

Scope affirms and publishes Danske Bank's A+ issuer rating with Stable Outlook

The rating reflects the bank's broadly diversified business model, strong franchise in very resilient Nordic economies and sound financial metrics.

Rating action

Scope Ratings GmbH (Scope) has today affirmed the A+ issuer rating of Denmark-based Danske Bank A/S (Danske) with a Stable Outlook.

Key rating drivers

Business model assessment: Resilient (High). The assessment reflects the broad diversification of its universal business model, which includes retail and corporate banking, capital market activities, insurance and asset management. In all of these areas, the bank has a strong franchise in Denmark and to some extent in other Nordic markets and Northern Ireland.

Combining geographic and business diversification in an integrated manner to develop intra-group synergies, with a clear strategic roadmap, contributes to position Danske at the high end of the anchor rating matrix. Danske aims to operate with a cost/income ratio at around 45% in 2026, and a 13% return on equity target (while maintaining a 16% CET1 ratio, which is high by European standards). Given the streamlining of the bank's activities in recent years, and the constant focus on risk management to deliver on remediation actions and meet regulatory expectations, Scope believes that meeting these targets in a sustainable manner is at reach.

Operating environment assessment: Very Supportive (Low). Scope's views on the likely execution of the strategic plan also factor the very supportive nature of the Nordic markets where the bank operates. Danske is the leading bank in Denmark, the third bank in Finland and a challenger bank in Sweden and Norway with a meaningful market share. The four countries are relatively small but well-interconnected, wealthy and competitive economies with high per capita incomes. Scope anticipates real GDP to remain broadly stable or improving across the Nordic region over 2024-2025. Control of inflation is a key assumption for further policy rate cuts and confirmation of a moderate economic rebound in 2025. Scope views the individual Nordic banking systems as solid and resilient to shocks, imposing traditionally high capital requirements on banks. The high degree of interconnectedness among them also supports banking activities. Developments in the residential and non-residential property markets are under scrutiny. Banks largely rely on wholesale funding which exposes them to market confidence and requires them to operate with high standards. High geopolitical risks add uncertainty to business prospects.

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 balances i) the significant progress made with the implementation of governance-related measures ii) investments to operate with efficient digital capabilities to meet the high standards and customer preferences in the Nordic markets, iii) the bank's initiatives to meet stakeholder demands in terms of environmental issues, such as the climate action plan or the issuance of green bonds.

The Group Financial Crime Plan was concluded end 2023 and follow-up activities in relation to selected projects are due to be completed in 2024. The bank is now transitioning into a *business-as-usual* phase, operating under an enhanced monitoring framework. Following the final resolutions reached with the Danish and US authorities in December 2022, the group is now implementing the final steps of the post-resolution phase namely executing on the commitments made to the US Department of Justice as part of a Plea Agreement. A three-year corporate probation period started on December 13 2022, during which Danske is subject to reporting and disclosure requirements. Over the years, we consider that the various remediation actions have positively transformed the group's risk culture and risk governance framework. The operational effectiveness of the enhanced framework is put to a test in 2024. Banking activities remain inherently risky. In Scope's views, the confirmation of the robustness of the framework will also indicate the transition to a business-as-usual phase, and that it no longer deserves specific attention compared to peers.

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

Earnings capacity and risk exposures assessment: Neutral. Danske's headline asset quality metrics are robust, underpinned by its diversified and balanced loan book. Although the macroeconomic environment, with higher interest rates, inflation, and falling property prices, has introduced significant uncertainty, Scope expects that credit costs will be well controlled, benefiting from the overall resilience of the mortgage markets and the corporate sectors. Credit impairments remained particularly low in 2023 and Danske's 8bp expectation for 2024 reflects confidence that credit risk will be contained. The group's improved operating performance provides a solid buffer against potentially increasing cost of risk.

Financial viability management assessment: Comfortable (+1 notch). Danske's conservative and articulated management of capital buffers is a rating strength. Capital adequacy ratios are high in comparison to European peers. The Common Equity Tier 1 capital ratio stood at a solid 18.5% at end-March 2024, with a healthy maximum distributable amount buffer of c. 410bp above the regulatory requirement. The stated CET1 ratio objective is set at above 16% by 2026. The bank has indeed the capacity to absorb evolving regulatory requirements and organic growth. Management targets a dividend payout ratio of 40% to 60%.

Funding and liquidity are stable and benefit from diversified funding sources. Danske's high proportion of wholesale funding is driven in large part by covered bonds. Thanks to comfortable liquidity reserves, Danske reported a sound liquidity coverage ratio of 168% by end-March 2024. The bank's net stable funding ratio was also solid at 125%.

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

Outlook and rating sensitivities

The **Stable Outlook** reflects Scope's view that the risks to the current rating are balanced.

The **upside scenario** for the ratings and Outlooks is (individually or collectively):

1. Enhanced long-term sustainability assessment (ESG-D factor), based on evidence that the group capitalises from its digital capabilities, for instance in terms of market share or efficiency gains, having made significant progress enhancing its risk control framework.
2. Stronger and less volatile operating performance, thanks to a decreased dependence on volatile capital markets operations, in line with the bank's medium term strategic objective.

The **downside scenario** for the ratings and Outlooks is (individually or collectively):

1. Significant deterioration in loan quality as a result of a worsened economic environment and/or an unexpected downturn in the real estate markets in Denmark and other Nordic countries.
2. Higher than expected erosion of Danske's capital adequacy metrics in the medium term.

Subsidiaries and affiliates: ratings and outlooks

Realkredit Danmark A/S

The issuer rating and Outlook of Realkredit Danmark A/S (RKD) are aligned with those of its parent, Danske, as Scope considers RKD to be fully supported by Danske and therefore applies its top-down approach to the analysis. In determining the reliability and stability of the parent company's support for the subsidiaries, Scope considers the extent to which the subsidiary is aligned with the group's strategic objectives, its integration into the group's operations and the fact that the absence of support would be highly detrimental to the Danske group.

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. The loans are funded by covered bonds, which makes the bank an important funding vehicle for the group.

Any change in the parent's issuer rating is likely to lead to a concurrent change for RKD as the bank's rating is aligned with that of its parent. A weakening of the strategic importance of RKD as a core subsidiary for Danske, resulting in a lower likelihood of support, could lead to a rating downgrade.

Danske Kiinnitysluottopankki Oyj (Danske Mortgage Bank Plc)

The issuer rating and Outlook of Danske Kiinnitysluottopankki Oyj (DKO) are aligned with those of its parent, Danske, as Scope considers DKO to be fully supported by Danske in case of need given its strategic importance and therefore applies its 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 housing 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.

Any change in the parent's issuer rating is likely to lead to a concurrent change for DKO as the bank's rating is aligned with that of its parent. A weakening of the strategic importance of DKO as a core subsidiary for

Danske, resulting in a lower likelihood of support, could lead to in a rating downgrade.

Debt ratings

Preferred senior unsecured debt: A+. 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. The rating is one notch lower than the issuer rating, reflecting its statutory subordination.

Tier 2 debt: BBB+. 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: BBB-. The rating is five notches is below the issuer rating, in line with our standard approach.

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

Preferred senior unsecured debt rating: A+/Stable, affirmed

Non-preferred senior unsecured debt rating: A/Stable, affirmed

Tier 2 debt rating: BBB+ debt rating assigned, Outlook Stable

Additional Tier 1 rating: BBB-/Stable, affirmed, new BBB-/Stable Additional Tier 1 debt rating assigned to instrument [XS2343014119]

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

Realkredit Danmark A/S

Issuer rating: A+/Stable, affirmed

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

Danske Kiinnitysluottopankki Oyj (Danske Mortgage Bank plc)

Issuer rating: A+/Stable, affirmed

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 Outlooks, (Financial Institutions Ratings Methodology, 6 February 2024), 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.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity, Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting these Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and Outlooks and the principal grounds on which the Credit Ratings and Outlooks are based. Following that review, the Credit Ratings and Outlooks were not amended before being issued.

Regulatory disclosures

These Credit Ratings and Outlooks are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and Outlooks are UK-endorsed.

Lead analyst: Nicolas Hardy, Executive Director

Person responsible for approval of the Credit Ratings: Marco Troiano, Managing Director

Danske's issuer Credit Rating/Outlook was first released by Scope Ratings on 19 November 2014. The Credit Rating/Outlook was last updated on 9 October 2023.

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 9 October 2023.

Danske's senior unsecured debt (preferred) Credit Rating/Outlook was first released by Scope Ratings on 19 November 2014. The Credit Rating/Outlook was last updated on 9 October 2023.

Danske's senior unsecured debt (non-preferred) Credit Rating/Outlook was first released by Scope Ratings on 27 September 2018. The Credit Rating/Outlook was last updated on 9 October 2023.

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 9 October 2023.

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 9 October 2023.

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 9 October 2023.

DKO's issuer Credit Rating/Outlook was first released by Scope Ratings on 1 July 2022. The Credit Rating/Outlook was last updated on 9 October 2023.

Potential conflicts

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About Scope Group

With more than 300 employees operating from offices in Berlin, Frankfurt, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG analysis and fund research. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. Scope Ratings is registered in accordance with the EU rating regulation and operating in the European Union with ECAI status. Scope Ratings is the only European rating agency accepted by the ECB for the Eurosystem Credit Assessment Framework (ECAAF). The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several European countries. More on www.scopegroup.com

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