

Rating Action: Moody's takes rating actions on Danske Bank A/S following update to Banks Methodology

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Junior senior unsecured debt ratings upgraded, and deposit outlook revised to stable

Stockholm, July 13, 2021 -- Moody's Investors Service (Moody's) has today upgraded the long-term junior senior (senior non-preferred) unsecured debt ratings of Danske Bank A/S (Danske) to Baa2 from Baa3. The rating action was driven by revisions to Moody's Advanced Loss Given Failure (Advanced LGF) framework, which is applied to banks operating in jurisdictions with Operational Resolution Regimes, following the publication of Moody's updated Banks Methodology on 9 July 2021. This methodology is available at this link: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625.

All other long-term ratings and assessments were affirmed, including long-term deposit and senior unsecured debt ratings and the Baseline Credit Assessment (BCA).

The outlook on the long-term deposit ratings was revised to stable from negative, supported by higher volume and subordination buffers for deposits in our forward-looking Advanced LGF framework.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL448757 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

UPGRADE OF JUNIOR SENIOR UNSECURED DEBT RATINGS

Today's rating action on Danske Bank's junior senior ratings was driven by revisions to the Advanced Loss Given Failure framework within Moody's updated banks methodology.

The junior senior unsecured debt ratings were impacted by revised notching guidance table thresholds at lower levels of subordination and volume in the liability structure which have been applied to Danske Bank. The update further includes the consideration of all Additional Tier 1 (AT1) securities issued by the bank in Moody's Advanced LGF framework, eliminating the previous analytical distinction between those high trigger instruments that were deemed to provide equity-like absorption of losses before the point of failure and other AT1 securities.

Danske Bank's long-term junior senior debt ratings of Baa2 were upgraded by one notch, to be rated in line with the BCA. This better captures the risk characteristics of this class of debt following Moody's revised view around the distribution of losses post failure in the Advanced LGF analysis.

AFFIRMATION OF THE BCA

The affirmation of Danske's baa2 BCA reflects its good, but weaker than peers, asset quality and solid capitalisation, balanced against the profitability pressures the bank faces from moderately higher funding costs and operational expenses related to ongoing anti-money laundering (AML) investigations, at a time of low interest rates and increased competition. These pressures are amplified by the economic and financial fallout of the coronavirus pandemic. The bank's high dependence on market funding is mitigated by more stable covered bonds and adequate liquidity.

Following the affirmation, the bank's baa2 BCA incorporates a negative Corporate Behaviour notch. This reflects the repeated governance failures disclosed following the breach of anti-money laundering rules in Estonia, published in 2018. These failures have resulted in significant and frequent changes in senior management.

Moody's recognizes that the bank has already taken a number of steps to address its governance and control and specifically its money laundering process controls deficiencies, and that some of the additional issues that

have been revealed are due to an increased transparency from the bank. However, the Corporate Behaviour adjustment reflects the challenges the bank continues to face in putting these past failures behind it.

We regard Danske Bank's weakness in corporate governance and risk management as a governance risk under our considerations for assessing Environmental, Social and Governance risks (ESG), given its implications for management credibility and track record.

All other long-term ratings and assessments were affirmed, including long-term deposit and senior unsecured debt ratings.

OUTLOOK

The stable outlook on the deposit and senior unsecured debt ratings reflects our view that the bank's financial performance will remain solid, supporting the current BCA, in the aftermath of the coronavirus induced economic recession and continuing uncertainty around the pace of recovery.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

» The BCA and Adjusted BCA could be upgraded if the bank demonstrates that it has fully addressed compliance shortcomings and that the repercussions of the historical issues in Estonia will not have any further material negative impact on Danske's financial profile or its franchise relative to the current positioning of the BCA.

» The bank would also need to return to significantly higher levels of profitability on a sustained basis without any noticeable deterioration in its funding profile, along with a reduction in the potential risk of further material financial penalties that the bank could not contain within one year's earnings.

» The long-term senior unsecured debt ratings could also be upgraded if the bank were to significantly increase its senior non-preferred debt issuance, providing additional loss-absorbing buffer, over time.

» Conversely, the ratings could be downgraded if we observe relapses in terms of governance, control functions or compliance, along with any indications of a renewed aggressive strategy resulting in heightened credit or operational risks.

» The ratings would also come under pressure if we observe (1) a sustained loss in clients or business, exerting pressure on the bank's financial profile; (2) indications of monetary penalties greater than current expectations, which would put the bank's capital under significant pressure; or (3) signs that funding becomes significantly more costly or that access to certain markets or instruments becomes more limited.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL448757 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- EU Endorsement Status
- UK Endorsement Status
- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents

- Disclosure to Rated Entity
- Lead Analyst
- Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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Louise Lundberg
VP - Senior Credit Officer
Financial Institutions Group
Moody's Investors Service (Nordics) AB
Norrandsgatan 20
Stockholm 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Simon Ainsworth
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service (Nordics) AB
Norrandsgatan 20

Stockholm 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



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