

CREDIT OPINION

12 July 2023

Update



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RATINGS

Danske Bank A/S

Domicile	Copenhagen, Denmark
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A3
Type	Senior Unsecured - Fgn Curr
Outlook	Positive
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Danske Bank A/S

Update following change in outlook to positive

Summary

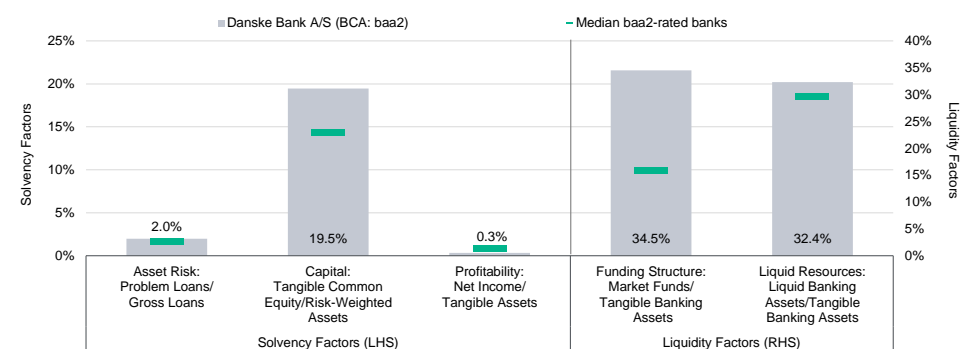
The outlook on the long-term (LT) deposit and senior unsecured debt ratings for [Danske Bank A/S](#) (Danske) was changed to positive on 10 July 2023. Danske's A2 long-term (LT) deposit ratings and A3 senior unsecured debt ratings reflect the bank's baa2 Baseline Credit Assessment (BCA); two notches of rating uplift for deposits and one notch of uplift for senior unsecured debt based on our forward-looking Advanced Loss Given Failure (LGF) analysis; and our assumption of a moderate likelihood of support from the [Government of Denmark](#) (Aaa stable), which results in an additional notch of uplift.

Danske's baa2 BCA reflects its good asset quality, albeit weaker than Nordic peers', and solid capitalisation, along with rapidly improving profitability, primarily boosted by higher interest rates. The bank's high dependence on market funding is mitigated by the resilient domestic covered bond market and good liquidity.

Danske has undertaken significant remediation actions as a response to the earlier money laundering failures in Estonia revealed in 2018. However, the bank's BCA continues to incorporate a negative adjustment for corporate behaviour as the work with the bank's financial crime transformation plan is still ongoing.

Exhibit 1

Rating Scorecard - Key financial ratios



These represent our Banks methodology scorecard ratios, whereby asset risk and profitability reflect the weaker of either the three-year average or the latest annual figure. Capital ratio is the latest reported figure. Funding structure and liquid resource ratios reflect the latest fiscal year-end figures.

Source: Moody's Investors Service

Credit strengths

- » Good asset quality, but still below that of its Nordic peers
- » Solid capitalisation

Credit challenges

- » Profitability, which is recovering strongly, but from low levels
- » High dependence on market funding, mitigated by more stable covered bonds and adequate liquidity

Outlook

The positive outlooks on the long-term deposit and senior unsecured debt ratings reflect Moody's expectations that the bank is likely to successfully complete its financial crime transformation plan during the outlook period, demonstrating that its governance, risk and regulatory compliance frameworks have been thoroughly overhauled and are likely to prevent similar failures.

Factors that could lead to an upgrade

- » Danske Bank A/S's BCA could be upgraded should the bank successfully complete its financial crime transformation plan, demonstrating that its governance, risk and regulatory compliance frameworks have been thoroughly overhauled and are likely to prevent similar failures.
- » The long-term deposit and senior unsecured ratings could also be upgraded if the bank were to issue significantly higher amounts of loss-absorbing debt compared to what Moody's currently incorporates.

Factors that could lead to a downgrade

- » The outlook on the long-term deposit and senior unsecured debt ratings could revert to stable if Moody's observed renewed lapses in governance or risk appetite.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Danske Bank A/S (Consolidated Financials) [1]

	03-23 ²	12-22 ²	12-21 ²	12-20 ²	12-19 ²	CAGR/Avg. ³
Total Assets (DKK Million)	3,387,215.0	3,279,980.0	3,646,218.0	3,677,128.0	3,421,905.0	(0.3) ⁴
Total Assets (USD Million)	494,011.6	470,730.6	555,588.8	604,442.8	514,031.1	(1.2) ⁴
Tangible Common Equity (DKK Million)	159,915.0	155,042.0	162,354.0	151,032.0	171,255.0	(2.1) ⁴
Tangible Common Equity (USD Million)	23,323.0	22,251.1	24,738.5	24,826.5	25,725.6	(3.0) ⁴
Problem Loans / Gross Loans (%)	1.6	1.6	2.3	2.4	2.4	2.1 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	19.5	18.5	18.9	19.3	22.3	19.7 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.6	17.0	23.6	26.5	23.1	21.2 ⁵
Net Interest Margin (%)	0.9	0.8	0.7	0.8	0.8	0.8 ⁵
PPI / Average RWA (%)	3.4	1.5	1.9	1.7	1.8	2.1 ⁶
Net Income / Tangible Assets (%)	0.6	0.2	0.3	0.1	0.3	0.3 ⁵
Cost / Income Ratio (%)	50.3	69.7	66.3	71.5	69.7	65.5 ⁵
Market Funds / Tangible Banking Assets (%)	37.4	34.5	36.6	38.1	40.6	37.4 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	34.8	32.4	35.6	38.5	35.7	35.4 ⁵
Gross Loans / Due to Customers (%)	154.6	155.5	158.7	155.7	191.4	163.2 ⁵

[–] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Further to the publication of our revised methodology in July 2021, for issuers that have "high trigger" Additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these instruments.

Profile

Danske Bank A/S (Danske) is part of the Danske Bank Group, which also comprises Realkredit Denmark A/S (a mortgage credit institution), Danica Pension (a life insurance company), Danske Hypotek AB (a mortgage credit institution in Sweden), [Danske Mortgage Bank Plc](#) (a mortgage credit institution in Finland) and Northern Bank Limited (a commercial bank in Northern Ireland). As of the end of March 2023, the bank held 24% of the domestic market in terms of loans and 28% in terms of deposits. Total reported consolidated assets were DKK3.79 trillion (€553billion) as of the end of March 2023.

Danske is a universal bank, and it provides a broad range of products and services, including deposits, loans and other credit, insurance, pensions, leasing, asset management, and trading in fixed-income products, foreign exchange and equities. Its main distribution channel is through electronic services. As of the end of March 2023, it also distributed its products through 64 domestic and 84 international branches in Sweden, Norway, Finland and Northern Ireland.

Danske was established in 1871 as Den Danske Landmandsbank. In 1976, it was renamed Den Danske Bank. In 2000, the name was changed to Danske Bank. Its shares are listed on the NASDAQ OMX Copenhagen Stock Exchange (Ticker: DANSKE). As of year-end 2020, its largest shareholder was the A.P. Møller Holding Group, which held 21% of the bank's total share capital.

Recent developments

Our [outlook](#) for Denmark's (Aaa Stable) banking system is stable, unchanged from last year. We expect Danish real GDP growth to slow to 0.5% in 2023 from 3.6% in 2022 as elevated inflation, higher interest rates, falling house prices and increased geopolitical uncertainty impact domestic demand. While this will weigh modestly on the quality of loans to small and medium-sized enterprises, continued export demand will act as a mitigant. We expect stable asset quality overall, with past provisions absorbing any increase in defaults. Danish banks' profitability will improve as higher interest rates support wider margins, strengthening their net interest income. Capital will remain strong despite resumed dividend distribution.

Detailed credit considerations

Qualitative adjustment for corporate behaviour reflects past failures

In September 2018, Danske revealed that major deficiencies in its control systems likely allowed money laundering of a significant scale at its previous Estonian branch between 2007 and 2015. On 13 December 2022, the bank announced that it had reached a settlement with the US and Danish authorities, which required the bank to provision DKK 13.8 billion.

Whereas Danske has undertaken significant remediation actions as a response to the earlier money laundering failures in Estonia, the bank's BCA continues to incorporate a one notch negative adjustment for corporate behaviour, reflecting governance and risk management deficiencies, which crystallised in the systematic breaching of anti-money laundering rules over an extended period of time. Under Moody's environmental, social and governance framework, this is also reflected in a CIS-4, indicating that governance risks (G-4 issuer profile score) have a discernible impact on the rating.

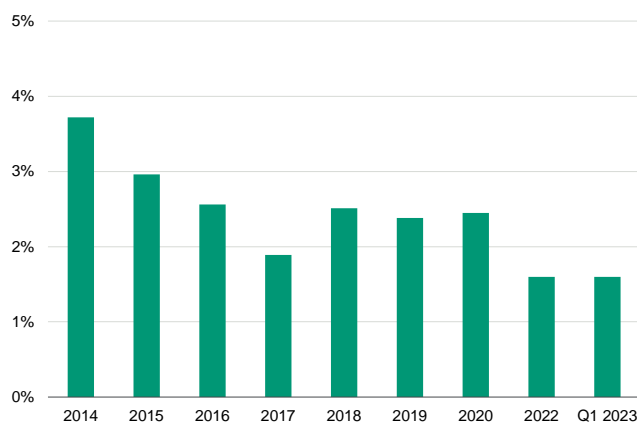
Asset quality will face moderate pressure

Our assigned baa1 Asset Risk score takes into consideration Moody's expectations that asset quality will deteriorate moderately over the next 12-18 months as a result of higher inflation, rising interest rates and subdued economic growth along with the bank's concentration to commercial property. The build-up in management provisions in 2020 as well as in more recent quarters will, however, mitigate these asset risks. The bank's problem loan ratio (defined as IFRS9 Stage 3 loans) stood at 1.6% of gross loans as of 31 March 2023, an improvement from 2.3% in December 2021 (see Exhibit 3).

Most of Danske's exposures, 66% as of the end of March 2023, relate to business entities (see Exhibit 4). Commercial real estate and construction and building material, which constitutes 11.4% and 2.0%, respectively, of the bank's exposure, may face pressures, especially in the office and retail segment.

Exhibit 3

Danske's problem loans as a percentage of gross loans

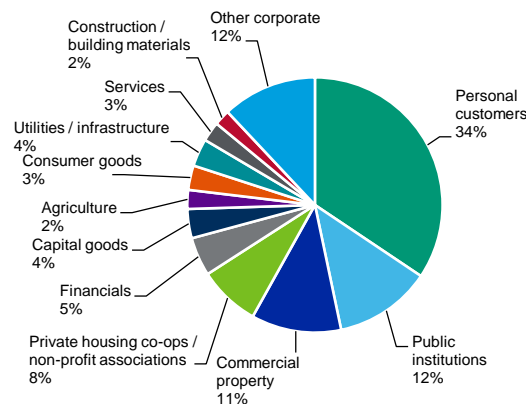


Stage 3 gross loans (according to IFRS9) as of 2018. Hence, the uptick in 2018 is because of the change in definition and is not an underlying deterioration in problem loans.

Sources: Company reports and Moody's Investors Service

Exhibit 4

Credit exposure by industry March 2023



Source: Company reports

In the first three months of 2023, provisions set aside to cover expected losses amounted to DKK147 million, lower than that in the first three months of 2022 when the bank booked DKK234 million of provisions, reflecting the macroeconomic uncertainty and economic slowdown.

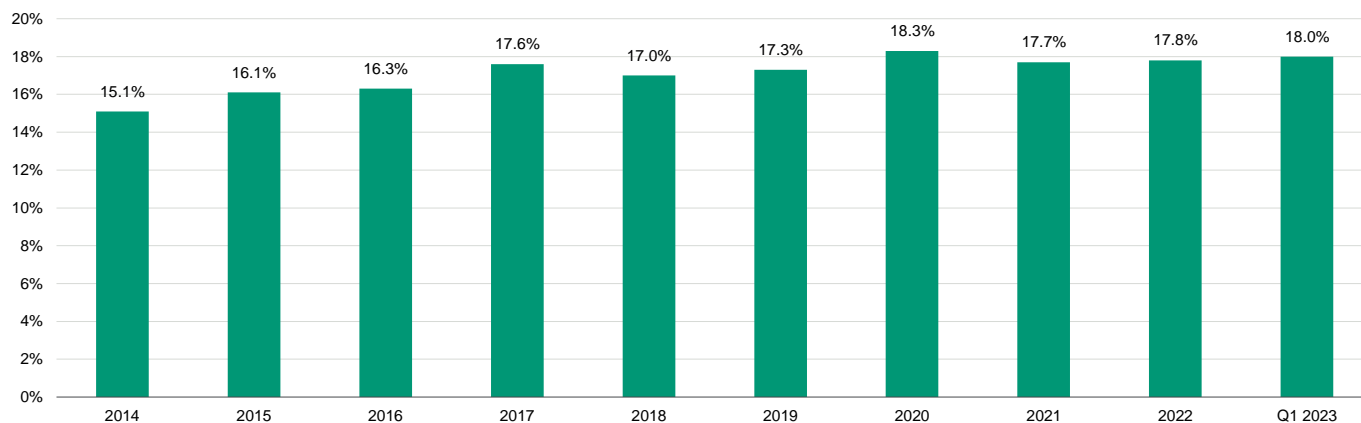
Solid capitalisation

The assigned a1 Capital score reflects Danske's solid capital buffers, a relative strength for its credit profile. As of 31 March 2023, the bank's Common Equity Tier 1 (CET1) capital ratio was a strong 18.0%, slightly up from 17.8% as of December 2022 (see Exhibit 5), well above the requirement of 13.5%¹. The CET1 ratio benefited from realised net profit after reserved dividend and lower risk exposure amount (REA). Following the losses related to the settlement with US and Danish authorities in 2022, Danske's board of directors

proposed no dividends to be paid out for 2022. However the bank's policy remains unchanged, targeting a dividend of 40-60% of net profit, with the possibility to complement this by share buy-backs.

Exhibit 5

Danske's CET1 ratio



Source: Company reports

The bank has had a CET1 target of above 16% since 2019.

The assigned Capital score takes into account the bank's high leverage. Moody's Tangible common equity (TCE) was 4.7% of total assets as end March 2023, which is at the lower end of the range for its large Nordic peers.

Profitability is recovering strongly, albeit from low levels

Our assigned baa2 Profitability score reflects our expectation that the bank's profitability will strengthen over the next 12-18 months - broadly in line with the bank's own guidance of a net profit of between DKK 16.5-18.5 billion in 2023 - benefitting from the higher interest rate environment.

Danske Bank reported a net income of DKK5,167 million in Q1 2023 (compared to a net profit of DKK2,845 million in Q1 2022), resulting in a net income to tangible assets of 0.6%. The year-on-year improvement was driven by higher net interest income, which increased by 48% year-on-year, mainly driven by higher interest rates, which supported higher deposit margins, along with increased lending.

The bank took loan loss provisions of DKK147 million in Q1 2023, compared to DKK236 million in Q1 2022. These were mainly related to the macroeconomic uncertainty. Post-model adjustments made during 2020 to cover pandemic-related risks remain in place, but some have been reassigned to cover the global macroeconomic and geopolitical uncertainty.

Expenses declined by 2% in Q1 2023 compared with Q1 2022, in line with the bank's continuous efforts to achieve [cost savings](#) to improve efficiency.

The bank's cost-to-income ratio (as per Moody's definition) excluding one-offs was 50% for Q1 2023, down significantly from 70% in 2022. This is still higher but more in line with those of its large Nordic peers. We continue to see the bank's ability to maintain tight cost control as very important.

High dependence on market funding, particularly covered bonds; liquidity is adequate

Danske relies heavily on wholesale funding. While the share of deposit funding was around 36% of total non-equity funding as of end March 2023, market funds accounted for 37% of tangible banking assets as of the same date. However, this is almost entirely driven by regulatory requirements to fund mortgages at Realkredit Danmark by covered bonds and to issue senior non-preferred and senior preferred bonds to meet the group's Minimum Requirements for own funds and Eligible Liabilities (MREL). The assigned baa2 Funding Structure score incorporates upward adjustments to reflect our view of the stability of the Danish covered bond market.

Even so, the high reliance exposes Danske to changes in market conditions, and renders the bank more sensitive to swings in investor confidence. However, the bank has retained good access to the market following the Estonia case in 2018. The spread differential to peers for the bank's senior preferred and senior non-preferred debt, which widened after 2018, has gradually converged.

Most of the group's market funds are covered bonds (mainly taken up by Realkredit Danmark, the bank's Danish mortgage subsidiary). As indicated in our Banks methodology, we reflect the greater stability of covered bonds compared with unsecured market funding through a standard adjustment to the funding structure ratio. Given the long history of the Danish covered bond markets, local currency and the deep domestic investor base, we make additional (positive) adjustments for local currency denominated covered bonds issued in this market. We also make an additional positive adjustment for local currency denominated covered bonds issued in Sweden.

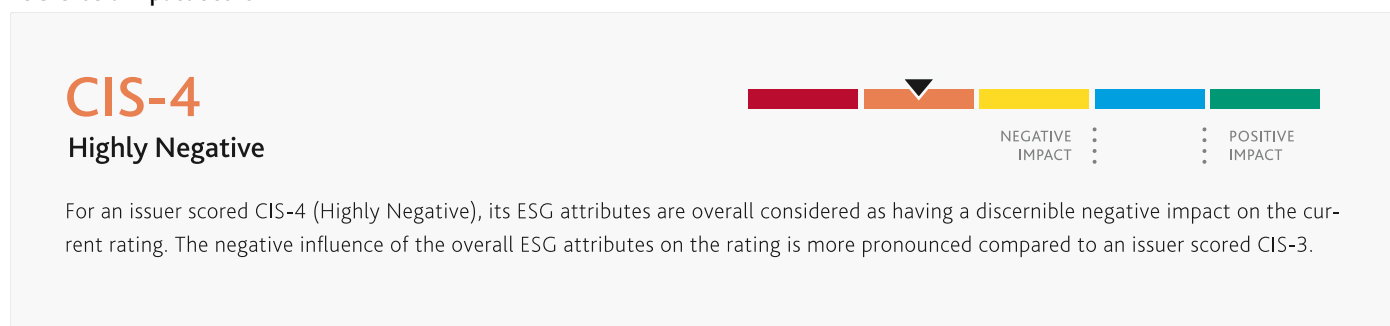
Danske's sizeable reported liquidity buffer — most of which can be used as collateral for central bank liquidity — amounting to DKK611billion, or 22% of tangible banking assets as of 31 March 2023 (21% as of year-end 2022), leads to a baa1 assigned Liquidity score. As of March 2023, Danske's liquidity coverage ratio was 169%.

ESG considerations

Danske Bank A/S' ESG Credit Impact Score is Highly Negative CIS-4

Exhibit 6

ESG Credit Impact Score

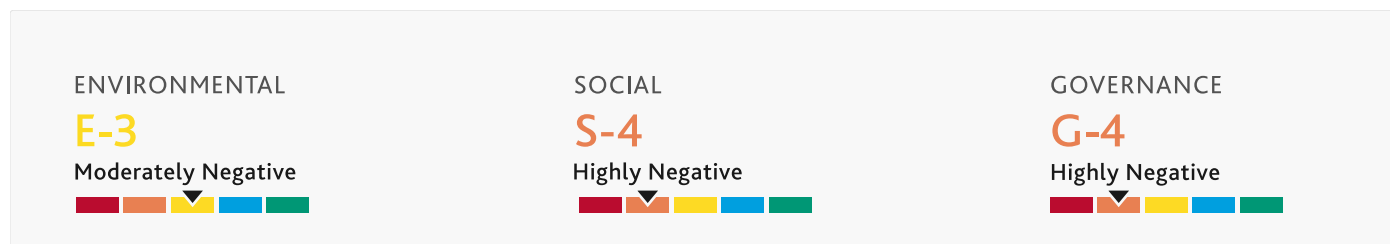


Source: Moody's Investors Service

Danske's **CIS-4** indicates a material impact of ESG considerations on the bank's ratings, mostly because of the bank's high governance risks, which are reflected in a one notch negative rating adjustment for corporate behaviour. While the current management team and risk management are broadly on par with those of peer banks, the bank's risk tolerance and appetite has been higher than its large Nordic peers in the past, resulting in a number of compliance and control failures. Environmental and social factors currently have a limited impact on the rating.

Exhibit 7

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Danske faces moderate environmental risks, primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Danske Bank is developing its climate risk and portfolio management capabilities.

Social

Danske faces high industry-wide social risks related to regulatory and litigation risks, particularly in the area of customer relations, requiring high compliance standards. High cyber and personal data risks are mitigated by a strong IT framework. The money laundering issue in the bank's previous Estonian subsidiary, along with a series of additional failures, temporarily weakened Danske Bank's franchise in Denmark, although the bank's franchise seems to have broadly recovered at this point.

Governance

Danske's governance risks are high, reflecting past governance failures, also incorporated in a negative qualitative rating notch for corporate behaviour. The bank's current management team has taken significant remediation actions by strengthening Danske's governance, risk and regulatory compliance frameworks following the money laundering findings in its former Estonian branch in 2018. Danske is targeting to complete its financial crime transformation plan in the near term, followed by a three years period of regulatory probation during which a sustained compliance track record should be established.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

Danske is subject to the EU's BRRD, which we consider an operational resolution regime. We apply our Advanced LGF analysis to Danske's liabilities, considering the risks faced by the different deposit and debt classes across its liability structure at failure. We assume residual TCE of 3% and losses post failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits and a 5% run-off in preferred deposits. These are in line with our standard assumptions.

For Danske's deposit ratings, our Advanced LGF analysis indicates a very low loss given failure, leading to two notches of rating uplift from the bank's Adjusted BCA. For the bank's senior unsecured debt ratings, the Advanced LGF analysis indicates a low loss given failure, leading to a position one notch above the bank's Adjusted BCA. For the junior senior debt issued by Danske, which is positioned at the level of the bank's Adjusted BCA, our Advanced LGF analysis indicates a moderate loss given failure.

Government support considerations

We assess a moderate probability of government support for Danske, resulting in one notch of government support uplift in the bank's A2 long-term deposit and A3 senior unsecured debt ratings. This reflects the fact that Danske is Denmark's largest financial institution and the market leader in most financial products.

We do not incorporate government support in the Baa2 junior senior debt ratings, as this debt class has been introduced by the authorities to absorb losses.

Counterparty Risk (CR) Assessment

Danske's CR Assessment is A1(cr)/Prime-1(cr)

The CR Assessment is positioned four notches above the Adjusted BCA of baa2, based on the substantial buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations rather than the expected loss. Therefore, we focus purely on subordination and take no account of the volume of the instrument class.

Counterparty Risk Ratings (CRRs)

Danske's CRRs are A1/Prime-1

The CRR of A1 is positioned four notches above the Adjusted BCA of baa2, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities. The CRR also benefits from one notch of systemic support, as an assumption of a moderate likelihood of government support. The short-term CRR is P-1.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 8

Danske Bank A/S

Macro Factors							
Weighted Macro Profile		Strong +		100%			
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	2.0%	a1	↔	baa1	Sector concentration		
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	19.5%	aa2	↔	a1	Nominal leverage	Expected trend	
Profitability							
Net Income / Tangible Assets	0.3%	ba2	↑↑	baa2	Expected trend		
Combined Solvency Score		a2		a3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	34.5%	ba1	↑↑	baa2	Market funding quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	32.4%	a2	↓↓	baa1	Quality of liquid assets		
Combined Liquidity Score		baa2		baa2			
Financial Profile				baa1			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				-1			
Total Qualitative Adjustments				-1			
Sovereign or Affiliate constraint				Aaa			
BCA Scorecard-indicated Outcome - Range				baa1 - baa3			
Assigned BCA				baa2			
Affiliate Support notching				0			
Adjusted BCA				baa2			
Balance Sheet							
		in-scope (DKK Million)	% in-scope	at-failure (DKK Million)	% at-failure		
Other liabilities		1,351,567	48.0%	1,469,720	52.2%		
Deposits		1,158,370	41.1%	1,040,216	36.9%		
Preferred deposits		857,194	30.4%	814,334	28.9%		
Junior deposits		301,176	10.7%	225,882	8.0%		
Senior unsecured bank debt		81,388	2.9%	81,388	2.9%		
Junior senior unsecured bank debt		104,928	3.7%	104,928	3.7%		
Dated subordinated bank debt		21,147	0.8%	21,147	0.8%		
Preference shares (bank)		15,427	0.5%	15,427	0.5%		
Equity		84,520	3.0%	84,520	3.0%		
Total Tangible Banking Assets		2,817,347	100.0%	2,817,347	100.0%		

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	18.9%	18.9%	18.9%	18.9%	3	3	3	3	0	a2
Counterparty Risk Assessment	18.9%	18.9%	18.9%	18.9%	3	3	3	3	0	a2 (cr)
Deposits	18.9%	8.0%	18.9%	10.9%	3	3	3	2	0	a3
Senior unsecured bank debt	18.9%	8.0%	10.9%	8.0%	3	1	2	1	0	baa1
Junior senior unsecured bank debt	8.0%	4.3%	8.0%	4.3%	0	0	0	0	0	baa2
Non-cumulative bank preference shares	3.5%	3.0%	3.5%	3.0%	-1	-1	-1	-1	-2	ba2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a2	1	A1	A1
Counterparty Risk Assessment	3	0	a2 (cr)	1	A1(cr)	
Deposits	2	0	a3	1	A2	A2
Senior unsecured bank debt	1	0	baa1	1		A3
Junior senior unsecured bank debt	0	0	baa2	0		Baa2
Non-cumulative bank preference shares	-1	-2	ba2	0		Ba2 (hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
DANSKE BANK A/S	
Outlook	Positive
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A3
Senior Unsecured	A3
Junior Senior Unsecured	Baa2
Junior Senior Unsecured MTN	(P)Baa2
Pref. Stock Non-cumulative	Ba2 (hyb)
Commercial Paper	P-2
Other Short Term	(P)P-2
DANSKE BANK A/S (LONDON BRANCH)	
Outlook	Positive
Deposit Note/CD Program	(P)A2/(P)P-1

Source: Moody's Investors Service

Endnotes

- The CET1 requirement increased by 0.7 percentage to 13.1% in Q42022 due to the reactivation of the countercyclical buffer (CCyB). As of March 2023 the bank will need to comply with the fully phased-in CCyB requirement of 2.0%, thereby bringing the fully phased in CET1 requirement to 13.7%.

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