech companies.

Chart 2

Danske Bank Will Focus On Gradually Improving Efficiency From Current Levels



2020 data as per June 30, 2020. Source: S&P Global Ratings.

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Table 2

Danske Bank A/S Business Position

(%)	--Year-ended Dec. 31--				
	2020*	2019	2018	2017	2016
Loan market share in country of domicile	25.5	26.2	26.6	26.6	26.6
Deposit market share in country of domicile	30.2	29.0	27.8	27.9	28.7
Total revenues from business line (currency in millions)	34,339	48,115	46,956	50,583	49,836
Commercial banking/total revenues from business line	14.9	37.3	37.0	33.7	32.0
Retail banking/total revenues from business line	3.6	29.6	32.6	27.5	27.1
Commercial & retail banking/total revenues from business line	N/A	67.0	69.6	61.2	59.1
Trading and sales income/total revenues from business line	11.0	11.4	12.2	15.5	17.3
Asset management/total revenues from business line	11.5	14.5	12.5	16.1	16.0
Other revenues/total revenues from business line	7.2	7.2	5.7	7.2	7.6
Investment banking/total revenues from business line	11.0	11.4	12.2	15.5	17.3
Return on average common equity	2.3	9.4	9.2	13.1	13.2

*Data as of Sept. 30. N/A--Not applicable.

Capital and earnings: Reduced distribution protects capital ratios amid COVID-19-related pressure, but legal fines remain uncertain

We expect Danske Bank's capital and earnings to remain a key rating strength, despite pressure linked to the COVID-19 pandemic. This reflects our expectation that the bank's risk-adjusted capital (RAC) will remain in the 10.5%-11.5% range through 2022, from 12.6% at the end of June 2020.

The main assumptions embedded in our forecast include:

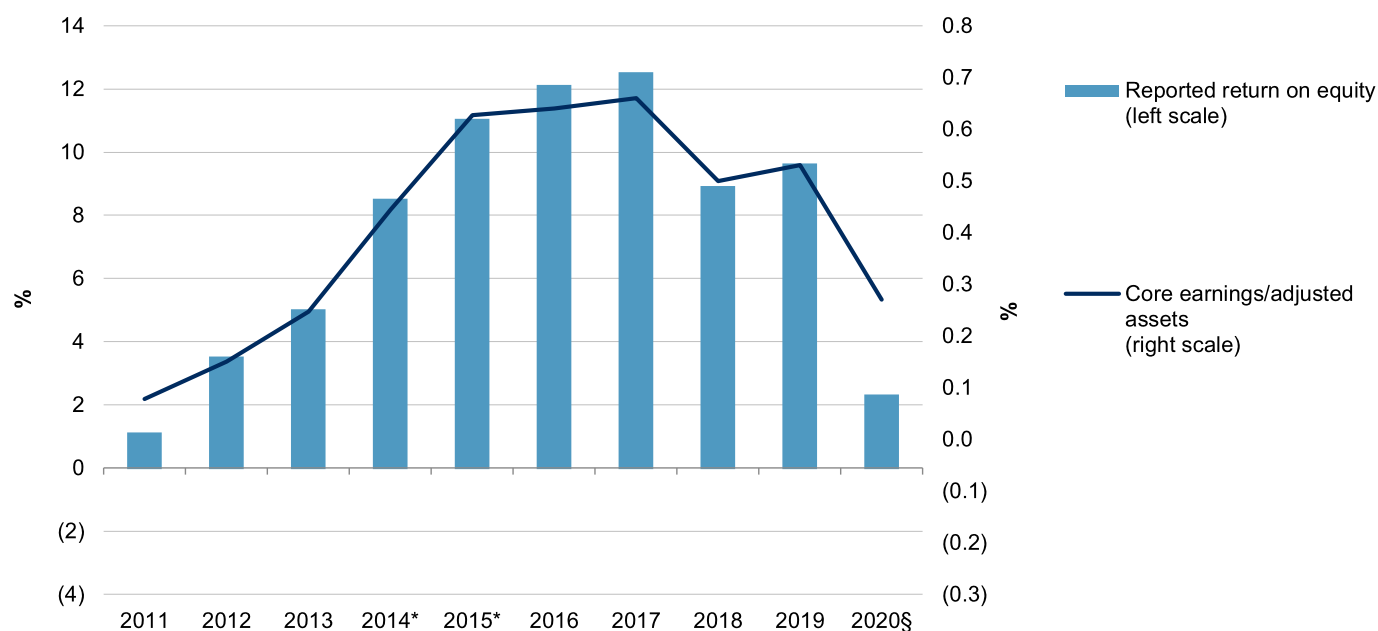
- Sluggish lending growth in 2020 and continued margin pressure to drag down net interest income.
- The bank's cost base to start decreasing this year, as operational savings linked to the "Better Bank" transformation exceed restructuring costs and investments, as well as costs for ongoing compliance remediation and the Estonian case. Furthermore, we factor in continued cost reduction in the following years as the bank maintains its focus on cost-efficiency, and delivers on its announcement to discontinue up to 1,600 positions by Q3 2021.
- Credit loss provisions to increase only marginally from their third-quarter level this year, and reach about DKK7 billion by year end, to subsequently reduce to DKK2.5 billion-DKK3.5 billion annually through 2022.
- A net profit of about DKK4 billion this year, from DKK14.2 billion at end-2019.
- No dividend payout for 2019 but starting from 2020, we expect the bank to resume a 60% dividend payout.

We factor lower provisions, improved earnings, and reduced costs to improve net profits to DKK7.5 billion-DKK 9 billion annually in 2021 and 2022.

We view as prudent Danske Bank's board of directors' proposition to the general meeting that no dividends be paid for 2019. In line with the regulatory treatment, we have added back the originally proposed dividends to our measure of capital. We also view positively the bank's previous decision to discontinue the bank's share back-buy program in 2018 to fulfil the Danish FSA's additional DKK10 billion pillar II add-on requirement, linked to risks of fines and civil claims. Danske Bank is currently discussing its Estonia case with authorities in the U.S., Denmark, Estonia, and France. Despite the bank's capital flexibility, we consider that fines and litigation costs could constrain the bank's capitalization, which, along with potential negative franchise effects, drive the application of a negative notch of adjustment to Danske Bank's overall rating.

Chart 3

Danske Bank A/S Return On Equity After Tax



*Excluding goodwill impairment. §As of September 2020. Source: S&P Global Ratings. Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Table 3

Danske Bank A/S Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Tier 1 capital ratio	20.5	20.4	20.1	20.1	19.1
S&P Global Ratings' RAC ratio before diversification	N/A	12.0	10.4	11.4	10.5
S&P Global Ratings' RAC ratio after diversification	N/A	12.8	16.6	12.2	11.0
Adjusted common equity/total adjusted capital	87.4	83.9	82.2	86.9	89.4
Double leverage	N.M.	58.1	60.3	57.1	66.3
Net interest income/operating revenues	63.0	60.3	61.8	60.4	65.5
Fee income/operating revenues	22.6	22.4	22.1	21.9	20.6
Market-sensitive income/operating revenues	19.5	74.7	(21.8)	39.1	26.1
Cost to income ratio	71.5	64.0	57.9	51.2	49.0
Preprovision operating income/average assets	0.3	0.5	0.6	0.7	0.7
Core earnings/average managed assets	0.1	0.5	0.4	0.6	0.6

*Data as of Sept. 30. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Danske Bank A/S--Risk-Adjusted Capital Framework Data					
(Mil. DKK)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	561,175,708,489	254,917,867	0	6,228,033,560	1
Of which regional governments and local authorities	71,800,356,812	194,169,264	0	2,375,639,690	3
Institutions and CCPs	320,738,955,994	36,424,377,063	11	46,479,185,517	14
Corporate	1,044,945,127,112	326,332,878,119	31	652,437,554,102	62
Retail	1,073,305,376,778	192,715,088,046	18	292,192,300,231	27
Of which mortgage	975,640,821,110	162,410,803,346	17	229,677,731,220	24
Securitization	2,642,552,636	1,070,293,874	41	971,731,137	37
Other assets	33,738,757,844	49,374,199,750	146	46,209,000,605	137
Total credit risk	3,036,546,478,852	606,171,754,718	20	1,044,517,805,153	34
Credit valuation adjustment					
Total credit valuation adjustment	--	4,937,579,176	--	19,285,087,022	--
Market risk					
Equity in the banking book	1,413,083,904	1,547,824,940	110	12,952,053,338	917
Trading book market risk	--	58,397,864,115	--	65,785,621,980	--
Total market risk	--	59,945,689,055	--	78,737,675,317	--
Operational risk					
Total operational risk	--	73,399,827,317	--	96,355,974,798	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	744,454,850,266	--	1,238,896,542,290	100
Total diversification/concentration adjustments	--	--	--	(63,027,547,613)	(5)
RWA after diversification	--	744,454,850,266	--	1,175,868,994,677	95
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		156,112,990,590	21.0	143,566,000,000	11.6
Capital ratio after adjustments (5)		156,112,990,590	21.0	143,566,000,000	12.2

*Exposure at default. Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. CCP--Central counterparty. RAC--Risk-adjusted capital. DKK--Danisk krone. Sources: Company data as of June 30, 2020, S&P Global Ratings.

Risk position: A relative weakness due to historical failures in risk management and uncertainty of future regulatory fines

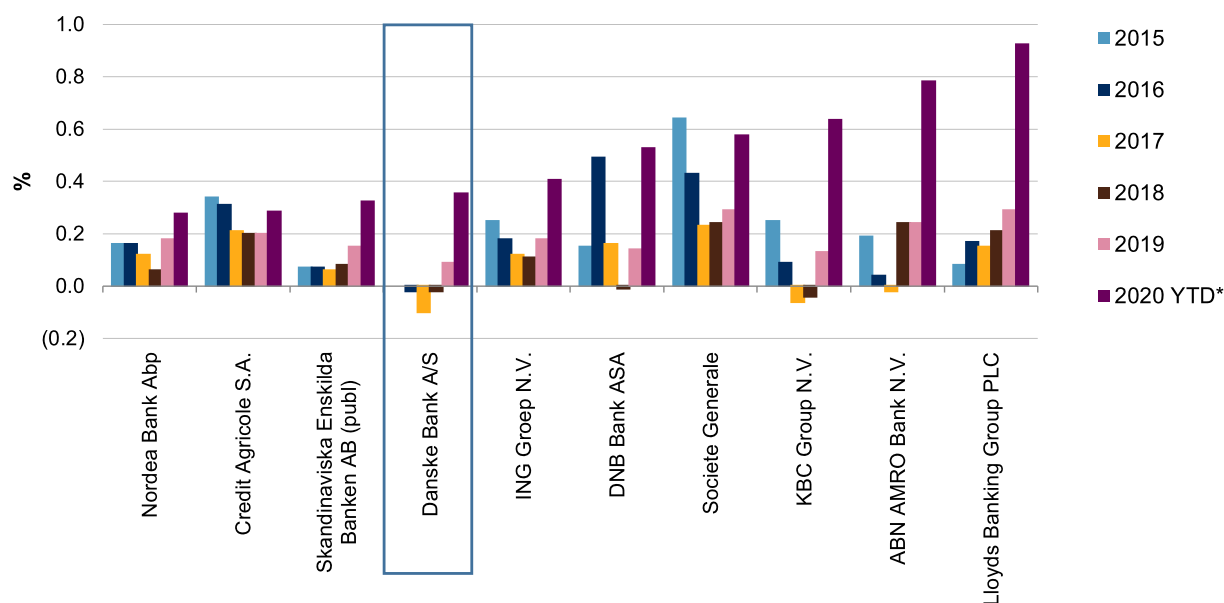
We expect Danske Bank's risk position to remain a relative rating weakness compared with peers. In particular, this

takes into account the bank's historical failures in risk management and governance, and is compounded by our view that it is too early to gauge the effectiveness of Danske Bank's ongoing actions to address the identified shortcomings.

Danske Bank already materially increased its provisions in the first quarter of 2020 on the back of the deterioration in oil-related exposures as well as the weakening macroeconomic environment and certain sectors amid the COVID-19 pandemic. We continue to forecast Danske Bank's provisions to reach DKK7 billion this year, or 38 bps of loans, slightly above our expectation of 35 bps for the overall market. This factors in a mild increase in the last quarter of 2020, from the DKK6.5 billion reported at the end of September, but a sizable growth from the DKK1.7 billion registered in 2019, or 9 bps of loans. Sectors that are potentially highly exposed to the consequences of COVID-19, such as hotel, restaurant and leisure, transportation, and retailing, as well as oil-related exposures, account for less than 4% of Danske Bank's lending, which limits its loss potential. Still, we expect the bank's credit quality to continue weakening slightly this year, not least within the oil-related sector. We expect provisioning needs to recede below 20 bps of loans after 2021, in line with the recoveries we expect in the Nordic economies.

Chart 4

Danske Bank's First-Quarter New Loan Losses Are Elevated In Line With Peer Banks



*Measured as cumulative Q1-Q3 loan loss provisions, non-annualized. Source: S&P Global Ratings. Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Table 5

Danske Bank A/S Risk Position					
	--Year-ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Growth in customer loans	(1.4)	2.5	3.1	0.8	4.2
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(6.3)	(37.5)	(6.1)	(4.7)
Total managed assets/adjusted common equity (x)	32.6	30.2	32.6	28.8	28.9
New loan loss provisions/average customer loans	0.5	0.1	(0.0)	(0.1)	(0.0)
Net charge-offs/average customer loans	0.1	0.1	(0.0)	(0.0)	(0.0)
Gross nonperforming assets/customer loans + other real estate owned	2.7	2.3	2.4	1.9	2.6
Loan loss reserves/gross nonperforming assets	50.3	49.8	48.5	62.3	56.9

*Data as of Sept. 30. N/A--Not applicable.

Funding and liquidity: Leading deposit-taker in Denmark, with markets remaining open and spreads tightening significantly in 2019

We expect that Danske Bank's funding and liquidity will be in line with that of domestic peers and remain neutral to the ratings, since we believe that the bank will continue to have untarnished access to broad capital markets and liquidity despite reputational issues.

Danske Bank has a leading position as a deposit-taker in Denmark and a significant role in the well-functioning Danish mortgage market. While Danske Bank has a higher share of covered bond financing than many of its international peers (39% of total funding base at September 2020), we see the stability of the Danish covered bond market and its unique features as supportive of an average funding assessment. This was highlighted again during the turbulence caused by COVID-19 in March 2020, when the market remained open despite some spread widening. Despite the marketwide tightening since, Danske spreads on senior bonds remain about 10 bps wider than most Nordic peers as of Dec. 11, 2020. This is a significant compression after the widening registered around July 2018, mostly reflecting investors' uncertainty with regard to the development of the Estonian case. At that time, Danske could maintain its market access, supported by the significant oversubscription to its senior nonpreferred issuances in 2019.

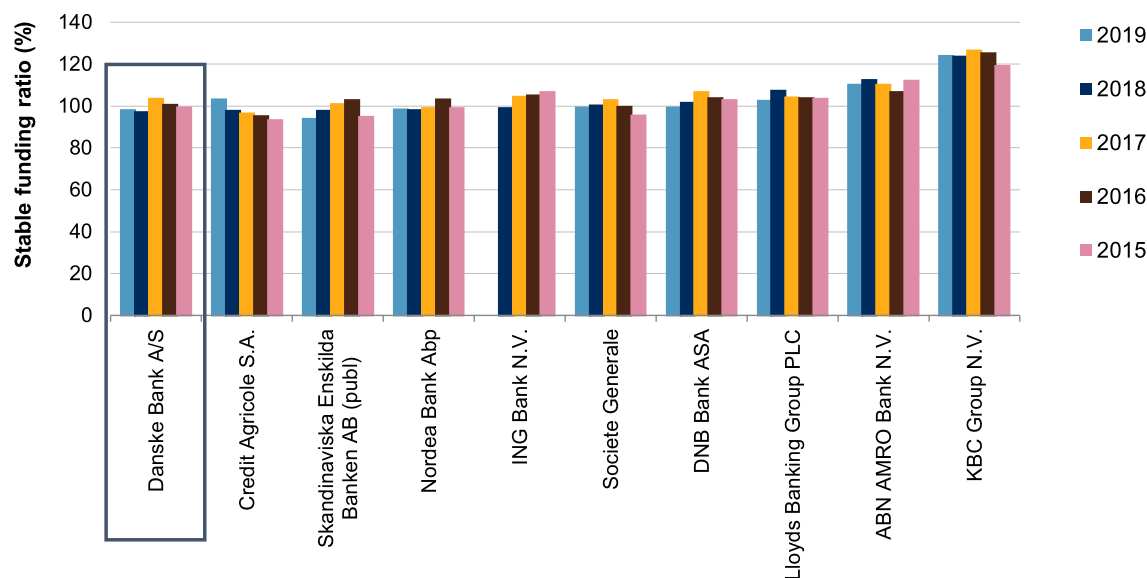
We expect Danske Bank to maintain a granular core deposit franchise in each of its primary markets. The bank's deposit volumes are increasing due to low consumer spending, government support measures in the wake of COVID-19, and after corporate customers have secured backup liquidity. Core deposits represented close to 46% of the funding base at the end of September, a significant increase from the 35% average recorded in the past four years. However, we expect this to be a temporary change and believe that a large part of this increase could be reversed when household consumption and corporate investments pick up again, once uncertainties linked to the COVID-19 abate.

In addition, Danske Bank announced in November 2020 that it will join other Danish banks at the start of 2021 in applying a negative 60bps rate on retail deposits in excess of DKK250,000 (around €33,600). We expect this to contribute further to a reduction of the bank's deposit holdings in 2021-2022, while increasing deposit's contribution to the bank's bottom line. Still, we expect Danske Bank to have further reinforced its dominant deposit market share in Denmark at the end of September 2020, above the 28% it recorded in March 2020.

The group's stable funding ratio is comparable with peers', at 98% at year-end 2019, and we expect it will improve marginally as the bank continues to refinance debt with long-term notes and covered bonds.

Chart 5

Danske Stable Funding Ratio Has Potential To Gradually Improve



Source: S&P Global Ratings.

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We consider Danske Bank's liquidity position to be adequate and its liquidity metrics are in line with those of its Nordic peers. Danske Bank's liquidity is temporarily reinforced by high deposit volumes. Although we expect a normalization, we continue to foresee a gradual improvement and marginal improvement from historical levels as a result of reduced short-term covered bond issuance in Denmark. The bank's broad liquid assets represented 1.09x its short-term wholesale funding in December 2019, which indicates a balanced profile.

The bank holds an ample liquidity buffer with a liquidity coverage ratio (LCR) reserve of DKK651 billion (19% of assets) as of Sept. 30, 2020 consisting of cash, central bank reserves, and liquid securities. We expect the bank's liquidity portfolio to provide a comfortable buffer to cover the maturing short-term wholesale funding as indicated by our liquidity ratio. Furthermore, Danske Bank's liquidity remains comfortably above all regulatory minimums, with a LCR at 160% at third quarter 2020. We understand that the bank established stringent liquidity and stress tests; Danske Bank expects to stay in the market without additional external funding for more than 12 months in stressed conditions. In our view, monitoring provides the management with adequate and timely information, in line with its Nordic peers

Table 6

Danske Bank A/S Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Core deposits/funding base	45.7	36.8	35.3	34.7	34.1
Customer loans (net)/customer deposits	140.8	189.4	198.7	189.1	198.2
Long-term funding ratio	79.0	72.9	71.2	69.9	70.5
Stable funding ratio	115.7	98.0	96.9	103.3	100.5
Short-term wholesale funding/funding base	22.2	28.9	30.7	32.0	31.3
Broad liquid assets/short-term wholesale funding (x)	1.7	1.1	1.1	1.2	1.1
Net broad liquid assets/short-term customer deposits	27.4	6.4	4.7	14.9	11.7
Short-term wholesale funding/total wholesale funding	40.4	45.1	46.7	48.5	47.2

*Data as of Sept. 30.

Support: Two notches of ALAC support.

In our view, Danske Bank has high systemic importance in Denmark. However, we regard the prospect of extraordinary government support for Danish banks as uncertain in view of the country's well-advanced and effective resolution regime.

Danske Bank has a significant amount of additional loss-absorbing capacity (ALAC), resulting in two notches of support in the rating. The bank's ALAC represents over 8% of its S&P Global Ratings' risk-weighted assets, and we believe it will continue to maintain these levels in the coming years to meet its minimum requirement for own funds and eligible liabilities (MREL). We expect Danske Bank to continue replacing large portions of maturing senior unsecured debt with senior nonpreferred instruments. In 2019 alone, the bank issued more Danish krone than any other Danish bank (DKK59 billion; about €7.9 billion), with about DKK106 billion of MREL-eligible senior nonpreferred liabilities outstanding at the end of September 2020.

Core subsidiaries: Danica Pension Livsforsikringsaktieselskab at the level of the bank's unsupported credit profile

We rate Danske Bank's life insurance subsidiary Danica at the level of the bank's unsupported credit profile, since we view Danica as a core group entity that would receive support under all foreseeable circumstances if needed, but we do not believe it will benefit from the bank's ALAC in resolution.

Additional rating factors: One notch negative adjustment for uncertain outcome of regulatory investigations

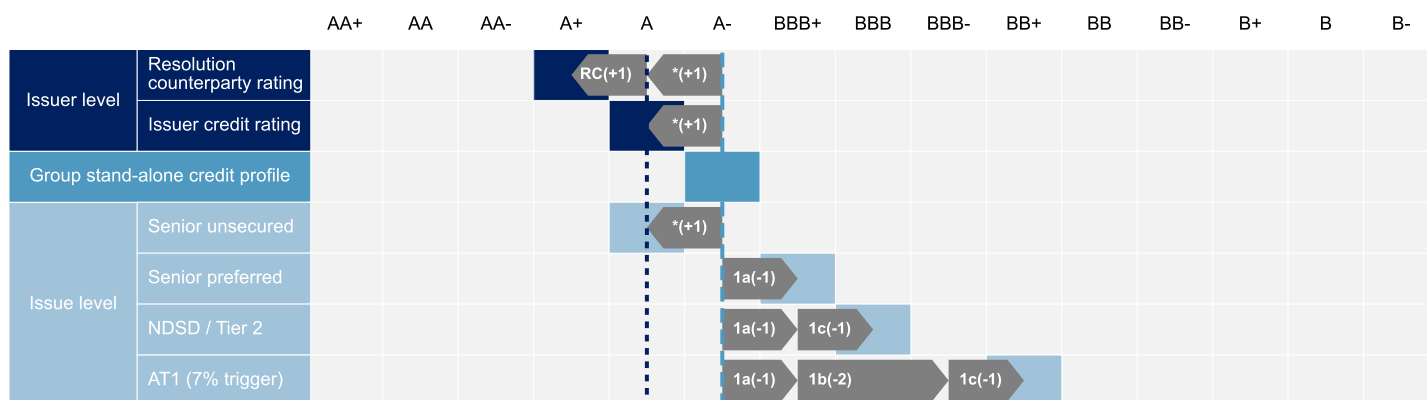
We apply a one-notch negative adjustment to the issuer credit rating on Danske Bank. This adjustment reflects the remaining uncertainty on the potential outcome of the bank's ongoing regulatory investigations. Danske Bank is currently discussing its Estonian case with authorities in the U.S., Denmark, Estonia, and France. The outcome of these regulatory investigations could further jeopardize the bank's business franchise, while fines and litigation costs could constrain the bank's capitalization. Similarly, we could incorporate the adjustment notch into Danske Bank's SACP. More precisely, we could revise down our view of the bank's business position if we saw that its management was unable to improve risk culture and governance.

Resolution counterparty ratings (RCR)

Following the completion of our RCR jurisdiction assessments on Denmark, we assigned 'A+/A-1' RCRs to Danske Bank (see "24 European Banking Groups Assigned Resolution Counterparty Ratings," published June 29, 2018). The RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution.

Issue Ratings

Danske Bank A/S: Notching



Key to notching

----- Group stand-alone credit profile

----- Issuer credit rating

RC Resolution counterparty liabilities (senior secured debt)

ALAC Additional loss-absorbing capacity buffer

1a Contractual subordination

1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital

1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.

*--Comprised of two notches of ALAC offset by a negative adjustment notch that reflects the remaining uncertainty on the potential outcome of the bank's ongoing regulatory investigations. AT1--Additional Tier 1. NDS--Non-deferrable subordinated debt.

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We rate Danske Bank's senior nonpreferred notes, which rank below its senior unsecured debt, at 'BBB+', one notch below the bank's SACP, reflecting the subordination risk (see the senior subordinated notes listed in the Ratings Detail

box below). This follows our approach when an instrument is contractually or statutorily subordinated to preferred senior unsecured debt. In addition, we believe that the senior nonpreferred notes would be subject to a possible conversion or write-down only in resolution, and would be excluded from any burden-sharing under EU state-aid rules. We have not applied further notching from the SACP because we believe that senior nonpreferred notes do not carry any additional default risk relative to that represented by the SACP assessment.

We rate the nondeferrable subordinated debt instruments of Danske Bank at 'BBB', two notches below the bank's SACP. The rating reflects our view of the debt's contractual subordination as a Tier 2 instrument and that BRRD is equivalent to a contractual write-down clause.

We rate Danske Bank's AT1 instruments with a going-concern trigger at 'BB+', four notches lower than the SACP, reflecting our deduction of:

- One notch for contractual subordination;
- Two notches for the instruments' status as Tier 1 regulatory capital; and
- One notch because the instruments allow for the full or partial temporary write-down of the principal amount.

Environmental, Social, and Governance

Governance factors are currently weighing more negatively on Danske Bank's credit quality than for Danish peers. Social and environmental credit factors are in line with those of industry peers.

When analysing the bank's risk profile, we account for historical failures in Danske Bank's risk management and controls that were highlighted by its alleged money-laundering case in Estonia, which could have an elevated financial and reputational impact on the bank. Danske Bank is working actively to address the identified shortcomings, for instance by quadrupling the number of employees working to combat financial crime since 2015, but it remains too early to assess the effectiveness of its actions. Our rating factors the uncertainties around the outcome, and the difficulty of estimating the final cost, as regulatory investigations are pending in several jurisdictions.

Social factors are essential for Danske Bank, as the largest Danish lender and an increasingly Pan-Nordic institution. Since it was in the spotlight for its Estonian case, the bank announced in 2019 that it had overcharged customers who had invested in its Flexinvest Fri product, for which the bank provided prompt compensation and accepted a DKK9 million fine. In June 2020, the Danish FSA reported Danske Bank to the police over failure to efficiently prevent customers' engagement in market abuse by trading with themselves (so called wash trades), and again in September 2020 for having overcharged debt collection customers. The bank subsequently announced that it had set up a dedicated unit overseeing the remediation of legacy control issues in the bank. While we consider that the alleged money-laundering case, and to a lesser extent the following misconduct and control issues that arose, have negatively affected the bank's image in society, the impact on business flows has been relatively limited. We expect that the bank will improve its brand recognition and maintain its flagship name in Denmark in the long run, as well as its overall strong business position in the Nordics. Still, in our view these cases highlight that the bank is undergoing a process to improve its control mechanism, which is reflected in its lower-than-peers risk position assessment.

Environmental factors are neutral to our ratings on the bank. Like many other commercial banks, Danske Bank needs to focus on transition risks emanating from its loan portfolio, essentially corporate, as it is exposed to some sectors such as shipping or transportation, which are sensitive to environmental risks and vulnerable to evolving norms and legislations. Danske Bank has committed to set by 2023 at the latest a climate target for its corporate loan portfolio in line with the climate goals of the Paris Agreement, and we expect the bank to continue integrating ESG aspects in its underwriting and investment processes. Over the period, the bank also aims to more than double its sustainable financing activities to over DKK100 billion, including ESG-linked lending (it had reached DKK71 billion at the end of June 2020, boosted especially by social bond issuance volumes), or the arrangement of customers' ESG-linked bond issuances, while reaching DKK30 billion of investments in sustainable assets, toward DKK100 billion in 2030 (about DKK20 billion invested as of June 2020, with a focus on green bond investments).

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

Related Research

- Nordic Spotlight: COVID-19 Weighs On Creditworthiness, Nov. 18, 2020
- Danske Bank Affirmed At 'A/A-1' On Limited Fallout Expected From FSA Inspection; Outlook Stable, Sept. 21, 2020
- Banking Industry Country Risk Assessment Update: October 2020, Oct. 27, 2020
- MEA Financial Institutions Monitor 4Q2020: Banks Prepare As Winter Is Coming, Oct. 23, 2020
- Nordic Banks' Strong Capital Deflects COVID-19 Impact, Sept. 8, 2020
- Banking Industry Country Risk Assessment: Denmark, Aug. 27, 2020

- COVID-19: Resilient Fundamentals And Assertive Policy Measures Will Buoy Nordic Banking Systems, June 16, 2020
- ESG Industry Report Card: EMEA Bank, Feb. 11, 2020
- Danske Bank Outlook Revised To Stable On Increasing Loss Absorption Capacity; 'A/A-1' Ratings Affirmed, Oct. 23, 2019
- Various Rating Actions Taken On Five Danish Banks As Denmark's Banking Market Offers Mixed Blessings, Oct. 23, 2019

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 16, 2020)*

Danske Bank A/S

Issuer Credit Rating	A/Stable/A-1
<i>Nordic Regional Scale</i>	--/--/K-1
Resolution Counterparty Rating	A+/--/A-1
Certificate Of Deposit	
<i>Foreign Currency</i>	A/A-1
Commercial Paper	
<i>Foreign Currency</i>	A/A-1
<i>Local Currency</i>	A-1
Junior Subordinated	BB+
Senior Secured	AAA/Stable
Senior Subordinated	BBB+
Senior Unsecured	A
Senior Unsecured	A/A-1
Short-Term Debt	A-1
Subordinated	BBB

Issuer Credit Ratings History

23-Oct-2019	A/Stable/A-1
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Ratings Detail (As Of December 16, 2020)*(cont.)

25-Sep-2018		A/Negative/A-1
05-Apr-2018		A/Positive/A-1
05-Feb-2004	<i>Nordic Regional Scale</i>	--/--/K-1
Sovereign Rating		
Denmark		AAA/Stable/A-1+
Related Entities		
Danica Pension Livsforsikringsaktieselskab		
Issuer Credit Rating		A-/Stable/--
Subordinated		BBB
Danske Bank A/S, Swedish Branch		
Issuer Credit Rating		A/Stable/A-1
Danske Hypotek AB		
Senior Secured		AAA/Stable
Realkredit Danmark A/S		
Senior Secured		AA-/Stable
Senior Secured		AAA/Stable
Short-Term Secured Debt		A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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