

KINGDOM OF DENMARK

Rating Analysis - 6/30/16

*EJR Sen Rating(Curr/Prj) AA/ N/A

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 1.0%

Denmark's economy remained stable at 0.5% QoQ for Q1 2016, following a 0.1% rise in Q4 2015. The rate of private consumption increased from 0.5% in 2014 to 2.1% in 2015, a similar upward trend is visible in government spending which was 0.6% in 2015 as compared to 0.2% in 2014. CPI is ameliorating; CPI YoY(% chg) was -0.61% in 2015 as compared to -2.18% in 2013. Inflation is expected to rise gradually as excess capacity in the economy declines and the commodity market recovers.

Brexit could hamper exports as Danish currency is pegged to euro. The Brexit could weaken Euro which would then have an inverse effect of strengthening Danish krone. Also, United Kingdom is the fourth largest market for Danish exports. Another factor that could strengthen Danish krone is the European Central Bank's sovereign and corporate bond buying programs. Upgrading to "AA" rating with a developing watch. Note, to reflect the propensity of central banks to support sovereign obligors, we have eased our indicative credit ratios, resulting in some upgrades.

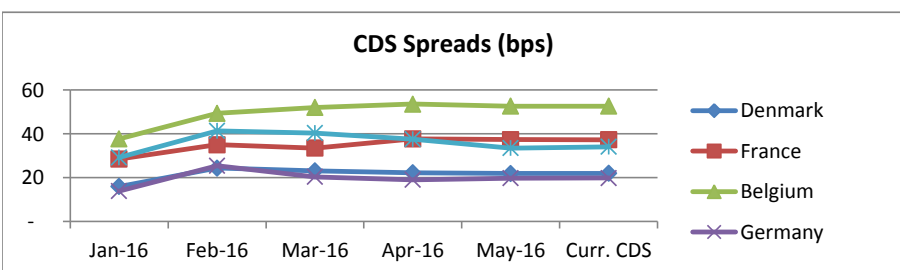
Annual Ratios (source for past results: IMF)

CREDIT POSITION	2013	2014	2015	P2016	P2017	P2018
Debt/ GDP (%)	45.1	45.3	40.2	38.1	36.2	34.7
Govt. Sur/Def to GDP (%)	-0.5	2.3	-1.4	-1.4	-1.5	-1.5
Adjusted Debt/GDP (%)	45.1	45.3	40.2	38.3	36.4	34.9
Interest Expense/ Taxes (%)	3.6	3.0	3.4	3.5	3.6	3.7
GDP Growth (%)	1.1	1.7	3.4	2.3	2.3	2.5
Foreign Reserves/Debt (%)	58.3	51.2	50.3	52.0	53.3	54.4
Implied Sen. Rating	AA	AA+	AA+	AA	AA	AA

INDICATIVE CREDIT RATIOS

	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

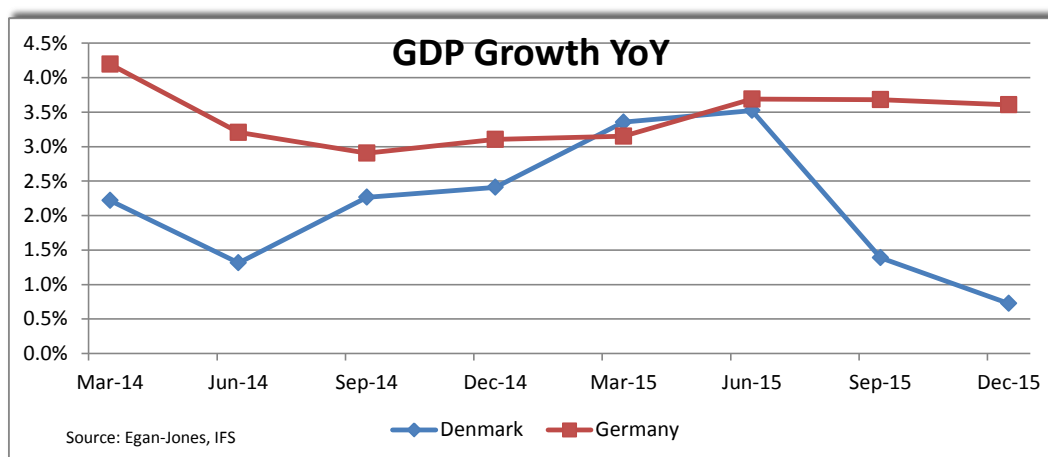
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	71.2	0.6	71.2	7.0	4.1	AA+
French Republic	AA	96.0	-3.4	96.0	7.0	2.4	AA-
Kingdom Of Belgium	AA	106.0	-2.6	106.0	9.6	1.9	A+
Republic Of Finland	AA+	63.1	-2.3	63.1	3.9	1.0	AA
United Kingdom	AAA	89.2	-3.5	89.2	8.7	4.0	AA



Country	CDS
Denmark	22
France	37
Belgium	53
Germany	20
United Kingdom	34

Economic Growth

Driven by domestic demand, economic growth is poised to rise about 1.6% in our estimate in 2017. Main drivers of this growth will be domestic demand. A rise in real wage and increasing property prices will drive private consumption. Due to interest rates in negative territory, we predict that real estate prices would advance and it would be prudent to keep monitoring and be wary for any signs of a bubble. Exports are expected to rebound in 2017 as compared to weak 2015 data which could be attributed to slowdown in Asia and Europe. Consumer confidence is supported by low inflation, loose monetary conditions and rising housing market. Consumer price inflation is approximately zero because of low energy prices. The drop of GDP growth as seen from the chart below is due to the slowed-down exports and investments.



Fiscal Policy

With excess capacity declining, we expect fiscal policy to be slightly tighter in the near future. Denmark's budget deficit, like those of most Nordic countries, is among the most contained of the advanced economies at 1.44% of GDP (year-end 2015). Low oil prices and declining oil production in the North Sea has had impact on government revenues. Measures like decreasing interest rate, tax deductibility and periodically updating property valuations are ways the government could employ to tighten the policy.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Denmark	-1.44	40.21	21.91
Germany	0.59	71.22	19.81
France	-3.40	95.96	37.33
Belgium	-2.62	105.96	52.67
Finland	-2.31	63.10	26.04
UK	-3.46	89.22	34.09

Sources: Thomson Reuters and IFS

Unemployment

Denmark has historically recorded low levels of unemployment. Though levels rose sharply during the global financial crisis, unemployment has remained lower when compared to EU's average. Diminishing spare capacity is a good indicator for employment in the country. Gradual rise in inflation, budding consumer confidence and increasing domestic consumption will stimulate employment in the economy.

	Unemployment (%)	
	2014	2015
Denmark	4.93	4.93
Germany	6.70	6.01
France	10.30	10.40
Belgium	8.50	8.50
Finland	8.70	9.40
UK	6.19	5.37

Source: Intl. Finance Statistics

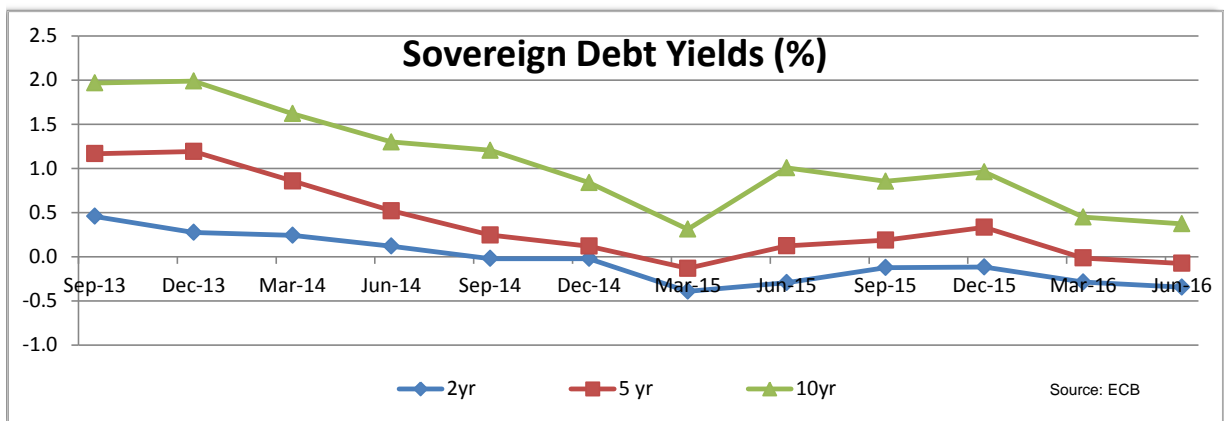
Banking Sector

The top 5 banks in Denmark have total assets equal to approximately 205% of the GDP. Recently, bank earnings have been under pressure due to low demand and low interest rates. Denmark's Nationalbank's latest stress test of the banks' capitalization shows that the largest banks have substantial excess capital adequacy relative to the minimum requirements in 2017, even in the most severe stress test scenario.

Bank Assets (billions of local currency)		
	Assets	Cap/ Assets %
DANSKE BANK A/S	3292.88	5.41
JYSKE BANK-REG	543.40	4.58
SYDBANK	142.74	9.05
SPAR NORD BANK	76.36	9.09
RINGKJOEBING LND	<u>22.38</u>	<u>28.53</u>
Total	4,077.8	
EJR's est. of cap shortfall at 10% of assets less market cap		178.4
Denmark's GDP		1,983.7

Funding Costs

The interest rates dropped after they rose and peaked in middle of 2013. As can be seen in the chart below, the Denmark's 2-year debt yield is around -0.34% in June, 2016. Due to current low inflation and dovish monetary policies, we are expecting its funding costs to remain in a low range. The 5-year CDS spread for Denmark is one the lowest in the EU at 21 bps.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 3 (1 is best, 189 worst) is extremely strong.

The World Bank's Doing Business Survey*			
	2015	2014	Change in
	Rank	Rank	Rank
Overall Country Rank:	3	3	0
Scores:			
Starting a Business	29	24	-5
Construction Permits	5	6	1
Getting Electricity	12	12	0
Registering Property	9	9	0
Getting Credit	28	24	-4
Protecting Investors	20	20	0
Paying Taxes	12	12	0
Trading Across Borders	1	1	0
Enforcing Contracts	37	37	0
Resolving Insolvency	9	8	-1

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Denmark is strong in its overall rank of 76.3 for Economic Freedom with 100 being best.

Heritage Foundation 2015 Index of Economic Freedom				
World Rank 76.3*				
	2015 Rank**	2014 Rank	Change in Rank	World Avg.
Property Rights	95	90	5	42.2
Freedom from Corruption	91	93.7	-2.7	41.9
Fiscal Freedom	39.6	39.3	0.3	77.4
Government Spending	1.8	0.5	1.3	61.7
Business Freedom	97.4	98.1	-0.7	64.1
Labor Freedom	92.1	91.2	0.9	61.3
Monetary Freedom	87.6	80	7.6	75.0
Trade Freedom	88	87.8	0.2	75.4
Investment Freedom	90	90	0	54.8
Financial Freedom	80	90	-10	48.6

*Based on a scale of 1-100 with 100 being the highest ranking.
 **The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
 Source: The Heritage Foundation

Valuation Driver: Taxes Growth:

KINGDOM OF DENMARK has seen a decline in taxes of 4.6% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 1.5% per annum over the next couple of years and 1.5% per annum for the next couple of years thereafter.

Valuation Driver: Total Revenue Growth:

KINGDOM OF DENMARK's total revenue growth has been less than its peers and we assumed no decline in total revenue growth over the next two years.

Income Statement	Peer Median	Co. Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	2.7	(4.6)	1.5	1.5
Social Contributions Growth %	2.7	(2.1)	1.5	1.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(5.3)	(5.3)	(5.3)
Total Revenue Growth%	2.1	(4.6)	(4.6)	(4.2)
Compensation of Employees Growth%	1.0	1.6	1.6	1.6
Use of Goods & Services Growth%	1.0	1.8	1.5	1.5
Social Benefits Growth%	2.6	1.5	1.5	1.5
Subsidies Growth%	5.4	(1.5)		
Other Expenses Growth%	0.0			
Interest Expense	0.0	4.0	4.0	
Currency and Deposits (asset) Growth%	(51.9)	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(1.5)	5.4		
Shares and Other Equity (asset) Growth%	(0.2)	0.6	0.6	0.6
Insurance Technical Reserves (asset) Growth%	0.0	(0.6)	2.0	2.0
Financial Derivatives (asset) Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	(1.3)	(61.1)		
Monetary Gold and SDR's Growth %	0.0	0.0		
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0			
Currency & Deposits (liability) Growth%	7.8	2.7	2.7	2.7
Securities Other than Shares (liability) Growth%	1.1	(11.4)	(8.0)	(8.0)
Loans (liability) Growth%	0.6	1.5	1.5	1.5
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	0.0	0.0		
Additional ST debt (1st year)(billions DKK)	0.0	0.0		

ANNUAL INCOME STATEMENTS

Below are KINGDOM OF DENMARK's annual income statements with the projected years based on the assumptions listed on page 3.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(BILLIONS DKK)					
	2012	2013	2014	2015	P2016	P2017
Taxes	866	900	973	928	942	956
Social Contributions	23	21	20	20	20	21
Grant Revenue						
Other Revenue						
Other Operating Income	143	135	123	116	116	116
Total Revenue	1,032	1,056	1,116	1,064	1,078	1,093
Compensation of Employees	315	317	322	327	332	338
Use of Goods & Services	178	178	180	183	186	188
Social Benefits	358	365	372	377	383	388
Subsidies	41	41	40	40	40	40
Other Expenses				75	75	75
Grant Expense						
Depreciation	56	57	58	59	59	59
Total Expenses excluding interest	1,050	1,033	1,042	1,061	1,075	1,089
Operating Surplus/Shortfall	-18	23	74	3	4	4
Interest Expense	<u>34</u>	<u>32</u>	<u>29</u>	<u>32</u>	<u>33</u>	<u>34</u>
Net Operating Balance	-52	-9	45	-29	-29	-30

ANNUAL BALANCE SHEETS

Below are KINGDOM OF DENMARK's balance sheets with the projected years based on the assumptions listed on page 3.

	ANNUAL BALANCE SHEETS (BILLIONS DKK)					
Base Case	2012	2013	2014	2015	P2016	P2017
ASSETS						
Currency and Deposits (asset)	220	218	270	5	5	5
Securities other than Shares LT (asset)						
Loans (asset)	164	176	180	190	190	190
Shares and Other Equity (asset)	415	416	425	428	430	432
Insurance Technical Reserves (asset)	1	102	67	66	68	69
Financial Derivatives (asset)						
Other Accounts Receivable LT	97	98	123	48	48	48
Monetary Gold and SDR's						
Other Assets					228	228
Additional Assets	<u>127</u>	<u>7</u>	<u>7</u>	<u>228</u>		
Total Financial Assets	1,024	1,018	1,072	965	968	972
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)	15	15	16	16	16	16
Securities Other than Shares (liability)	837	764	831	736	677	623
Loans (liability)	154	163	165	167	197	227
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	<u>143</u>	<u>151</u>	<u>155</u>	<u>154</u>	<u>154</u>	<u>154</u>
Liabilities	1,149	1,094	1,166	1,073	1,106	1,140
Net Financial Worth	<u>-125</u>	<u>-76</u>	<u>-94</u>	<u>-108</u>	<u>-138</u>	<u>-168</u>
Total Liabilities & Equity	1,024	1,018	1,072	965	968	972

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Comments on the Difference between the Model and Assigned Rating

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer KINGDOM OF DENMARK with the ticker of 1271Z DC we have assigned the senior unsecured rating of AA.

There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the methodology available in our Form NRSRO Exhibit #2 dated May 10, 2015 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied upon in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	1.5	5.5	(2.5)	AA	AA	AA
Social Contributions Growth %	1.5	(1.5)	4.5	AA	AA	AA
Other Revenue Growth %		(3.0)	3.0	AA	AA	AA
Total Revenue Growth%	(4.6)	0.1	(2.6)	AA	AA	AA
Monetary Gold and SDR's Growth %	-	(2.0)	2.0	AA	AA	AA

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

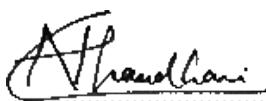
ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

Today's Date

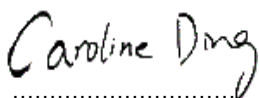


June 30, 2016

Nikhil Chaudhari
Rating Analyst

Reviewer Signature:

Today's Date



June 30, 2016

Caroline Ding
Rating Analyst

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.