Credit Rating Announcement

27 May 2025

Scope affirms Danske Bank's issuer rating at A+ and assigns Positive Outlook

The Positive Outlook reflects the improvements in governance and risk management embedded now as key element of the group's culture, as the closure of the corporate probation period under ad-hoc regulatory oversight is approaching.

Scope expects the probation period to be successfully closed by the end of 2025, providing upside on the Long-Term Sustainability Assessment. Strengthened risk culture will allow management to focus on further consolidating digital capabilities of the franchise, to maintain and further improve the competitive advantage in its core markets.

Rating action

Scope Ratings GmbH (Scope) has affirmed Danske Bank A/S (Danske)'s issuer rating and senior unsecured debt rating at A+ and changed the Outlook to Positive for both ratings. The full list of rating actions and rated entities is at the end of this rating action release.

Key rating drivers

Business model assessment: Resilient (High). The issuer rating is anchored by the Resilient (High) business model assessment. Danske has developed a resilient and consolidated universal banking business model in its home country of Denmark, which includes a leading market position in retail and corporate banking with a market share above 25% in loans and deposits, capital market activities and asset management. The group also has a relevant insurance business via its subsidiary Danica. The group's strategy is focused on strengthening its business diversification as the contribution to revenues of non-banking activities, mainly insurance and asset management, is less material when compared with larger financial conglomerates operating internationally.

In terms of geographic diversification, the group has a well-established banking franchise in Denmark and maintains complementary operations in Sweden and Finland. Its geographic footprint also includes a leading position in the banking sector of Northern Ireland, that represent around 5% of credit exposures.

The group has a strong franchise in the Nordic region and has recently refocused its strategy. The bank continues to service large corporates in Norway but has de-emphasised its focus on retail banking resulting in the sale of the Norwegian retail banking unit. The refocusing of the strategy to support the growth of segments in which there is a stronger earnings potential, reflects the conservative approach for growth and supports further the resilience of the business model.

Operating environment assessment: Very Supportive (Low). The assessment reflects Scope's blended view of the different markets where Danske Bank operates.

Denmark (Very Supportive, Low) represents around a half of the group's credit exposures as of YE 2024. It is a relatively small but well-integrated, wealthy and competitive economy with one of the world's highest GDP per capita. The country benefits from a solid external position with current-account surpluses driven by a large financial sector, very high domestic savings and strong exports of high-value goods. Economic activity proved to be resilient despite the scenario of high interest rates and inflation. Economic growth was mostly driven by a buoyant performance of the pharmaceutical sector, which fostered industrial production and export activities.

The Danish banking system is solid and has proven to be resilient to shocks. The sector is highly consolidated, with a few large commercial banks controlling most of the market, and smaller regional savings banks. The five largest banks account for around 66% of the sector's assets. The sector is highly interconnected with other European countries, and in particularly with the Nordics. As a characteristic feature, the sector has a relatively large portfolio concentration on CRE risks, including cross-border exposures, that amounts for about 30% of domestic corporate debt.

Danish banks operate in a highly regulated environment, supervised by the Danish Financial Supervisory Authority and the Danish Central Bank and subject to the CRR/CRD/BRRD.

Scope arrives at an initial mapping of 'a' based on a combined assessment of the issuer's operating environment and business model.

Long-term sustainability assessment (ESG factor): Developing. The assessment reflects Scope's view that the issuer is embracing changes to ensure the long-term sustainability of its business model. Progress made may be tangible but does not warrant further credit differentiation.

Scope expects the assessment to have upside potential in the short-medium term following confirmation of the successful closure of the probation period agreed with the regulatory authorities.

The assessment weights in (i) the significant progress made with the implementation of governance-related measures, reducing the risk of further fines from regulators and (ii) the progress on digital capabilities and significant IT investments that have transformed the operational set-up, aligning it to the efficiency and optimization standards observed across the deeply interconnected banking sectors in the Nordic region.

The implementation of the Financial Crime Plan was concluded in 2023, and the bank is now transitioning into a business-as-usual phase, operating under an enhanced monitoring framework. In addition, following the final resolutions reached with the Danish and US authorities in December 2022, the group is approaching the end of the three-year probation period started on December 2022, in which reporting and disclosure requirements are closely monitored. We consider that the remediation actions have positively transformed the group's risk culture and governance framework, no longer negatively affecting our view on the group's governance.

The group targets a cost-income ratio at around 45% in 2026, strengthening further the use of digital platforms and expert advisory services to streamline processes, product development and support functions. After years focusing predominantly on risk management practices and processes, the strengthening of the franchise and business model via digital capabilities is providing further competitive advantages in its core markets.

The long-term sustainability assessment leads to an adjusted rating anchor of '**a**'.

Earnings capacity and risk exposures assessment: Neutral. The assessment reflects Scope's view that the group's earnings capacity may be variable over economic cycles but is sufficient to cover expected losses. Asset quality is broadly in line with peers. Risks are unlikely to generate losses capable of undermining the issuer's viability.

Danske has been able to maintain a stable profitability across business lines, leveraging on the positive interest rate environment, active hedging to manage the decreasing trajectory of interest rates and cost discipline. Return on equity has demonstrated a steady and positive trajectory aiming to reach a target >13% by 2026 which has been already achieved in Q1 2025.

Asset quality metrics remain robust, underpinned by its well diversified loan book, while retaining a balanced component of retail, business and large corporates. Although the geopolitical and macroeconomic environment remains challenging, Scope expects that credit losses will remains limited, benefiting from the still strong domestic economy and high level of savings of both, mortgage markets and the corporate sector.

Financial viability management assessment: Comfortable (+1 notch). The assessment reflects Scope's view that the issuer's maintains comfortable buffer to relevant regulatory requirements and Scope expects it to continue to do so. The issuer's financial viability is largely resilient to tail-risk events.

Danske has a conservative and well-articulated management of capital buffers. Capitalisation ratios are high in comparison to European peers, notwithstanding the relatively higher requirements, both at CET 1 and total capital levels. CET 1 capital ratio stood at a 300-400bp range above the regulatory requirement for the past year. The stated CET1 ratio objective is set at above 16% by 2026. While the bank has indeed the capacity to absorb evolving regulatory requirements and organic growth, an eventual reduction of CET 1 to the target level will be closely monitored

Funding and liquidity are also a key strength and benefit from a well-diversified funding structure. Danske maintains a lower component of customers deposits when compared with larger EU banks, which is a structural feature of Nordic banks that benefit from a higher portion of wholesale funding, mostly covered bonds. Liquidity metrics are adequate, evidenced by a sound liquidity coverage ratio of 168% and a net stable funding ratio at 125% by end-March 2025.

One or more key drivers of the credit rating action are considered an ESG factor.

Outlook and rating sensitivities

The **Positive Outlook** reflects Scope's view that the risks to the current rating are tilted to the upside.

The **upside scenarios** for the ratings and Outlooks are (individually or collectively):

1. Improvement of the long-term sustainability assessment (ESG-D factor), based on the successful closure of the probation period under ad-hoc regulatory oversight.

2. Significant improvement on profitability and efficiency, while maintain the conservative risk appetite and sound asset quality, which could lead to an improvement of the Earnings Capacity and Risk Exposures assessment.

The **downside scenarios** for the ratings and Outlooks are (individually or collectively):

1. Significant deterioration in asset quality as a result of a worsened economic environment in Denmark, that could trigger a downward review on Earnings Capacity and Risk Exposures.

2. Deterioration of the group's capital and funding profile, with a higher-than-expected erosion of capital and liquidity metrics, that could trigger a downward review of the Financial Viability Management's assessment.

Subsidiaries and affiliates: ratings and Outlooks

Realkredit Danmark A/S: A+/Positive. The issuer rating is aligned to the issuer rating of the parent, Danske Bank A/S, reflecting Scope's view that the subsidiary would likely receive full support from its parent under exceptional circumstances. The Positive Outlook is aligned to the Outlook of the parent.

Scope considers that the subsidiary would receive full support by Danske and therefore applies a top-down approach to the analysis. RKD is a wholly owned subsidiary of Danske and acts as the group's specialised covered bond issuer in Denmark and originates most its mortgage loans within Danske. While RKD has its own governance structure, it is closely integrated into the Danske group through a common strategy and risk management principles. Mortgage loans are funded by covered bonds, which makes the bank an important funding vehicle for the group.

Scope could review the rating in case of a change in the assumption of support from the parent or if the rating of the parent changes.

Danske Kiinnitysluottopankki Oyj (Danske Mortgage Bank Plc) A+/Positive. The issuer rating is aligned with those of its parent, Danske Bank A/S, reflecting Scope's view that the subsidiary would likely receive full support from its parent under exceptional circumstances. The Positive Outlook is aligned to the Outlook of the parent.

Scope considers that the subsidiary would receive full support by Danske and therefore applies a top-down approach to the analysis. DKO is a wholly owned subsidiary of Danske and acts as the group's specialised covered bond issuer in Finland. Risk management is aligned with that of the parent. DKO's lending activities focus on Finnish households' mortgages, collateralised by residential real estate or shares of housing companies. DKO does not originate loans but purchases them from Danske's Finnish branch. Loan servicing and many other processes are outsourced to Danske, which means that DKO is operationally fully integrated into the group.

Scope could review the rating in case of a change in the assumption of support from the parent or if the rating of the parent changes.

Debt ratings

Preferred senior unsecured debt: A+/Positive. The rating is aligned with the issuer rating and applies to senior unsecured debt ranking above other classes of senior unsecured debt.

Non-preferred senior unsecured debt: A/Positive. The rating is one notch lower than the issuer rating, reflecting statutory subordination.

Tier 2 debt: BBB+/Positive. The rating is three notches below the issuer rating, in line with our standard approach for Tier 2 debt instruments, without additional notching.

Additional Tier 1 security: BBB-/Positive. The rating is five notches is below the issuer rating, in line with the standard notching applicable for these securities.

Short-term debt: S-1+/Stable. Danske's short-term credit rating is derived from the long-term issuer credit rating. The rating is consistent with Scope's long-term/short-term rating correspondence table. The choice of the highest possible short-term rating (S-1+ given the A+ issuer rating) reflects the strength of the liquidity profile of the group and access to central bank funding.

Environmental, social and governance (ESG) factors

Please refer to the 'long-term sustainability assessment' under the 'key rating drivers' section above for the ESG analysis.

All rating actions and rated entities

Danske Bank A/S

Issuer rating: A+/Positive, affirmation and Outlook change.

Preferred senior unsecured debt rating: A+/Positive, affirmation and Outlook change.

Non-preferred senior unsecured debt rating: A/Positive, affirmation and Outlook change.

Tier 2 debt rating: BBB+/Positive, affirmation and Outlook change.

Additional Tier 1 rating: BBB-/Positive, affirmation and Outlook change.

Short-term debt rating: S-1+/Stable, affirmation.

Realkredit Danmark A/S

Issuer rating: A+/Positive, affirmation and Outlook change.

Short-term debt rating: S-1+/Stable, affirmation.

Danske Kiinnitysluottopankki Oyj (Danske Mortgage Bank plc)

Issuer rating: A+/Positive, affirmation and Outlook change.

Stress testing & cash flow analysis

No stress testing was performed. No cash flow analysis was performed.

Methodology

The methodology used for these Credit Ratings and/or Outlooks, (Financial Institutions Rating Methodology, 10 January 2025), is available on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.
Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at https://scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A

comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.
The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

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Danske's issuer Credit Rating/Outlook was first released by Scope Ratings on 19 November 2014. The Credit Rating/Outlook was last updated on 18 June 2024.
Danske's short-term Credit Rating/Outlook was first released by Scope Ratings on 19 November 2014. The Credit Rating/Outlook was last updated on 18 June 2024.
Danske's preferred senior unsecured Credit Rating/Outlook was first released by Scope Ratings on 19 November 2014. The Credit Rating/Outlook was last updated on 18 June 2024.
Danske's non-preferred senior unsecured Credit Rating/Outlook was first released by Scope Ratings on 27 September 2018.The Credit Rating/Outlook was last updated on 18 June 2024.
Danske's AT1 securities Credit Rating/Outlook was first released by Scope Ratings on 3 June 2015. The Credit Rating/Outlook was last updated on 18 June 2024.
Danske's Tier 2 securities Credit Rating/Outlook was first released by Scope Ratings on 18 June 2024.
RKD's issuer Credit Rating/Outlook was first released by Scope Ratings on 29 August 2018. The Credit Rating/Outlook was last updated on 18 June 2024.
RKD's short-term Credit Rating/Outlook was first released by Scope Ratings on 29 August 2018. The Credit Rating/Outlook was last updated on 18 June 2024.
DKO's issuer Credit Rating/Outlook was first released by Scope Ratings on 1 July 2022. The Credit Rating/Outlook was last updated on 18 June 2024.

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