

## Danske Bank A/S

**Primary Credit Analyst:**

Pierre-Brice Hellsing, Stockholm + 46 84 40 5906; [Pierre-Brice.Hellsing@spglobal.com](mailto:Pierre-Brice.Hellsing@spglobal.com)

**Secondary Contact:**

Harm Semder, Frankfurt (49) 69-33-999-158; [harm.semder@spglobal.com](mailto:harm.semder@spglobal.com)

### Table Of Contents

---

Major Rating Factors

Outlook

Rationale

Environmental, Social, and Governance

Related Criteria

Related Research

# Danske Bank A/S

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

## Major Rating Factors

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

**Outlook: Stable**

The stable outlook on Danske Bank A/S indicates that we expect the bank to maintain a strong additional loss-absorbing capacity (ALAC) position and a robust capitalization in the next 24 months, despite increased pressure on earnings and asset quality stemming from the economic consequences of COVID-19. We expect the credit loss provisions posted by the Danske Bank at first-quarter 2020 should cover a sizable share of the year's overall impairment needs, and that its asset quality will remain broadly in line with its domestic peers.

The stable outlook already incorporates a possible risk of weakening in the bank's stand-alone credit quality because of the ongoing regulatory investigations. This could occur if the case incurs material damage to the bank's capitalization or franchise up to our base-case expectation.

If we revised down the stand-alone credit profile (SACP), we would lower our issue ratings on the bank's senior nonpreferred debt and other hybrids.

We could downgrade Danske Bank if the Estonia case caused serious and lasting consequences for both the bank's capitalization and its business franchise. While unlikely, we could also lower the rating if the Estonia investigation remained unresolved and we saw that management changes hampered the bank's strategy formulation and execution, if the bank's risk appetite significantly increased, or if material asset quality weakened beyond our current expectations.

We could upgrade Danske Bank if:

- We believed 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 regulatory penalties; and
- The bank's franchise continued to show resilience.

Together, these factors would align the bank's credit quality closer to that of 'A+' rated peers.

Our stable outlook on Danica Pension Livsforsikringsaktieselskab (A-/Stable/--) reflects that on Danske Bank. This is because we regard Danica as a core subsidiary of the bank, which would receive support under all foreseeable circumstances if needed.

**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, in particular 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 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 its diversified exposure across a number of different countries, including Sweden, Norway, Finland, the U.K., 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 5.4% in 2020 before bouncing back to 4.8% 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. That said, we expect a modest house price correction in real terms as a result of the pandemic effect this year, followed by a return to slow appreciation.

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 now 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 most recent 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						
--Fiscal year ended Dec. 31--						
(Mil. DKK)	2020*	2019	2018	2017	2016	2015
Adjusted assets	3,401,894.0	3,176,980.0	3,036,985.0	3,123,419.0	3,091,634.0	2,928,908.0
Customer loans (gross)	1,811,826.0	1,848,298.0	1,803,311.0	1,748,500.0	1,734,172.0	1,664,640.0
Adjusted common equity	120,748.0	124,456.0	109,693.0	122,764.0	120,337.1	135,340.0
Operating revenues	10,476.0	46,236.0	46,956.0	49,483.0	49,336.0	47,086.0
Noninterest expenses	7,795.0	29,613.0	27,204.0	25,321.0	24,190.0	23,982.0
Core earnings	(1,289.0)	N/A	15,505.0	20,581.5	19,922.4	18,527.0

\*Data as of March 30, 2020. DKK--Danish krone. N/A--Not applicable.

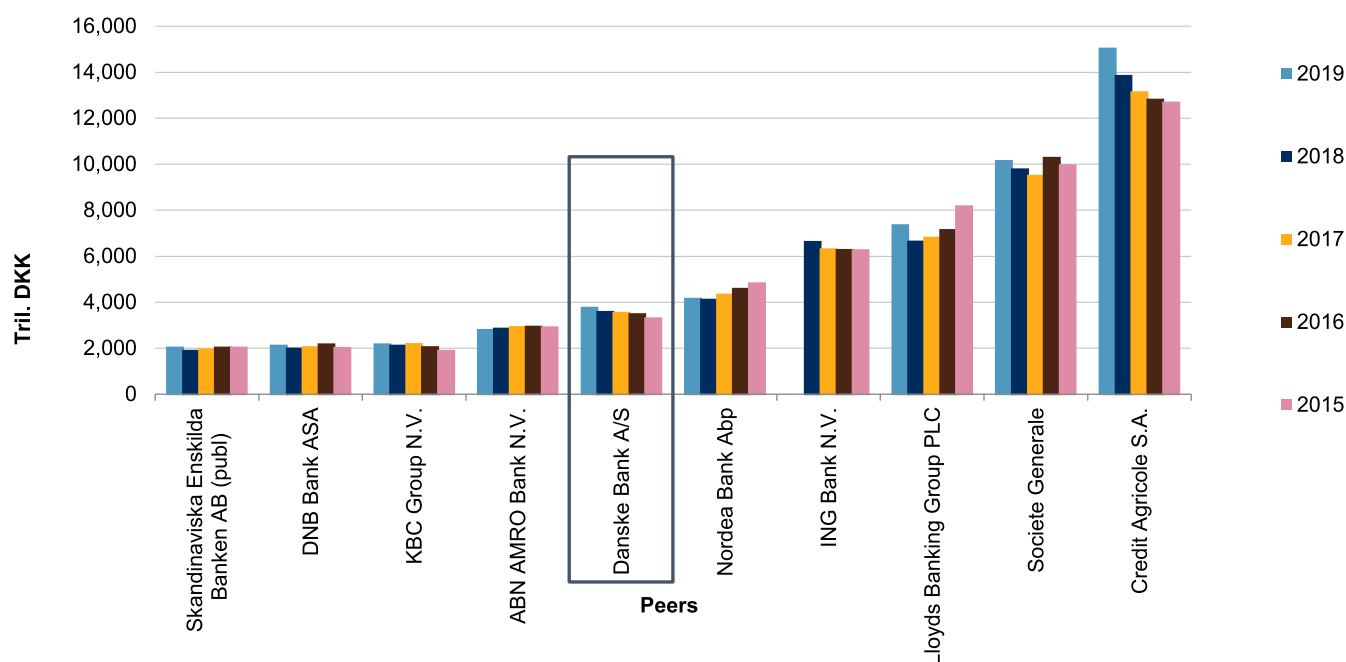
**Business position: A leading Danish commercial bank with a good market position in other Nordic countries, so far not significantly affected by the AML case**

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 received significant negative attention in 2018 and 2019, in connection with both its Estonian AML case and the misselling of its Flexinvest Fri product. Overall, we believe that reputational damages to the bank 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) 3,402 billion (about €456 billion) as of March 31, 2020.

Chart 1

**Danske Bank Is The Second-Largest Bank In The Nordics**

Danske's asset size versus other global peers



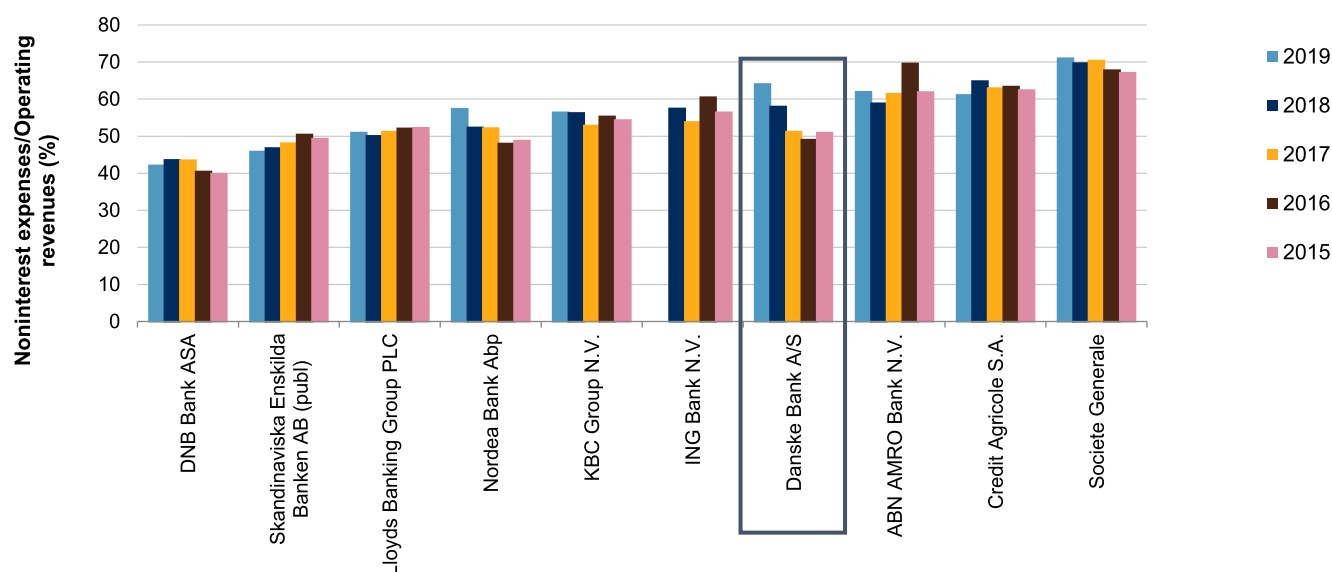
DKK--Danish krone. Source: S&amp;P Global Ratings.

Copyright © 2020 by Standard &amp; 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.

Chart 2

## Danske Bank Will Focus On Gradually Improving Efficiency From Current Levels



Source: S&amp;P Global Ratings.

Copyright © 2020 by Standard &amp; Poor's Financial Services LLC. All rights reserved.

Table 2

## Danske Bank A/S--Business Position

(%)	--Fiscal year ending Dec. 31--					
	2020*	2019	2018	2017	2016	2015
Loan market share in country of domicile	25.8	26.2	26.6	26.6	26.6	26.1
Deposit market share in country of domicile	29.0	29.0	27.8	27.9	28.7	27.8
Total revenues from business line (currency in millions)	10,476.0	48,115.0	46,956.0	50,583.0	49,836.0	47,086.0
Return on average common equity	(3.8)	9.4	9.2	13.1	13.2	8.8

\*Data as of March 30, 2020.

### 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 over 11% through 2022, from 12% at the end of 2019. In our forecast, we expect sluggish lending growth in 2020 and continued margin pressure to drag down net interest income. While we expect the bank's cost base to continue increasing this year, as restructuring costs and investments cover operational savings, we factor a gradual reduction of the cost base in the following years. We expect credit loss provisions to continue increasing from their first-quarter level this year, and reach about DKK7 billion by year end, to subsequently reduce to DKK2.5 billion-DKK3.5 billion annually through

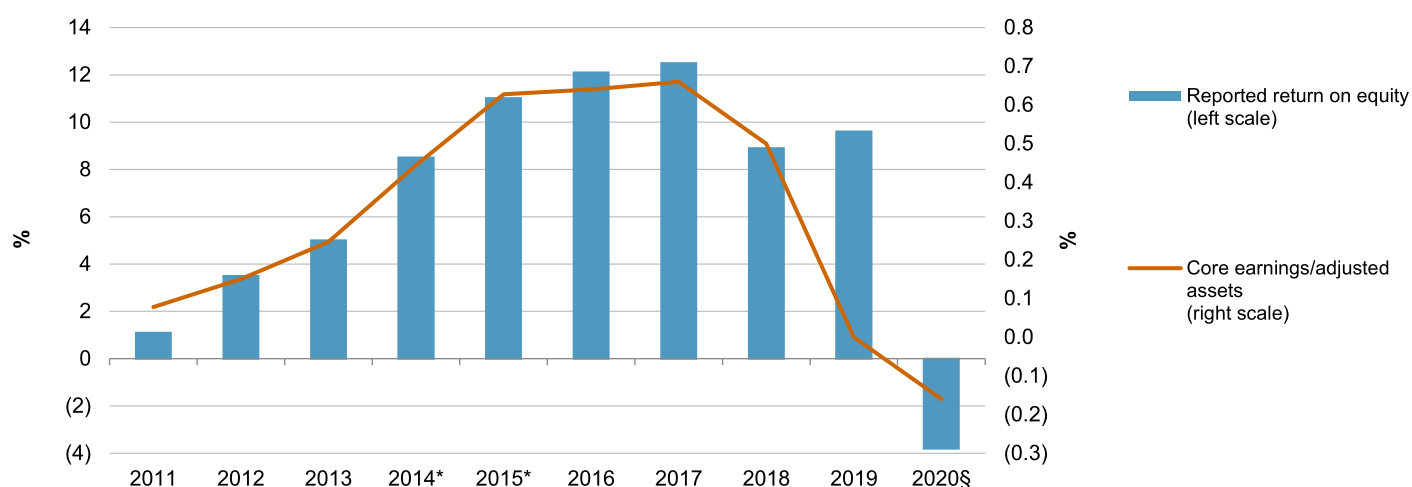
2022. Overall, we expect the bank to post a net profit of about DKK3 billion this year, from DKK14.2 billion at end-2019. We factor lower provisions, improved earnings, and reduced costs to improved net profits to DKK6.5 billion-DKK 8.5 billion annually in 2021 and 2022. From 2020, we expect the bank to resume a 60% dividend payout.

The bank reported a DKK1.3 billion loss at first-quarter 2020. This was largely due to a trading income pressured by the turbulent financial markets, margin pressure, and a DKK4.2 billion impairment charge affected by changes in macroeconomic model assumptions and the decline in oil prices.

We view as prudent Danske Bank's board of directors' proposition to the general meeting that no dividends be paid for 2019, as well as the 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 March 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**

	--Fiscal year ending Dec. 31--					
(%)	2020*	2019	2018	2017	2016	2015
Tier 1 capital ratio	20.0	20.4	20.1	20.1	19.1	18.5
S&P Global Ratings' RAC ratio before diversification	N.A.	12.0	10.4	11.4	10.5	N.A.
S&P Global Ratings' RAC ratio after diversification	N.A.	12.8	16.6	12.2	11.0	N.A.



Table 3

Danske Bank A/S--Capital And Earnings (cont.)						
	--Fiscal year ending Dec. 31--					
(%)	2020*	2019	2018	2017	2016	2015
Adjusted common equity/total adjusted capital	86.7	83.9	82.2	86.9	89.4	92.3
Double leverage	N.A.	58.1	60.3	57.1	66.3	69.6
Net interest income/operating revenues	59.8	60.3	61.8	60.4	65.5	70.8
Fee income/operating revenues	26.4	22.4	22.1	21.9	20.6	22.7
Market-sensitive income/operating revenues	(218.2)	74.7	(21.8)	39.1	26.1	14.7
Noninterest expenses/operating revenues	74.4	64.0	57.9	51.2	49.0	50.9
Preprovision operating income/average assets	0.3	0.5	0.6	0.7	0.7	0.7
Core earnings/average managed assets	(0.1)	N.A.	0.4	0.6	0.6	0.5

\*Data as of March 31. N.A.--Not available.

Table 4

Danske Bank A/S--Risk-Adjusted Capital Framework Data					
	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
<b>Credit risk</b>					
Government & central banks	405,341,286,397.0	334,919,562.8	0.1	6,650,991,782.4	1.6
Of which regional governments and local authorities	70,833,114,492.6	209,151,941.1	0.3	2,357,765,419.1	3.3
Institutions and CCPs	317,154,806,860.6	35,093,933,053.3	11.1	47,551,175,481.2	15.0
Corporate	1,041,624,353,469.3	328,368,434,170.4	31.5	641,457,789,595.4	61.6
Retail	1,079,688,066,879.7	189,928,744,720.8	17.6	292,236,809,834.9	27.1
Of which mortgage	984,872,306,454.1	161,860,330,204.5	16.4	232,491,581,279.3	23.6
Securitization§	2,831,390,361.8	1,206,442,829.1	42.6	1,078,578,521.1	38.1
Other assets	35,296,867,588.6	50,731,018,763.4	143.7	71,327,036,149.7	202.1
Total credit risk	2,881,936,771,557.0	605,663,493,099.6	21.0	1,060,302,381,364.7	36.8
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	4,361,064,339.0	--	17,033,348,182.7	--
<b>Market Risk</b>					
Equity in the banking book	1,721,440,572.7	1,795,897,258.6	104.3	15,741,345,930.0	914.4
Trading book market risk	--	40,070,726,049.7	--	55,631,154,244.9	--
Total market risk	--	41,866,623,308.4	--	71,372,500,174.9	--
<b>Operational risk</b>					
Total operational risk	--	73,399,827,317.1	--	85,368,474,797.9	--

Table 4

Danske Bank A/S--Risk-Adjusted Capital Framework Data (cont.)					
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
<b>Diversification adjustments</b>					
RWA before diversification	--	767,175,000,001.6	--	1,234,076,704,520.2	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(77,907,553,214.0)	(6.3)
RWA after diversification	--	767,175,000,001.6	--	1,156,169,151,306.2	93.7
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
<b>Capital ratio</b>					
Capital ratio before adjustments		156,608,025,585.3	20.4	148,400,000,000.0	12.0
Capital ratio after adjustments		156,608,025,585.3	20.4	148,400,000,000.0	12.8

\*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. RAC--Risk-adjusted capital. DKK -- Danisk krone. Sources: Company data as of Dec. 31, 2019, S&P Global Ratings.

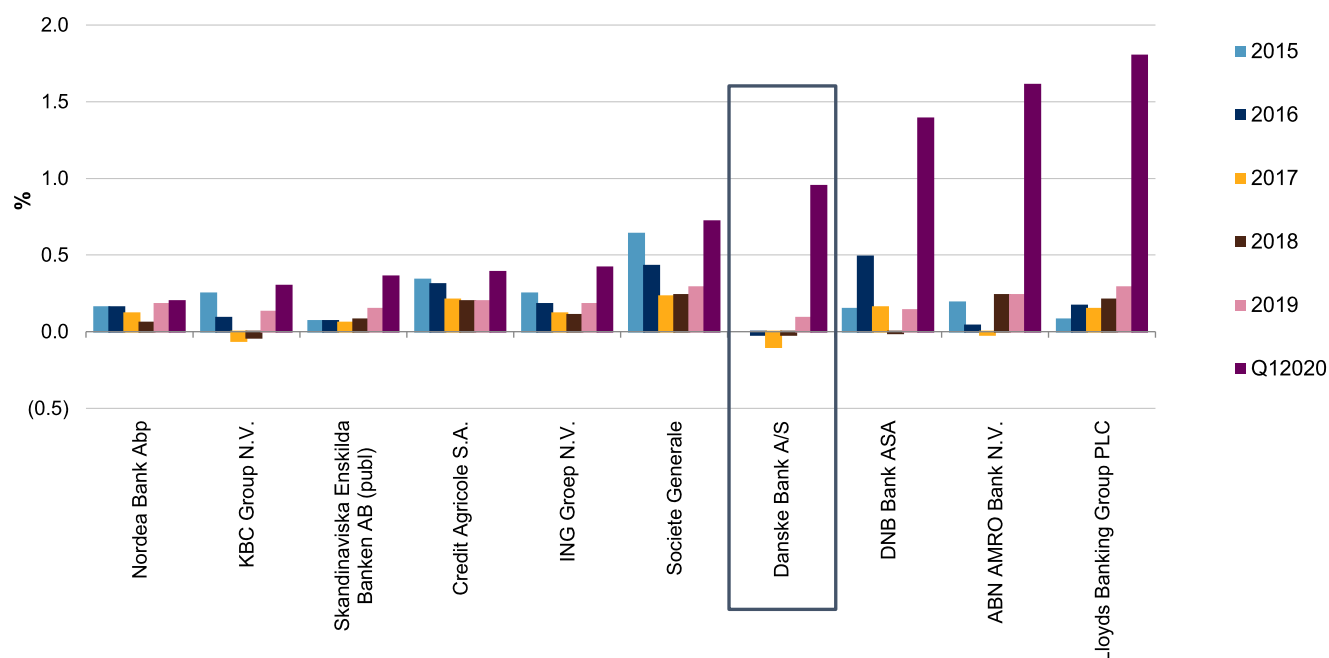
### Risk position: A relative weakness due to historical failures in risk management and uncertainty of future regulatory fines.

We expect Danske Bank's risk position to remain a relative rating weakness. In particular, this rating weakness takes into account the bank's historical failures in risk management, 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.

Our expectation is that, in the first-quarter disclosures, Danish banks--Danske Bank included--have been proactive in provisioning for a sizable share of COVID-19's potential impact in 2020. The DKK4.2 billion of new impairments posted by the bank at first-quarter 2020 covers about 60% of the provisioning that we expect in our current base case to be needed in 2020. We forecast Danske Bank's provisions to end at DKK7 billion this year, or 38 bps of loans, slightly above our expectation of 35 bps for the overall market. Sectors potentially highly exposed to the consequences of COVID-19--hotel, restaurant and leisure, transportation, and retailing--as well as oil-related exposures, account for less than 4% of Danske Bank's lending, which is limiting the loss potential. Still, we expect the bank saw credit quality decrease 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



Note: Q1 Data is 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

	--Fiscal year ended Dec. 31--					
(%)	2020*	2019	2018	2017	2016	2015
Growth in customer loans	(7.9)	2.5	3.1	0.8	4.2	1.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N.A.	(6.3)	(37.5)	(6.1)	(4.7)	N.A.
Total managed assets/adjusted common equity (x)	33.2	30.2	32.6	28.8	28.9	24.3
New loan loss provisions/average customer loans	0.9	0.1	(0.0)	(0.1)	(0.0)	(0.0)
Net charge-offs/average customer loans	0.0	0.1	(0.0)	(0.0)	(0.0)	(0.0)
Gross nonperforming assets/customer loans + other real estate owned	2.8	2.3	2.4	1.9	2.6	3.4
Loan loss reserves/gross nonperforming assets	49.7	49.8	48.5	62.3	56.9	55.9

\*Data as of March 30, 2020. 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 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 (43% of total funding base), we see the stability of the Danish covered bond market and its unique features as supportive of a neutral funding assessment. This was highlighted again during the turbulence in March 2020, when the market remained open despite some spread widening.

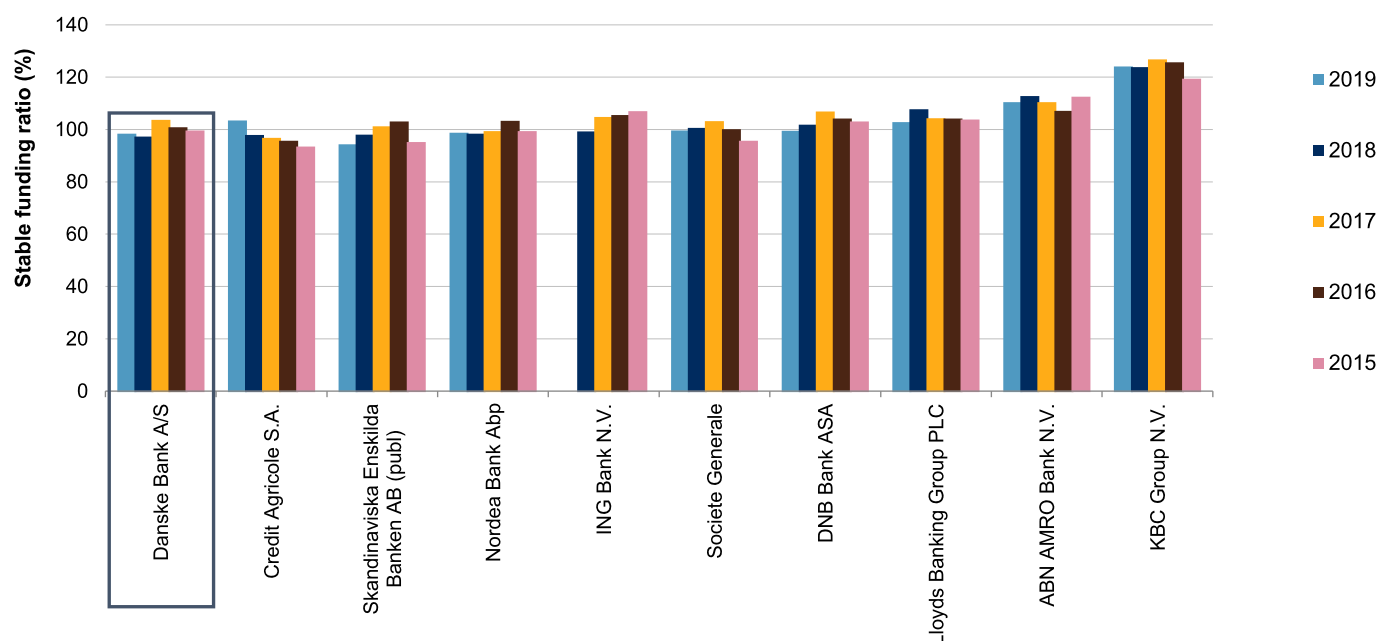
Similarly, while rates for Danske Bank have widened after July 2018, mostly reflecting investors' uncertainty with regards to the development of the Estonian case, markets remain open for Danske as supported by significant oversubscription to its senior nonpreferred issuances in 2019. After significantly tightening through 2019, the bank's spreads have widened again with the overall market in the wake of COVID-19. Despite another market-wide decrease since, Danske spreads remain about 30 bps wider than most Nordic peers as of June 12, 2020.

We expect Danske Bank to maintain a stable market share in domestic deposits, currently at 28%, and granular core deposit franchises in each of its primary markets, with core deposits comprising close to 37% of the funding base.

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



SFR--Stable funding ratio. Source: S&P Global Ratings.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Danske Bank's liquidity is neutral to its ratings since it is in line with that of its Nordic peers. We expect Danske Bank's liquidity to improve marginally 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.

Table 6

Danske Bank A/S--Funding And Liquidity						
	--Fiscal year ended Dec. 31--					
(%)	2020*	2019	2018	2017	2016	2015
Core deposits/funding base	36.7	36.8	35.3	34.7	34.1	34.4
Customer loans (net)/customer deposits	179.2	189.4	198.7	189.1	198.2	199.1
Long-term funding ratio	71.1	72.9	71.2	69.9	70.5	70.9
Stable funding ratio	100.5	98.0	96.9	103.3	100.5	99.3
Short-term wholesale funding/funding base	30.7	28.9	30.7	32.0	31.3	31.0
Broad liquid assets/short-term wholesale funding (x)	1.1	1.1	1.1	1.2	1.1	1.1
Net broad liquid assets/short-term customer deposits	9.5	6.4	4.7	14.9	11.7	7.7
Short-term wholesale funding/total wholesale funding	47.9	45.1	46.7	48.5	47.2	47.0

\*Data as of March 30, 2020.

### 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 fulfil its minimum requirement for own funds and eligible liabilities, Danske Bank is 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), and sustained this pace with an additional DKK10.1 billion in 2020, until COVID-19 started to affect funding markets. The total volume of outstanding senior nonpreferred instruments was about DKK96 billion at the end of March 2020. We expect that Danske's future issuances will maintain its ALAC durably over 8% of risk-weighted assets.

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

We rate 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.

### 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).

### 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 Estonia 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.

### Issue Ratings

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.

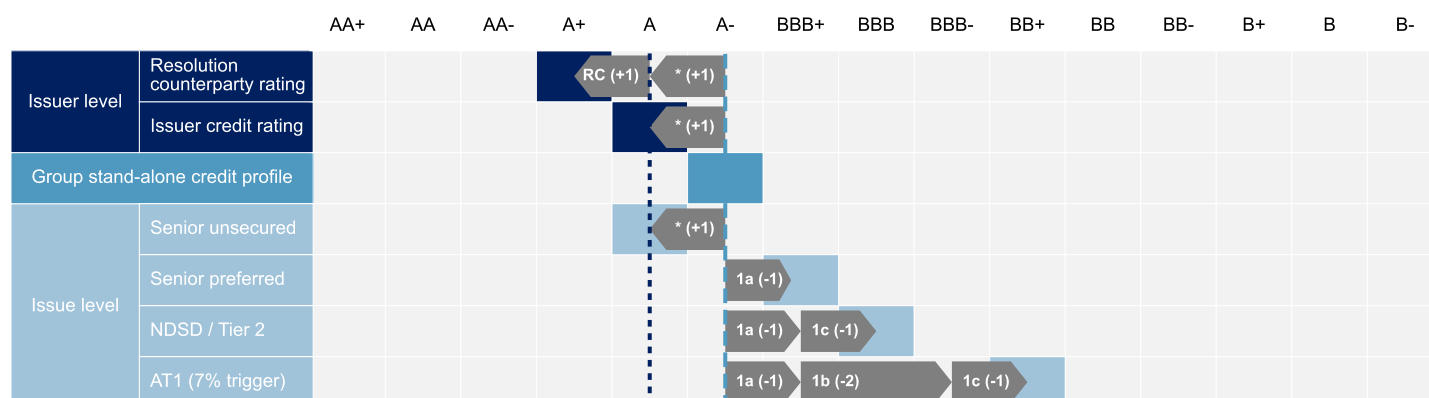
We rate the nondeferrable subordinated debt instruments of Danske Bank at 'BBB', two notches below the bank's SACP. The rating reflects our view of the debt's contractual subordination as a Tier 2 instrument and that BRRD is equivalent to a contractual write-down clause.

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.

Chart 6

## 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. NDSB--Non-deferrable subordinated debt.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

## 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 Estonia 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. 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). While we consider that the alleged money-laundering case, and to a

lesser extent the Flexinvest and wash trade cases, 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 on a journey 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, or the arrangement of customers' ESG-linked bond issuances, while reaching DKK100 billion of investments in sustainable assets.

## 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: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

## Related Research

- Banking Industry Country Risk Assessment Update: June 2020, June 26, 2020



- COVID-19: Resilient Fundamentals And Assertive Policy Measures Will Buoy Nordic Banking Systems, June 16, 2020
- EMEA Financial Institutions Monitor 2Q2020: Resilient But Not Immune To COVID-19, May 14, 2020
- ESG Industry Report Card: EMEA Bank, Feb. 11, 2020
- Nordic Banks' Capital And Earnings Can Weather The Weakening Credit Cycle, Nov. 14, 2019
- 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
- The Resolution Story For Europe's Banks: Life In The Halfway House, July 18, 2019
- Banking Industry Country Risk Assessment: Denmark, March 7, 2018

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 July 2, 2020)\*

#### Danske Bank A/S

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

## Ratings Detail (As Of July 2, 2020)\*(cont.)

Senior Unsecured	A/A-1
Short-Term Debt	A-1
Subordinated	BBB
<b>Issuer Credit Ratings History</b>	
23-Oct-2019	A/Stable/A-1
25-Sep-2018	A/Negative/A-1
05-Apr-2018	A/Positive/A-1
13-Jul-2015	A/Stable/A-1
05-Feb-2004 <i>Nordic Regional Scale</i>	--/--/K-1
<b>Sovereign Rating</b>	
Denmark	AAA/Stable/A-1+
<b>Related Entities</b>	
<b>Danica Pension Livsforsikringsaktieselskab</b>	
Issuer Credit Rating	A-/Stable/--
Subordinated	BBB
<b>Danske Bank A/S, Swedish Branch</b>	
Issuer Credit Rating	A/Stable/A-1
<b>Danske Hypotek AB</b>	
Senior Secured	AAA/Stable
<b>Realkredit Danmark A/S</b>	
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.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.