FitchRatings

Banks
Denmark

Danske Bank A/S

Key Rating Drivers

Leading Danish Bank: Danske Bank A/S's ratings reflect its 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 low risk appetite, stable funding and solid capital buffers built up in the expectation of possible fines related to anti-money-laundering (AML) control deficiencies and operational risk.

Potential AML Fine: At end-April 2022 Danske, began final discussions with the US and Danish authorities regarding the past AML control deficiencies in its Estonian branch, which is likely to result in a fine for the bank. Fitch Ratings expects Danske to maintain at least a EUR3 billion capital surplus until the settlement of the AML issue, which we view as a sufficient loss-absorption capacity to cushion a potentially large fine from the Danish and US authorities.

Solid Capitalisation: Risk-weighted capital ratios compare well with those of international peers. The bank's management has built buffers into its stated target for the common equity Tier 1 (CET1) ratio of at least 16%. In 4Q20, the US authorities cleared the bank of sanctions breaches relating to Estonia. In our opinion, this reduces the risk of a fine of a size that would erode Danske's capital ratios to a level no longer commensurate with its 'a' Viability Rating.

Sound Revenue Generation: Danske's operating revenue has been broadly resilient, despite the cyclical challenges of margin pressure in the highly competitive Nordic markets and the economic downturn. Higher funding costs, partly due to sustained issuance of senior non-preferred instruments, and high expenses related to investments in AML controls, has reduced the bank's cost-efficiency and profitability to levels below those of peers. We expect lower operating profit in 2022 due to normalised credit losses, lower asset-management fees and elevated costs. The net interest income uplift from rate increases will be gradual.

Stable Asset Quality: The bank's impaired loans ratio is weaker than at Nordic peers' but it has been stable since 2018 at about 2%, which is in line with similarly rated international peers. We expect the impaired loan ratio to modestly increase by end-2023 due to the economic slowdown. Danske's direct exposure to Russia, Ukraine and the Baltics is negligible.

Stable Diversified Funding: 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 and pandemic, enabling the bank to execute its funding plan. The bank's refinancing risk is low and well-managed and the bank maintains ample liquidity surplus.

Rating Sensitivities

Stable Outlook: The bank has sufficient rating headroom to withstand a downward revision of our assessment of asset quality and profitability by one notch that could be triggered by severe delays to the economic recovery. A substantial and durable CET1 ratio erosion below 14% would lead to a downgrade. Such an erosion could be driven by an AML fine considerably larger than the bank's current loss-absorption capacity.

Weakened Capital Surplus: We could revise the Outlook to Negative if we believe the bank's capacity to absorb AML fines is insufficient. This could be triggered if we expect Danske's CET1 ratio surplus over its requirement to decrease materially below 250bp.

Strengthened Financial Profile: An upgrade of Danske would require the completion of AML investigations and clarification of potential fines; an expected CET1 ratio of at least 15% net of AML settlements; a sustainable reduction in impaired loans ratio below 2%; and a successful implementation of the bank's transformation plan. This would have to be demonstrated by a durable recovery in the operating profit/risk-weighted assets (RWAs) ratio to at least 2.5%.

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	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Related Research

Large European Banks Quarterly Credit Tracker (June 2022)

Global Economic Outlook (June 2022)

Potential Material AML Fine for Danske Is Rating Neutral (April 2022)

Fitch Affirms Denmark at 'AAA'; Outlook Stable (February 2022)

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Debt Rating Classes

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

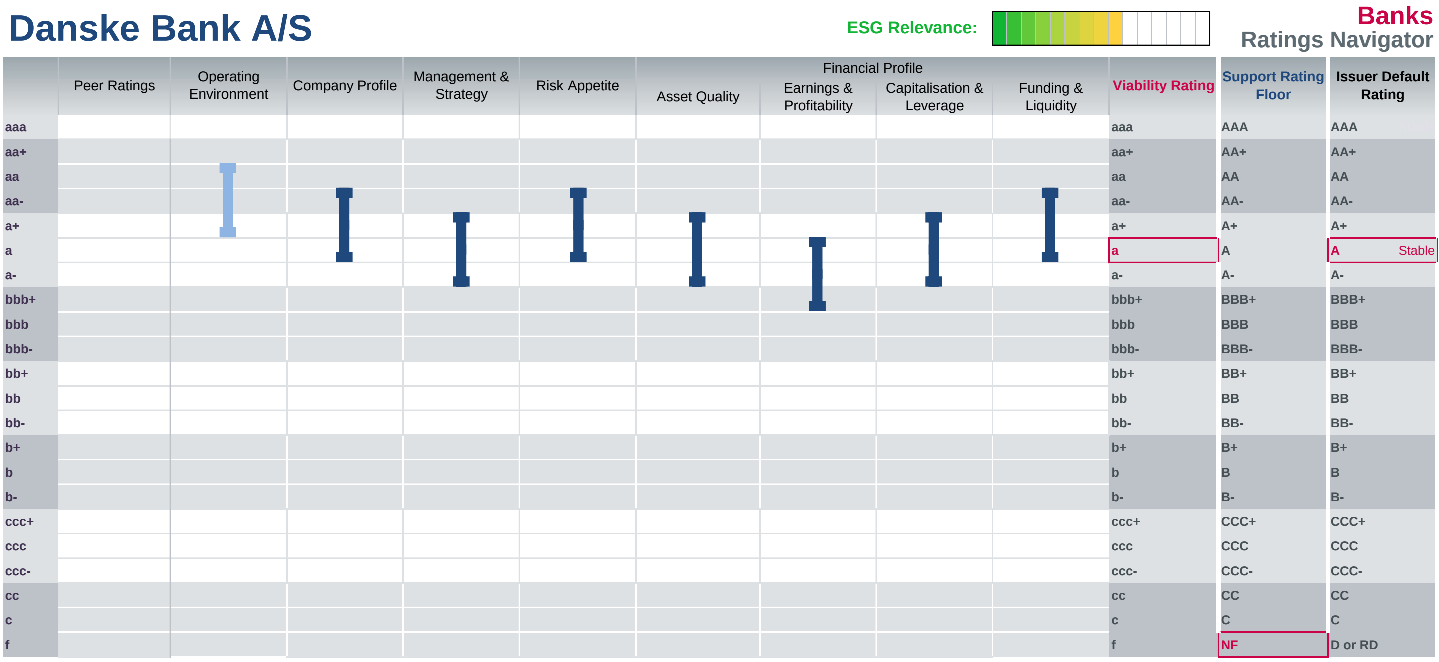
Danske's long-term senior preferred debt and deposit ratings and Derivative Counterparty Rating (DCR) of 'A+(dcr)' are one notch above the bank's Long-Term IDR. This reflects the protection that could accrue to deposits and senior preferred debt from the bank's more junior bank resolution debt and equity buffers. At end-March 2022, this buffer was about 20% of RWAs, adjusted for Realkredit, which is excluded from Danske's resolution strategy.

We expect Danske's resolution debt buffer to remain comfortably above 10% of RWAs in the long term. This also drives the equalisation of Danske's long-term senior non-preferred debt with the bank's Long-Term IDR.

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 Danske's Viability Rating to reflect the poor recovery prospects 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 that this will continue.

Ratings Navigator



Significant Changes

Operating Environment Resilient to the Economic Slowdown

Danske's operations are mainly concentrated in Denmark, but it has also a diversified presence across the remaining three largest Nordic countries. The economic environments and sovereign credit profiles are also strong and structural weaknesses are very limited, which presents very good opportunities for banks to be consistently profitable. Strong levels of employment, savings buffers accumulated through the pandemic, and sufficient fiscal space by Nordic sovereigns mitigates the risk of a sharp economic downturn.

Household debt in the Nordic region is high in an international context, due to high house ownership financed by mortgage loans. The high inflation, rise in long-term interest rates and the projected monetary tightening (started in Norway in late 2021 and in Sweden in April 2022) will dampen real spending power, but should be manageable for Nordic households, which have accumulated sizeable savings.

We expect a moderate rise in bankruptcies in the region largely coming from financially weaker SMEs in the sectors worst-hit by the pandemic, as well as vulnerable to higher commodity and energy prices and the interest rate hike cycle. This should also increase appetite for bank credit, which has been dampened during the pandemic by government liquidity measures and loan schemes. Nordic banks have sufficient liquidity to meet higher corporate loan demand.

Danske, like its Nordic peers, is materially exposed to the real estate market through mortgage loans and lending to property-management companies. We expect a moderate fall in residential property prices from 2H22, which should be viewed as a healthy cool-off after a pandemic-driven surge in prices in 2020–2021 (this was less strong in Finland). This correction should still result in home prices higher than pre-pandemic levels.

We expect the Nordic property management companies to perform well. A large share of this segment is concentrated in residential real estate, which should remain resilient to the economic slowdown. Office and retail spaces remain the most vulnerable segments due to heightened risk of prices falling, but most lending is at low loan/value ratios (LTVs). Refinancing risk at commercial real estate companies is manageable, despite notable widening of funding spreads. Nordic banks are able to temporarily replace short-term borrowing needs.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- 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.

Domestic mortgage financing is mainly carried out through Danske's largest subsidiary, Realkredit Danmark A/S (A/Stable/a), which represents about 40% of group loans. 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 and currency business, in particular in interest-rate swaps, cash management and trade finance. Danske also owns Denmark's second-largest life insurer/pension company.

In October 2021, Danske lowered its 2023 ROE target to 8.5%–9% from 9%–10%, which remains ambitious, as it depends on a sizeable number of structural income and cost initiatives. Reaching the ROE target of its 2020–2023 plan was hamstrung by higher compliance and anti-money-laundering (AML)-remediation expenses, subdued loan growth, competition, margin compression and inflated equity (due to additional AML-related Pillar 2 buffer). Danske maintained its CET1 ratio target above 16%, net of a potential AML settlement.

Diversified Income Streams

Danske's revenue has been broadly stable over time, with the business model focused on traditional, commercial banking, and capturing a larger share of its customers' spending by also offering wealth and life insurance products. The Danish operations generate about a third of revenue, followed by the Nordic personal and business customers and large corporates and institutions. Income for Nordic personal and business customers was particularly resilient during the pandemic due to solid contribution from Sweden and Norway, in line with the bank's strategy to expand into mid-corporate and retail segments across the other Nordic countries.

Conservative Risk Appetite

Danske's underwriting standards focus on cash-flow generation and client selection. The bank has been 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 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 debt securities (mainly held for liquidity purposes), insurance assets and well-collateralised repo lending and derivatives.

Danske's credit exposure is dominated by the safe retail segment (37% share of credit exposure at end-March 2022) of which about 90% are mortgage loans. Retail lending outside Denmark is mainly via partnerships with labour organisations, targeting mostly well-educated professionals with salaries above the market average rates, which translates into low credit losses.

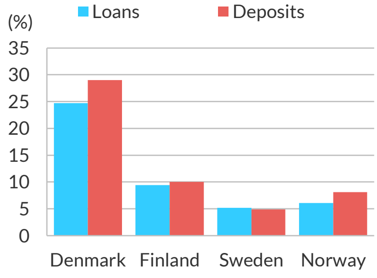
Commercial property lending is material (12% of credit exposure), but only about a third is in the more vulnerable office and retail segment, for which the bank tightened its underwriting standards in 2020. Office and retail space exposure is concentrated in the largest Nordic cities and so far has performed well.

Danske has a limited exposure to risky sectors, such as agriculture, shipping, or oil and gas – which materially shrank in 2020. The rest of the corporate loan portfolio is well diversified by industry, and Fitch views obligor concentration as satisfactory. Danske also has good and improving geographical loan diversification.

We expect small retail loan growth due to higher rates and lower property prices, but we expect the demand in the non-retail segment, particularly among SMEs, to pick up. 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 was negatively affected by reputational issues and high competition.

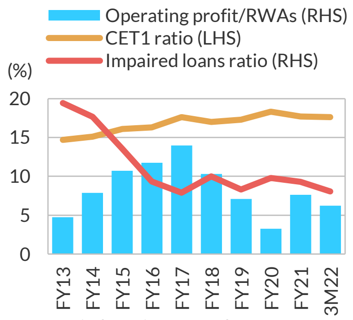
Market Shares

End-March 2022



Source: Fitch Ratings, Danske

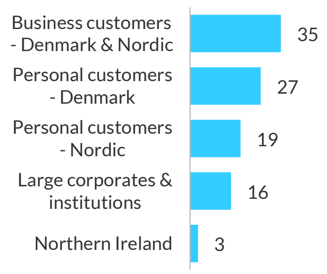
Results Through-The-Cycle



Source: Fitch Ratings, Danske

Loans by Segments (%)

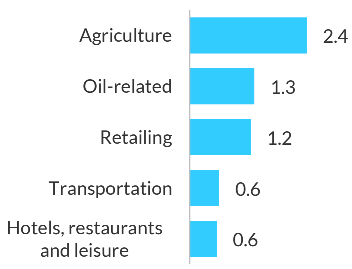
End-March 2022



Source: Fitch Ratings, Danske

Risky Exposures (%)

End-March 2022



Source: Fitch Ratings, Danske

Summary Financials and Key Ratios

	31 Mar 22		31 Dec 21	31 Dec 20	31 Dec 19
	3 months - 1st quarter	3 months - 1st quarter	Year end	Year end	Year end
	(USDm)	(DKKm)	(DKKm)	(DKKm)	(DKKm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	871	5,835	26,774	28,118	27,892
Net fees and commissions	461	3,092	12,117	10,786	10,469
Other operating income	334	2,240	8,463	7,466	7,875
Total operating income	1,667	11,167	47,354	46,370	46,236
Operating costs	1,141	7,645	30,822	32,821	30,960
Pre-impairment operating profit	526	3,522	16,532	13,549	15,276
Loan and other impairment charges	35	236	141	7,090	1,730
Operating profit	490	3,286	16,391	6,459	13,546
Other non-operating items (net)	63	421	180	-155	276
Tax	129	862	3,651	1,715	-1,250
Net income	425	2,845	12,920	4,589	15,072
Other comprehensive income	-37	-245	326	-230	639
Fitch comprehensive income	388	2,600	13,246	4,359	15,711
Summary balance sheet					
Assets					
Gross loans	271,582	1,819,656	1,856,064	1,860,621	1,846,233
- Of which impaired	5,494	36,808	43,071	45,523	38,382
Loan loss allowances	3,080	20,637	20,381	20,599	19,248
Net loans	268,502	1,799,019	1,835,683	1,840,022	1,826,985
Interbank	11,320	75,843	33,422	31,453	82,040
Derivatives	48,919	327,767	260,224	379,566	293,980
Other securities and earning assets	226,941	1,520,553	1,434,026	1,489,002	1,410,811
Total earning assets	555,682	3,723,182	3,563,355	3,740,043	3,613,816
Cash and due from banks	38,769	259,759	293,386	320,702	99,035
Other assets	10,449	70,013	79,093	48,486	48,199
Total assets	604,900	4,052,954	3,935,834	4,109,231	3,761,050
Liabilities					
Customer deposits	164,431	1,101,721	1,169,829	1,195,319	964,533
Interbank and other short-term funding	63,606	426,174	320,913	372,010	494,769
Other long-term funding	162,305	1,087,477	1,125,248	1,136,861	1,211,058
Trading liabilities and derivatives	71,193	477,007	374,959	499,335	299,695
Total funding and derivatives	461,535	3,092,379	2,990,949	3,203,525	2,970,055
Other liabilities	116,039	777,484	753,427	727,948	610,473
Preference shares and hybrid capital	1,689	11,315	20,251	17,587	24,251
Total equity	25,637	171,776	171,207	160,171	156,271
Total liabilities and equity	604,900	4,052,954	3,935,834	4,109,231	3,761,050
Exchange rate		USD1 = DKK6.7002	USD1 = DKK6.5749	USD1 = DKK6.1138	USD1 = DKK6.6759

Source: Fitch Ratings, Fitch Solutions, Danske

Summary Financials and Key Ratios

	31 Mar 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.6	1.9	0.8	1.8
Net interest income/average earning assets	0.7	0.7	0.8	0.8
Non-interest expense/gross revenue	68.5	65.1	70.6	67.5
Net income/average equity	6.7	7.8	2.9	10.1
Asset quality				
Impaired loans ratio	2.0	2.3	2.5	2.1
Growth in gross loans	-2.0	-0.2	0.8	2.5
Loan loss allowances/impaired loans	56.1	47.3	45.3	50.2
Loan impairment charges/average gross loans	0.1	0.0	0.3	0.1
Capitalisation				
Common equity Tier 1 ratio	17.6	17.7	18.3	17.3
Tangible common equity/tangible assets	4.0	4.1	3.7	3.9
Basel leverage ratio	4.6	4.9	4.5	4.7
Net impaired loans/common equity Tier 1	10.7	14.9	17.3	14.4
Funding and liquidity				
Gross loans/customer deposits	165.2	158.7	155.7	191.4
Liquidity coverage ratio	163.9	163.7	154.0	140.1
Customer deposits/total non-equity funding	39.6	42.2	41.9	35.8
Net stable funding ratio	130.7	130.5	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Danske

Key Financial Metrics – Latest Developments

Asset Quality

Danske's credit exposure is dominated by low-risk public institutions, residential mortgage loans, commercial real estate and housing cooperatives (almost a 70% share in total exposure at end-March 2022), which is a natural asset-quality stabiliser. Sectors vulnerable to the current economic downturn, such as oil-related industries, pig breeding, transportation, hotels, restaurants and leisure, represented a small 2% of credit exposure. A small correction in real estate prices in the next two years is likely, starting from 2H22, but this should be broadly neutral for asset quality due to prudent LTVs.

Credit losses should remain contained. Danske has not used its almost DKK2 billion pandemic-related overlay yet (about 10bp of loans), but repurposed about half of it in 1Q22 to cover credit risks related to potential indirect implications from the war in Ukraine.

We expect credit quality in lending to personal customers, dominated by residential mortgage loans, to remain solid (1.2% impaired loan ratio at end-March 2022). The bank has been stress-testing retail customers' repayment capacity in the event of a material rise in interest rates. Potential asset quality pressure in Danish mortgage loans in case of a material increase in covered bond rates (automatically passed on to retail borrowers) is mitigated by a small share of loans refinanced annually (11% at end-2021 compared with 25% regulatory cap).

Earnings and Profitability

In 1Q22, Danske's net profit of DKK2.8 billion (including a DKK0.4 billion one-off gain) was 9% lower yoy mainly due to higher costs and lower trading and insurance income, affected by negative developments in the financial markets. We believe it will be challenging for Danske to reach its net profit target of DKK13 billion–DKK15 billion (including about DKK1.1 billion one-off gains) for 2022. However, we still expect cost-efficiency improvements this year despite elevated AML remediation expenses and a new Swedish bank tax.

Danske's strong net interest income was up 3% yoy in 1Q22, in line with our expectations. We expect it to remain robust in 2022 on the back of credit expansion across all segments and better deposit margins. The lending margins will remain under pressure due to strong competition, a changing loan mix and only gradual asset repricing following policy rate hikes in Norway and Sweden. Corporate lending (up 5% qoq) should remain the key growth driver in 2022, while retail lending (down 2% qoq due to the sale of the Luxembourg operations and fair-value adjustments) will take some time to gain momentum.

Capital and Leverage

Fitch expects Danske to maintain capital surplus of about EUR3 billion, corresponding to about 2.5% of RWAs, including the countercyclical buffer at the pre-pandemic level of about 1.7% of RWAs. We believe this surplus should be sufficient to cushion a sizeable potential fine from the Danish and US authorities. At end-March 2022, Danske had a healthy 320bp surplus over its fully loaded common equity Tier 1 capital requirement of 14.2%.

Danske's Pillar 2 capital requirement includes DKK10 billion (about EUR1.3 billion) earmarked for potential contingent liability from risks related to the Estonian AML case. In the near term, the bank could additionally generate about EUR2.5 billion of capital internally, assuming full retention of the expected 2022 net profit and cancellation of the proposed dividend.

Funding and Liquidity

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. and its long record of high quality. Danske's senior and covered bonds are well diversified by currency. The cost of wholesale funding improved in 2021 as senior non-preferred spreads tightened below the levels observed pre-pandemic, but this process was halted in 2Q22 due to widening of spreads.

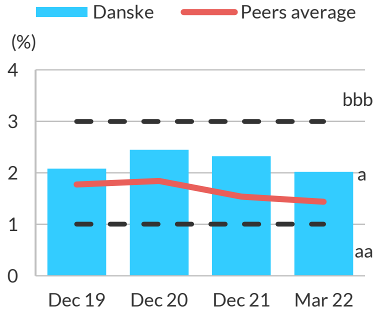
It is important for Danske to maintain a significant liquidity portfolio to mitigate refinancing risk in unsecured wholesale funding. At end-March 2022, Danske's liquidity buffer (DKK627 billion) fully covered its refinancing needs in 2022 and 2023.

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. Light-blue columns represent Fitch's forecasts.

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

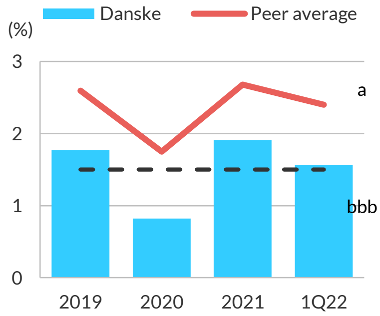
Latest average uses FY21 data for Cooperatieve Rabobank U.A., as the bank does not publish quarterly financial statements.

Impaired Loans/Gross Loans



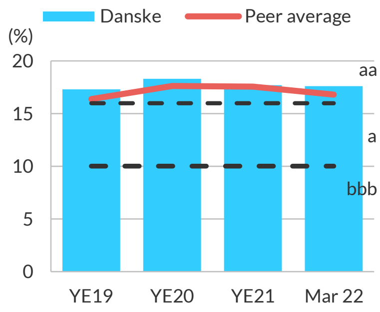
Source: Fitch Ratings, banks

Operating Profit/ RWAs



Source: Fitch Ratings, banks

CET1/RWAs



Source: Fitch Ratings, banks

Government Support

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
Support Rating Floor:	**NF**

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

Danske's Support Rating of '5' and Support Rating Floor 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 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.

			Overall ESG Scale
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)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
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	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
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	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; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	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	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

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.

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.

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.

In June 2021 we revised Danske’s ESG relevance score for Governance Structure to ‘3’ from ‘4’ because it no longer has an impact on the bank’s ratings in combination with other factors. The previous score of ‘4’ reflected elevated legal risk of a large fine, which, together with the economic fallout from the pandemic, drove the Negative Outlook. We no longer expect the bank to receive an AML-related fine that could bring about a downgrade of its Viability Rating. We also believe that a potential fine would not damage Danske’s franchise or funding profile to an extent that would warrant negative rating action.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.