

# 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 solid capital buffers built to cover for potential money-laundering related fines and operational risk.

**Rating Relevant Governance Assessment:** Danske's ESG relevance score of '4' for Governance Structure means that legal risk of a large fine remains elevated and drives the Negative Outlook, but only together with the economic fallout from the pandemic.

**Sound Revenue Generation Challenged:** Despite the cyclical challenges of margin pressure in the highly competitive Nordic markets and the uncertain economic outlook, operating revenue has been resilient, benefiting from positive lending momentum outside Denmark, which is expected to be maintained. Higher funding costs, partly due to a sustained issuance of senior non-preferred instruments, and high anti-money laundering (AML)-related expenses, reduced the bank's cost-efficiency and profitability to levels below peers.

**Asset Quality Is Under Pressure:** We expect weakening in lending quality, although the extent will depend on the effectiveness of the government support measures and an eventual recovery in 2021. In 2020, borrower quality deteriorated only in some higher risk sectors (oil and gas), leading to a small increase in Danske's impaired loans ratio to 2.7% at end-2020. The ratio remains above most Scandinavian peers' but is in line with similarly rated banks.

**Solid Capitalisation:** Risk-weighted capital ratios compare well with those of international peers, with a common equity Tier 1 (CET1) ratio of 18.3% at end-2020. The management has built buffers into its stated temporary target for the CET1 ratio of at least 16%.

**Healthy Wholesale Funding Access:** Danske is reliant on wholesale funding, like most Nordic banks. Its well-diversified funding base has proven resilient to the negative news from the AML investigations, enabling the bank to execute its funding plan. The spread-widening on the international funding markets has increased funding costs but remains manageable.

## Rating Sensitivities

**Negative Outlook:** The Negative Outlook reflects potential downside risks from the pandemic fallout and from the various investigations by authorities in relation to a legal case in Estonia.

**Capital-Depleting Fine:** Fitch Ratings could downgrade Danske's ratings if it becomes likely that it will incur fines that would materially deplete its capital base, especially if we believe that this would also translate into a material loss of franchise strength or a weaker funding profile.

**Economic Stress:** Danske's structural earnings weaknesses are amplified by weak cost efficiency and sluggish business growth. Negative rating pressure could arise from significant asset quality deterioration that materially affects profitability and capitalisation, which could be triggered by the severe delays to economic recovery expected by Fitch.

**Abating AML & Economic 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 a successful execution of its cost restructuring plan together with growing business volumes and stabilised loan impairment charges. A revision of the Outlook to Stable would also depend on the bank's ability to contain the negative impact from the pandemic.

## 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 Foreign- and Local-Currency IDRs | AAA |
| Country Ceiling                            | AAA |

### Outlooks

|  |          |
|--|----------|
| Long-Term Foreign-Currency IDR                       | Negative |
| Sovereign Long-Term Foreign- and Local-Currency IDRs | Stable   |

## Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

## Related Research

[Fitch Ratings 2021 Outlook: Western European Banks \(December 2020\)](#)

[Global Economic Outlook \(March 2021\)](#)

[Fitch Affirms Danske Bank at 'A' Negative Outlook \(June 2020\)](#)

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## Realkredit Danmark A/S

| Rating level     | Rating |
|------------------|--------|
| Long-Term IDR    | A      |
| Short-Term IDR   | F1     |
| Viability Rating | a      |
| Support Rating   | 1      |
| Outlook          | Stable |

Source: Fitch Ratings

Realkredit Danmark A/S (Realkredit) 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 Realkredit's risk profile has been relatively unaffected by the Estonian AML issues affecting its parent. However, given that we believe that capital is to some extent fungible between Danske and Realkredit, we are likely to retain their VRs within one notch of each other.

Realkredit'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. The risks associated with wholesale funding reliance are mitigated by a large, deep and liquid domestic covered bond market, and access to funding from its parent if needed. The Danish mortgage bonds market remained liquid despite the pandemic, supported by the strong demand for these bonds from Danish financial institutions, insurance companies and pension funds.

Realkredit'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 Realkredit 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 a default by Realkredit. Any required support would likely be manageable relative to Danske's ability to provide it.

## Debt Rating Classes – Danske Bank A/S

| Rating level                       | Rating |
|------------------------------------|--------|
| Deposits                           | A+/F1  |
| Senior preferred debt              | A+/F1  |
| Senior non-preferred debt          | A      |
| Tier 2 subordinated debt           | BBB+   |
| Additional and legacy Tier 1 notes | BBB-   |

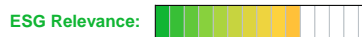
Source: Fitch Ratings

Danske's long-term senior preferred debt and deposit ratings and Derivative Counterparty Rating (DCR) of 'A+(dcr)' are one notch above the bank's Long-Term IDR. This reflects the protection that could accrue to deposits and senior preferred debt from the bank's more junior bank resolution debt and equity buffers. At end-2020, this buffer was 22% of risk-weighted assets (RWAs), adjusted for Realkredit, which is excluded from Danske's resolution strategy. We expect Danske's resolution debt buffer to remain comfortably above 10% in the long-term.

The Tier 2 debt is rated two notches below Danske's VR to reflect the above-average loss severity of this type of debt. Additional and legacy Tier 1 securities are rated four notches below Danske's VR to reflect higher-than-average loss severity risk of these securities (two notches) as well as the high risk of non-performance (an additional two notches). Our assessment is based on the bank operating with a CET1 ratio comfortably above maximum distributable amount thresholds and our expectation this will continue.

Ratings Navigator

Danske Bank A/S



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

Health Crisis Drags on Operating Environments

Business activity in the Nordic region has been less constrained than in most European economies because of the less restrictive lockdowns in response to the pandemic. GDP contracted by 3.7% in Denmark, 2.8% in Sweden and Finland and only 0.8% in Norway in 2020. Fitch expects a moderate rebound in 2021. We expect the economic recovery to regain momentum once restrictions ease and the deployment of vaccinations increases, but there are still significant downside risks to our forecasts.

The strong Danish public finances allowed the government to launch significant relief measures to support the economy in response to the crisis. They mostly consist of various compensation schemes for businesses with large income losses and income protection schemes for individuals. Large government support packages in the other countries in which the bank operates also mitigate the negative direct impact of the crisis.

Progressing Large-Scale Restructuring and Compliance Improvement

In late 2019 Danske started its multi-year transformation programme to become a “Better Bank” by 2023. The goal is to become a more competitive, nimble and consequently cost-effective organisation with stronger digital customer-centric capabilities, higher engagement by employees and better controls against financial crime and cyber risks. Danske's new financial targets aim at a return on equity of 9%-10% and a cost/income ratio in the low 50s by 2023.

In 2020 the bank appointed 4,000 employees to new positions, making its working environment more agile and innovative. Danske reduced the number of products by 25% at Banking Denmark and Banking Nordic and by more than 50% at Corporates & Institutions. From 2021 Danske simplified its organisation and reduced its business units to two: Personal & Business Customers and Large Corporates and Institutions.

In 4Q20 Danske finalised its internal AML investigation (there were no new material issues) and the US authorities cleared it of potential sanctions breaches regarding the Estonian case. The bank continued to strengthen its compliance capabilities and culture. However, the bank's progress in regaining reputation and customer trust was hamstrung by a number of legacy issues identified in 2020 that triggered negative news flow.

| Bar Chart Legend                         |                             |
|--|-----------------------------|
| Vertical bars                            | – VR range of Rating Factor |
| Bar Colors                               | – Influence on final VR     |
| <span style="color: red;">■</span>       | Higher influence            |
| <span style="color: blue;">■</span>      | Moderate influence          |
| <span style="color: lightblue;">■</span> | Lower influence             |
| Bar Arrows                               | – Rating Factor Outlook     |
| ↑  | Positive                    |
| ↓  | Negative                    |
| ↕  | Evolving                    |
| □  | Stable                      |

## Brief Company Summary

### Leading Domestic Universal Bank

Danske is Denmark's largest universal bank, with a growing presence in the remaining three largest Nordic countries and a small franchise in Northern Ireland. Danske's franchise has been resilient to negative AML news, despite some customer outflows. The health crisis has created opportunities for Danske, like its peers, to strengthen its customer relationships. A strategically strong focus on restoring the bank's reputation, making employees more engaged and improving customer satisfaction should support revenue generation. Danske has been losing market share in retail domestic lending since 3Q18 and only managed to modestly turn this trend around in 4Q20.

Mortgage financing is mainly carried out through Realkredit (almost 45% of group loans at end-2020). 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. Danske also owns Denmark's second-largest life insurer/pension company.

### Diversified Income Streams

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. The Danish operations generate about a third of revenue, followed by Banking Nordic and Corporate & Institutions. Income at Banking Nordic was particularly resilient in 2020 due to solid contribution from Sweden and Norway, in line with the group's strategy to expand into other Nordic countries.

### Conservative Risk Appetite

The substantial strengthening of the financial crime and compliance departments, including the hiring of international senior experts in financial crime and AML, serves to address past shortfalls.

Danske's underwriting standards focus on cash-flow generation and client selection. The bank has been more proactively capturing emerging risks through a more holistic risk management framework, in particular making use of portfolio analysis, stress tests and concentration limits on selected industries. We believe the bank's more conservative risk management framework over time will strengthen loan portfolio resilience to a stress scenario.

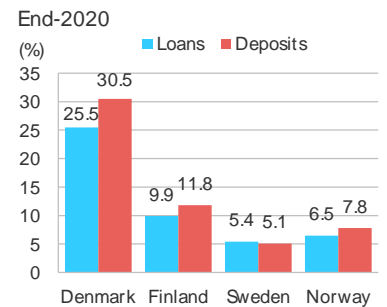
Customer lending is about half of total assets. The rest consists of securities and insurance assets (both about 15% of assets) and well-collateralised repo lending and derivatives. The cash position materially increased in 2020 as at peers.

Danske's credit exposure is dominated by safe retail lending (37% share at end-2020) of which about 90% are mortgage loans. Danske has a limited exposure to risky sectors, such as agriculture or shipping, oil and gas (which materially shrank in 2020). 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 includes residential (37% share at end-2020) 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.

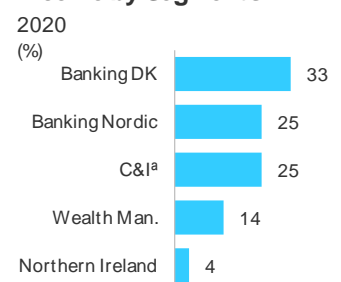
We expect loan growth to remain subdued until economic activity recovers. Danske's recent loan growth was driven by expansion in the Nordic countries (mainly in low risk retail and business lending in Sweden and Norway), while the domestic portfolio growth suffered from reputational issues and high competition.

### Market Shares



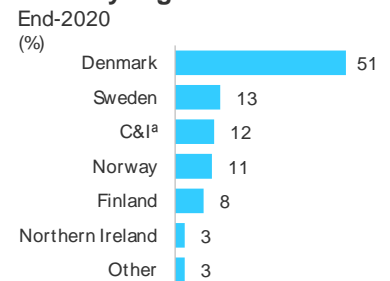
Source: Fitch Ratings, Danske

### Income by Segments



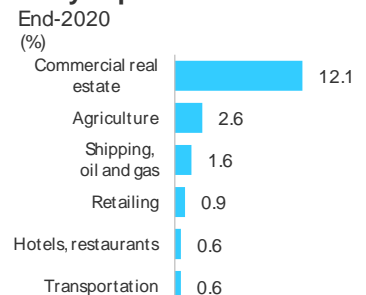
<sup>a</sup> Corporates & Institutions  
 Source: Fitch Ratings, Danske

### Loans by Segments



<sup>a</sup> Corporates & Institutions  
 Source: Fitch Ratings, Danske

### Risky Exposures



Source: Fitch Ratings, Danske

## Summary Financials and Key Ratios

|  | 31 Dec 20             |                       | 31 Dec 19             | 31 Dec 18             | 31 Dec 17             |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|  | Year end              | Year end              | Year end              | Year end              | Year end              |
|  | (USDm)                | (DKKk)                | (DKKk)                | (DKKk)                | (DKKk)                |
|  | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified |
| <b>Summary income statement</b>        |                       |                       |                       |                       |                       |
| Net interest and dividend income       | 4,599                 | 28,118                | 27,892                | 29,022                | 29,863                |
| Net fees and commissions               | 1,764                 | 10,786                | 10,469                | 10,497                | 10,823                |
| Other operating income                 | 1,221                 | 7,466                 | 7,875                 | 7,437                 | 9,896                 |
| Total operating income                 | 7,584                 | 46,370                | 46,236                | 46,956                | 50,582                |
| Operating costs                        | 5,368                 | 32,821                | 30,960                | 28,021                | 25,876                |
| Pre-impairment operating profit        | 2,216                 | 13,549                | 15,276                | 18,935                | 24,706                |
| Loan and other impairment charges      | 1,160                 | 7,090                 | 1,730                 | -387                  | -1,582                |
| Operating profit                       | 1,056                 | 6,459                 | 13,546                | 19,322                | 26,288                |
| Other non-operating items (net)        | -25                   | -155                  | 276                   | n.a.                  | n.a.                  |
| Tax                                    | 281                   | 1,715                 | -1,250                | 4,460                 | 5,388                 |
| Net income                             | 751                   | 4,589                 | 15,072                | 14,862                | 20,900                |
| Other comprehensive income             | -38                   | -230                  | 639                   | -482                  | -265                  |
| Fitch comprehensive income             | 713                   | 4,359                 | 15,711                | 14,380                | 20,635                |
| <b>Summary balance sheet</b>           |                       |                       |                       |                       |                       |
| <b>Assets</b>                          |                       |                       |                       |                       |                       |
| Gross loans                            | 304,804               | 1,863,513             | 1,846,233             | 1,802,054             | 1,747,808             |
| - Of which impaired                    | 8,168                 | 49,937                | 43,870                | 44,990                | 34,479                |
| Loan loss allowances                   | 3,842                 | 23,491                | 19,248                | 19,913                | 20,057                |
| Net loans                              | 300,962               | 1,840,022             | 1,826,985             | 1,782,141             | 1,727,751             |
| Interbank                              | 5,145                 | 31,453                | 82,040                | 169,258               | 277,661               |
| Derivatives                            | 62,083                | 379,566               | 293,980               | 244,274               | 256,891               |
| Other securities and earning assets    | 243,548               | 1,489,002             | 1,410,811             | 1,240,654             | 1,159,405             |
| Total earning assets                   | 611,738               | 3,740,043             | 3,613,816             | 3,436,327             | 3,421,708             |
| Cash and due from banks                | 52,455                | 320,702               | 99,035                | 40,997                | 82,817                |
| Other assets                           | 7,931                 | 48,486                | 48,199                | 101,143               | 35,003                |
| Total assets                           | 672,124               | 4,109,231             | 3,761,050             | 3,578,467             | 3,539,528             |
| <b>Liabilities</b>                     |                       |                       |                       |                       |                       |
| Customer deposits                      | 195,512               | 1,195,319             | 964,533               | 896,894               | 913,777               |
| Interbank and other short-term funding | 82,495                | 504,360               | 494,769               | 580,420               | 477,294               |
| Other long-term funding                | 185,950               | 1,136,861             | 1,211,058             | 1,114,917             | 1,086,584             |
| Trading liabilities and derivatives    | 60,026                | 366,985               | 299,695               | 240,992               | 400,596               |
| Total funding                          | 523,983               | 3,203,525             | 2,970,055             | 2,833,223             | 2,878,251             |
| Other liabilities                      | 119,066               | 727,948               | 610,473               | 572,186               | 488,356               |
| Preference shares and hybrid capital   | 2,877                 | 17,587                | 24,251                | 24,081                | 19,004                |
| Total equity                           | 26,198                | 160,171               | 156,271               | 148,977               | 153,917               |
| Total liabilities and equity           | 672,124               | 4,109,231             | 3,761,050             | 3,578,467             | 3,539,528             |
| Exchange rate                          |                       | USD1 = DKK6.1138      | USD1 = DKK6.6759      | USD1 = DKK6.5194      | USD1 = DKK6.2077      |

Source: Fitch Ratings, Fitch Solutions, Danske Bank A/S

**Summary Financials and Key Ratios**

|   | 31 Dec 20 | 31 Dec 19 | 31 Dec 18 | 31 Dec 17 |
|---|-----------|-----------|-----------|-----------|
| <b>Ratios (annualised as appropriate)</b>   |           |           |           |           |
| <b>Profitability</b>                        |           |           |           |           |
| Operating profit/risk-weighted assets       | 0.8       | 1.8       | 2.6       | 3.5       |
| Net interest income/average earning assets  | 0.8       | 0.8       | 0.8       | 0.9       |
| Non-interest expense/gross revenue          | 70.6      | 67.5      | 60.3      | 51.7      |
| Net income/average equity                   | 2.9       | 10.1      | 10.0      | 13.9      |
| <b>Asset quality</b>                        |           |           |           |           |
| Impaired loans ratio                        | 2.7       | 2.4       | 2.5       | 2.0       |
| Growth in gross loans                       | 0.9       | 2.5       | 3.1       | 0.8       |
| Loan loss allowances/impaired loans         | 47.0      | 43.9      | 44.3      | 58.2      |
| Loan impairment charges/average gross loans | 0.3       | 0.1       | 0.0       | -0.1      |
| <b>Capitalisation</b>                       |           |           |           |           |
| Common equity Tier 1 ratio                  | 18.3      | 17.3      | 17.0      | 17.6      |
| Tangible common equity/tangible assets      | 3.7       | 3.9       | 3.9       | 4.2       |
| Basel leverage ratio                        | 4.5       | 4.7       | 4.6       | 4.4       |
| Net impaired loans/common equity Tier 1     | 18.4      | 18.6      | 19.8      | 10.9      |
| <b>Funding and liquidity</b>                |           |           |           |           |
| Loans/customer deposits                     | 155.9     | 191.4     | 200.9     | 191.3     |
| Liquidity coverage ratio                    | 154.0     | 140.1     | 120.6     | 171.0     |
| Customer deposits/funding                   | 41.9      | 35.8      | 34.3      | 34.5      |

Source: Fitch Ratings, Fitch Solutions, Danske Bank A/S

## Key Financial Metrics – Latest Developments

### Pockets of Risk Inflate Asset Quality Pressure

Default rates remained broadly stable in 2020 and we expect a moderate deterioration in 2021, after the wind-down of government support measures. Danske's overall resilient asset quality is underpinned by a large portfolio of low-risk residential mortgage and commercial real estate loans. We expect asset quality in both sectors to remain high due to prudent underwriting standards, only moderate unemployment growth and the expected limited price corrections in the property market. The rest of the loan portfolio is well diversified by geography and industry.

In 2020 loan impairment charges (LICs) spiked to 34bp of average loans of which almost half came from oil-related exposure (0.6% of total exposure). Almost 40% of LICs were driven by a buffer of conservative model-driven adjustments and did not reflect underlying asset quality deterioration. We estimate that this buffer could neutralise the P&L impact of the potential increase in impaired loan ratio by about 50bp. Danske expects LICs to at least halve in 2021, which is reasonable assuming a gradual pick-up in economic activity across the Nordic region.

### Cost Optimisation Plan Execution Is Crucial for Profitability

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. Such costs arise from the combination of a rapid issuance of minimum requirement for own funds and eligible liabilities (MREL)-eligible debt and wider than-peers spreads.

Danske expects DKK9-11 billion net profit in 2021, which is 2x-2.5x higher than 2020, but still 40%-25% lower than 2019. The improvement would come from slightly better net interest and fee income, a 50% decrease in LICs and substantially lower compliance, remediation and transformation costs.

Danske's cost optimisation efforts started bearing fruits in 2H20 as underlying expenses began to shrink, but this effort was fully offset by additional remediation and transformation costs amounting to DKK4.1 billion and DKK1.7 billion, respectively. The former is related to compliance, financial crime prevention and the Estonia case. The bank targets maximum DKK24.5 billion expenses in 2021 (based on management accounting), which is about 8% lower than in 2020, adjusted for a changed presentation of Danica Pension's results from 2021.

### Strong Capitalisation

At end-2020, Danske had a healthy 510bp surplus over its fully loaded CET1 capital requirement of 13.2%. This includes additional Pillar 2 requirement from the Danish FSA to cover for compliance and reputational risks related to the Estonian AML issues (DKK10 billion, 1.3% of RWAs) and potential contingent liability from the mis-selling of savings products and IT governance (DKK5 billion).

Danske's dividend policy is to pay out 40%-60% of net profit. The bank plans to distribute 38% of its 2020 net profit, while 2019 net result was fully included in CET1 capital.

### Wholesale Funding Reliance; Deep Domestic Covered Bond Market

Like most Nordic banks, Danske relies extensively on wholesale funding, which is dominated by covered bonds. We expect continued strong demand for Danish mortgage bonds, due to the supportive dynamics of this market. These securities are effectively 'pass-through', but the structure creates a significant maturity concentration each year. It is not our base case, but asset quality could be negatively affected if low investor demand during bond auctions materially increased funding costs, which would be passed on directly to the ultimate borrower.

It is important for Danske to maintain a significant liquidity portfolio to mitigate refinancing risk in unsecured wholesale funding. At end-2020, the bank's liquidity buffer (DKK710 billion) was equal to 1.8x outstanding wholesale funding (excluding Realkredit and hybrid debt).

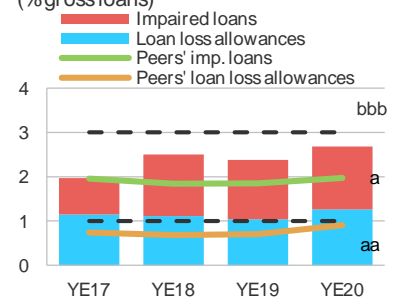
At end-2020, Danske comfortably met its MREL (35.7% of RWAs), predominantly by using own funds and DKK104 billion senior non-preferred bonds. Following the relaxation of the subordination requirement (in mid-2020) Danske can meet part of its MREL (above 31% of RWAs) with senior preferred debt.

#### Note on Charts

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.

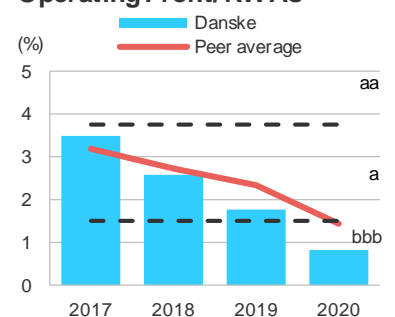
Peer average includes Danske (VR: a), Nordea Bank Abp (aa-), Cooperatieve Rabobank U.A. (a+), Skandinaviska Enskilda Banken AB (publ) (aa-), Svenska Handelsbanken AB (aa), Lloyds Banking Group plc (a), ING Groep N.V. (a+) and ABN AMRO Bank N.V. (a).

#### Asset Quality (% gross loans)



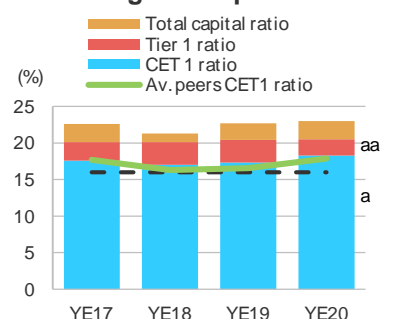
Source: Fitch Ratings, banks

#### Operating Profit/RWAs



Source: Fitch Ratings, banks

#### Risk-Weighted Capital Ratios



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        |          |  |
| <b>Support Rating Floor:</b>  |          | <b>NF</b> |          |  |
| Support Factors   | Positive | Neutral   | Negative |  |
| <b>Sovereign ability to support system</b>                                |          |           |          |  |
| 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)                        |          |           | ✓        |  |
| <b>Sovereign propensity to support system</b>                             |          |           |          |  |
| Resolution legislation with senior debt bail-in                           |          |           | ✓        |  |
| Track record of banking sector support                                    |          | ✓         |          |  |
| Government statements of support  |          | ✓         |          |  |
| <b>Sovereign propensity to support bank</b>                               |          |           |          |  |
| Systemic importance   |          | ✓         |          |  |
| Liability structure of bank   |          | ✓         |          |  |
| Ownership   |          | ✓         |          |  |
| Specifics of bank failure   |          | ✓         |          |  |
| <b>Policy banks</b>   |          |           |          |  |
| Policy role   |          |           |          |  |
| Funding guarantees and legal status                                       |          |           |          |  |
| Government ownership  |          |           |          |  |

Danske's Support Rating (SR) of '5' and Support Rating Floor (SRF) 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 A/S

Banks  
Ratings Navigator

#### Credit-Relevant ESG Derivation

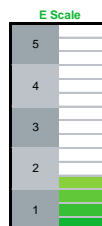
Danske Bank A/S has 1 ESG rating driver and 5 ESG potential rating drivers

- Danske Bank A/S 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, in combination with other factors, impacts the rating.
- Danske Bank A/S 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 A/S 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 A/S has exposure to operational implementation of strategy but this has very low impact on the rating.
- Danske Bank A/S 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 A/S has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.

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

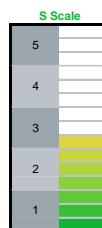
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main 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 ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

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

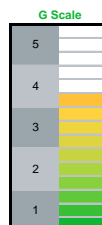
#### Social (S)

| 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   | 4       | 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 '4' for governance structure due to its potential past involvement in money laundering, which is not a key rating driver but has an impact in combination with other factors. Realkredit's and Danske's 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 on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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