

## **FITCH AFFIRMS DENMARK'S DANSKE BANK AT 'A+'; OUTLOOK STABLE**

Fitch Ratings-London-16 July 2010: Fitch Ratings has affirmed Danske Bank's (Danske) Long-term Issuer Default rating (IDR) at 'A+' with Stable Outlook and its Individual rating at 'B/C'. A full rating breakdown is provided at the end of this comment.

The ratings of Danske reflect its strong Nordic franchise and diversified earnings streams, which have enabled it to operate profitably despite considerable challenges presented by the global financial crisis. The ratings also consider its deteriorated, but now stabilising, asset quality, improved capital and Fitch's expectation of substantially reduced impairment charges for 2010. Denmark has suffered a relatively severe recession, but Fitch believes the economic recovery seems to be on track with forecast GDP growth of 1.5% in 2010 (2009: negative 4.7%). The blanket state guarantee of senior debt and deposits in Denmark (Bank Package I) expires at end-September 2010, but Fitch considers Danske's funding position solid.

Danske made a moderate operating profit of DKK7.1bn in 2009 (Q110: DKK1.5bn; 2008: DKK5.6bn). This result corresponded to an operating return on equity of 7.1% in 2009 (Q110: 5.9%; 2008: 5.4%). Commercial banking activities continue to be loss-making, dragged down by weakened net interest revenue and high impairment charges. However, Fitch believes commercial banking earnings will be significantly boosted in Q410 when guarantee commissions and loan impairment charges related to Bank Package I should cease. Commercial banking should return to a pre-tax profit in late 2010 or 2011 although the timing depends on the development of loan impairment charges, especially in Denmark and the Republic of Ireland, and interest rates.

Commercial banking losses have been more than compensated for by strong profits at Danske Markets, Danske Capital and Danica Pension. Profit at Danske Markets has benefited from high trading income partly driven by volatility, which has contributed to more customer flows, as well as wider bid-offer spreads in 2009 and H110. Danica Pension made a positive contribution to pre-tax profit in Q110 and 2009 due to improved investment returns although earnings in this division will fluctuate with markets.

Danske's impaired loans ratio has deteriorated significantly to reach 5.1% at end-Q110 (end-2008: 2.2%). However, the net exposure taking into account impairment allowances and collateral at market values with haircuts was DKK12.5bn or a manageable 21.2% of Fitch core capital at end-Q110. Danske has improved its liquidity position through a moderate shrinkage of the loan book and the issuance of long-term bonds. International funding markets remain open to the large Nordic banks, and, if necessary, Danske's moderate remaining funding need for 2010 and 2011 can be met with its unutilised covered bond pool. This leaves Danske well placed for the end of the guarantee period.

Danske's capital is adequate following a significant DKK26bn hybrid capital injection from the government in May 2009. The Fitch core capital ratio at end-Q110 was 7% excluding the transitional floor (defined as the minimum level of risk-weighted assets during the transition to Basel II), up from 5.8% at end-2008. This figure decreases to 5.4% if the floor is included, up from 4.4% at end-2008.

Danske is the largest bank in Denmark, with various international operations in the Nordic countries, Ireland and the Baltics.

A full rating report on Danske will shortly be available at [www.fitchratings.com](http://www.fitchratings.com). This rating action has no implications for Danske's covered bonds rating of 'AAA' or the ratings of its subsidiary ZAO Danske Bank ('BBB+'/'Outlook Stable'/'F2'/'2').

Danske Bank:  
Long-term IDR affirmed at 'A+'; Outlook Stable  
Short-term IDR affirmed at 'F1'  
Individual rating affirmed at 'B/C'  
Support Rating affirmed at '1'  
Support Rating Floor affirmed at 'A-'  
Subordinated debt affirmed at 'A-'  
Hybrid instruments affirmed at 'A-'  
Senior debt (government guaranteed) affirmed at Long-term 'AAA'; Short-term 'F1+'

\*Subordinated debt is rated two notches below the Long-term IDR reflecting its loss-absorbing characteristics.

Applicable criteria, 'Global Financial Institutions Rating Criteria' and 'Rating Hybrid Securities', both dated 29 December 2009, are also available at [www.fitchratings.com](http://www.fitchratings.com).

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com).

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Global Financial Institutions Rating Criteria

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