

# Internal Capital Adequacy Assessment – first half 2025

Danske Bank

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## 1. Introduction

The objective of this Internal Capital Adequacy Assessment report is to address the disclosure requirements set out in the Danish Executive Order of 3 December 2020 on Calculation of Risk Exposures, Own Funds and Solvency Need (Schedule 2) and stipulated in the Danish Financial Business Act. The report covers the Danske Bank Group, Danske Bank A/S, the Realkredit Danmark Group (sub-group) and Realkredit Danmark A/S.

The report is a supplement to the Danske Bank Group's annual Risk Management report, which contains further details, and includes

- a description of the process and method for determining the solvency need
- a calculation of the solvency need
- a description of the stress test method and assumptions

The Danske Bank Group monitors its risks through the coordinated efforts of credit and risk departments at both Danske Bank A/S and Realkredit Danmark A/S. As a subsidiary of Danske Bank A/S, Realkredit Danmark A/S is included in the report on the Danske Bank Group in accordance with the Danish Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need. The present report, including the description of the process and method used for determining the solvency need, covers the companies mentioned above and is published on the websites of the individual companies.

## Conclusion

At the end of June 2025, the Danske Bank Group's solvency need amounted to DKK 89.7 billion, or 11.1% of its total risk exposure amount (REA). With total capital of DKK 180.1 billion and a total capital ratio of 22.4%, the Danske Bank Group had DKK 24.3 billion in excess of the sum of its solvency need and the combined buffer requirement.



## 2. Process for determining the solvency need

### 2.1 Basis for capital management

The primary objectives of the Danske Bank Group's capital management practices are to support the Group's business strategy and to ensure a sufficient level of capital to withstand even severe downturns without the breach of regulatory requirements.

Credit institutions assume risks as part of their business, and sometimes financial losses occur. In this event, the first response is to use earnings. If earnings are not sufficient to cover losses, they are covered by excess capital, that is, the part of the individual institution's capital that exceeds its solvency need.

The Danske Bank Group's capital management practices ensure that the Group has sufficient capital to cover the risks associated with its activities. The Group uses advanced approaches for all significant risk types in combination with adjustments based on expert assessments, if necessary.

The Group develops its capital management framework on an ongoing basis, taking international guidelines and best-practice recommendations into consideration. The Group monitors national and international measures that may affect its capital position and capital management framework.

The Group's capital management practices are based on the Internal Capital Adequacy Assessment Process (ICAAP). As its primary capital management tool, the Group's ICAAP, including the ICAAPs of its subsidiaries, helps provide a clear picture of capital and risks throughout the Group.

The regulatory framework for the Group's capital management process is rooted in the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), which can be divided into three pillars:

- **Pillar I** contains a set of mathematical formulas for the calculation of risk exposure amounts for credit risk, market risk and operational risk. The minimum capital requirement is 8% of the total REA.
- **Pillar II** contains the framework for the ICAAP, including the identification of a credit institution's risks, the calculation of its solvency need, and stress testing. It also includes the Supervisory Review and Evaluation Process (SREP), which is a dialogue between an institution and the relevant financial supervisory authority on the institution's ICAAP.
- **Pillar III** deals with market discipline and sets forth disclosure requirements for risk and capital management.

While Pillar I entails the calculation of risks and the capital requirement on the basis of uniform rules for all credit institutions, the ICAAP under Pillar II takes into account the individual characteristics of a given institution and covers all relevant risk types, including risks not addressed under Pillar I.

As part of the ICAAP, management identifies the risks to which the Group is exposed for the purpose of assessing its risk profile. When risks have been identified, the Group determines the means by which they will be mitigated. These are usually business procedures, contingency plans and other measures. Finally, the Group determines what risks will be covered by capital. In the ICAAP, the Group determines its solvency need on the basis of internal models and other tools, and it conducts stress tests to ensure that it always has sufficient capital to support the chosen business strategy.

The Danske Bank Group's Risk Management 2024 report, published at the same time as the Group's Annual Report 2024, provides detailed information about the individual risk types. The report is available at [www.danskebank.com/reports](http://www.danskebank.com/reports).

### 2.2 The Danske Bank Group's internal assessment of its solvency need

The ICAAP under Pillar II entails the Danske Bank Group's calculation of its solvency need. An important part of the process of determining the solvency need is to evaluate whether the calculation takes into account all material risks to which the Group is exposed. The Group uses add-ons to the solvency need if the result of the model calculations does not appear to be sufficiently conservative – for example if the Group believes that there is a need for a more conservative approach than what is required by the Pillar I approach. The Group has established a process that quantifies the add-ons on the basis of input from internal experts. The capital add-ons are additive although they may overlap one another, and the process thus represents a conservative and careful assessment of the Group's solvency need.

The Group does not set aside capital for liquidity risk but rather mitigates such risk by means of stress test analyses, contingency plans and other measures. The Group recognises that a strong capital position is necessary for maintaining a strong liquidity position.

The Group assesses its solvency need on the basis of internal models and ensures that proper risk management systems are in place. The Group's ICAAP also includes capital planning to ensure that the Group always has sufficient capital to support the chosen business strategy. Stress testing is an important tool in the Group's capital planning process.

The Group complies with approved risk limits and risk monitoring through a defined cycle of reporting on changes in risk objectives to the Board of Directors and the Executive Leadership Team. An expanded ICAAP report is submitted to the Board of Directors and the Executive Leadership Team for approval once a year. As part of the ICAAP, the Board of Directors evaluates an annual report that describes the Group's risk profile. At quarterly board meetings, the Board of Directors reviews and approves the Group's solvency need.

As stipulated in Danish legislation, a credit institution must disclose its solvency need and solvency need ratio. For the Danske Bank Group, this requirement applies to Danske Bank A/S and Realkredit Danmark A/S.

The solvency need is the total capital of the size, type and composition needed to cover the risks to which an institution is exposed.

The Group's solvency need is based on Pillar I but also takes into account risks other than those included in Pillar I, including pension and business risks, as well as specific credit risks in the current economic cycle. The Group regularly assesses whether its capital level is sufficiently conservative.

The regulatory framework provides some discretionary leeway for selecting the appropriate method for determining the solvency need. The Group believes that it has adopted a sufficiently conservative approach:

- Capital is added to the capital requirement under Pillar II to reflect Group risks not captured under Pillar I.
- The Group takes the uncertainty of the risk models into account and makes quantitative and qualitative adequacy assessments of its capital level on an ongoing basis.

The Group's solvency need can be broken down into capital for the most important risk types.

## Danske Bank Group and Danske Bank A/S

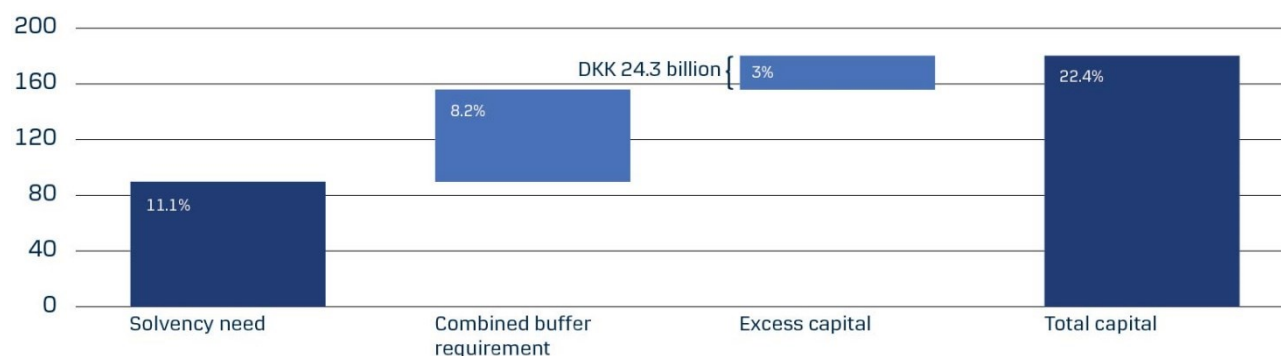
Breakdown of Danske Bank's solvency need	Danske Bank Group		Danske Bank A/S	
	(DKK billions)	(% of total REA)	(DKK billions)	(% of total REA)
At 30 June 2025				
Credit risk	61.7	7.7	53.5	7.8
Market risk	10.8	1.3	10.8	1.6
Operational risk	17.2	2.1	16.1	2.3
Other risks	0.0	0.0	0.0	0.0
<b>Solvency need and solvency need ratio</b>	<b>89.7</b>	<b>11.1</b>	<b>80.4</b>	<b>11.7</b>
Combined buffer requirement	66.1	8.2	54.8	8.0
Solvency need and solvency need ratio (including combined buffer requirement)	155.9	19.3	135.3	19.6
- portion from CET1 capital	117.7	14.6	101.2	14.7
<b>Total capital and total capital ratio</b>	<b>180.1</b>	<b>22.4</b>	<b>181.1</b>	<b>26.3</b>
<b>- portion from CET1 capital</b>	<b>150.5</b>	<b>18.7</b>	<b>151.5</b>	<b>22.0</b>
<b>Excess capital</b>	<b>24.3</b>	<b>3.0</b>	<b>45.8</b>	<b>6.6</b>
<b>Excess CET1 capital</b>	<b>32.8</b>	<b>4.1</b>	<b>50.3</b>	<b>7.3</b>

At the end of June 2025, the Danske Bank Group's solvency need amounted to DKK 89.7 billion, or 11.1% of its total REA. With total capital of DKK 180.1 billion and a total capital ratio of 22.4%, the Danske Bank Group had DKK 24.3 billion in excess of the sum of its solvency need and the combined buffer requirement. The Danske Bank Group had excess CET1 capital of DKK 32.8 billion, or 4.1% of its total REA.

At 7.7%, credit risk represented by far the largest component of the individual risks covered by capital according to the Danske Bank Group's determination of its solvency need. Market risk and operational risk combined represented 3.5%. The main component of the 'Other risks' category, which represented less than 0.0% of the total REA, was pension risk.

### Solvency need and total capital ratio, 30 June 2025

(DKK billions)



## Realkredit Danmark Group and Realkredit Danmark A/S

Breakdown of Realkredit Danmark's solvency need	Realkredit Danmark Group		Realkredit Danmark A/S	
	(DKK billions)	(% of total REA)	(DKK billions)	(% of total REA)
At 30 June 2025				
Credit risk	14.9	8.7	14.9	8.7
Market risk	2.1	1.2	2.1	1.2
Operational risk	0.8	0.5	0.8	0.5
Other risks	0.0	0.0	0.0	0.0
<b>Solvency need and solvency need ratio</b>	<b>17.8</b>	<b>10.4</b>	<b>17.8</b>	<b>10.4</b>
Combined buffer requirement	15.9	9.2	15.9	9.2
Solvency need and solvency need ratio (including combined buffer requirement)	33.7	19.6	33.7	19.6
- portion from CET1 capital	25.9	15.1	25.9	15.1
<b>Total capital and total capital ratio</b>	<b>49.7</b>	<b>28.9</b>	<b>49.7</b>	<b>28.9</b>
<b>- portion from CET1 capital</b>	<b>49.7</b>	<b>28.9</b>	<b>49.7</b>	<b>28.9</b>
<b>Excess capital</b>	<b>16.1</b>	<b>9.2</b>	<b>16.1</b>	<b>9.4</b>

At the end of June 2025, the Realkredit Danmark Group's solvency need amounted to DKK 17.8 billion, or 10.4% of its total REA. With total capital of DKK 49.7 billion and a total capital ratio of 28.9%, the Realkredit Danmark Group had DKK 16.1 billion in excess of the sum of its solvency need and the combined buffer requirement.

At 8.7%, credit risk represented by far the largest component of the individual risks covered by capital according to the Realkredit Danmark Group's determination of its solvency need. Market risk and operational risk combined represented 1.7%.

### 3. Stress test method and assumptions

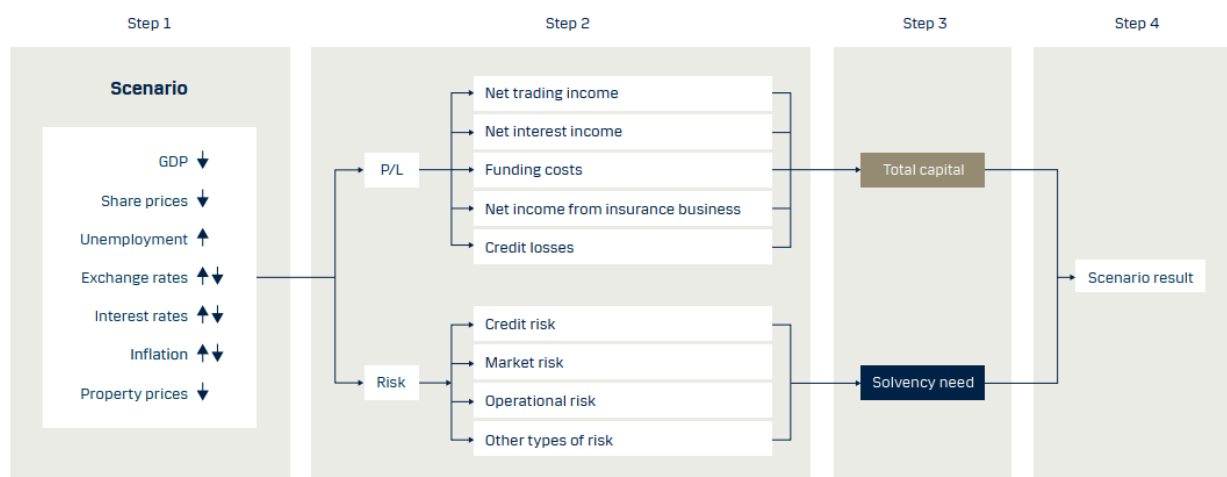
Stress testing is part of the ICAAP and is an important tool for analysing the Danske Bank Group's risk profile since it gives management a better understanding of how the Group's portfolios are affected by macroeconomic changes, including any adverse effects on the Group's capital. Stress testing also forms part of the internal capital planning process.

When determining its solvency need, the Group uses recession scenarios in accordance with statutory obligations. In its internal capital planning, the Group applies a number of stress test scenarios that are more severe than the statutory requirements.

Since 2005, the Group has been conducting quarterly stress tests showing the effects of various economic scenarios over a period of three to five years.

There are four steps in the Group's stress test methodology: (1) choice of scenario, (2) translation of scenario, (3) stress test calculations, and (4) evaluation of results and methodology. The Group evaluates the main scenarios and their relevance on an ongoing basis. The most relevant scenarios in terms of the current economic situation and related risks are analysed at least once a year. New scenarios may be added when necessary. The scenarios form an essential part of the Group's capital planning in the ICAAP.

#### Effects of stress scenarios on earnings and risk



According to the stress tests, the Group is sufficiently capitalised to withstand the effects of the applied scenarios.

### 4. Additional information

The present report is updated on a quarterly basis and is published together with the Danske Bank Group's interim and annual reports. It can be downloaded from Danske Bank's website at [www.danskebank.com/reports](http://www.danskebank.com/reports) and from Realkredit Danmark's website at [www.rd.dk/investor/reports/financial-reports](http://www.rd.dk/investor/reports/financial-reports).

The Risk Management 2024 report, published at the same time as Annual Report 2024, provides a detailed description of the Group's risk organisation, capital management practices, risk profile, exposure and other information. The report is available at [www.danskebank.com/reports](http://www.danskebank.com/reports).





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