

04 OCT 2022

## Fitch Affirms Danske at 'A'; Outlook Stable

Fitch Ratings - Warsaw - 04 Oct 2022: Fitch Ratings has affirmed Danske Bank A/S Long-Term Issuer Default Rating (IDR) at 'A' with a Stable Outlook and Viability Rating (VR) at 'a'. A full list of rating actions is below.

Fitch has withdrawn Danske's Support Rating of '5' and Support Rating Floor of 'No Floor' as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria in November 2021. In line with the updated criteria, Fitch has assigned Danske a Government Support Rating (GSR) of 'no support' (ns).

### Key Rating Drivers

**High Credit Quality:** Danske's ratings reflect its strong universal banking franchise in Denmark and, increasingly across the Nordic region. Danske's strong pan-Nordic focus provides stable revenue generation across a wide range of products, while taking on low levels of risk. Danske's strong financial profile is underpinned by its stable and diversified funding, solid capitalisation and stable asset quality. This offsets its subdued profitability, which has remained under pressure since 2019.

Danske's Short-Term IDR of 'F1' is the lower of two options mapping to a Long-Term IDR of 'A'. This reflects our assessment of the bank's funding and liquidity at 'a+', compared with the minimum level of 'aa-' for a Short-Term IDR of 'F1+'.

**Potential AML Fine:** At end-April 2022, Danske began final discussions with the US and Danish authorities regarding past anti-money-laundering (AML) control deficiencies in its Estonian branch, which is likely to result in a fine for the bank. Danske's earnings and robust capital surplus, which we expect to be maintained, are sufficient to absorb a potentially large fine.

**Leading Danish Bank:** The bank's robust business profile is a rating strength. Danske is Denmark's largest credit institution and the second-largest in the Nordic region. It is a growing challenger in Sweden, Norway and Finland and has a small franchise in Northern Ireland. Its revenue has been broadly stable, with a business model focused on traditional commercial banking, and capturing a larger share of its customers' spending by also offering wealth and life insurance products.

**Low Risk Profile:** We expect Danske's risk profile to remain resilient to the current economic downturn due to its consistently low-risk and tested underwriting standards. Danske's loan book is diversified by industry and geography and is prudently collateralised with conservative loan/value ratios. At end-June 2022, 60% of Danske's credit exposure was to low-risk sectors, dominated by mortgage loans, which is a natural asset-quality stabiliser due to historically low levels of impaired loans and muted credit losses.

**Stable Asset Quality:** Danske enters the economic slowdown with strong asset-quality metrics. Its impaired loans ratio is weaker than at highly rated Nordic peers', but it has been broadly stable since 2018. In 1H22, its Stage 3 credit exposure decreased by 24% and its impaired loans ratio modestly improved to below 2%. We expect the latter to rise to about 2.5% by end-2023, but loan impairment charges (LICs) should be contained, due to prudent collateralisation and large available buffers (about 30bp of loans).

**Profitability Turnaround:** The bank's profitability has recently suffered from expensive compliance investments, deposit margin pressure and higher funding cost than peers'. The improvement in the interest-rate environment and a gradual completion of remediation projects should increasingly support Danske's profitability. In 2022, we expect a weak operating profit on risk-weighted assets (RWAs) due to subdued trading, insurance and fee income, but the ratio should sustainably improve to above 2% in 2023 despite higher LICs.

**Solid Capitalisation:** Danske's risk-weighted capital ratios compare well with those of Nordic and international peers, but should be seen in light of a potentially sizeable fine for the bank. At end-June 2022, Danske's strong common equity Tier 1 (CET1) ratio of 17.1% was 450bp above the regulatory requirement of 12.6%. The requirement will gradually increase by about 180bp by June 2023 due to the activation of countercyclical buffers in Denmark, Sweden and Norway. The bank's leverage ratio is moderate, but still adequate in light of the low-risk profile of the bank.

**Stable Diversified Funding:** Danske strongly relies on wholesale funding, similar to most Nordic banks, due to structural deposit shortage in the region. Its well-diversified funding base and established presence in international debt markets have allowed the bank's funding profile to withstand the negative impact of the AML investigation and economic downturn. The bank's low refinancing risk is underpinned by evenly spread maturities, a strong captive domestic investor base and ample liquidity.

## Rating Sensitivities

### Factors that could, individually or collectively, lead to negative rating action/downgrade:

Negative pressure on the bank's ratings would arise if Danske's CET1 capital ratio surplus over its regulatory requirement decreases materially below 250bp (about EUR3 billion), coupled with deteriorated profitability and asset quality on a sustained basis, which could be triggered by a more severe and prolonged economic downturn than we currently expect.

### Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of Danske would require a completion of the AML investigations and a clarification of potential fines, an expected CET1 capital ratio of at least 15% net of AML settlements, and a successful implementation of the bank's transformation plan. The latter would have to be demonstrated by a durable recovery in the operating profit/RWAs to at least 2.5%.

## OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Danske's Derivative Counterparty Rating (DCR) and its long-term senior preferred debt and deposit ratings are one notch above the bank's Long-Term IDR, and its long-term senior non-preferred debt is aligned with its Long-Term IDR. This reflects the protection that could accrue to senior creditors from the bank's more junior bank resolution debt and equity buffers. We expect Danske's resolution debt buffer to remain comfortably above 10% of RWAs in the long term, adjusted for Realkredit Danmark A/S (A/Stable/a), its domestic mortgage bank subsidiary, which is excluded from Danske's resolution strategy. At end-June 2022, these buffers were equivalent to 19% of RWAs.

Danske's short-term senior preferred debt and deposit ratings are mapped to their respective long-term ratings and also reflect our assessment of the bank's funding and liquidity at 'a+'.

Danske's Tier 2 debt is rated two notches below its VR to reflect the poor recovery prospects of this type of debt. Additional and legacy Tier 1 securities are rated four notches below the VR to reflect their poor recovery prospects (two notches) and high risk of non-performance (an additional two notches). Our assessment is based on our expectation that the bank will continue operating with a CET1 capital ratio comfortably above its maximum distributable amount.

**No Government Support:** Danske's GSR of 'ns' reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign if the bank becomes non-viable. The EU's Bank Recovery and Resolution Directive provides a framework for resolving banks that will require senior creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

## **OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES**

The DCR, the senior preferred and non-preferred debt ratings and the deposit ratings are sensitive to changes in the bank's IDRs. They are also sensitive to Danske maintaining a buffer of subordinated and senior non-preferred debt of at least 10% of RWAs, or could be downgraded otherwise.

The Tier 2 and Tier 1 debt ratings are sensitive to changes in Danske's VR. The ratings of the Tier 1 securities are also sensitive to Fitch's assessment of their incremental non-performance risk relative to the risk captured in Danske's VR.

An upgrade of the GSR would be contingent on a positive change in Denmark's propensity to support domestic banks. While not impossible, this is highly unlikely in Fitch's view.

## **VR ADJUSTMENTS**

The capitalisation and leverage score of 'a' is below the 'aa' category implied score due to the following adjustment reason: risk profile and business model (negative).

The funding and liquidity score of 'a+' is above the 'bbb' category implied score due to the following adjustment reasons: liquidity coverage (positive) and non-deposit funding (positive).

## **Best/Worst Case Rating Scenario**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

### ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or 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).

### Fitch Ratings Analysts

#### **Michal Bryks**

Director

Primary Rating Analyst

+48 22 103 3024

Fitch Ratings Ireland Limited spolka z ograniczona odpowiedzialnoscia oddzial w Polsce Krolewska 16, 00-103 Warsaw

#### **Christian Scarafia**

Managing Director

Secondary Rating Analyst

+44 20 3530 1012

#### **Patrick Rioual**

Senior Director

Committee Chairperson

+33 1 44 29 91 21

### Media Contacts

#### **Peter Fitzpatrick**

London

+44 20 3530 1103

[peter.fitzpatrick@thefitchgroup.com](mailto:peter.fitzpatrick@thefitchgroup.com)

## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Danske Bank A/S	LT IDR	A 	Affirmed	A 
	ST IDR	F1	Affirmed	F1
	Viability	a	Affirmed	a
	Support	WD	Withdrawn	5
	Support Floor	WD	Withdrawn	NF
	DCR	A+(dcr)	Affirmed	A+(dcr)
	Government Support	ns	New Rating	
	• subordinated	BBB-	Affirmed	BBB-
	• Senior non- preferred	LT A	Affirmed	A
	• long- term deposits	LT A+	Affirmed	A+
	• Senior preferred	LT A+	Affirmed	A+

ENTITY/DEBT	RATING		RECOVERY	PRIOR
• subordinated	BBB+		Affirmed	BBB+
• short-term deposits	ST F1		Affirmed	F1
• Senior preferred	ST F1		Affirmed	F1

#### RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	⊙	

#### Applicable Criteria

[Bank Rating Criteria \(pub.07 Sep 2022\) \(including rating assumption sensitivity\)](#)

#### Additional Disclosures

[Solicitation Status](#)

[Endorsement Status](#)

#### DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including

definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective

work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

## **Endorsement policy**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are

endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.