

**Denmark  
Credit Update**

**Danske Bank**

**Ratings**

**Danske Bank**

**Foreign Currency**

Long-Term IDR*	AA-
Short-Term IDR*	F1+
Outlook	Stable

Individual	B
Support	1
Support Rating Floor	A-

**Sovereign Risk**

Foreign Long-Term IDR*	AAA
Local Long-Term IDR*	AAA
Outlook	Stable

\* IDR – Issuer Default Rating

**Financial Data**

**Danske Bank**

	31 Mar 07	31 Dec 06
Total Assets (USDm)	527,509	483,866
Total Assets (DKKm)	2,951,147	2,739,361
Equity (DKKm)	93,688	95,172
Operating Profit (DKKm)	5,234	17,892
Published Net Income (DKKm)	3,822	13,545
Comprehensive Income (DKKm)	n.a.	13,566
Operating ROAA (%)	0.74	0.69
Operating ROAE (%)	22.17	21.14
Internal Capital Generation (%)	n.a.	8.64
Eligible Capital/Weighted Risks (%)	6.67	8.71
Tier 1 Ratio (%)	6.63	8.63

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**Rating Rationale**

- The ratings of Danske Bank (DB) are based on its strong domestic franchise, continuing excellent asset quality, sound profitability and liquidity, and adequate (albeit under pressure) capitalisation.
- The geographic diversification and sustainability of DB's revenues have improved through recent acquisitions. Underlying profitability is sound, with pre-tax operating ROE over 20% in 2006 and Q107. Danish operations still generate the bulk of operating profit but most of growth is expected to arise from foreign operations. The latter should benefit from strong activity levels and progress in cost synergies. Recent initiatives, including in Denmark, should help manage the cost structure down.
- Credit risk is DB's main risk, despite robust asset quality. Mortgage lending is a core business for DB, making it somewhat reliant on the Danish housing market, although underwriting criteria are sound. Non-performing loans (NPLs) accounted for less than 0.2% of DB's customer loans at end-March 2007. Reserve coverage is strong, especially given that the vast majority of DB's credit exposure is secured, mostly by real estate.
- DB's market risk is low. Interest rate risk is mostly hedged, and FX and equity risks are very limited. Insurance risk is closely monitored.
- Funding comes from DB's large, stable retail deposit base. Mortgage lending is match-funded with bonds. Liquidity is sound, supported by a relatively large portfolio of Danish mortgage and government bonds.
- DB's Fitch eligible capital ratio has been falling, the result of a tighter capital management in light of Basel II. Risk-weighted assets under Pillar I of Basel II are expected to decrease substantially. Minimum target ratios are tight but supported by the strong quality and increased diversification of credit exposure and low market risk.

**Support**

- DB is a publicly held company with a widespread shareholder base. While there is no obligation on the part of the Danish authorities to rescue banks which run into difficulties, in Fitch Ratings' opinion there is an extremely high probability that support would be forthcoming for DB if necessary, given its strong domestic franchise.

**Rating Outlook and Key Rating Drivers**

- The Stable Outlook reflects DB's good and stable performance, aided by the benign economic environment in the markets where the bank operates.
- Upward pressure on the ratings is constrained by the bank's overall size and lower diversification compared to 'AA' rated banks. Downward risk, although unlikely, could come from an unexpected downturn in the Danish mortgage market and economy or a sharp reduction in capitalisation.

**Profile**

- DB was the largest Nordic bank by assets at end-March 2007. It has a market share of about 30% in Denmark and a significant retail presence in Sweden and Norway, and also now in Finland. DB's international activities have increased rapidly over the past two years, including through the acquisition of Finland's Sampo Bank in February 2007; it acquired small banks in Northern Ireland and in the Republic of Ireland in 2005.
- DB offers a range of commercial and investment banking services, long-term mortgage finance, and life and pension insurance. It owns the Danica Group (Danica) of life insurance companies, and offers leasing, consumer finance and asset management through other subsidiaries.

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