

Research Update:

Danske Bank 'A+/A-1' Ratings Affirmed; SACP Revised Upward To 'a' On Improved Risk Management; Outlook Stable

September 20, 2024

Overview

- Danske Bank A/S has completed its multi-year financial crime prevention plan and we acknowledge that its governance, compliance, and risk management have improved to be on a par with those of industry peers.
- We anticipate that Danske Bank's asset quality will remain stable and that its capitalization will remain a rating strength as the bank will balance high shareholder distributions with improved earnings.
- Consequently, we revised Danske Bank's stand-alone credit profile (SACP) upward to 'a' from 'a-'. We also raised our issue ratings on Danske Bank's hybrid instruments by one notch.
- While we expect Danske Bank's bail-inable buffers to remain strong, we now cap the additional loss-absorption capacity (ALAC) uplift to one notch at the 'a' SACP level.
- We therefore affirmed our 'A+/A-1' long- and short-term issuer credit ratings on Danske Bank. We also affirmed our issue ratings on Danske Bank's related senior unsecured instruments.
- The stable outlook reflects our expectation that Danske Bank will maintain solid earnings and strong capitalization over the next two years.

PRIMARY CREDIT ANALYST

Harm Semder
Frankfurt
+49 69 33999 158
harm.semder
@spglobal.com

SECONDARY CONTACT

Salla von Steinaecker
Frankfurt
+49 69 33999 164
salla.vonsteinaecker
@spglobal.com

Rating Action

On Sept. 20, 2024, S&P Global Ratings took the following rating actions:

- We revised upward Danske Bank's SACP to 'a' from 'a-'. We also raised our issue ratings on Danske Bank's hybrid instruments by one notch.
- We affirmed our 'A+/A-1' long- and short-term issuer credit ratings on Danske Bank. The outlook on these ratings is stable. We also affirmed our issue ratings on Danske Bank's related senior unsecured instruments.
- We affirmed our 'AA-/A-1+' long- and short-term resolution counterparty ratings on Danske

Bank.

- We raised our long-term issuer credit rating on Danica Pension Livsforsikringsaktieselskab (Danica), a core subsidiary of Danske Bank, to 'A' from 'A-'. We raised our issue rating on Danica's subordinated debt to 'BBB+' from 'BBB'.

Rationale

We have revised our risk position assessment upward since Danske Bank completed its multi-year financial crime prevention plan by year-end 2023 and improved its groupwide risk management and governance framework. In our opinion, Danske Bank has addressed the shortcomings it identified and continues to improve its compliance, governance, and risk management framework. We note Danske Bank's significant focus, large investments, and quadrupling of compliance staff in these areas in the past five years.

We think that Danske Bank has bolstered its risk management framework and adequately addressed structural deficiencies in governance and in managing anti-money laundering and financial crime prevention. In our opinion, Danske Bank has now established continuous enhancement processes for risk management and culture. For example, on Aug. 20, 2024, the Danish Financial Supervisory Authority reported that its inspection of Danske Bank's anti-money-laundering and customer-risk-rating methodology earlier this year did "not give rise to any supervisory reactions".

We expect that Danske Bank will maintain strong capitalization by balancing high shareholder distributions with improved earnings. We anticipate that Danske Bank's capitalization will remain a rating strength by a comfortable margin. We forecast a high risk-adjusted capital ratio of 12.2% in 2026, down from 13.3% as of Dec. 31, 2023, as prudent shareholder distributions will offset solid earnings.

We expect Danske Bank to achieve the higher financial targets as part of its "Forward '28" strategy on the back of better returns and efficiency at its well-established franchises in its Nordic and core domestic markets. We forecast a sound 11%-12% return on equity between 2024 and 2026, following 13% in June 2024, which compares well with similarly rated peers.

Support will come from manageable annual credit costs that we project at around eight basis points (bps) of customer loans in 2024-2026, up from two bps in 2023. We take into account Danske Bank's diversified and generally sound asset quality, improved risk management, reduction in risk concentrations, and a tailwind from Denmark's robust economy.

Danske Bank's sizable amounts of bail-inable instruments continue to support the senior unsecured debt ratings. We believe that Danske Bank still maintains a significant amount of ALAC to meet its minimum requirement for own funds and eligible liabilities. We forecast that Danske Bank's ALAC will improve to 8.5%-9.5% of its S&P Global Ratings risk-weighted assets until 2026, up from 6.8% at year-end 2023. At the level of Danske Bank's 'a' SACP, this results in a one-notch rating uplift above its SACP, down from two notches previously when the SACP was lower, at 'a-'.

Our rating action on Danica reflects its core status within Danske Bank. In our view, Danica is closely integrated with the group, and, as a market-leading life insurer in Denmark, forms a key part of Danske Bank's financial services offering. Accordingly, we consider Danica to be a core entity of Danske Bank, and we rate it at the level of the group SACP because we expect that Danica

would receive parental support under all foreseeable circumstances if needed. However, we do not believe that Danica would benefit from Danske Bank's ALAC in a resolution scenario.

Outlook

The stable outlook on Danske Bank reflects our expectation that the bank will continue to generate solid earnings, supporting strong capitalization over the next two years. We expect that Danske Bank will maintain relatively resilient asset quality in the challenging Nordic market and will continuously improve its risk management, governance, and compliance structures.

Downside scenario

Downward rating pressure would most likely occur if Danske Bank failed to achieve consistently solid risk-adjusted profitability, or if its asset quality weakened unexpectedly and substantially in difficult markets. This could happen in the event of an unexpected and significant rise in risk costs.

We could also lower our ratings on Danske Bank if we were to see new and unexpected material shortcomings or reputational damage due to failures in risk, governance, and compliance management.

In these scenarios, we could revise down Danske Bank's SACP, and in turn, lower the issue ratings on its hybrid instruments and the issuer credit rating on Danica.

However, we consider it unlikely that we would lower the long-term issuer credit rating on Danske Bank over the next two years, or the senior unsecured issue ratings that are linked to this rating. With the SACP at 'a-' or lower, we could include an additional notch of ALAC support if the buffer continued to exceed our threshold for a second notch of uplift.

Upside scenario

It is unlikely that we would raise the issuer credit ratings on Danske Bank over the next two years because they are high relative to those of peers.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A+/Stable/A-1	A+/Stable/A-1
SACP	a	a-
Anchor	bbb+	bbb+
Business position	Strong (+1)	Strong (+1)
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Adequate (0)	Moderate (-1)
Funding and liquidity	Adequate & Adequate (0)	Adequate & Adequate (0)
Comparable ratings analysis	0	0
Support	+1	+2

	To	From
Issuer Credit Rating	A+/Stable/A-1	A+/Stable/A-1
ALAC support	+1	+2
GRE support		
Group support		
Sovereign support		
Additional factors		

SACP--Stand-alone credit profile.

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Risk management, culture, and oversight

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Denmark, Aug. 12, 2024
- Banking Industry Country Risk Assessment: Denmark, Dec. 7, 2023
- Danske Bank A/S, Aug. 2, 2023
- Banking Industry Country Risk Assessment Update: June 2023, June 30, 2023
- Danske Bank Outlook Revised To Stable As Estonia Money Laundering Case Resolved; 'A+/A-1' Ratings Affirmed, Dec. 16, 2022
- Danske Bank's Capitalization Can Withstand Hit From Expected DKK15.5 Billion

Money-Laundering Fine, Oct. 28, 2022

- Update: Danske Bank A/S, Oct. 12, 2022
- Banking Industry Country Risk Assessment: Denmark, June 9, 2022

Ratings List

***** Danske Bank A/S *****

Ratings Affirmed

Danske Bank A/S

Issuer Credit Rating	A+/Stable/A-1
Nordic Regional Scale	--/--/K-1
Resolution Counterparty Rating	AA/--/A-1+

Danske Bank A/S, Swedish Branch

Issuer Credit Rating	A+/Stable/A-1
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Danske Bank A/S

Senior Unsecured	A+
Certificate Of Deposit	A+/A-1
Commercial Paper	A+
Commercial Paper	A-1

Upgraded

	To	From
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Danica Pension Livsforsikringsaktieselskab

Issuer Credit Rating	A/Stable/--	A-/Stable/--
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Danica Pension Livsforsikringsaktieselskab

Subordinated	BBB+	BBB
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Danske Bank A/S

Senior Subordinated	A-	BBB+
Subordinated	BBB+	BBB
Junior Subordinated	BBB-	BB+

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