

Danske Bank A/S

Key Rating Drivers

High Credit Quality: Danske Bank A/S's ratings are driven by its strong pan-Nordic focus, particularly its leading position in Denmark, diversified and stable relationship-based business model, low risk appetite, and robust capitalisation. The ratings are also underpinned by Danske's well-balanced funding profile, structural improvement in profitability and strong asset quality through the cycle.

Leading Danish Bank: Danske is the largest bank in Denmark and the second-largest in the Nordic region. It is a growing challenger in Sweden, Norway and Finland, and is the market leader in Northern Ireland. Its business model is diversified and focused on traditional commercial banking and capturing a larger share of its customers' spending by offering wealth and life insurance products.

Low Risk Profile: Fitch Ratings expects 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 (LTV) ratios. About 60% of Danske's credit exposure is to low-risk sectors, dominated by mortgage loans, which act as a natural asset-quality stabiliser due to historically low levels of impaired loans and muted credit losses.

Stable Asset Quality: Danske entered the economic slowdown with strong asset quality and very low exposure to vulnerable sectors. Danske's impaired loans ratio is weaker than that of highly rated Nordic peers, but loan impairment charges (LICs) have been low, reflecting robust collateralisation. The bank's Stage 2 and Stage 3 credit exposure decreased in 1H23, but a moderate deterioration in credit quality is likely from 2H23. We expect Danske's impaired loans ratio to modestly rise to 2.1% at end-2023, and further to about 2.3% at end-2024.

Profitability Turnaround: The higher interest rate environment and a gradual completion of remediation projects is strengthening Danske's profitability. We believe that this improvement is sustainable and we expect Danske's operating profit to reach about 3% of risk-weighted assets (RWAs) in 2023. The revised 2026 strategic profitability targets are ambitious, but achievable if the management successfully executes its pledge to keep costs under control and revive lending.

Strong Capitalisation: Danske's risk-weighted capital ratios compare well with peers', with a CET1 ratio of 18.1% at end-June 2023. We expect the ratio to remain above 16% in the long term, in line with the management's target, which assures a prudent buffer over regulatory requirements. Danske's leverage ratio of 5% is only moderate, but should be viewed in light of the bank's historically low LICs and high share of low-risk non-loan assets.

Stable Diversified Funding: Danske is reliant on wholesale funding, like most Nordic banks, due to a well-developed covered bond market matching mortgage lending, and a structural deposit shortage in the region.

Its well-diversified funding base and an established presence in the international debt markets have been resilient to the negative news from past anti-money-laundering control deficiencies and economic downturns, enabling the bank to execute its funding plan. The bank's low refinancing risk is also underpinned by well-spread maturities, a strong captive domestic investor base and an ample liquidity surplus.

Ratings

Foreign Currency

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

Viability Rating a+

Government Support Rating ns

Sovereign Risk (Denmark)

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

Outlooks

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

Applicable Criteria

[Bank Rating Criteria \(September 2023\)](#)

Related Research

[Global Economic Outlook \(September 2023\)](#)

[Large European Banks Quarterly Credit Tracker \(July 2023\)](#)

[Fitch Affirms Denmark at 'AAA'; Outlook Stable \(May 2023\)](#)

[DM100 Banks Tracker - End-2022 \(May 2023\)](#)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Danske's robust capitalisation provides significant rating headroom to absorb a potential deterioration of its financial profile. We could downgrade the ratings should there be a lasting weakening of Danske's CET1 ratio to materially below 16%, coupled with a structural increase in risk appetite leading to durably higher LICs, an impaired loans ratio of about 3% and operating profit/RWAs declining below 2.5%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Positive rating action would require a significantly stronger risk profile and asset-quality metrics, for example due to greater geographic diversification, provided that this was executed with a conservative risk appetite and resulted in structurally stronger earnings capacity.

Other Debt and Issuer Ratings

Rating level	Rating
Long- and short-term deposits and senior preferred debt	AA-/F1+
Senior non-preferred debt	A+
Tier 2 subordinated debt	A-
Additional Tier 1 notes	BBB

Source: Fitch Ratings

Short-Term IDR

Danske's Short-Term IDR of 'F1' is the lower of the two options that map to a Long-Term IDR of 'A+', driven by Danske's funding and liquidity score of 'a+'.

Derivative Counterparty Rating, Deposits and Senior Debt

Danske's long-term senior preferred debt and deposit ratings of 'AA-' and Derivative Counterparty Rating of 'AA-(dcr)' are one notch above its Long-Term IDR. This reflects the protection that we expect will accrue to deposits and senior preferred debt from the bank's junior bank resolution debt and equity buffers. The short-term senior preferred debt and deposit ratings of 'F1+' are the only option mapping to their respective long-term ratings.

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 2023, the buffer was 19% of adjusted RWAs. For the same reason, Danske's long-term senior non-preferred debt is equalised with the Long-Term IDR, reflecting Fitch's view that the default risk of the notes is equivalent to that of the IDR and their average recovery prospects.

Danske's Tier 2 subordinated debt and additional Tier 1 (AT1) securities are notched down from its Viability Rating (VR). We rate the Tier 2 debt two notches below the VR to reflect the poor recovery prospects of this type of debt. The AT1 securities are four notches below the VR to reflect the poor recovery prospects of these securities (two notches) as well as their high risk of non-performance (two notches). Our assessment is based on the bank operating with a CET1 ratio that is comfortably above maximum distributable amount thresholds and our expectation that this will continue.

Ratings Navigator

Danske Bank A/S							ESG Relevance:	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%				
aaa							aaa	aaa	aaa	AAA
aa+							aa+	aa+	aa+	AA+
aa							aa	aa	aa	AA
aa-							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+ Sta
a							a	a	a	A
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+
bbb							bbb	bbb	bbb	BBB
bbb-							bbb-	bbb-	bbb-	BBB-
bb+							bb+	bb+	bb+	BB+
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB-
b+							b+	b+	b+	B+
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

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).

Company Summary and Key Qualitative Factors

Operating Environment

Danske is based in Denmark, but it also does banking business in the other three largest Nordic countries and considers them strategically important. The economic environments and sovereign credit profiles of Nordic countries are strong and structural weaknesses are very limited, which presents very good opportunities for banks to be consistently profitable.

The cyclical downturn in the Nordic region is due predominantly to the fall in household consumption that started in 2H22, due to the combination of high inflation eroding real incomes, the quick transmission of monetary tightening and declining house prices from very high levels (particularly visible in Sweden). In 2023 we forecast a short-lived recession of 0.9% and 0.2% in Sweden and Finland, respectively, while the other two economies should continue to grow (Denmark 0.9%, Norway: 1.6%).

Housing and commercial real estate loans dominate Nordic banks' loan books, making them potential sources of risks during downturns. We expect any asset quality deterioration in both portfolios to remain manageable, despite a challenging operating environment. During the recent period of low interest rates, both commercial real estate and retail mortgage lending at the largest Fitch-rated Nordic banks were prudently based on stressed cash flows, and conservative LTVs.

Nordic household debt is high in an international context (less so in Finland), due to high levels of house ownership financed by mortgage loans, and it should be viewed in light of the strong household balance sheets and historically high savings ratios. The high inflation, rise in long-term interest rates and the monetary tightening have dampened real spending power. However, it should be manageable for most households as they accumulated large savings during the pandemic and we do not expect a material rise in unemployment.

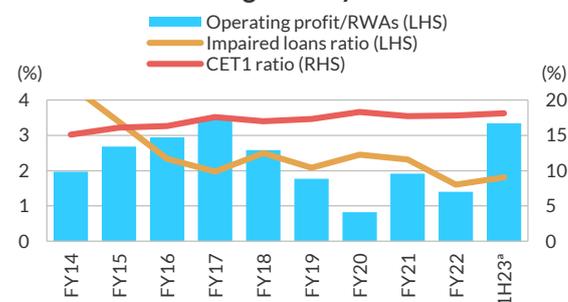
Business Profile

Danske's franchise benefits from its geographically diversified footprint in the Nordic region, which offers one of the best opportunities in Europe for profitable banking business. The bank provides a wide array of services, such as investment banking and capital markets, asset management, private banking, real estate brokerage, and leasing services. It has a significant Nordic fixed-income and currency business, in particular in interest rate swaps, cash management and trade finance.

Danske is the largest Danish bank and its domestic operations generate about 55% of the bank's revenue. Mortgage lending is mainly carried out through Danske's largest subsidiary, Realkredit Danmark, the second-largest specialist mortgage bank in Denmark, with a domestic market share of about 25%. Danske also owns Denmark's second-largest life insurer and pension company. The bank is a challenger outside Denmark, with only a material lending market share in Finland (about 10%). Danske's plan to sell its Norwegian retail business and associated asset management portfolio is rating neutral due to its small financial impact.

In early June, Danske announced new profitability targets of 13% return on equity and about a 45% cost/income ratio in 2026, which is more in line with better-performing large Nordic peers. The revised strategy is ambitious, but neutral for the bank's credit profile, although if well-executed it should structurally improve Danske's profitability. The management mainly expects organic growth, but small bolt-on acquisitions, focusing on profitability improvements, are also possible.

Performance Through the Cycle



^a Annualised
 Source: Fitch Ratings, Fitch Solutions, Danske

Loan Book by Segments



^a Public, financial and pharmaceutical sector, housing cooperatives
^b Agriculture, shipping, oil and gas, hotels, transportation, HORECA
 Source: Fitch Ratings, Fitch Solutions, Danske

Risk Profile

Danske's underwriting standards focus on cash-flow generation and client selection. The bank applies a holistic risk management framework, in particular making use of portfolio analysis, stress tests and concentration limits on selected industries. Customer lending is about half of total assets. The rest consists of debt securities (mainly held for liquidity purposes), insurance assets and well-collateralised repo lending and derivatives. Market and insurance risk are well-controlled using advanced methods.

The retail segment in Denmark (about 35% of total credit exposure) is concentrated in the mortgage bank subsidiary, which complies with all supervisory requirements for Danish mortgage credit institutions. At end-1H23, domestic variable-rate mortgage loans represented 57% of the outstanding balance as this type of product was preferred by customers at the beginning of interest rate rise cycle. However, variable-rate mortgage loans in Denmark have fairly long interest rate fixation periods by international standards (at least one year on average) and generally lending has been based on prudent LTV ratios and repayment capacity stress testing at considerably higher rates. At end-June 2023, the average LTV in domestic mortgage loan book was 51.5%, and less than 2% of loans had a LTV above 80%. Outside Denmark, retail lending is mainly via partnerships with labour organisations, targeting mostly well-educated professionals with salaries above the market average, which translates into low credit losses.

Non-retail exposure is well diversified by sector and single name. It was dominated by low risk segments (about 25% share in total credit exposure), such as financial and public-sector companies, housing cooperatives and the pharmaceutical industry.

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. The loan book decreased in 2022, mainly due to portfolio cleaning and lower valuation of mortgage loans in Denmark, which are carried at fair value. We expect subdued retail loan growth in 2H23 due to higher rates and lower property prices.

Financial Profile

Asset Quality

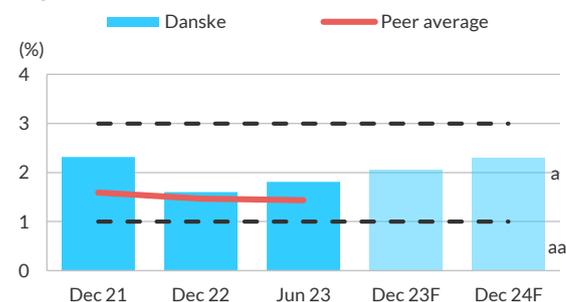
Credit losses were almost zero in 1H23, but we expect them to increase to about 9bp in 2023 and 12bp in 2024. However, the ultimate level of LICs will depend on the utilisation of the bank’s management overlay of DKK6.8 billion, which could cushion LICs equivalent to about 40bp of loans.

At end-June 2023, the higher risk exposure to cyclical industries, such as shipping, oil and gas, agriculture, transportation, hotels, restaurants and leisure, represented a small 5% of total credit exposure, but 25% of Stage 3 exposure. The quality of this portfolio has improved over the past few years and we expect it to remain under control.

At end-June 2023, the impaired loan ratio in lending to personal customers was 1.2%. This portfolio is about 55% concentrated in Denmark and dominated by residential mortgage loans. We expect credit quality to remain resilient due to prudent stress-testing of customers’ repayment capacity (in the event of a material rise in interest rates), low unemployment and high accumulated savings of households. Residential property prices in Denmark bottomed out in 1H23 after an approximate 10% decline since the peak in 2Q22. Lower expected inflation in 2024, together with higher wages and a reduction in mortgage rates should stabilise home prices, although a small correction remains possible in 2H23.

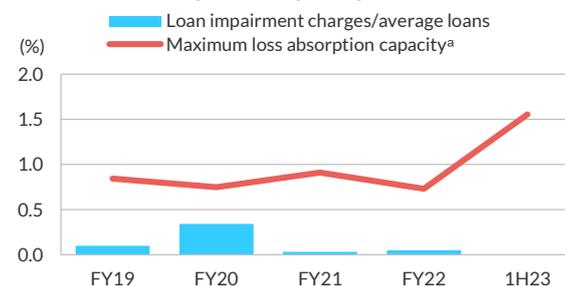
The impaired loan ratio in commercial property lending (11% of credit exposure at end-June 2023) was low at 1% and this portfolio has been shrinking for the past couple of years. About a quarter relates to riskier Swedish exposure, where problems at several single names came to the fore in 2Q23. Danske has been mainly focusing on residential real estate projects. Only about a third of the exposure is in the more vulnerable office and retail segment, for which the bank tightened its underwriting standards in 2020. It is concentrated in the largest Nordic cities and should continue to perform as companies gradually reprice their rental agreements, absent prolonged recession stress. The rest of the corporate loan portfolio is well diversified by industry, and Fitch views obligor concentration as satisfactory.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

P&L Loss Absorption Capacity



^a Pre-impairment operating profit/average loans
 Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Danske’s profitability is solid by international standards, but considerably weaker than its highly rated Nordic peers. Recently the bank’s earnings suffered mainly from deposit margin pressure and inflated expenses. The latter reflects costly investments in compliance and AML controls and the bank’s large transformation plan, which should be completed this year. Higher interest rates significantly improved Danske’s net interest income, which increased by 45% in 1H23 (based on management accounting). Net interest income should continue to improve year-over-year, although more slowly, due to limited pass-through of interest rate hikes to depositors.

The planned 3% annual lending growth in the bank’s revised strategy is the cornerstone of its planned income increase to at least DKK56 billion in 2026. In our opinion, to achieve this Danske needs to recover its domestic retail lending position, which has been under pressure for several years. The Estonia case and other legacy issues, which previously trapped management time and dragged on the bank’s reputation, are no longer impediments, allowing the bank to demonstrate the true potential of its business model and franchise.

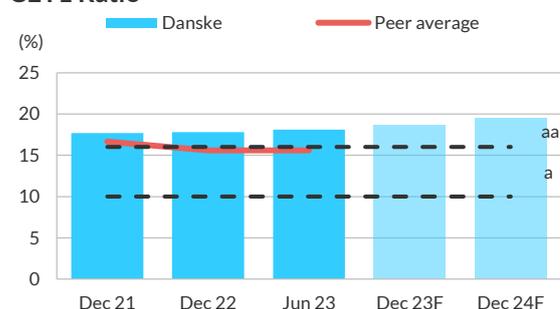
Fitch believes that the bank’s commitment to strict cost discipline is plausible, but challenging. Danske’s sizeable cost savings and a finalisation of crime transformation plan (expected by end-2023) are crucial to successful execution of the new strategy. The bank expects its 2026 expenses to be only about 2%–4% above 2023 guidance of DKK25 billion–25.5 billion (management accounting numbers), despite planned wage inflation of around 3% and DKK1 billion additional digital and tech investments.

Capital and Leverage

We expect Danske to maintain a healthy capital buffer to uphold debt investor confidence in light of its sizeable reliance on wholesale funding. The sale of the personal customer business in Norway, expected in late 2024, will release about DKK5.5 billion capital, which we expect to be fully distributed to shareholders given Danske’s comfortable capital position.

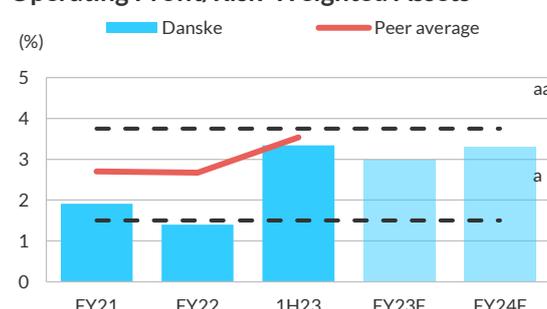
In June 2023, Danske reiterated its CET1 ratio strategic target of above 16% by 2026, but Fitch believes the bank may change its capital guidance and switch to a buffer over minimum regulatory requirement once it finalises the disposal of Norwegian business. At end-June 2023, Danske’s CET1 ratio of 18.1% was 4.4pp above the minimum requirement. The reciprocation of the Norwegian systemic risk buffer (4.5%) in Denmark, binding from August 2023, will increase the requirement by a small amount of 0.5pp. However, the ultimate impact will be lower once the bank concludes the sale of its Norwegian retail exposure next year.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Danske’s funding is dominated by deposits (about 40% share at end-June 2023) and covered bonds (33% share). The former is diversified geographically and stable given the bank’s relationship-based business model. The structural deposits shortage in Denmark is neutral for mortgage lending as Danske does not use own liquidity to generate loans given the passthrough between covered bond investors and borrowers in the Danish mortgage lending model.

The high reliance on wholesale funding is offset by a well-developed domestic covered bond market. Danish mortgage bonds market remained operational during periods of market disruption, underpinned by a strong legislation, a captive investor base and a high-quality cover pool. At end-June 2023, Danske’s ratio of gross loans/deposits + covered bonds equalled a healthy 86%.

Danske also issues senior unsecured debt internationally through its geographically diversified funding platform in US dollars and euros. Danske’s refinancing risk is also mitigated by diversified funding maturities and ample liquidity buffer (DKK551 billion, 15% of assets at end-June 2023), which fully covered wholesale funding falling due in 2023 and 2024.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch’s forward view on the bank’s core financial metrics per Fitch’s Bank Rating Criteria. They are based on a combination of Fitch’s macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch’s forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events such as planned recapitalizations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

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. Light-blue columns represent Fitch’s forecasts.

Peer average includes Nordea Bank Abp (VR: aa-), Skandinaviska Enskilda Banken AB (publ) (aa-), Lloyds Banking Group plc (a), National Australia Bank Limited (a+), ING Groep N.V. (a+), ABN AMRO Bank N.V. (a), Credit Agricole (a+). Financial year end of National Australia Bank Limited is 30 Sep.

Financials

Financial Statements

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(DKKm)	(DKKm)	(DKKm)	(DKKm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - Unqualified
Summary income statement					
Net interest and dividend income	2,129	14,595	28,026	26,774	28,118
Net fees and commissions	828	5,672	11,312	12,117	10,786
Other operating income	1,123	7,700	5,137	8,463	7,466
Total operating income	4,080	27,967	44,475	47,354	46,370
Operating costs	2,091	14,330	31,250	30,822	32,821
Pre-impairment operating profit	1,990	13,637	13,225	16,532	13,549
Loan and other impairment charges	-4	-28	1,502	141	7,090
Operating profit	1,994	13,665	11,723	16,391	6,459
Other non-operating items (net)	-101	-693	-14,007	180	-155
Tax	408	2,794	2,784	3,651	1,715
Net income	1,485	10,178	-5,068	12,920	4,589
Other comprehensive income	-278	-1,907	-3,693	326	-230
Fitch comprehensive income	1,207	8,271	-8,761	13,246	4,359
Summary balance Sheet					
Assets					
Gross loans	241,145	1,652,783	1,822,093	1,856,064	1,860,621
- of which impaired	4,369	29,946	29,166	43,071	45,523
Loan loss allowances	2,831	19,401	16,971	20,381	20,599
Net loans	238,314	1,633,382	1,805,122	1,835,683	1,840,022
Interbank	15,342	105,155	23,432	33,422	31,453
Derivatives	54,643	374,515	430,123	260,224	379,566
Other securities and earning assets	178,624	1,224,274	1,283,680	1,434,026	1,489,002
Total earning assets	486,924	3,337,326	3,542,357	3,563,355	3,740,043
Cash and due from banks	33,779	231,516	175,052	293,386	320,702
Other assets	23,748	162,766	45,590	79,093	48,486
Total assets	544,450	3,731,608	3,762,999	3,935,834	4,109,231
Liabilities					
Customer deposits	154,656	1,059,996	1,171,990	1,169,829	1,195,319
Interbank and other short-term funding	47,126	322,998	238,198	320,913	372,010
Other long-term funding	160,617	1,100,854	996,862	1,125,248	1,136,861
Trading liabilities and derivatives	70,037	480,024	554,321	374,959	499,335
Total funding and derivatives	432,436	2,963,872	2,961,371	2,990,949	3,203,525
Other liabilities	85,207	583,998	625,634	753,427	727,948
Preference shares and hybrid capital	2,202	15,090	15,676	20,251	17,587
Total equity	24,606	168,648	160,318	171,207	160,171
Total liabilities and equity	544,450	3,731,608	3,762,999	3,935,834	4,109,231
Exchange rate		USD1 = DKK6.8539	USD1 = DKK6.994	USD1 = DKK6.5749	USD1 = DKK6.1138

Source: Fitch Ratings, Fitch Solutions, Danske

Key Ratios

	30 Jun 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.3	1.4	1.9	0.8
Net interest income/average earning assets	0.9	0.8	0.7	0.8
Non-interest expense/gross revenue	51.2	70.3	65.1	70.6
Net income/average equity	12.5	-3.1	7.8	2.9
Asset quality				
Impaired loans ratio	1.8	1.6	2.3	2.5
Growth in gross loans	-9.3	-1.8	-0.2	0.8
Loan loss allowances/impaired loans	64.8	58.2	47.3	45.3
Loan impairment charges/average gross loans	0.0	0.1	0.0	0.3
Capitalisation				
Common equity Tier 1 ratio	18.1	17.8	17.7	18.3
Tangible common equity/tangible assets	4.4	4.1	4.1	3.7
Basel leverage ratio	4.9	4.9	4.9	4.5
Net impaired loans/common equity Tier 1	7.1	8.2	14.9	17.3
Funding and liquidity				
Gross loans/customer deposits	155.9	155.5	158.7	155.7
Gross loans/customer deposits + covered bonds	86.4	91.2	88.5	86.9
Liquidity coverage ratio	148.0	151.0	163.7	154.0
Customer deposits/total non-equity funding	40.4	46.1	42.2	41.9
Net stable funding ratio	124.0	122.9	130.5	n.a.

Source: Fitch Ratings, Fitch Solutions, Danske

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a+ to a-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
 Higher influence Moderate influence Lower influence

Danske's Government Support Rating of 'no support' reflects 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 will require senior creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Danske Bank A/S has 6 ESG potential rating drivers ➔ 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. ➔ Governance is minimally relevant to the rating and is not currently a driver.	key driver	0	issues	5	
	driver	0	issues	4	
	potential driver	6	issues	3	
	not a rating driver	3	issues	2	
		5	issues	1	

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact. Scores of 3, 4 or 5) and provides a brief explanation for the score.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
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	Business Profile (incl. Management & governance); Financial Profile	1

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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance	CREDIT-RELEVANT ESG SCALE How relevant are E, S and G issues to the overall credit rating?
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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.
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	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.
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	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.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2	Irrelevant to the entity rating but relevant to the sector.
				1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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