

RatingsDirect®

Update: Danske Bank A/S

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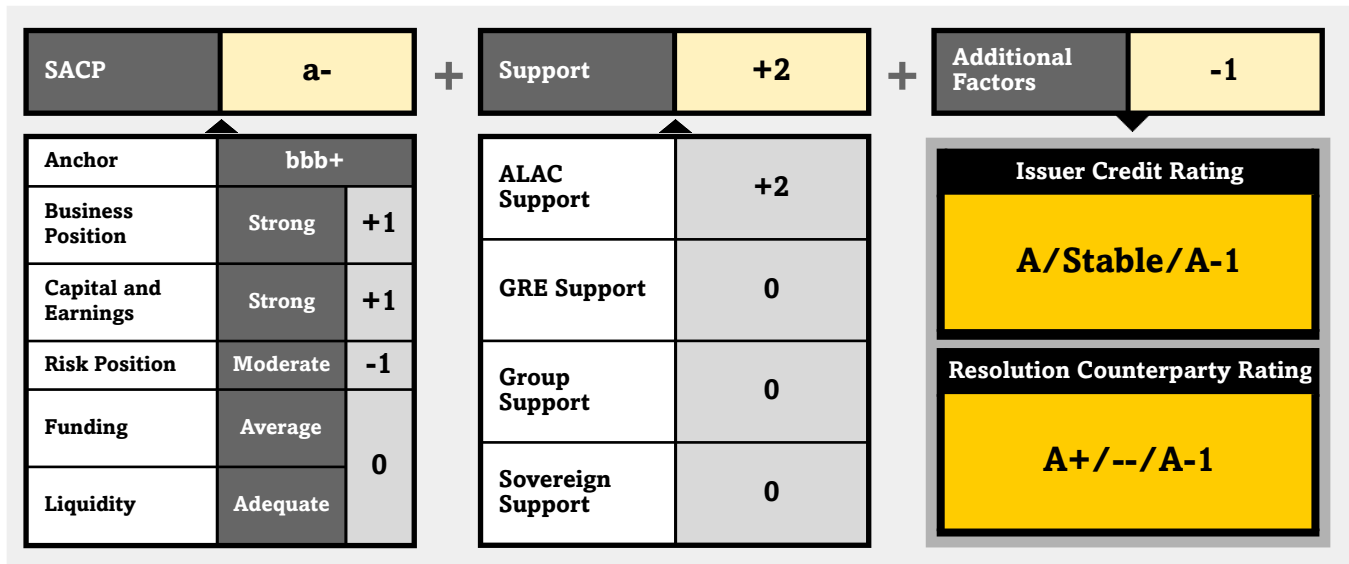
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Update: Danske Bank A/S



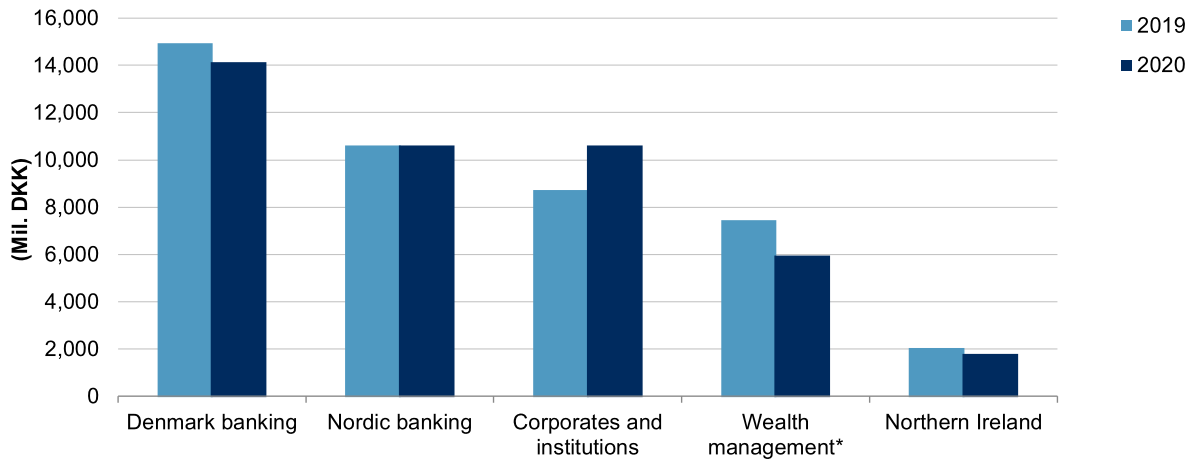
Credit Highlights

Overview	
Key strengths	Key risks
Denmark's leading commercial bank, life insurer, and commercial pension provider.	Uncertainty related to alleged Estonian money-laundering, particularly with regard to potential fines and additional reputational damages.
Diversified revenue through the pan-Nordic lines of business.	Pressure on operating income from intense competition and relatively high cost bases.
Robust capitalization level.	Dependence on wholesale funding, which causes higher confidence sensitivity.

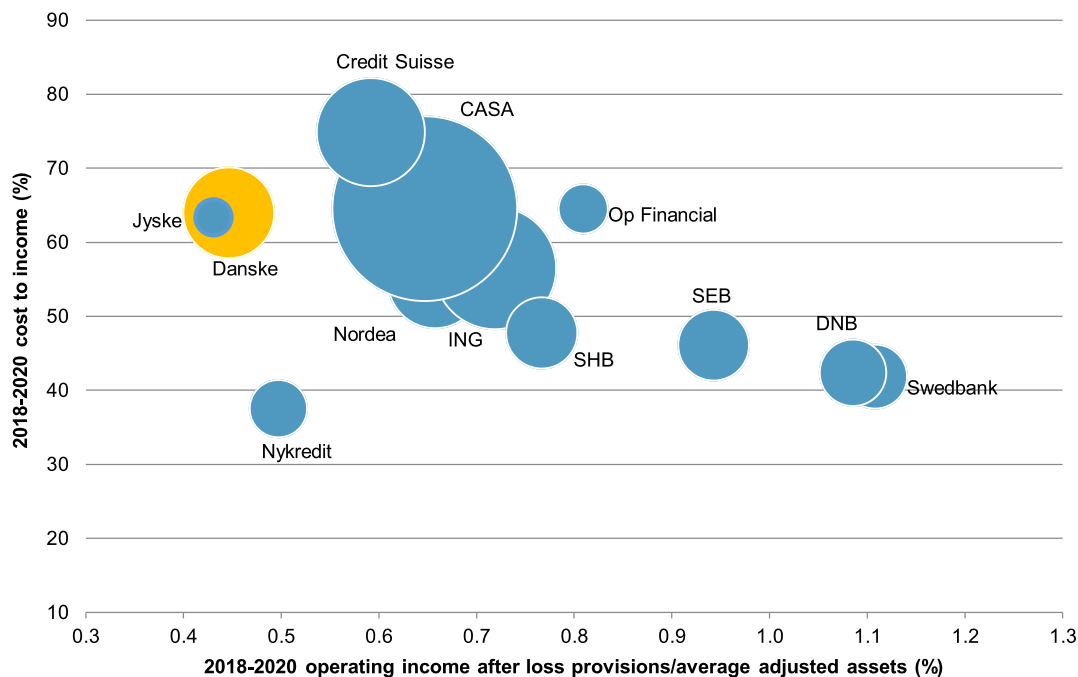
S&P Global Ratings expects Danske Bank to maintain its leading franchise as the second-largest bank in the Nordic banking markets and dominant domestic role. Danske leverages a large pan-Nordic franchise and diversified source of revenue, including solid fee and insurance income. We view the bank as a leader in Denmark in terms of digital solutions, but see its further investment as key to supporting a diversified and sustainable business model across the Nordics (see chart 1), buffering against increasing competition from various online, digital, and fintech companies. The bank is committed to improve its below-peer-average operational efficiency (see chart 2), while continuing making material investments in compliance and digitalization, while working on further improving its brand and leveraging strategic partnerships, including trade unions and fintech players.

Chart 1

The Group Is Fairly Diversified Across Business And Geographically In The Nordics



Note: Excludes other activities and eliminations. *Wealth Management includes Insurance and Asset Management businesses. DKK--Danish krone. Source: S&P Global Ratings
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Chart 2**Efficiency Is Weighing On Profitability When Compared With That of Peers**

Bubble size represents total assets. Operating income after loss provisions/average adjusted assets and Cost to Income ratios are average of that for the periods 2018-2020. Total Assets as of Q1 2021. Source: S&P Global Ratings.

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We anticipate that Danske will continue to strengthen its compliance, governance and financial crime prevention. The bank has received significant negative attention since 2018 in connection with its Estonian anti-money-laundering (AML) case, misconduct cases including misselling of its Flexinvest Fri product, and errors in the bank's debt collection systems. However, it has also made material investment since then to address AML-related issues by strengthening its compliance management framework and governance, increasing compliance staff, and improving its processes and risk culture. For example, employees working in financial crime prevention functions had increased about 2.5x to about 3,100 by end-2020 compared with 2018. Last year, Danske also set up a remediation unit to handle legacy issues more efficiently. Overall, we believe that the reputational damage to its franchise will remain manageable and not materially affect its market positions.

Although we see continuing progress, Danske's failures in risk management still weigh on our relative assessment of the risk profile. This also takes into account our view that it is too early to gauge the effectiveness of Danske's material effort to address the identified shortcomings and overall compliance and governance improvements. As the pandemic's easing reduces pressure on economies, we expect credit provisions as a percentage of customer loans to decline to 20 basis points (bps), compared with 38 bps as of end-2020, and remain below this level in the following two years. We view positively that the bank has materially increased its provisions in 2020 as a result of the deterioration in oil-related exposures, and the weakening economy. The bank's balance sheet proved to be relatively resilient during the pandemic, with an exposure to sectors most affected by COVID-19 (such as hotels, leisure, transportation, retailing, and oil-related exposures), accounting for less than 3% of Danske's lending. We forecast stabilization of credit quality in 2021 and moderate improvement afterward, with the nonperforming asset ratio approaching pre-COVID-19

levels of 2.35% by 2023.

Robust capitalization provides a sizable cushion against expected AML-related fines. We expect Danske's capital and earnings to remain a key rating strength. We consider that the risk-adjusted capital (RAC) will remain near 12.0% through 2023, compared with 11.9% at the end of 2020. This is based on a dividend payout at the upper end of the 40%-60% guidance, sustained operating revenue, normalizing credit provisions, and risk-weighted asset growth of 2%-3%. We also incorporate AML fines of about Danish krone (DKK) 7.5 billion in our forecast for 2021. Although the bank's operating income has been under pressure mainly due to lower margins, limited loan growth, and high compliance and AML-related costs, we expect profitability to improve gradually on the back of the ongoing economic recovery in its operating markets, leading to return on equity of 6%-7% in 2022-2023. Key drivers of this trend will be cost-of-risk normalization and cost efficiency efforts.

We expect Danske's funding and liquidity to remain in line with that of domestic peers and neutral to the ratings. The bank has a leading position as a deposit-taker in Denmark and plays a significant role in the well-functioning Danish mortgage market. We expect Danske to maintain a granular core deposit franchise in each of its primary markets. The bank's deposit volumes have increased materially (23% year-on-year as of March 2021) due to low consumer spending, government support measures to counteract the pandemic impact, and corporate customers having secured backup liquidity. This is despite the bank applying a negative 60 bps rate on retail deposits exceeding DKK100,000 in Denmark, a threshold recently lowered. However, we expect this trend to gradually reverse once household consumption and corporate investment normalize. While Danske has a higher share of covered bond financing than many of its international peers (44% of total funding base at March 2021), we see the stability of the Danish covered bond market and its unique features as supporting an average funding assessment. This was highlighted again during the turbulence caused by COVID-19 in 2020, when the market remained open despite some spread widening. The group's stable funding ratio of 113.5% and broad liquid assets to short term wholesale funding ratio of 1.56x as of Dec. 31, 2020, is comparable with that of peers.

The outcome of regulatory investigations remains highly uncertain and weigh negatively on our rating assessment. We apply a one-notch negative adjustment to the issuer credit rating on Danske, to incorporate the remaining uncertainty on the outcome of ongoing regulatory investigations. The bank is discussing its Estonian case with authorities in the U.S., Denmark, Estonia, and France. The outcome could further jeopardize its business franchise, while fines and litigation costs could constrain its capitalization. Similarly, we could incorporate the adjustment notch into Danske's stand-alone credit profile (SACP). More precisely, we could revise down our view of the bank's business position if we saw that its management was unable to improve risk culture and governance.

Danske's sizable amount of bail-inable instruments continues to support the senior unsecured debt rating. Danske has a significant amount of additional loss-absorbing capacity (ALAC)--which we expect to reach about DKK127 billion in 2021--resulting in two notches of rating uplift. The bank's ALAC represents over 8% of its S&P Global Ratings' risk-weighted assets, and we believe it will maintain these levels to meet its minimum requirement for own funds and eligible liabilities.

Outlook: Stable

The stable outlook indicates that we expect Danske to continue improving its compliance, control, and governance framework, and proactively tackle its remaining legacy control issues. We also expect the bank to maintain a sound financial profile, underpinned by sound capitalization and strong ALAC in the next 24 months, despite some pressure on revenue. However, we expect loan loss provisions to decline below 20 bps and asset quality to remain broadly in line with that of domestic peers.

However, our outlook continues to factor in the likelihood of a weaker SACP linked to the remaining uncertainties from the ongoing regulatory investigations. This could, for instance, occur if the Estonian money laundering case incurs higher damage to the bank's capitalization or franchise than in our central scenario. Similarly, we could revise down our view of the bank's business position if management was unable to improve risk culture and governance. If we were to revise down the SACP, we would lower our issue ratings on the bank's senior nonpreferred debt and other hybrids.

Downside scenario

We could lower our issuer credit rating on Danske if the Estonian case were to disrupt the bank's capitalization or business franchise more than we assume and for a longer period. We could also lower the rating if management changes hampered the bank's strategy formulation and execution, if its risk appetite significantly increases, or if asset quality erodes beyond our current expectations.

Upside scenario

Although currently unlikely, we could take a positive rating action on Danske if:

- The likely outcome of the regulatory investigations was clearer, with manageable financial impact;
- While the bank addresses historical control deficiencies, it shows an improved risk culture and effective corporate governance; and
- Danske's franchise continued to show resilience while efficiency and profitability improve to sustain a higher rating.

Key Metrics**Danske Bank A/S--Key Ratios And Forecasts***

	--Fiscal year ended Dec. 31--				
	2019a	2020a	2021f	2022f	2023f
Growth in operating revenue (%)	(1.5)	0.3	1.5-1.8	1.1-1.4	3.4-4.2
Growth in customer loans (%)	2.5	0.8	1.8-2.2	2.7-3.3	2.7-3.3
Growth in total assets	5.1	9.3	1.4-1.7	1.6-2.0	1.6-2.0
Net interest income/average earning assets (NIM) (%)	1.0	1.0	0.9-1.0	0.9-1.0	0.9-1.0
Cost to income ratio (%)	64.0	70.0	63.8-67.0	62.3-65.5	60.3-63.4
Return on average common equity (%)	9.4	2.6	2.0-2.2	6.3-6.9	7.0-7.7
Return on assets (%)	0.5	0.1	0.1-0.1	0.3-0.3	0.3-0.4
New loan loss provisions/average customer loans (%)	0.1	0.4	0.2-0.2	0.1-0.1	0.1-0.1
Gross nonperforming assets/customer loans (%)	2.3	2.6	2.6-2.9	2.3-2.6	2.2-2.5
Net charge-offs/average customer loans (%)	0.1	0.2	0.1-0.1	0.1-0.1	0.1-0.1

Danske Bank A/S--Key Ratios And Forecasts* (cont.)

	--Fiscal year ended Dec. 31--				
	2019a	2020a	2021f	2022f	2023f
Risk-adjusted capital ratio (%)	12.0	11.9	11.6-12.2	11.6-12.2	11.6-12.2

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Key Statistics**Table 1****Danske Bank A/S--Key Figures**

(Mil. DKK)	--Year-ended Dec. 31--				
	2021*	2020	2019	2018	2017
Adjusted assets	3,446,742	3,471,943	3,176,980	3,036,985	3,123,419
Customer loans (gross)	1,852,961	1,863,364	1,848,298	1,803,311	1,748,500
Adjusted common equity	126,186	124,863	124,456	109,693	122,764
Operating revenue	11,725	46,370	46,236	46,956	49,483
Noninterest expense	7,456	32,443	29,613	27,204	25,321
Core earnings	2,963	5,081	16,519	15,505	20,581

*Data as of March 31. DKK--Danish krone.

Table 2**Danske Bank A/S--Business Position**

(%)	--Year ended Dec. 31--				
	2021*	2020	2019	2018	2017
Loan market share in country of domicile	25.2	25.5	26.2	26.6	26.6
Deposit market share in country of domicile	30.2	30.5	29.0	27.8	27.9
Total revenue from business line (mil. DKK)	11,952	46,370	48,115	46,956	50,583
Commercial banking/total revenue from business line	23.6	15.3	37.3	37.0	33.7
Retail banking/total revenue from business line	3.3	3.5	29.6	32.6	27.5
Commercial and retail banking/total revenue from business line	N/A	67.6	67.0	69.6	61.2
Trading and sales income/total revenue from business line	10.6	10.5	11.4	12.2	15.5
Asset management/total revenue from business line	N/A	12.8	14.5	12.5	16.1
Other revenue/total revenue from business line	13.8	7.2	7.2	5.7	7.2
Investment banking/total revenue from business line	10.6	10.5	11.4	12.2	15.5
Return on average common equity	7.5	2.6	9.4	9.2	13.1

*Data as of March 31. DKK--Danish krone. N/A--Not applicable.

Table 3**Danske Bank A/S--Capital And Earnings**

(%)	--Year ended Dec. 31--				
	2021*	2020	2019	2018	2017
Tier 1 capital ratio	20.3	20.5	20.4	20.1	20.1
S&P Global Ratings' RAC ratio before diversification	N/A	11.9	12.0	10.4	11.4

Table 3

Danske Bank A/S--Capital And Earnings (cont.)					
	--Year ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
S&P Global Ratings' RAC ratio after diversification	N/A	12.6	12.8	16.6	12.2
Adjusted common equity/total adjusted capital	87.7	87.8	83.9	82.2	86.9
Double leverage	N.M.	57.6	58.1	60.3	57.1
Net interest income/operating revenue	55.9	60.6	60.3	61.8	60.4
Fee income/operating revenue	27.0	23.0	22.4	22.1	21.9
Market-sensitive income/operating revenue	63.8	48.6	74.7	(21.8)	39.1
Cost to income ratio	63.6	70.0	64.0	57.9	51.2
Preprovision operating income/average assets	0.4	0.4	0.5	0.6	0.7
Core earnings/average managed assets	0.3	0.1	0.5	0.4	0.6

*Data as of March 31. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Danske Bank A/S--Risk-Adjusted Capital Framework Data					
(Mil. DKK)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	668,774	78	0.0	6,063	0.9
Of which regional governments and local authorities	63,880	0	0.0	2,195	3.4
Institutions and CCPs	306,539	35,281	11.5	45,869	15.0
Corporate	1,035,680	321,617	31.1	642,847	62.1
Retail	1,098,571	198,986	18.1	298,211	27.1
Of which mortgage	998,151	168,757	16.9	235,026	23.5
Securitization	2,607	1,017	39.0	924	35.4
Other assets	33,036	45,534	137.8	45,487	137.7
Total credit risk	3,145,207	602,512	19.2	1,039,402	33.0
Credit valuation adjustment					
Total credit valuation adjustment	0	4,536		17,716	
Market risk					
Equity in the banking book	1,128	1,208	107.1	10,286	911.9
Trading book market risk	--	39,906		46,508	
Total market risk	--	41,114		56,794	
Operational risk					
Total operational risk	--	73,876		80,346	
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	784,184	--	1,194,258	100.0

Table 4

Danske Bank A/S--Risk-Adjusted Capital Framework Data (cont.)					
Total diversification/concentration adjustments	--	--	--	(69,099)	(5.8)
RWA after diversification	--	784,184	--	1,125,159	94.2
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		161,009	20.5	142,145	11.9
Capital ratio after adjustments (5)		161,009	20.5	142,145	12.6

*Exposure at default. Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. CCP--Central counterparty. RAC--Risk-adjusted capital. DKK--Danisk krone. Sources: Company data as of Dec. 31 2020. S&P Global Ratings.

Table 5

Danske Bank A/S--Risk Position	--Year ended Dec. 31--				
	2021*	2020	2019	2018	2017
(%)					
Growth in customer loans	(2.2)	0.8	2.5	3.1	0.8
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(5.8)	(6.3)	(37.5)	(6.1)
Total managed assets/adjusted common equity (x)	32.3	32.9	30.2	32.6	28.8
New loan loss provisions/average customer loans	0.1	0.4	0.1	(0.0)	(0.1)
Net charge-offs/average customer loans	0.3	0.2	0.1	(0.0)	(0.0)
Gross nonperforming assets/customer loans + other real estate owned	2.6	2.6	2.3	2.4	1.9
Loan loss reserves/gross nonperforming assets	49.2	47.8	49.8	48.5	62.3

*Data as of March 31. N/A--Not applicable.

Table 6

Danske Bank A/S--Funding And Liquidity		--Year ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017	
Core deposits/funding base	47.8	42.1	36.8	35.3	34.7	
Customer loans (net)/customer deposits	132.3	153.9	189.4	198.7	189.1	
Long-term funding ratio	81.8	77.0	72.9	71.2	69.9	
Stable funding ratio	123.2	113.5	98.0	96.9	103.3	
Short-term wholesale funding/funding base	19.3	24.3	28.9	30.7	32.0	
Broad liquid assets/short-term wholesale funding (x)	2.0	1.6	1.1	1.1	1.2	
Net broad liquid assets/short-term customer deposits	41.5	29.4	6.4	4.7	14.9	
Short-term wholesale funding/total wholesale funding	36.5	41.6	45.1	46.7	48.5	

*Data as of March 31.

Related Criteria

- S&P Global Ratings Definitions, Jan. 5, 2021
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- As Near-Term Risks Ease, The Relentless Profitability Battle Lingers For European Banks, June 25, 2021
- Banking Industry Country Risk Assessment Update: May 2021, May 26, 2021
- EMEA Financial Institutions Monitor 2Q2021: Another Challenging Year, April 23, 2021
- Sudden Managerial Changes At Danske Bank A/S Shouldn't Derail Its Focus On Its Strategic Plan, April 20, 2021
- Leading Nordic Banks Keep Calm And Carry On Despite COVID-19 Stress, Feb. 23, 2021
- SLIDES: Nordic Banks: Strong Fundamentals And Digital Preparedness Shield Against COVID-19 Stress, Feb. 18, 2021
- Low-For-Even-Longer Interest Rates Maintain Margin Pressure On European Banks, Feb. 2, 2021

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of July 14, 2021)*

Danske Bank A/S

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

Issuer Credit Ratings History

23-Oct-2019	A/Stable/A-1
25-Sep-2018	A/Negative/A-1
05-Apr-2018	A/Positive/A-1
05-Feb-2004	--/--/K-1

*Nordic Regional Scale***Sovereign Rating**

Denmark	AAA/Stable/A-1+
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Related Entities**Danica Pension Livsforsikringsaktieselskab**

Issuer Credit Rating	A-/Stable/--
Subordinated	BBB

Ratings Detail (As Of July 14, 2021)*(cont.)**Danske Bank A/S, Swedish Branch**

Issuer Credit Rating	A/Stable/A-1
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Danske Hypotek AB

Senior Secured	AAA/Stable
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Realkredit Danmark A/S

Senior Secured	AA-/Stable
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Senior Secured	AAA/Stable
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Short-Term Secured Debt	A-1+
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*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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