

KINGDOM OF DENMARK

Rating Analysis - 9/2/21

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

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 1.0%

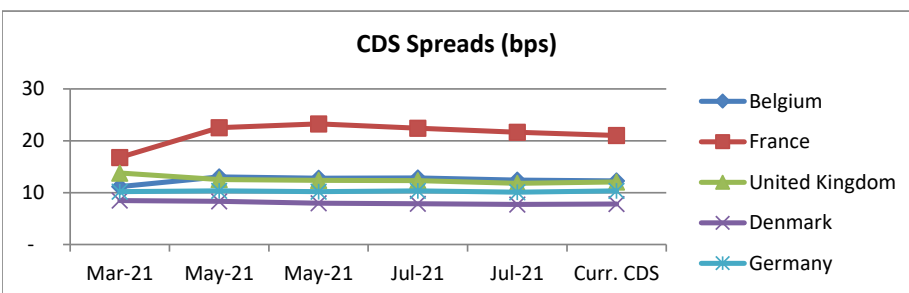
The reopening of Danish society is in full swing. Many restrictions have been eased and the number of hospitalised coronavirus-infected persons has decreased significantly. The overall activity level has nearly recovered to the pre-pandemic level supported by a strong upswing in private demand. Consumption has quickly recovered following the reopening of society, and housing market activity is high with many sales and large price increases. High private demand and more easing of restrictions over the summer provide a sound basis for the Danish economy returning to normal capacity utilisation at the end of the year. The National Bank of Denmark expects GDP to increase by 3.3 per cent in 2021, and gradually enter a mild boom in the following years.

Stimulus measures, targeted support and the job retention scheme have kept the unemployment rate relatively low and incomes stable. Considerable fiscal stimulus in 2021 will also support the recovery and should remain until the recovery is well underway. Meanwhile, daily Covid-19 infection rates have surged since late June, largely owing to the spread of the highly infectious Delta strain, which could weigh on momentum and hamper the recovery at the outset of Q3. Affirming.

CREDIT POSITION	Annual Ratios (source for past results: IMF)					
	2018	2019	2020	P2021	P2022	P2023
Debt/ GDP (%)	47.2	48.1	58.8	56.6	55.5	52.5
Govt. Sur/Def to GDP (%)	1.4	4.5	0.2	-1.1	-2.1	-2.6
Adjusted Debt/GDP (%)	47.2	48.1	58.8	56.7	55.7	52.6
Interest Expense/ Taxes (%)	1.8	1.6	1.2	1.2	1.2	1.2
GDP Growth (%)	2.8	2.9	0.5	3.2	2.8	2.8
Foreign Reserves/Debt (%)	37.7	34.3	28.6	23.7	20.6	16.6
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

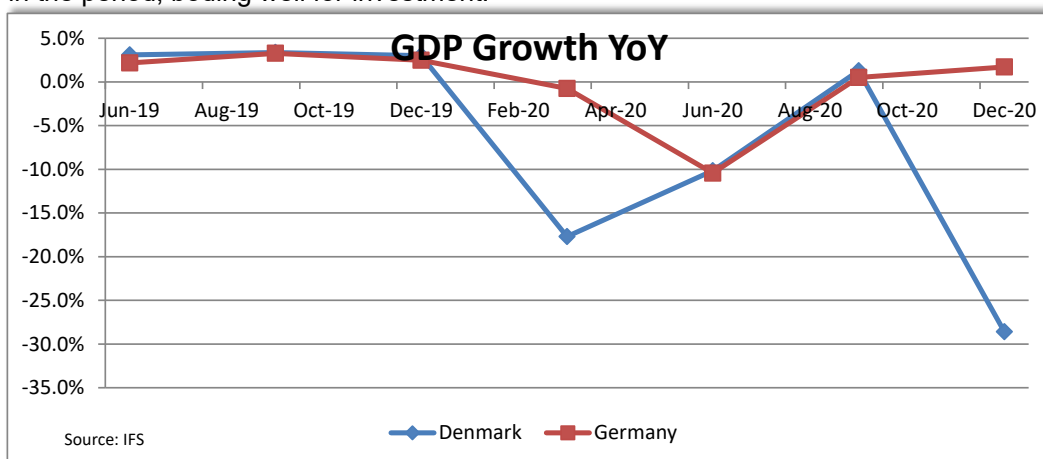
PEER RATIOS	Other NRSRO Sen.	Debt	Govt. Surp.	Adjusted	Interest	GDP	Ratio-
		as a % GDP	Def to GDP (%)	Debt/ GDP	Expense/ Taxes %	Growth (%)	Implied Rating*
Federal Republic Of Germany	AAA	79.7	-4.2	79.7	2.9	-3.3	A+
French Republic	AA	145.9	-8.8	145.9	4.2	-5.5	BB
Kingdom Of Belgium	AA	142.4	-9.0	142.4	6.5	-5.3	BB+
Republic Of Finland	AA+	82.0	-4.3	82.0	2.2	-1.6	A+



Country	EJR Rtg.	CDS
Belgium	BBB	12
France	A+	21
United Kingdom	A+	12
Denmark	AA	8
Germany	AA	10

Economic Growth

Private consumption was hit hard again during the winter lockdown and was the main reason for the drop in GDP of 1.3% in Q1'21. However, consumption quickly recovered in March, when parts of the retail trade were allowed to open. This was confirmed by Q2 Flash estimates. The Danish economy advanced by 2.2 percent on quarter in the three months to June of 2021, rebounding from a 1.0 percent contraction in the previous period, due to a gradual reopening of the economic activities, a flash estimate showed. Positive contributions to GDP mainly came from catering, culture and retail trade, and health sector. Although industrial output declined marginally overall in monthly terms in April–May, the manufacturing PMI averaged markedly higher in Q2 compared to the prior quarter and business confidence was upbeat in the period, boding well for investment.



Fiscal Policy

Government Debt in Denmark decreased to DKK 774.20B in June from DKK 783.37B in May 2021, as compared to DKK 833.32 B in December 2020. The Central Bank's Expert Group roadmap for 2021-22 suggests that the government should prepare to tighten fiscal policy more than planned, as the economy is heading for a mild boom, and there are emerging signs of bottlenecks in parts of the labour market. Medium-term fiscal policy will be underpinned by the national Budget Law, which aims for structural deficits no larger than 0.5% of GDP.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Denmark	0.20	58.84	7.82
Germany	-4.19	79.69	10.34
France	-8.79	145.87	21.00
Belgium	-8.97	142.45	12.27
Finland	-4.35	82.03	10.09
United Kingdc	-12.82	187.83	12.04

Sources: Thomson Reuters and IFS

Unemployment

The unemployment rate in Denmark declined to 3.8% in June 2021 from 4.0% in the previous month. It was the lowest jobless rate since February last year, as the number of unemployed people decreased by 5,313 to 108,593. The largest unemployment drops of 0.4%age points was for the person aged 25 to 29-years, however, still have the highest unemployment rate of 6.7%.

Unemployment (%)	Unemployment (%)	
	2019	2020
Denmark	4.91	5.66
Germany	3.20	4.31
France	8.43	8.62
Belgium	5.36	5.55
Finland	6.80	7.90
United Kingd	3.74	4.34

Source: Intl. Finance Statistics

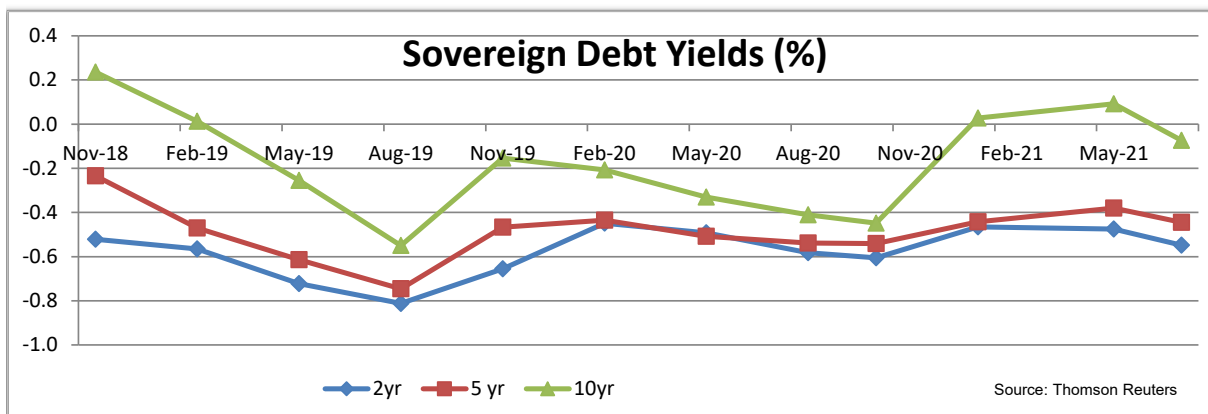
Banking Sector

The balance of payments surplus is expected to fall to 7.1% of GDP in 2021, as the rapid recovery of domestic demand is expected to result in high growth in imports. As the consumption ratio normalises, growth in imports will dampen and the balance of payments surplus will increase to 7.6% of GDP in 2023. Risks surrounding the macroeconomic baseline as fairly balanced.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
DANSKE BANK A/S	4,109.2	2.20
JYSKE BANK-REG	672.6	2.90
SYDBANK	165.8	6.59
SPAR NORD BANK	102.1	8.74
RINGKJOEBING LND	54.9	39.17
Total	5,104.6	
EJR's est. of cap shortfall at		
10% of assets less market cap		359.3
Denmark's GDP		2,329.6

Funding Costs

Denmark, which uses monetary policy to keep the currency pegged to the euro, already holds the record for the longest stretch of negative rates. It first lowered its deposit rate below zero in 2012, with the key rate now standing at minus 0.50%. The Denmark 10Y Government Bond has a -0.140% yield and the Central Bank Rate is -0.50% (last modification in April 2021). The Current 5-Years Credit Default Swap quotation is 7.48 and implied probability of default is 0.12% - suggesting a stable outlook.



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 4 (1 is best, 189 worst) is extremely strong.

The World Bank's Doing Business Survey*			
	2021	2020	Change in
	Rank	Rank	Rank
Overall Country Rank:	4	4	0
Scores:			
Starting a Business	45	45	0
Construction Permits	4	4	0
Getting Electricity	21	21	0
Registering Property	11	11	0
Getting Credit	48	48	0
Protecting Investors	28	28	0
Paying Taxes	8	8	0
Trading Across Borders	1	1	0
Enforcing Contracts	14	14	0
Resolving Insolvency	6	6	0

* 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 77.8 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom				
World Rank 77.8*				
	2021 Rank**	2020 Rank	Change in Rank	World Avg.
Property Rights	86.7	86.3	0.4	53.6
Government Integrity	86.9	93.0	-6.1	45.9
Judicial Effectiveness	93.4	84.6	8.8	45.4
Tax Burden	43.7	42.0	1.7	77.7
Gov't Spending	23.1	19.7	3.4	67.1
Fiscal Health	98.2	97.7	0.5	72.1
Business Freedom	88.8	88.7	0.1	63.2
Labor Freedom	73.8	86.2	-12.4	59.5
Monetary Freedom	84.5	84.6	-0.1	74.7
Trade Freedom	84.0	86.4	-2.4	70.7

*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

Credit Quality Driver: Taxes Growth:

KINGDOM OF DENMARK has grown its taxes of 0.4% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 0.4% per annum over the next couple of years and 0.4% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

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

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	(5.1)	0.4	0.4	0.4
Social Contributions Growth %	(1.2)	1.7	1.7	1.7
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(6.3)	(6.3)	(6.3)
Total Revenue Growth%	(4.4)	(0.3)	(0.3)	(0.3)
Compensation of Employees Growth%	2.9	2.6	2.6	2.6
Use of Goods & Services Growth%	4.0	4.5	4.5	4.5
Social Benefits Growth%	7.9	5.4	5.4	5.4
Subsidies Growth%	62.4	79.3		
Other Expenses Growth%	0.0			
Interest Expense	1.8	0.9	0.9	
Currency and Deposits (asset) Growth%	26.8	0.0		
Securities other than Shares LT (asset) Growth%	(3.7)	0.0		
Loans (asset) Growth%	20.2	390.2	0.4	0.4
Shares and Other Equity (asset) Growth%	5.0	173.7	23.0	26.0
Insurance Technical Reserves (asset) Growth%	4.2	0.0		
Financial Derivatives (asset) Growth%	6.7	(22.9)	(10.0)	(10.0)
Other Accounts Receivable LT Growth%	15.1	48.0	0.4	0.4
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	3.8	24.5	3.0	3.0
Currency & Deposits (liability) Growth%	0.3	3.6	3.6	3.6
Securities Other than Shares (liability) Growth%	17.0	26.9	18.8	16.9
Loans (liability) Growth%	3.6	2.7	2.7	2.7
Insurance Technical Reserves (liability) Growth%	10.2	0.0		
Financial Derivatives (liability) Growth%	14.7	64.8	0.5	0.5
Additional ST debt (1st year)(billions DKK)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are KINGDOM OF DENMARK's annual income statements with the projected years based on the assumptions listed on page 5.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(BILLIONS DKK)					
	2017	2018	2019	2020	P2021	P2022
Taxes	1,006	1,005	1,092	1,097	1,101	1,105
Social Contributions	19	19	19	19	20	20
Grant Revenue						
Other Revenue						
Other Operating Income	<u>122</u>	<u>132</u>	<u>131</u>	<u>122</u>	<u>122</u>	<u>122</u>
Total Revenue	1,148	1,156	1,242	1,238	1,243	1,248
Compensation of Employees	333	340	348	358	367	377
Use of Goods & Services	191	196	198	207	216	226
Social Benefits	384	387	397	418	441	465
Subsidies	39	38	38	68	68	68
Other Expenses				110	110	110
Grant Expense						
Depreciation	59	60	61	60	60	60
Total Expenses excluding interest	<u>1,079</u>	<u>1,106</u>	<u>1,120</u>	<u>1,221</u>	<u>1,262</u>	<u>1,305</u>
Operating Surplus/Shortfall	69	50	122	17	-19	-58
Interest Expense	<u>17</u>	<u>18</u>	<u>17</u>	<u>13</u>	<u>13</u>	<u>13</u>
Net Operating Balance	52	32	105	5	-32	-71

ANNUAL BALANCE SHEETS

Below are KINGDOM OF DENMARK's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS (BILLIONS DKK)					
	2017	2018	2019	2020	P2021	P2022
ASSETS						
Currency and Deposits (asset)	182	155	108	172	316	379
Securities other than Shares LT (asset)	70	108	170	186	186	186
Loans (asset)	-1	13	13	65	66	66
Shares and Other Equity (asset)	6	2	7	19	23	29
Insurance Technical Reserves (asset)	1	1	1	1	1	1
Financial Derivatives (asset)	4	7	8	6	5	5
Other Accounts Receivable LT	119	94	180	266	267	268
Monetary Gold and SDR's						
Other Assets					929	929
Additional Assets	<u>674</u>	<u>714</u>	<u>788</u>	<u>929</u>		
Total Financial Assets	1,056	1,094	1,275	1,645	1,794	1,863
LIABILITIES						
Other Accounts Payable	159	167	182	227	234	241
Currency & Deposits (liability)	20	20	20	21	21	21
Securities Other than Shares (liability)	718	696	732	928	1,103	1,310
Loans (liability)	176	180	181	186	218	289
Insurance Technical Reserves (liability)				8	8	8
Financial Derivatives (liability)	5	5	7	12	12	12
Other Liabilities				0	0	0
Liabilities	1,079	1,068	1,123	1,383	1,564	1,704
Net Financial Worth	<u>-23</u>	<u>26</u>	<u>152</u>	<u>262</u>	<u>230</u>	<u>159</u>
Total Liabilities & Equity	1,056	1,094	1,275	1,645	1,794	1,863

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Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "AA" whereas the ratio-implied rating for the most recent period is "AA-"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure (Non-NRSRO)

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+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have 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 Methodologies for Determining Credit Ratings (Main Methodology) version #15a 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 projections on pages 1, 6, and 7 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 dependent 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 information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting and other issues. Such issues 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 publicly available information from the IMF, governmental filings and other similar sources for ratings on sovereign 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%	0.4	4.4	(3.6)	AA-	AA	AA-
Social Contributions Growth %	1.7	4.7	(1.3)	AA-	AA-	AA-
Other Revenue Growth %		3.0	(3.0)	AA-	AA-	AA-
Total Revenue Growth%	(0.3)	1.7	(2.3)	AA-	AA-	AA-
Monetary Gold and SDR's Growth %	0.4	2.4	(1.6)	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

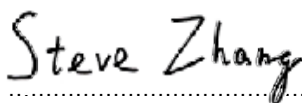


Subramanian NG
Senior Rating Analyst

September 2, 2021

Reviewer Signature:

Today's Date



Steve Zhang
Senior Rating Analyst

September 2, 2021

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.