

CREDIT OPINION

17 May 2024

Update

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RATINGS

Danske Bank A/S

Domicile	Copenhagen, Denmark
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

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 upgrade of BCA to baa1

Summary

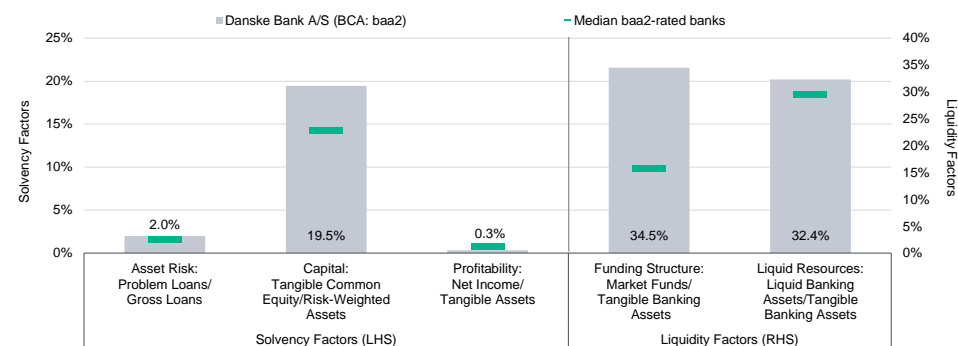
On 2 May 2024, we upgraded [Danske Bank A/S](#) (Danske) long-term deposit ratings to A1 from A2 and senior unsecured ratings to A1 from A3. Concurrently, we upgraded Danske's Baseline Credit Assessment (BCA) and Adjusted BCA to baa1 from baa2. The outlooks on the long-term deposit ratings and senior unsecured debt ratings of Danske were changed to stable from positive.

Danske's A1 long-term (LT) deposit ratings senior unsecured debt ratings reflect the bank's baa1 Baseline Credit Assessment (BCA); two notches of rating uplift for deposits and 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 baa1 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.

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 stable outlook on the long-term deposit and senior unsecured ratings reflects Moody's view that during the next 12-18 months, Danske will continue to perform with strong solvency with maintained credit quality and prudent funding and liquidity management.

Factors that could lead to an upgrade

- » Danske Bank A/S's ratings could be upgraded following a track record of improved solvency, with maintained share of problem loans below two percent of gross loans, strong capital buffers leading to maintained leverage ratio with tangible common equity to tangible assets above five percent, or recurring profitability above 0.75% net income to tangible assets ratio.

Factors that could lead to a downgrade

- » Danske Bank A/S's ratings could be downgraded if Moody's observed renewed lapses in governance or risk appetite, or material deterioration in the bank's solvency or liquidity metrics.
- » The ratings could also be downgraded if the share of loss absorbing liabilities were to decline as a share of tangible banking assets, leading to lower uplift as per Moody's Advanced LGF analysis.

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's.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

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

	12-23 ²	12-22 ²	12-21 ²	12-20 ²	12-19 ²	CAGR/Avg. ³
Total Assets (DKK Million)	3,369,658.0	3,307,537.0	3,646,218.0	3,677,128.0	3,421,905.0	(0.4) ⁴
Total Assets (USD Million)	499,330.7	474,685.4	555,588.8	604,442.8	514,031.1	(0.7) ⁴
Tangible Common Equity (DKK Million)	169,981.0	155,759.0	162,354.0	151,032.0	171,255.0	(0.2) ⁴
Tangible Common Equity (USD Million)	25,188.5	22,354.0	24,738.5	24,826.5	25,725.6	(0.5) ⁴
Problem Loans / Gross Loans (%)	1.7	1.6	2.3	2.4	2.4	2.1 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	20.5	18.6	18.9	19.3	22.3	19.9 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.6	16.9	23.6	26.5	23.1	21.1 ⁵
Net Interest Margin (%)	1.0	0.7	0.7	0.8	0.8	0.8 ⁵
PPI / Average RWA (%)	3.3	1.6	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 (%)	51.2	68.0	66.3	71.5	69.7	65.4 ⁵
Market Funds / Tangible Banking Assets (%)	36.7	35.2	36.6	38.1	40.6	37.4 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	34.8	32.6	35.6	38.5	35.7	35.4 ⁵
Gross Loans / Due to Customers (%)	152.1	155.5	158.7	155.7	191.4	162.7 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 Ratings 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 December, the bank held 24% of the domestic market in terms of loans and 28% in terms of deposits. Total reported consolidated assets were DKK3.71 trillion (€497billion) as of the end of March 2024.

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 58 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 to grow by 1.6% in 2024, up from 0.9% in 2023. Low unemployment and improving consumer sentiment will spur household spending, while inflation will remain comparatively low, benefiting retail businesses and supporting banks' asset quality. Danish banks' profitability will remain robust as limited competition for deposits will allow them to preserve margin gains triggered by recent sharp interest rate increases. The sector's capital will also remain strong as it prepares for the Basel IV capital regulations.

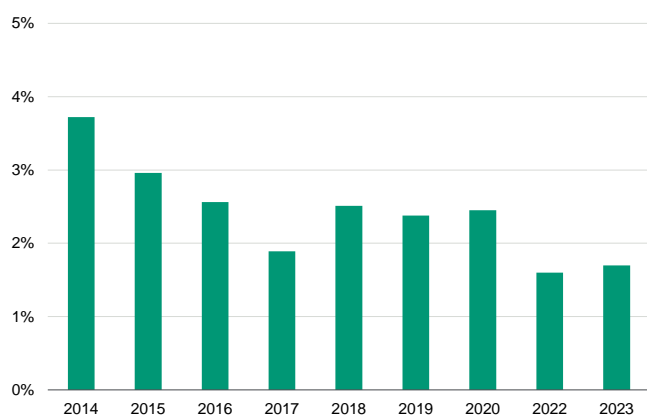
Detailed credit considerations

Asset quality will face moderate pressure

Our assigned baa1 Asset Risk score takes into consideration Moody's expectations that asset quality will remain strong over the next 12-18 months in the context of a strong Danish economy and low unemployment. 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 1.7% of gross loans as of December 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 11.7% and 2.0%, respectively, of the bank's exposure, may face pressures, especially in the office and retail segment.

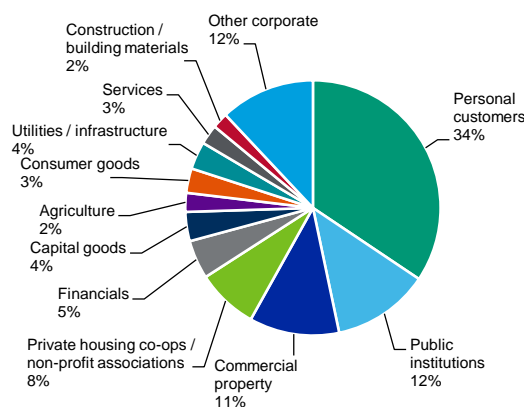
Exhibit 3
Danske's problem loans as a percentage of gross loans



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.

Source: Company reports and Moody's Ratings

Exhibit 4
Credit exposure by industry March 2024



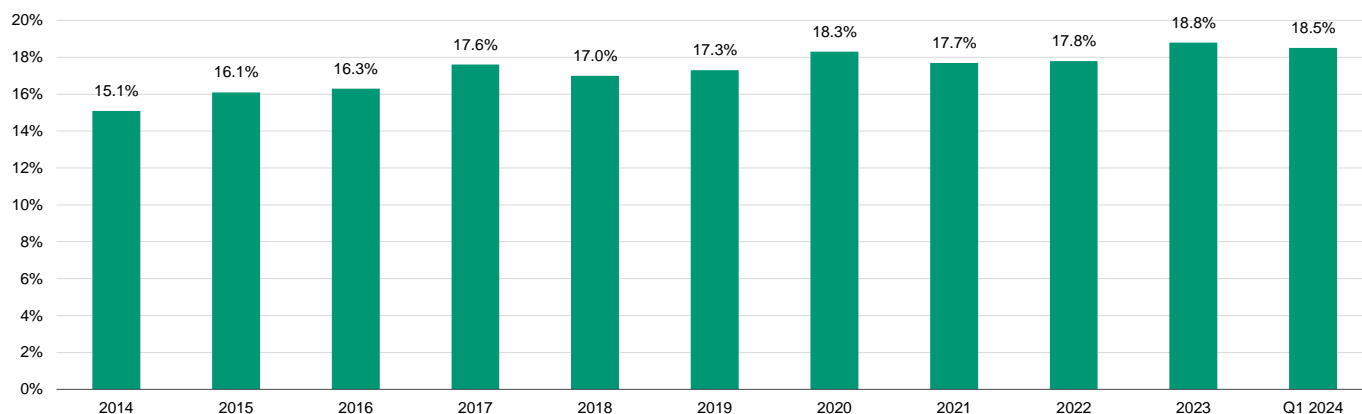
Source: Company reports

In the first three months of 2024, provisions set aside to cover expected losses amounted to DKK101 million, lower than that in the first three months of 2023 when the bank booked DKK147 million of provisions, reflecting the macroeconomic uncertainty and economic slowdown.

Solid capitalisation

The assigned aa3 Capital score reflects Danske's solid capital buffers, a relative strength for its credit profile. As of 31 March 2024, the bank's Common Equity Tier 1 (CET1) capital ratio was a strong 18.5%, slightly below 18.8% as of December 2023 (see Exhibit 5), well above the requirement of 14.4%: The CET1 ratio benefited from realised net profit after reserved dividend and lower risk exposure amount (REA). The bank resumed dividend payouts, starting with the payout of an interim dividend in the first half of 2023. As of YE2023 the bank's dividend payouts was 59% of net profit at the upper end of the (unchanged) 40-60% dividend policy range. In addition, the Board of Directors have decided to initiate a share buy-back programme of DKK 5.5 billion, equivalent to a total payout ratio of 85% including the dividend for 2023. The programme, which has been approved by the Danish Financial Supervisory Authority, will start on 5 February 2024.

Exhibit 5

Danske Bank's CET1 ratio

Source: Company reports

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

The assigned Capital score takes into account the bank's high leverage. Moody's Tangible common equity (TCE) was 5.0% of total assets as end December 2023, which is at the lower end of the range for its large Nordic peers.

Profitability is recovering strongly, but still lags its large Nordic peers

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 20-22 billion in 2024 - benefitting from the higher interest rate environment.

Danske Bank reported a net income of DKK5,529 million in Q1 2024 (compared to a net profit of DKK5,167 million in Q1 2023), 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 14% year-on-year, mainly driven by higher interest rates, which supported higher deposit margins, along with increased lending. Due to the pass through nature of interest rate margins on mortgages funded through Realkredit Denmark, its mortgage credit institution, mortgages generate a stable, however low, administrative fee.

The bank took loan loss provisions of DKK101 million in Q1 2024, compared to DKK146 million in Q1 2023. 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 increased by 0.7% in Q1 2024 compared with Q1 2023, and are 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 51% for YE 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 34% of total non-equity funding as of end December 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.

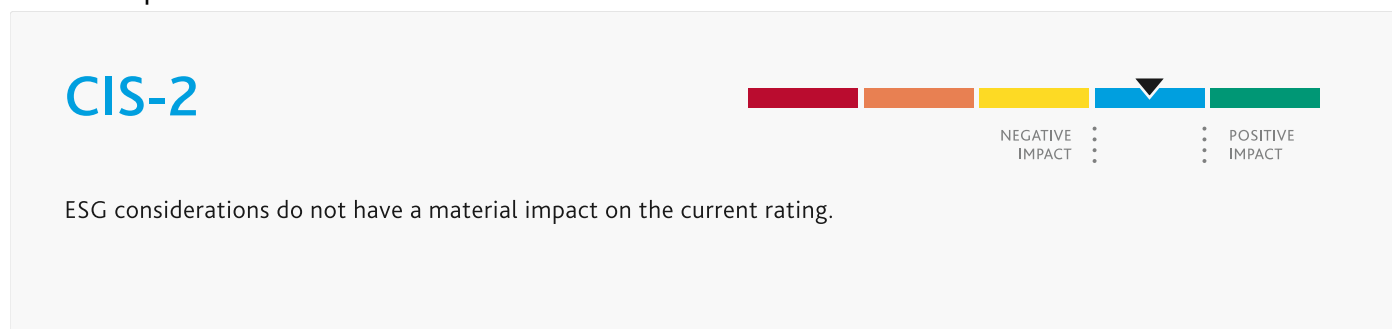
Most of the group's market funds are covered bonds (mainly taken up by Realkredit Danmark, the bank's Danish mortgage subsidiary). As indicated in our Banks methodology, we reflect the greater stability of covered bonds compared with unsecured market funding through a standard adjustment to the funding 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 DKK615billion, or 22% of tangible banking assets as of December 2023 (21% as of year-end 2022), leads to a baa1 assigned Liquidity score. As of December 2023, Danske's liquidity coverage ratio was 170%.

ESG considerations

Danske Bank A/S' ESG credit impact score is CIS-2

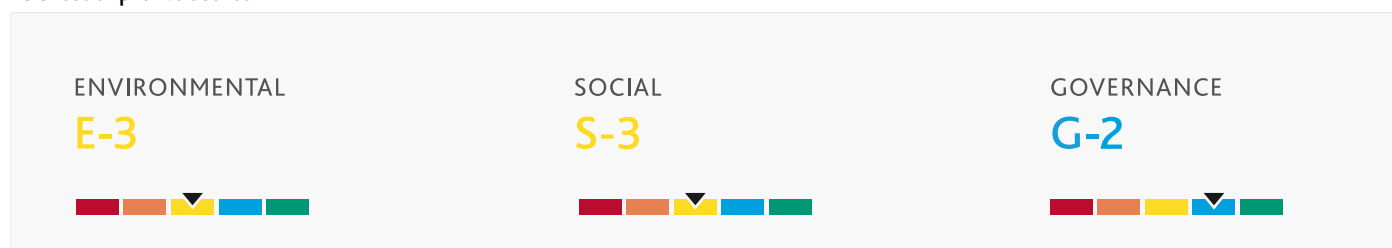
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Danske's **CIS-2** reflects limited impact due to ESG considerations on the bank's ratings.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

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 moderate social risks related to regulatory and litigation risks, particularly in the area of customer relations, requiring high compliance standards. As a diversified bank providing services to retail and wholesale clients, Danske has moderate exposure to customer relations risks. Data security and customer privacy are critical for banks, particularly in the retail segment because they access large amounts of personal data. Fines and reputational damage as a result of product mis-selling, misrepresentation and other types

of misconduct are also key social risks. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance and compliance functions that ensure adherence to regulatory standards, help to manage the associated credit risk.

Governance

Danske's G-IPS has improved to **G-2** from G-4, reflecting the significant repair work the bank has conducted in recent years to identify and remediate past governance failures. 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 has completed its financial crime transformation plan in 2023, and the bank has a three year period, ending December 2025, 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 Moodys.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 and senior debt 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 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 A1 long-term deposit and 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 Baa1 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 Aa3(cr)/Prime-1(cr)

The CR Assessment is positioned four notches above the Adjusted BCA of baa1, 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 Aa3/Prime-1

The CRR of Aa3 is positioned four notches above the Adjusted BCA of baa1, 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	1.9%	a1	↔	baa1	Sector concentration		
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	20.5%	aa1	↔	aa3	Nominal leverage	Expected trend	
Profitability							
Net Income / Tangible Assets	0.4%	ba1	↔	baa2	Expected trend		
Combined Solvency Score		a1		a3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	36.7%	ba2	↔	baa2	Market funding quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	34.8%	a2	↔	baa1	Quality of liquid assets		
Combined Liquidity Score		baa2		baa2			
Financial Profile							
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Aaa			
BCA Scorecard-indicated Outcome - Range				a3 - baa2			
Assigned BCA				baa1			
Affiliate Support notching				0			
Adjusted BCA				baa1			
Balance Sheet							
		in-scope (DKK Million)	% in-scope	at-failure (DKK Million)	% at-failure		
Other liabilities		1,399,992	50.1%	1,513,099	54.1%		
Deposits		1,108,897	39.7%	995,790	35.6%		
Preferred deposits		820,584	29.3%	779,555	27.9%		
Junior deposits		288,313	10.3%	216,235	7.7%		
Senior unsecured bank debt		69,621	2.5%	69,621	2.5%		
Junior senior unsecured bank debt		97,900	3.5%	97,900	3.5%		
Dated subordinated bank debt		21,170	0.8%	21,170	0.8%		
Preference shares (bank)		15,184	0.5%	15,184	0.5%		
Equity		83,900	3.0%	83,900	3.0%		
Total Tangible Banking Assets		2,796,663	100.0%	2,796,663	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	18.0%	18.0%	18.0%	18.0%	3	3	3	3	0	a1
Counterparty Risk Assessment	18.0%	18.0%	18.0%	18.0%	3	3	3	3	0	a1 (cr)
Deposits	18.0%	7.8%	18.0%	10.3%	2	3	2	2	0	a2
Senior unsecured bank debt	18.0%	7.8%	10.3%	7.8%	2	1	2	-	-	-
Junior senior unsecured bank debt	7.8%	4.3%	7.8%	4.3%	0	0	0	0	0	baa1

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	a1	1	Aa3	Aa3
Counterparty Risk Assessment	3	0	a1 (cr)	1	Aa3(cr)	
Deposits	2	0	a2	1	A1	A1
Senior unsecured bank debt	-	-	-	1		A1
Junior senior unsecured bank debt	0	0	baa1	0		Baa1

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

Source: Moody's Ratings

Ratings

Exhibit 9

Category	Moody's Rating
DANSKE BANK A/S	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
Junior Senior Unsecured	Baa1
Junior Senior Unsecured MTN	(P)Baa1
Commercial Paper	P-1
Other Short Term	(P)P-1
DANSKE BANK A/S (LONDON BRANCH)	
Outlook	Stable
Deposit Note/CD Program	(P)A1/(P)P-1

Source: Moody's Ratings

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