FINANSTILSYNET

Banks

Market developments 2014

FINANSTILSYNET

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Summary

Total profits before tax for all banks in 2014 were DKK 16.3 bn. and therefore at the same level as profits for 2013. However, if the impairment charges on goodwill of DKK 9.0 bn. made by Danske Bank on foreign activities are excluded, there was a considerable improvement in profits compared with the previous year.

Decreasing impairment charges and higher fee and commission income have had a positive effect, although this has been countered by negative value adjustments.

Impairment charges again fell in 2014 and amounted to DKK 12.5 bn. This is 27% less than last year. Impairment charges for the year amounted to 0.6% of banks' total lending and guarantees; the lowest level since the start of the financial crisis and lower than the average over the past 25 years of 1.0%.

Net interest income for banks in 2014 was similar to 2013 and amounted to DKK 47.6 bn. This reflects continued drops in lending and interest rates in general. Overall, the effects of negative interest rates have so far been limited and have been countered in part by other income from increased fee and commission income. Net fee and commission income rose by more than DKK 2.7 bn. compared with the previous year and totalled DKK 23.4 bn. in 2014.

Banks' solvency excess coverage, measured as the difference between total capital ratio and solvency requirement, fell in 2014 to 4.3% from 4.9% the year before at group level, and to 7.2% from 8.4% at individual bank level. This fall is primarily attributable to stricter capital requirements and implementation of the new common European capital regulations (CRR/CRD IV) at the start of 2014.

Total lending by the sector, adjusted for repo transactions, fell in 2014 by 0.9% compared with 2013. At the same time, bank deposits corrected for repo transactions fell by 0.2%. Overall, the sector has a deposits surplus of DKK 238 bn., corresponding to 18% of total lending adjusted for repo transactions.

As the deposits surplus is primarily placed in secure, and therefore low-interest, bonds or mutual claims in Danmarks Nationalbank, there is a natural incentive for banks to increase their lending. This, in combination with weak demand for credit, has increased competition for good clients to lend to. This stronger competition entails a risk that standards for granting credit and loans will be undermined compared with the underlying credit risk.

An investigation by the Danish FSA into lending in autumn 2014 demonstrated a tendency toward more relaxed standards for granting credit and loans. Therefore, going forward the Danish FSA will continue to have special focus in new lending by banks.

In recent years, the housing market in Copenhagen has seen significant price increases, and these can generally be explained by considerable migration to the city, and historically low interest rates. In March, the Systemic Risk Council issued a risk observation in which banks and mortgage-credit institutions were urged to show caution. The Danish FSA is examining the banks' reactions to this.

Bank liquidity seems robust. Throughout 2014, all the banks have complied with the statutory section 152 liquidity requirement and the instructions in the supervisory diamond for a liquidity buffer compared with the statutory requirements.

From 1 October 2015, the Danish credit institutions will be subject to the new common European liquidity requirement; LCR. The requirement will be phased in gradually up to 1 January 2018, although the SIFI banks will have to meet the requirement fully from October 2015.

Since mid-March, credit institutions have been obligated to report preliminary LCR-related data to the Danish FSA. On this backdrop, the Danish FSA has assessed that it will be possible for institutions to meet the requirement when it enters into force.

However, adapting to the new regulations requires reorganisation of portfolios in the liquidity buffer. This is because assets which, under the current section 152 requirement, can be included in full, in the future can only be included to a limited degree when calculating the LCR.

Experience has shown that calculations by credit institutions of their LCR are very volatile and therefore it is important that institutions account for their liquidity planning and consider how their risk management is to be aligned with the LCR.

The transition to the new regulations also means that institutions will have to revise their liquidity policies, procedures and instructions. The Danish FSA has assessed that by far the majority of institutions will have to make radical changes. Therefore, it is important that institutions set aside the resources required to phase in the LCR requirement and that well before 1 October 2015 they are fully capable of managing their operations in accordance with the LCR.

Income statement - earnings and impairment charges

Banks' annual financial statements for 2014 showed profits before tax of DKK 16.3 bn., corresponding to an increase of 1.2% compared with the year before. However, this covers an extraordinary DKK 9.0 bn. impairment on goodwill on the activities of Danske Bank in Finland, Estonia and Northern Ireland. The result was also influenced by continuing decreases in impairments on loans and guarantees as well as increasing net fee and commission income and negative value adjustments, see table 1. Net interest income was more or less unchanged, despite a small drop in lending and falling interest rates.

Impairments on loans

Impairment charges fell in 2014 to DKK 12.5 bn.; 27% lower than the preceding year and the lowest level since the start of the financial crisis. The impairment loss ratio for the year for the sector as a whole was 0.6% in 2014, compared with 0.8% in 2013. However, there is a large spread between banks, with the largest institutions (Group 1 banks) having lower impairment loss ratios than the other banks. This is partly because of the composition of loans, in that the smallest and medium-sized banks have a larger proportion of exposures to vulnerable industries.

Table 1: Income statement (extract), all the sector, individual bank level

DKK mill.	*2010*	*2011*	*2012*	*2013*	*2014*
Income statement items (extract)					
Net interest income	58,900	51,536	50,331	47,399	47,599
Dividends from shares etc.	802	890	1,170	2,485	2,916
Net fee and commission income	18,787	18,412	19,563	20,748	23,400
Net interest and fee income	78,489	70,837	71,064	70,632	73,916
Value adjustments	5,010	2,094	7,988	4,097	-2,290
Staff and administrative expenses	46,540	48,123	48,801	47,359	47,250
Impairments on loans etc.	35,975	24,293	27,177	17,169	12,507
Income from associates and group undertakings	8,337	4,587	6,034	7,736	10,757
Profit before tax	4,136	3,585	7,223	16,104	16,293
Tax	2,454	1,635	3,669	2,789	2,183
Net profit for the year	1,682	1,950	3,554	13,315	14,110

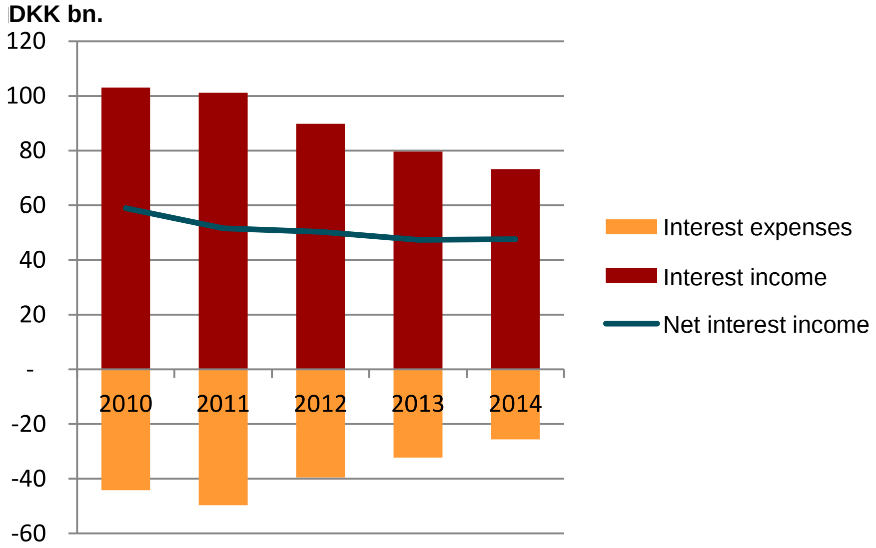
Source: Reports to the Danish FSA.
Note: The income statement is an extract and therefore not all items are shown. The impairment loss on goodwill by Danske Bank has been included in "*Depreciation and amortisation as well as impairment losses on intangible assets and property, plant and equipment*".

Net interest income

Net interest income for 2014 totalled DKK 47.6 bn.; a slight increase of DKK 0.2 bn. compared with the year before, see figure 1. The figure includes a drop in both interest income and interest expenses; both of about DKK 6.5 bn., reflecting the falling interest rates in general during 2014. Negative interest rates on certificates of deposit in Danmarks Nationalbank have led to falling differentials on deposits, as banks in general have been reluctant to demand money for deposits from retail customers. On the other hand, banks have benefitted because their financing costs have also fallen.

Overall, the falling interest rates have therefore not led to lower net interest income. Given a more or less unchanged level of lending, the overall interest-rate differential, measured as the difference between interest on deposits and lending, only fell slightly during 2014. It is also important to note that drops in interest rates continued further in 2015.

Figure 1: Interest income and expenses, sector 2010-2014



Source: Reports to the Danish FSA.

Net fee and commission income

Net fee and commission income increased from DKK 20.7 bn. in 2013 to DKK 23.4 bn. in 2014, corresponding to an increase of 12.8%. The increase can be attributed to fees on securities trading and deposit services as well as the item; *Other fees and commissions*.

Value adjustments

Negative value adjustments of DKK 2.3 bn. pushed down results for the year, while value adjustments for 2013 contributed positively by DKK 4.1 bn. The negative value adjustments are primarily attributable to losses on issued bonds, which were not countered by corresponding capital gains on bonds portfolios. In addition there were larger negative value adjustments on derivative financial instrument than in 2013. This trend should again be considered against the backdrop of falling interest rates.

It is important to note that the negative value adjustments for the sector were driven by the very largest banks, as only these banks use bond financing extensively. In contrast, the value adjustments item contributed positively to profits of the other parts of the sector, in which value adjustments on shares and currency in particular added to profits.

Staff expenses and costs of administration

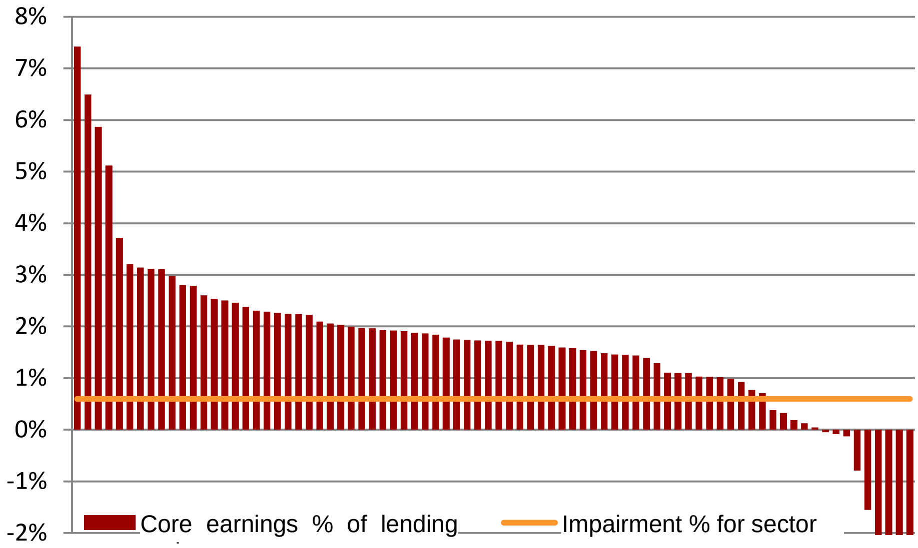
Staff expenses and costs of administration were at a similar level to the preceding year and totalled DKK 47.2 bn. Staff and administrative expenses are one of the largest expense items. For Groups 1-3 banks, costs have been reduced over recent years in line with mergers and branch closures. On the other hand, staff and administration costs for the smallest banks (Group 4 banks) increased over the same period.

Depreciation and other operating income

Depreciation and amortisation as well as impairment losses on intangible assets and property, plant and equipment increased from DKK 3.3 bn. in 2013 to DKK 13.1 bn. in 2014. The increase is attributable to the impairment on goodwill charged by Danske Bank of DKK 9.0 bn. on its activities in Finland, Northern Ireland and Estonia.

Other operating income totalled DKK 8.0 bn. in 2014 against DKK 3.0 bn. in 2013. The increase is attributable to extraordinary income from the sale of shareholdings in Nets Holdings A/S, as well as Jyske Bank’s acquisition of assets from BRFkredit.

Figure 2: Core earnings by bank, 2014



Source: Reports to the Danish FSA.

Core earnings

Core earnings are calculated as net interest and fee and commission income and other operating income less staff and administration costs, depreciation/amortisation and other operating expenses. Core earnings must therefore cover the expected losses on the loan portfolio and value adjustments, where the purpose of the capital is to absorb large, unexpected losses.

For the sector as a whole, core earnings fell from DKK 21.4 bn. in 2013 to DKK 20.3 bn. in 2014, corresponding to 1.0% of loans and guarantees, just as last year. Adjusted for the impairment charged by Danske Bank of DKK 9 bn., in 2014 core earnings rose to 1.4% of loans and guarantees.

There is still a number of smaller banks with negative or weak core earnings. There are 14 banks with core earnings lower than the average impairment loss ratio for the sector, see figure 2. Some of these are banks with special business models, in which earnings come from other sources than traditional lending activities. However, the majority are ordinary banks. Of these banks, many were also challenged with respect to core earnings in the previous year. This may indicate that the banks' business models are under pressure. The banks affected should therefore look closely at whether the low core earnings are a temporary phenomenon, or whether they have a more structural nature, meaning that the banks have to make strategic choices accordingly.

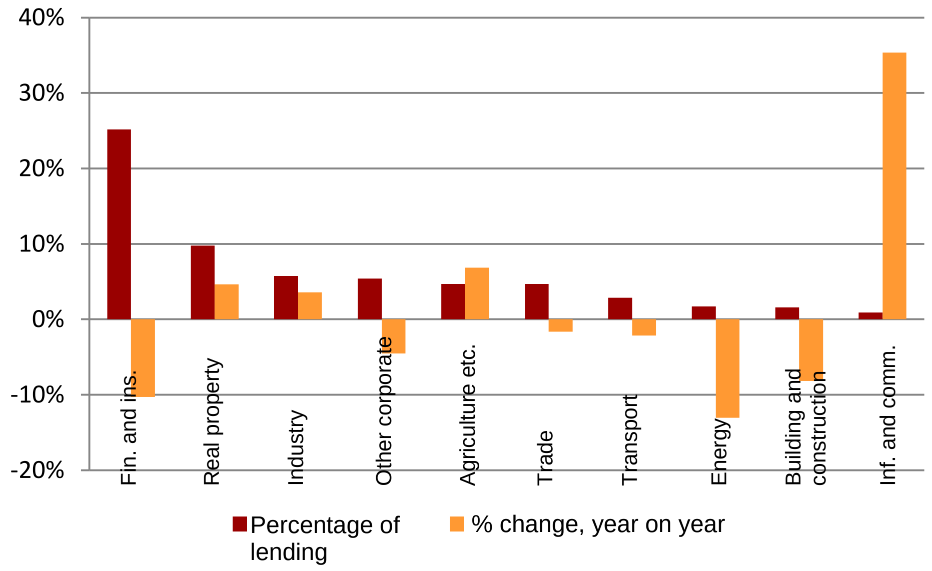
Loans and guarantees

At DKK 2,115 bn., banks' total lending and guarantees before impairment and provisions were more or less unchanged at the end of 2014 compared with the year before and they can be broken down as 62% corporate, 33% private and 5% public sector.

In 2014 there was a dramatic increase of 81% in loans and guarantees to the public sector, although overall this sector accounts for just a small percentage of total loans and guarantees. Loans and guarantees to private customers increased by 2%, while loans and guarantees to corporate customers fell by 4%. Several banks reported in their annual statements that there was falling demand and increasing competition for the best corporate customers, see the section on trends in credit standards.

There are considerable differences between trends in lending within individual industries. With more than 25% of lending, the financing and insurance sector is the largest sector. Loans and guarantees to agriculture etc., industry, information/communication, as well as loans for real property account for an increase, while the other industries recorded a drop, see figure 3.

Figure 3: Loans and guarantees by industry - holding and change, 2014

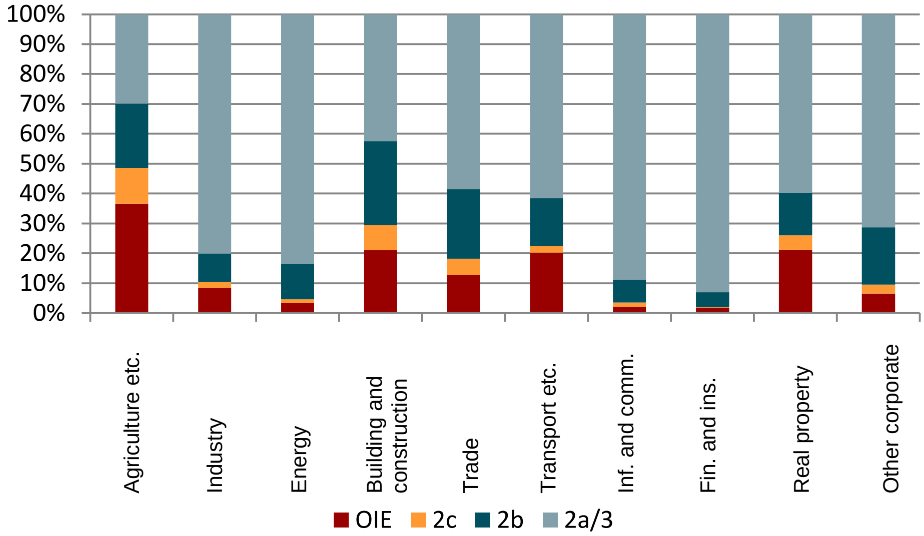


Source: Reports to the Danish FSA.

Credit quality and impairment charges

Credit quality reflects the risk of losses on the loan portfolio and it varies considerably within the individual industries, see figure 4. The percentage of lending with objective evidence of impairment (OEI), and on which it is most often necessary to make impairment charges, is highest within property-related industries, where banks are still carrying distressed loans granted up to the financial crisis. Moreover, there is a high percentage of weak loans with OEI within the transport sector, which is often challenged in weak periods of the economic cycle, as well as within parts of the agricultural sector which are struggling with high debt, decreasing demand and low prices.

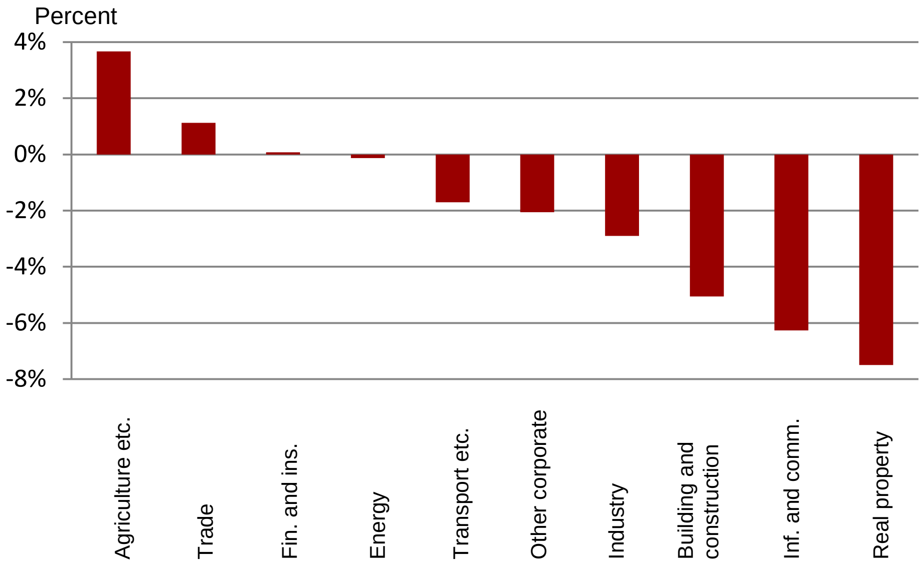
Figure 4: Credit quality by sector



Source: Reports to the Danish FSA.

The percentage of weak loans with OEI is more or less the same as in 2013 for banks as a whole. However, there are large differences in trends within individual industries. The percentage of lending with OEI has increased within agriculture etc., and to a lesser extent within trade, while the percentage has fallen in the other industries, see figure 5.

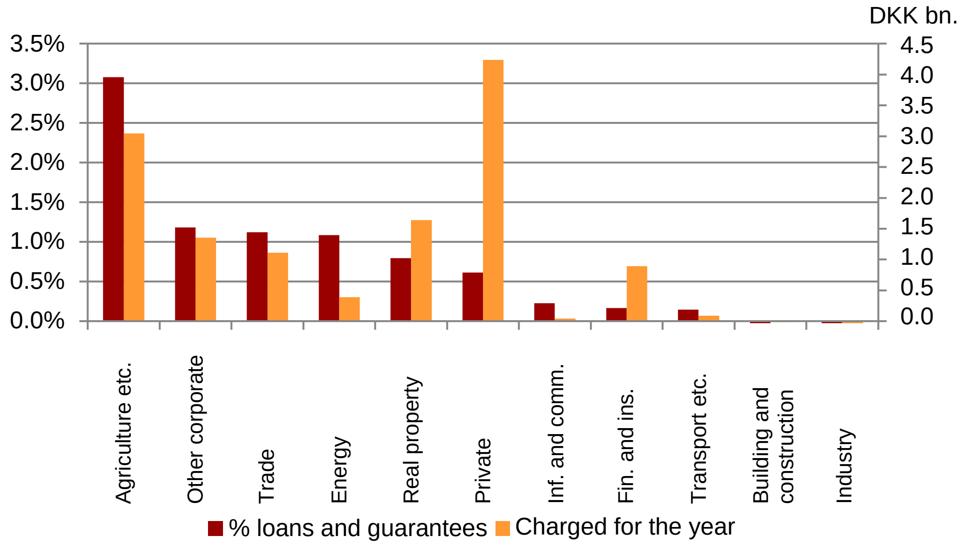
Figure 5: Change in loans assessed to have OEI 2013-2014



Source: Reports to the Danish FSA.

Impairment charges have fallen on loans to private and corporate customers and also generally within the individual industries. However, there are a few industries in which impairment charges have increased compared with the preceding year. These are loans to the energy sector, which has been hit by falling energy prices, and loans to agriculture, where parts of the sector are suffering from fluctuating prices and sales problems because of the Russian import embargo. The impairment loss ratio for agricultural exposures etc. is therefore the highest at 3.1% of loans and guarantees. Impairments for agriculture are also among the largest in terms of absolute figures, see figure 6.

Figure 6: Impairment losses by sector, 2014



Source: Reports to the Danish FSA.

With regard to impairment charges for agriculture, in December 2014 the Danish FSA drew attention to banks' obligations to include adverse events (deteriorations in the economic cycle) in their assessments of customer exposures and the need for impairment on these in connection with collective impairment charges. At the same time, on the basis of observations in connection with inspection activity, the Danish FSA clarified the regulations, among other things for write-offs on plant and buildings, where the Danish FSA ascertained that several banks were not making sufficient impairment charges.

The Danish FSA will make an amendment to the guidelines on financial statements for agricultural exposures which have been subject to a reconstruction so that the debt is reduced to a manageable level for the farmer. With regard to these exposures, if a farmer's earnings or the prices of agricultural assets develop more positively than expected, the additional value must be shared between the farmer and the bank in accordance with principles agreed in advance.

The amendment to the guidelines on financial statements will entail that the reconstructed exposure will not be subject to objective evidence of impairment (OEI) and therefore an impairment calculation will not be necessary. On the other hand, as before, impairment must be charged on the part of the original exposure which the farmer does not have financial resources to repay.

The amendment will primarily mean a reduction in the scope of agricultural exposures with OEI, and this will reflect that solutions have been found for the specific farm, which has been judged to be financially viable.

The capital situation

A bank's capital base must ensure that it can withstand future credit losses. Despite profits, the Tier 1 capital and total capital ratios of banks fell in 2014.

The Tier 1 capital ratio for the sector as a whole totalled 18.5%, compared with 19.5% at the end of 2013 at individual bank level, and it fell from 17.3% to 16.0% at group level. Similarly, the total capital ratio fell from 22.4% to 21.0% in 2013 at individual bank level, and it fell from 19.9% to 18.3% at group level. The decrease is primarily attributable to the largest banks, while the changes in capital ratios for the other banks are limited, see table 2.

Table 2: Banks' capital and overall risk exposure, 2013-2014

	Group 1			Group 2			Group 3			Group 4		
DKK mill.	*2013*	*2014*	*Change*	*2013*	*2014*	*Change*	*2013*	*2014*	*Change*	*2013*	*2014*	*Change*
Tier 1 capital	239,811	231,384	-3.5%	30,728	32,624	6.2%	19,805	19,781	-0.1%	273	277	1.5%
Own funds	277,146	266,573	-3.8%	34,026	34,806	2.3%	20,967	20,509	-2.2%	281	281	0.0%
Risk-weighted items	1,177,238	1,218,873	3.5%	190,948	195,739	2.5%	117,786	117,915	0.1%	998	1,024	2.6%
Balance sheet	3,344,397	3,558,956	6.4%	282,317	292,229	3.5%	167,512	168,278	0.5%	1,487	1,436	-3.4%
Common Equity Tier 1 capital	201,737	215,600	6.9%	27,617	30,114	9.0%	18,695	18,562	-0.7%	280	277	-1.1%
Tier 1 capital ratio	20.36	18.98		16.10	16.67		16.83	16.78		27.35	27.08	
Total capital ratio	23.54	21.87		17.83	17.78		17.80	17.39		28.14	27.40	

Source: Reports to the Danish FSA.

Tier 1 capital, total capital ratio and excess capital are affected by the new capital adequacy rules, CRR/CRDIV, which entered into force at the start of 2014. The definitions of capital have been changed under the new regulations, and there are stricter requirements for the quality of the capital which can be applied to meet the capital requirement. At the same time, the calculation of banks' risk exposures, against which the capital is to be measured, has also be changed, although to a lesser extent. Most of the changes involve tighter rules, but in very few situations the rules have been relaxed compared with the previous regulations. For example there has been a reduction in the risk weighting for small and medium-sized enterprises. The changes have been described previously (in Danish) in the "*Halvårsartikel 2014, pengeinstitutter*" published by the Danish FSA.

At individual bank level, the excess solvency for the sector, measured in relation to the capital requirement, fell from 8.4% in 2013 to 7.2% in 2014. Therefore, there remains solid excess capital in the sector as a whole. However, there is a large spread such that 10% of banks have a capital buffer of less than 2.7 percentage points, see table 3. At group level, the excess solvency for the sector fell from 4.9% in 2013 to 4.3% in 2014.

Table 3: Spread of capital buffers at individual bank level, 2014

Fractiles					*Average (weighted)*
10%	*25%*	*Median*	*75%*	*90%*	
2.7%	5.2%	7.6%	11.4%	16.5%	7.2%

Source: Reports to the Danish FSA.

Large exposures in the supervisory diamond

The Danish FSA introduced the supervisory diamond in 2010. The supervisory diamond was designed on the basis of specific Danish experience during the financial crisis, which led to problems, and in many cases actual collapses, for a number of small and medium-sized banks.

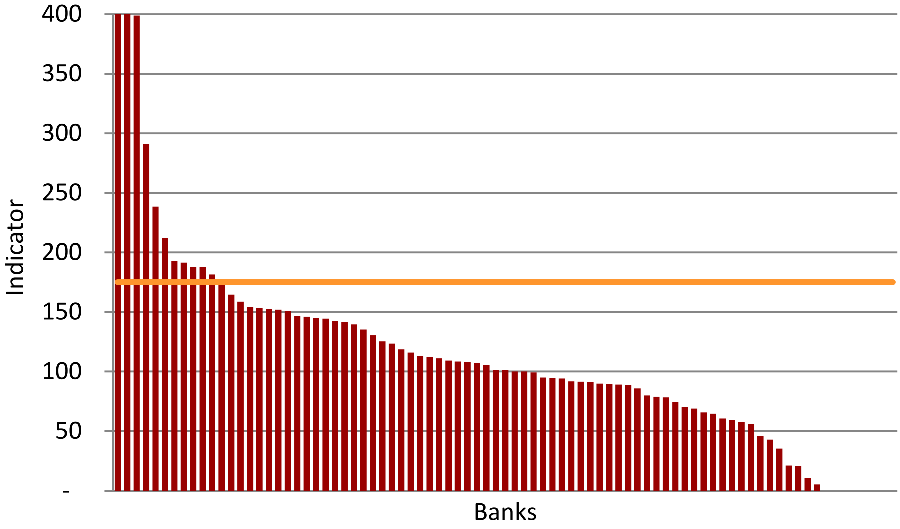
The supervisory diamond has worked well and it has helped banks reduce their risk.

The Rangvid Committee (investigating the causes of the financial crisis) acknowledged the importance of the supervisory diamond, but it also called for a tightening of the limit in the supervisory diamond for large exposures.

With this backdrop, the Danish FSA has proposed a change to the indicator for large exposures. The proposal has just been to consultation.

It has been proposed to implement to change by adjusting the method of calculation. Experience with the current indicator is that several banks do not breach the limit value, even though they have significant concentration risk from many individual, large exposures. Today, only the exposures which comprise at least 10% of own funds are included in the calculation of the indicator.

Figure 7: Limit value and indicators for large exposures, banks



Source: Reports to the Danish FSA.

The new indicator is based on the 20 largest exposures, irrespective of their size in relation to own funds. The methodology corresponds to a similar indicator in the supervisory diamond for mortgage-credit institutions and it is in accordance with the concentration targets used in the approach applied by the Danish FSA in calculating the individual solvency needs of the credit institutions.

A triviality limit of DKK 3 mill. for an individual exposure has been retained so that exposures of less than this limit are not included in the calculation. This is to accommodate the smallest banks.

In the autumn of 2014, the Danish FSA completed data collection to calibrate the limit value for the new indicator. With a limit value of 175 for the sum of the 20 largest exposures measured in relation to the banks' Common Equity Tier 1 capital, 12 banks breach the indicator, including a number of banks with many large exposures and/or a weak capital structure, see figure 7. In comparison, only four banks breach the current indicator. Of these four banks, three also breach the new indicator.

The consultation mentioned above has just been concluded, and work to take a position on the replies to the consultation and the final design of the new indicators has now commenced.

Consequences and risks of low/negative interest rates

Falling interest rates, and in particular negative interest rates on especially safe mutual claims such as Danish government bonds, certificates of deposit and deposits with Danmarks Nationalbank, have given rise to new debate about the challenges for banks' earnings. The debate was spurred in earnest when the DKK came under pressure in early 2015 after the Swiss central bank untied the Swiss Franc from the Euro and Danmarks Nationalbank reduced its interest rate several times. The inflow of currency meant that banks' net position with Danmarks Nationalbank rose significantly and was placed at negative interest.

Consequences for earnings and capital

Banks have been reluctant to demand corresponding negative interest on ordinary deposits, even though large corporate customers, including pension funds have had to accept charges for having money deposited at banks. Since then, Danmarks Nationalbank has increased the current-account limits so that together banks can place up to DKK 173 bn. in current accounts at 0% interest. This has relieved much of the problem, as a significant percentage of banks' deposits surplus of DKK 238 bn. can thus be placed without a direct loss.

Furthermore, the low interest rates can have a positive effect on customers' financial situation and in turn on banks' impairment losses. At the same time, the immediate loss as a consequence of the increased net position has initially been accompanied by increasing trading income from customers who have hedged their DKK risks or actually speculated against the DKK, as well as fee and commission income from converting mortgage-credit loans.

In March, the Danish FSA completed a survey of the largest banks of the expected consequences for earnings of continued low interest rates. The general picture is that there are only modest effects on earnings for 2015, even if the low interest rates continue throughout the year. Banks expect a slight fall in net interest income, as falling interest income will partly be countered by lower interest payments on deposits for certain customer segments. The banks also expect higher earnings from trading in financial instruments and higher fee and commission income from loan conversions. However, much of this income is temporary.

Within the immediate time horizon, the net effect seems to be limited, and at the moment the Danish FSA cannot see any immediate threat to banks' earnings and capital from negative interest rates. The low interest rates may, however, be a further challenge for banks which already have negative earnings.

Risks of continued low/negative interest rates

Low interest rates mean lower financing costs for both undertakings and households and they encourage both increased investment and increased consumption. Bank lending also usually rises in a low-interest environment, as borrowers are better able to provide security because of their increasing wealth. In addition, the capital adequacy of banks increases, in part because of increases in the value of their securities portfolios.

In the long term, continued low or even negative interest rates entail a general risk that the search for higher returns will lead to incorrect risk pricing and bubbles may form for specific classes of assets. Asset pricing which deviates significantly from the fundamental economic situation entails a risk of sudden and violent drops which could impact banks through many channels. It could impact banks directly if they are exposed to the assets affected, but also indirectly through loans to customers who are exposed to the relevant assets and through the economic recession which often follows.

The low interest rates have already been a contributory factor in rising house prices, especially in the Copenhagen area. If interest rates go up again, it is likely that this will affect house prices.

In March 2015, the Systemic Risk Council issued an observation in which banks and mortgage-credit institutions were urged to apply appropriate caution when granting credit as loans for real property and to take account of possible future price corrections, especially for freehold and cooperative property in Copenhagen.[1]

Therefore, banks must be prudent in measuring the value of the collateral when lending for housing and they must carefully assess their customers' vulnerability to increasing interest rates. The Danish FSA is investigating whether banks are demonstrating adequate caution when granting new loans.

Trends in credit standards

At the end of 2014, the Danish FSA investigated a number of new loans from banks to corporate customers. The investigation covered a total of 14 banks; five large, five medium-sized and four small.

[1] The Systemic Risk Council: "Lave renter og opbygning af systemiske risici", 27 March 2015.

The background for the investigation was to follow-up a questionnaire survey in 2014 that showed that banks had relaxed their credit terms. Furthermore, a number of banks had regularly reported falling demand for loans in their management's review, especially demand from corporate customers. As a result of this they reported fiercer competition for the best corporate customers.

One of the objectives of the investigation was therefore to examine whether the banks had compromised the quality of their credit standards because of the competition. Furthermore, the Danish FSA focussed on whether banks were granting inappropriately cheap credit to the detriment of their revenue-generating ability.

Moreover, the Danish FSA reviewed the credit policies approved by the banks' boards of directors to ensure that the relevant banks only accepted credit risks of acceptably good quality. The review of credit policies also aimed at contributing to ensuring that principles and procedures are in place before competition becomes even more intense because of the economic situation.

Finally, the Danish FSA examined whether the loans banks had granted adequately reflected the credit policies adopted.

Results of the survey

The survey showed that increased competition meant that corporate customers were offered lower interest rates. To a lesser extent, the survey also showed that other loan terms were relaxed, including requirements for collateral.

There were several examples of situations in which banks' credit policies, as approved by their boards of directors, were too imprecise with regard to the risks which could be taken and with regard to when the credit policy may be circumvented. Therefore, the Danish FSA issued a number of orders to banks to make the necessary adjustments to their credit policies.

The survey also showed that the decision-making basis of several of the medium-sized and small banks when granting loans did not adequately analyse the risks involved for a specific customer. This meant that the banks were accepting unnecessary credit risk. Therefore, the Danish FSA issued orders to the relevant banks to ensure satisfactory quality in their decision-making basis for granting loans.

The survey also showed that banks which had drawn up templates for analyses of their corporate customers generally had a better and more structured decision-making basis than banks without such templates.

Follow-up of the survey and similar surveys in the future

In the upcoming months, the Danish FSA will follow up the orders it has issued during the survey and follow up on the feedback it has received from banks as a result of the survey.

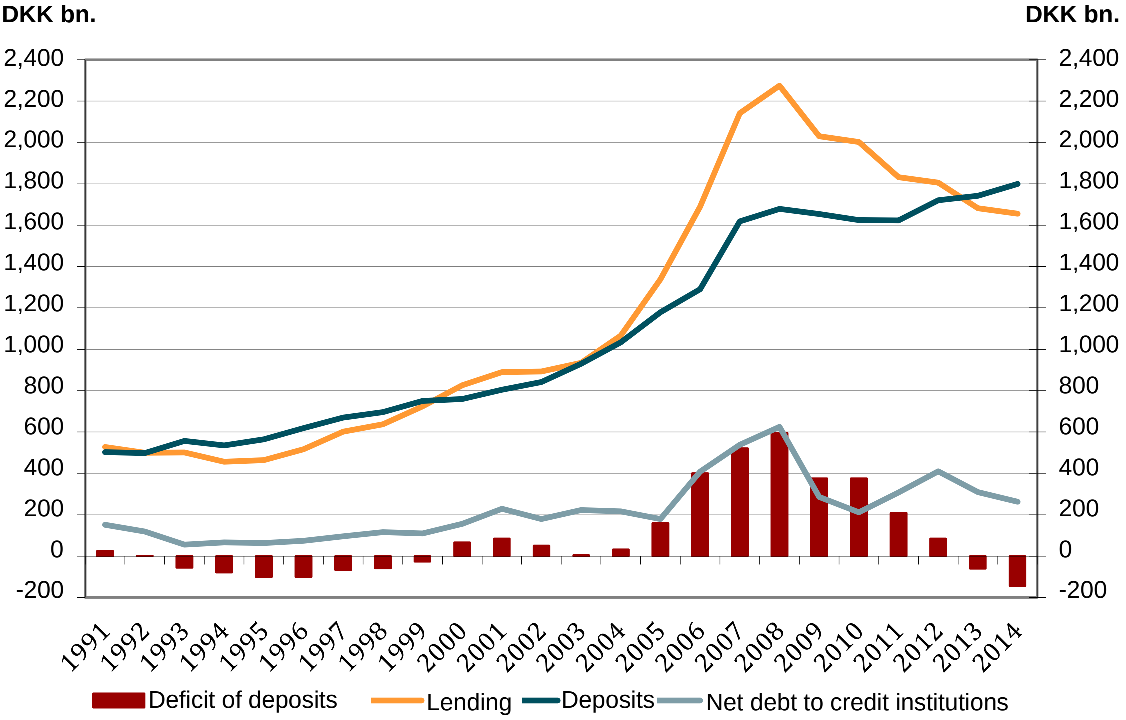
The Danish FSA is closely monitoring the competition situation in the banking market and it is planning to conduct similar surveys in the years to come.

Banks' sources of financing and liquidity

Banks finance their loans and other assets through deposits, issues of debt, and loans from other credit institutions and central banks. The composition of financing is essential to ensure that banks have a balanced financing structure and thus are not exposed to significant financing and liquidity risks.

After some years with significant deficits of deposits, in 2013 banks reversed this to a deposits surplus of DKK 61 bn.; calculated including repos. The deposits surplus including repos increased from 2013 to 2014 by DKK 83 bn. to DKK 144 bn. The DKK 83 bn. comes from an increase in deposits in Groups 1 and 2 of DKK 52 bn. and 7 bn. respectively, while Group 3 banks saw a slight drop in deposits of DKK 3 bn. From 2013 to 2014, total lending including repos fell by DKK 27 bn., and this makes the deposits surplus even larger. In figure 8, the changes are attributable to falling lending from banks (since 2008), while deposits have increased over the past couple of years. Note that the negative growth in lending seems to have more or less stabilised during 2014, with a drop of 1.6%, while total deposits increased by 3.2% over the same period.

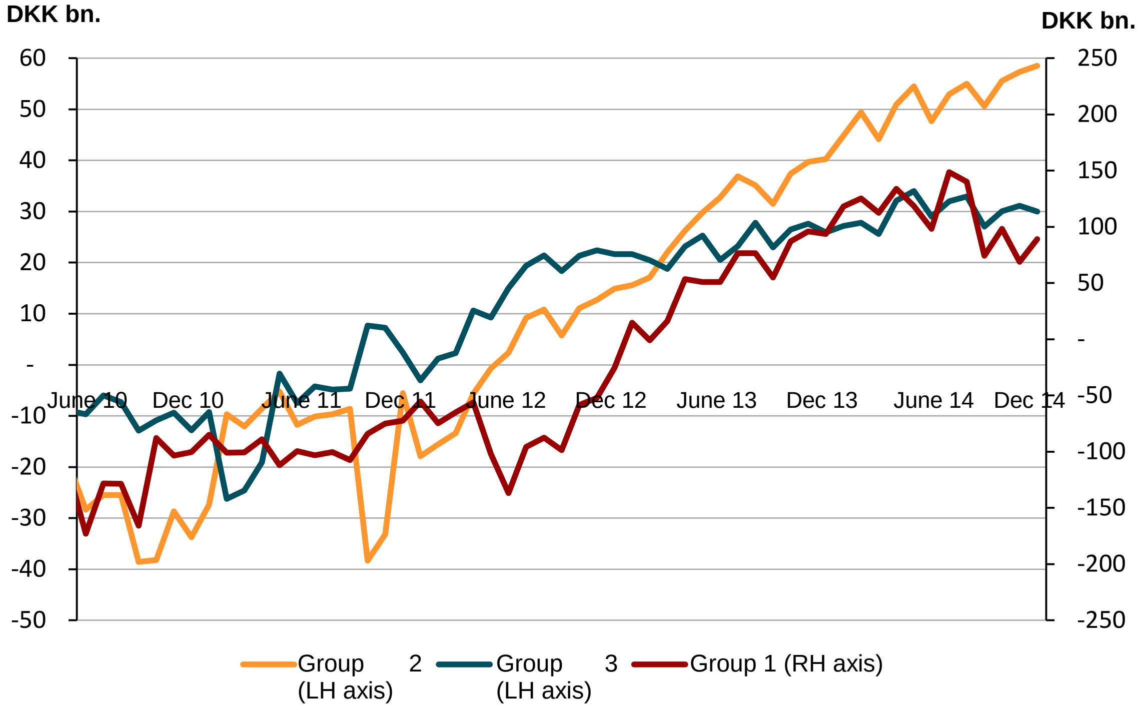
Figure 8: Loans, deposits and funding structure incl. repos, 1991-2014



Source: Reports to the Danish FSA.

The deposits surpluses for Group 1 banks were temporarily reduced in 2014, while Groups 2 and 3 banks continued to increase their deposits surpluses, see figure 9. The significant increase in the deposits surplus for Group 2 banks is primarily attributable to a decrease in lending by the banks and a more stable level of deposits. On the other hand, the development for Group 3 banks is primarily due to increasing deposits. The falling deposits surplus for Group 1 banks is primarily attributable to falling deposits during 2014.

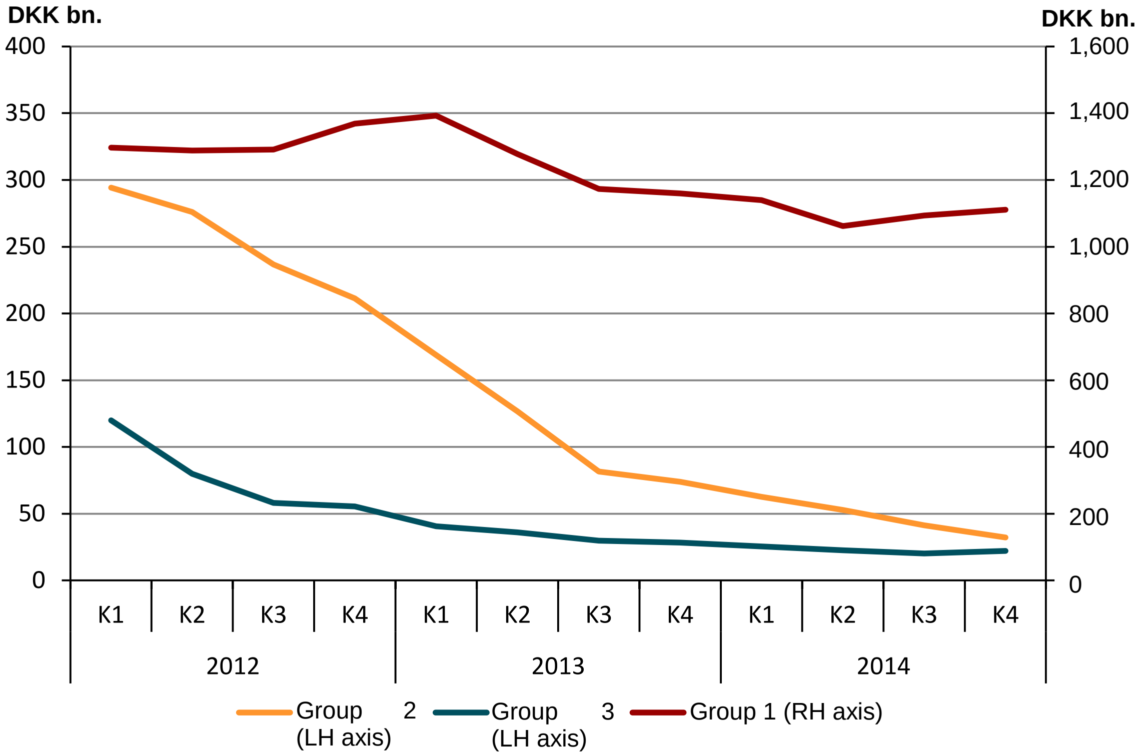
Figure 9: Deposits surplus excl. repos – by Group, 2010-2014



Source: Reports to the Danish FSA.

The development from a significant deficit of deposits to the current situation with a deposits surplus has led to a reduction in banks' need to use other sources of finance. Therefore banks have less need for market financing. Figure 10 shows that the volume of issue has fallen drastically for Groups 2 and 3 banks and this is primarily because repayment dates have fallen due for the individual state-guaranteed issues.

Figure 10: Volume of issue (outstanding balance) in Groups 1, 2 and 3, 2012-2014[2]



Source: Reports to the Danish FSA.

Banks' section 152 liquidity and observance of the liquidity targets in the supervisory diamond

Danish banks must comply with the Danish liquidity requirement regulated by section 152 of the Financial Business Act. The section 152 liquidity requirement requires that banks have an adequate holding of liquid assets to cover the binding liquidity requirement. In addition to this there is the indicator in the supervisory diamond for excess liquidity of at least 50%.[3]

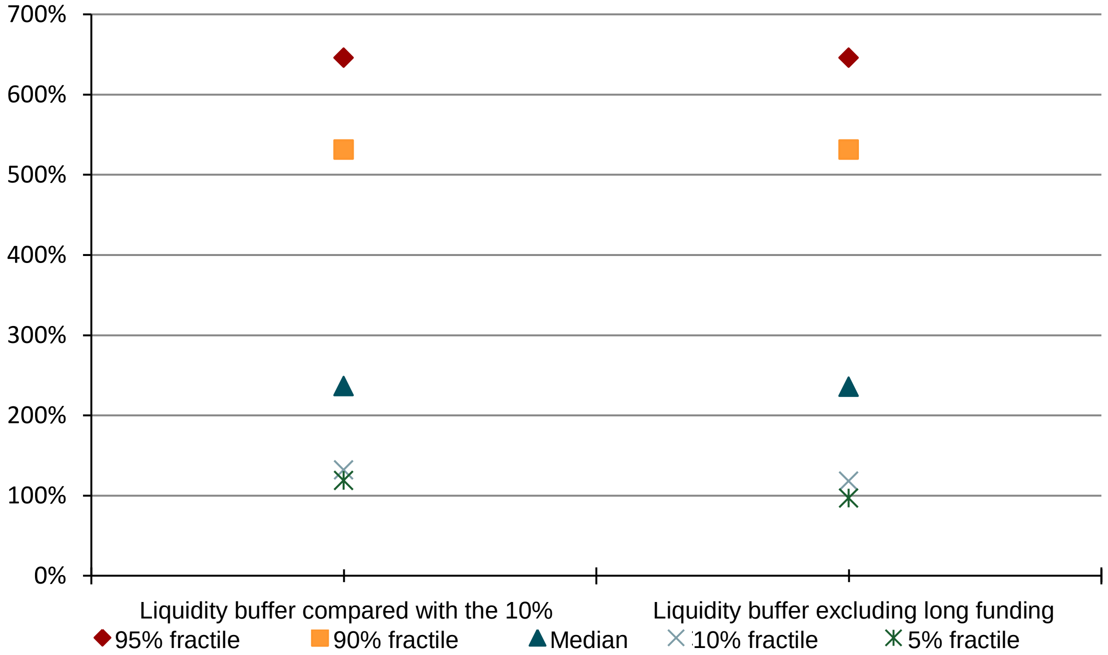
Currently, and throughout 2014, Danish banks are generally complying with the section 152 liquidity requirements and the requirements in the supervisory diamond for excess liquidity of at least 50% with a relatively safe margin, see the first column in figure 11.

The sustainability of banks' current excess liquidity can be illustrated using a stress scenario. The stress scenario ignores long-term market financing maturing before 1 January 2017, under the assumption that it will not be possible to refinance the market financing falling due. This gives an indication of whether banks have adequate liquidity

2 Calculated at individual bank level, i.e. not at group level. Includes banks' market-based financing with original maturity of more than 1 year.
3 Pursuant to section 152, banks must strive to have sufficient liquid funds to cover at least 10% of their total debt and guarantee exposures, or at least 15% of their short-term debt liabilities.

buffers. Figure 14 shows that even with repayment of long funding falling due before 2017, banks have no problem in satisfying the liquidity requirement.

Figure 11: Current excess liquidity rate and excess liquidity rate excluding funding due for repayment before 1 January 2017



Source: Reports to the Danish FSA.

The upcoming LCR requirement

From 1 October 2015, Danish credit institutions will be subject to the new common European liquidity coverage requirement; the LCR. The requirement requires that banks always holds a sufficient portfolio of highly liquid assets to cover possible imbalances between incoming and outgoing cash flows during a 30-day intensive liquidity stress.

The LCR requirement is to ensure that credit institutions have adequate holdings of liquid assets of high liquidity and credit quality in order to mitigate periods of short-term intensive liquidity stress. Short-term liquidity stress could be significant shortage of deposits or shortage of certain short-term market-based sources of funding. The liquidity coverage requirement also seeks in general to make banks less dependent on short-term sources of finance.

The types of assets considered to have high liquidity and credit quality are described in more detail in the Delegated Regulation issued regarding LCR ((EU) 61/2015). Overall, acceptable assets are divided into groups according to their expected liquidity (level 1, level

2a, and level 2b assets), and there are requirements in the Regulation as to the composition of the stock according to the relative size of these groups.

Box 1: The upcoming LCR requirement

The LCR requirement is defined as follows:

$$LCR = \frac{Holding\ of\ liquid\ assets}{Net\ cash\ outflows} > 100\%$$

where both the stock of high quality liquid assets and net cash outflows are defined in the Delegated Regulation on the LCR. See box 2 for more details about this.

The LCR applies for all credit institutions from 1 October 2015 and it will be phased in gradually up to 1 January 2018 so that institutions will have to meet 60% of the full requirement in 2015, 70% in 2016, 80% in 2017, and 100% in 2018. However, SIFIs must comply with the full requirement of 100% from 1 October 2015.

Box 2: Delegated Regulation - background

The LCR was first introduced by the Basel Committee in 2009 building on the experiences from the international financial crisis in which a number of credit institutions experienced severe liquidity problems, in particular as a consequence of short-term sources of funding drying up. Previously there were no international liquidity standards.

Neither have there been specific liquidity requirements at European level, but with the adoption of Regulation (EU) no. 575/2013 (Capital Requirements Regulation (CRR)) in June 2013, legislators imposed a general liquidity coverage requirement that all credit institutions have to comply with. In this context, the legislators authorised the European Commission to specify the general liquidity coverage requirement for credit institutions in a delegated regulation on the basis of the Basel Committee's LCR requirement, adapted to specific European conditions. The Delegated Regulation on LCR entered into force on 17 January 2015, and pursuant to both the Regulation and the regulations in the CRR, the LCR requirement will be phased in at European level from 1 October 2015.

The Delegated Regulation specifies the financial assets a credit institution may include in its holding of liquid assets, the value at which they are to be recognised, and the percentage of the total stock of liquid assets the individual classes of asset may comprise. It is important to note that when drafting the LCR requirement, the European Commission has treated Danish mortgage-credit bonds considerably better than was the case under the Basel definition.

Compliance with the LCR by Danish banks

The Delegate Regulation on LCR states that covered bonds may be included in the liquid assets in the LCR. This requires that the covered bonds meet a number of objective requirements to ensure that the covered bonds are sufficiently liquid, see box 3.

From mid-2014, credit institutions have been obliged to report preliminary LCR-related data to the Danish FSA. The reports do not take account of the final definitions in the Delegated Regulation, but they give a good initial indication of banks' ability to meet the upcoming LCR requirement.

The reports show that, at the moment, around 75% of banks' liquid assets meet the requirement and can be included in the LCR liquidity buffer. Of these, about 50% are covered bonds and slightly more than 20% are cash and government bonds. However, many banks have a disproportionate distribution of liquid assets in relation to the LCR. This means that they have difficulties in meeting the requirement that a maximum of 70% of their liquid assets can be in covered bonds. The LCR is estimated on the basis of the data available and it appears that some banks already meet the LCR, while a number of other banks need to adjust the composition of their portfolios in order to meet the LCR, see figure 12.

Box 3: Selected requirements for Danish mortgage-credit bonds in LCR

Selected requirements for **level 1** covered bonds in the Delegated Regulation:

- Covered bonds (SDO), covered mortgage-credit bonds (SDRO) or mortgage-credit bonds (RO)
- Covered bonds rated as ECAI 1 (AAA to AA-)
- Size of series corresponding to minimum EUR 500 mill.
- Not own-issued
- An over-collateralisation of 2%
- Subject to a haircut of min. 7%

Selected requirements for **level 2a** covered bonds in the Delegated Regulation:

- Covered bonds (SDO), covered mortgage-credit bonds (SDRO) or mortgage-credit bonds (RO)
- Covered bonds rated as ECAI 2 (A+ to A-)
- Size of series of minimum EUR 250 mill.
- Not own-issued
- An over-collateralisation of 7%
- Subject to a haircut of min. 15%

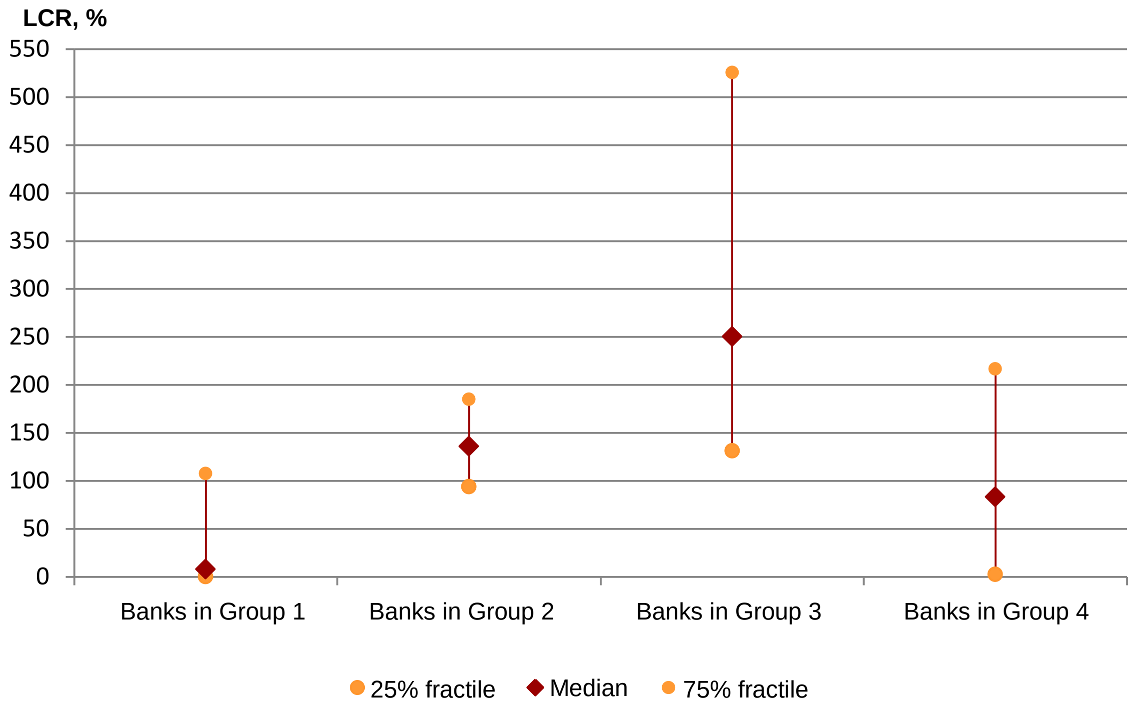
There is also a requirement that level 1 assets which are not covered bonds must amount to a minimum of 30% of the total stock of liquid assets. As a result of this, covered bonds (mortgage-credit bonds) can amount to up to 70% of the stock of liquid assets.

About 80% of the outstanding stock of Danish covered bonds can be counted as among the most liquid assets (the level 1 assets), as they meet the requirement for a series of at least EUR 500 mill. (or equivalent in national currency). Furthermore about 10% of the outstanding stock of Danish covered bonds can be counted within the next-best category of liquid assets with a series of at least EUR 250 mill. (or equivalent in national currency). This means that in total about 90% of the issued volume of Danish covered bonds can be included in the LCR. Overall the Danish FSA has assessed that there are enough liquid assets in Denmark for all Danish credit institutions to meet the LCR.

The requirement that banks in LCR must include diversified liquid assets in the LCR buffer entails that a bank cannot only hold covered bonds as liquid assets. The Delegated Regulation allows a maximum of 70% of liquid assets in covered bonds. This more or less corresponds to the percentage covered bonds currently comprise in the liquidity buffers of Danish banks pursuant to the current section 152 liquidity requirement.

It is important to note that the LCR does not in itself limit the number of covered bonds (including mortgage-credit bonds, covered mortgage-credit bonds and covered bonds) a credit institution may hold. This applies irrespective of the rating or size of series of the bonds, or whether or not institutions hold own-issued bonds. The LCR states that banks may only include in their liquidity buffers covered bonds not issued by the bank itself which, pursuant to the criteria in the Delegated Regulation on LCR are considered as liquid assets, and that the buffer must be adequately diversified.

Figure 12: Median and fractiles for the LCR, December 2014



Note: The 25% fractile is calculated at 0.0% for Group 1 banks, while the median is calculated at 7.6%. For Group 4 banks the 25% fractile is calculated at 2.5%. Group 1 banks are all SIFI banks.
Source: Reports to the Danish FSA.

In December 2014 banks had liquid assets of about DKK 608 bn. at individual level (calculated after haircuts). This compares with the need for liquidity (net cash outflows) which in December 2014 amounted to about DKK 512 bn. for all banks, calculated at individual level. Therefore, overall the Danish FSA has assessed that it will be possible for Danish institutions to meet the LCR when it enters into force.

Adjustments made by banks to meet the LCR are therefore primarily expected to comprise portfolio reorganisations, in which banks change the composition of their liquid assets to acquire sufficient amounts of level 1 and level 2a assets, respectively, including adequate amounts of level 1 assets that are non-covered bonds. Further to this, it is important that the individual banks make the necessary portfolio reorganisations in good time, before the LCR enters into force.

Reorganisation of risk management according to the LCR and phase-out of the section 152 requirement

The phase-out of the section 152 requirement, and transition to LCR will require considerable reorganisation for banks. This is especially because by far the majority of banks calculate their liquidity buffers and run their day-to-day risk management of liquidity on the basis of section 152 of the Financial Business Act. In order to reorganise to the LCR, banks will have to introduce new ways of calculating their liquidity buffers and adjust their risk-management tools.

Among other things, this means that banks will have to update their liquidity policies, procedures, and instructions etc. for specific employees, they will have to adapt their set-up for liquidity stress tests, and they will have to revise reporting to the board of directors and board of management on liquidity etc. The Danish FSA has assessed that this will entail an extensive revision of risk management tools for the liquidity area for by far the majority of banks. In this context, therefore, it is important that individual banks earmark sufficient resources to phase in the LCR, and that they ensure that, well before 1 October 2015, they are fully capable of managing their operations in accordance with the LCR.

Calculations made on the data basis available indicate that there will be banks which experience the phase-in of the 60% LCR from 1 October 2015 as a relaxation of the current section 152 liquidity requirement. Therefore the existing Danish liquidity requirement is to be retained as a “floor requirement” for a transitional period up to and including 2016, and this is in accordance with the text in Bank Package VI. However, after specific application for permission from the Danish FSA, it will be possible for banks to be exempted from complying with the existing Danish liquidity requirement in section 152 up to and including 2016.

FINANSTILSYNET

Appendices

Appendix 1: Banks' financial statements 2010-2014

						Growth per annum	
DKK mill.	*2010*	*2011*	*2012*	*2013*	*2014*	*2010-2014*	*2013-2014*
Income statement items (extract)							
Net interest income	58,900	51,536	50,331	47,399	47,599	-5.2%	0.4%
Dividends from shares etc.	802	890	1,170	2,485	2,916	38.1%	17.3%
Net fee and commission income	18,787	18,412	19,563	20,748	23,400	5.6%	12.8%
Net interest and fee income	78,489	70,837	71,064	70,632	73,916	-1.5%	4.6%
Value adjustments	5,010	2,094	7,988	4,097	-2,290	-145.7%	-155.9%
Staff and administrative expenses	46,540	48,123	48,801	47,359	47,250	0.4%	-0.2%
Impairments on loans etc.	35,975	24,293	27,177	17,169	12,507	-23.2%	-27.2%
Income from associates and group undertakings	8,337	4,587	6,034	7,736	10,757	6.6%	39.1%
Profit before tax	4,136	3,585	7,223	16,104	16,293	40.9%	1.2%
Tax	2,454	1,635	3,669	2,789	2,183	-2.9%	-21.7%
Net profit for the year	1,682	1,950	3,554	13,315	14,110	70.2%	6.0%
Balance sheet items (extract)							
Due from credit institutions	564,315	498,453	399,954	349,983	386,238	-9.0%	10.4%
Lending	1,953,603	1,786,351	1,760,028	1,683,792	1,655,622	-4.1%	-1.7%
Lending, excl. repos	1,751,679	1,577,450	1,478,693	1,353,238	1,341,486	-6.5%	-0.9%
Bonds	943,051	955,629	1,001,626	1,003,589	1,041,156	2.5%	3.7%
Shares etc.	27,762	25,698	29,047	35,603	26,678	-1.0%	-25.1%
Due to credit institutions	766,992	797,922	800,141	659,834	648,216	-4.1%	-1.8%
Deposits	1,627,502	1,625,561	1,722,021	1,744,884	1,800,535	2.6%	3.2%
Deposits excl. repos	1,561,665	1,554,746	1,563,474	1,583,963	1,580,015	0.3%	-0.2%
Issued bonds	634,380	500,427	389,905	310,999	336,877	-14.6%	8.3%
Total equity	250,245	270,069	271,869	282,772	306,117	5.2%	8.3%
Balance sheet total	4,287,394	4,306,656	4,243,729	3,807,833	4,022,125	-1.6%	5.6%
Selected financial ratios (individual bank level)							
Total capital ratio	17.9	20.1	22.1	22.4	21.0		
Tier 1 capital ratio	15.0	17.2	19.2	19.5	18.5		
Return on equity before tax	1.7	1.4	2.9	5.8	5.6		
Ratio of operating income to operating expenses	1.0	1.0	1.1	1.2	1.2		
Accumulated impairment loss ratio	3.9	3.6	3.9	4.0	3.8		
Impairment loss ratio for the year	1.4	1.1	1.2	0.8	0.6		
Selected financial ratios (group level)							
Total capital ratio	16.1	17.4	19.4	19.9	18.3		
Tier 1 capital ratio	13.4	14.8	16.6	17.3	16.0		

Figures from income statements and balance sheets are at individual bank level. Figures are based on the banks which existed in the individual years.
Source: Reports to the Danish FSA.

FINANSTILSYNET

Appendix 2: Banks' financial statements by group 2013-2014

	Group 1			Group 2			Group 3			Group 4		
DKK mill.	*2013*	*2014*	*Change*	*2013*	*2014*	*Change*	*2013*	*2014*	*Change*	*2013*	*2014*	*Change*
Income statement items (extract)												
Net interest income	33,675	34,489	2%	7,491	7,336	-2%	5,765	5,710	-1%	50	51	2%
Dividends from shares etc.	2,227	1,808	-19%	152	1,017	569%	96	91	-5%	1	1	0%
Net fee and commission income	16,522	18,433	12%	1,748	2,201	26%	2,283	2,709	19%	48	52	8%
Net interest and fee and commission income	52,424	54,730	4%	9,390	10,554	12%	8,145	8,511	4%	99	104	5%
Value adjustments	810	-4,489	-654%	3,007	1,831	-39%	282	372	32%	2	3	50%
Staff and adm. exp.	34,318	34,230	0%	7,352	7,583	3%	5,099	5,265	3%	77	82	6%
Impairments on loans	9,099	7,128	-22%	5,024	3,017	-40%	2,702	2,347	-13%	8	3	-63%
Income from associates and group undertakings	7,113	9,880	39%	556	805	45%	58	71	22%	5	0	-100%
Profit before tax	16,111	13,590	-16%	220	1,836	735%	186	934	402%	18	21	17%
Tax	2,461	1,676	-32%	214	328	53%	236	196	-17%	4	4	0%
Net profit for the year	13,650	11,914	-13%	6	1,507	25017%	-50	738	*	14	17	21%
Balance sheet items (extract)												
Due. from credit inst.	330,617	367,778	11%	11,908	11,654	-2%	6,320	6,484	3%	172	170	-1%
Lending	1,437,280	1,427,625	-1%	139,924	129,725	-7%	99,624	97,303	-2%	787	743	-6%
Lending excl. repos	1,108,656	1,114,674		137,995	128,539		99,624	97,303		787	743	
Bonds	888,596	912,010	3%	78,747	93,554	19%	33,640	34,588	3%	356	354	-1%
Shares etc.	25,768	16,896	-34%	5,050	5,386	7%	4,456	4,359	-2%	36	36	0%
Due to credit institutions	623,313	616,949	-1%	27,837	24,672	-11%	8,319	6,520	-22%	64	68	6%
Deposits	1,411,497	1,463,374	4%	193,427	201,738	4%	130,332	133,473	2%	1,058	999	-6%
Deposits excl. repos	1,250,575	1,242,854		193,427	201,738		130,332	133,473		1,058	999	
Issued bonds	307,821	335,195	9%	2,240	934	-58%	924	748	-19%	0	0	0%
Total equity	229,470	250,047	9%	31,930	35,085	10%	19,434	20,440	5%	292	301	3%
Balance sheet total	3,344,397	3,558,956	6%	282,317	292,229	4%	167,512	168,278	0%	1,487	1,436	-3%
Guarantees	293,956	324,104	10%	22,604	30,245	34%	21,059	24,741	17%	102	130	27%
Other liabilities	165,925	178,469	8%	3,648	2,698	-26%	726	962	33%	4	6	50%
Selected financial ratios (individual bank level)												
Total capital ratio	23.54	21.87		17.83	17.78		17.80	17.39		28.14	27.40	
Tier 1 capital ratio	20.36	18.98		16.10	16.67		16.83	16.78		27.35	27.08	
ROE before tax for yr.	7.20	5.68		0.73	5.49		18.03	4.65		6.33	7.17	
Ratio of op. inc. to op. exp.	1.36	1.25		1.01	1.15		0.97	1.12		1.21	1.23	
Acc. impairment %	3.19	2.93		8.53	9.32		1.02	7.91		3.70	3.65	
Impairment for yr. %	0.51	0.40		2.83	1.71		7.72	1.77		0.82	0.32	

Note: The comparative figures take account of mergers and developments in the size of working capital which mean that a bank moves from one group to another. In other words, the groups are locked on the basis of the group allocation in 2014.
Source: Reports to the Danish FSA.

Appendix 3: Banks' financial ratios 2010-2014

	2010	*2011*	*2012*	*2013*	*2014*
Individual bank level					
Total capital ratio	17.90	20.08	22.07	22.35	21.02
Tier 1 capital ratio	15.02	17.23	19.17	19.54	18.53
Return on equity before tax	1.69	1.42	2.92	5.83	5.56
Return on equity after tax	0.67	0.74	1.54	4.85	4.79
Ratio of op. income to op. expenses	1.04	1.04	1.10	1.24	1.22
Interest-rate risk	0.67	0.27	0.30	0.83	1.07
Loans plus write-downs in relation to deposits	124.80	113.91	106.55	100.94	96.00
Excess liquidity in relation to statutory requirements for liquidity	160.23	127.64	170.41	204.51	155.95
Sum of large exposures	46.79	32.45	16.30	8.01	7.27
Accumulated impairment loss ratio	3.86	3.59	3.85	3.98	3.78
Impairment loss ratio for the year	1.41	1.08	1.23	0.81	0.59
Growth in lending for the year	-0.06	-6.87	-4.40	-7.39	-0.41
Loans in relation to equity	7.63	6.65	6.44	5.95	5.45
Group level					
Total capital ratio	16.12	17.41	19.38	19.86	18.33
Tier 1 capital ratio	13.39	14.84	16.63	17.32	16.04
Return on equity before tax	2.25	2.25	3.48	7.08	6.46
Return on equity after tax	0.57	1.15	1.48	5.22	4.88
Ratio of op. income to op. expenses	1.05	1.06	1.11	1.26	1.23
Interest-rate risk	0.89	0.44	0.35	1.24	1.32
Excess liquidity in relation to statutory requirements for liquidity	160.90	102.17	145.90	174.80	132.51
Sum of large exposures	53.14	23.52	14.71	6.73	6.43
Accumulated impairment loss ratio	2.93	2.53	2.72	2.73	2.43
Impairment loss ratio for the year	1.00	0.80	0.89	0.54	0.38
Growth in lending for the year	1.23	-3.96	0.79	-4.11	9.49
Loans in relation to equity	13.59	12.01	11.62	10.80	10.71

Note: Financial ratios are calculated on the basis of the mortgage-credit institutions which existed in the individual years.
Source: Reports to the Danish FSA.

Appendix 4: Banks' loans and guarantees by sector and industry

	2014	*2013*	*2014*	*2013*
	Loans and guarantees, DKK mill.	*Loans and guarantees, DKK mill.*	*Loans and guarantees, %*	*Loans and guarantees, %*
Public sector	104,878	58,240	4.96%	2.76%
Corporate				
Agriculture	98,959	92,913	4.68%	4.41%
Industry	121,563	117,360	5.75%	5.57%
Energy supply	35,784	39,846	1.69%	1.89%
Building and construction	33,809	36,862	1.60%	1.75%
Trade	98,911	100,574	4.68%	4.77%
Transport	60,244	61,495	2.85%	2.92%
Information	18,779	13,867	0.89%	0.66%
Financing	532,431	593,914	25.18%	28.19%
Real property	206,565	197,024	9.77%	9.35%
Other corporate	114,692	119,905	5.42%	5.69%
Total corporate:	1,321,737	1,373,759	62.50%	65.19%
Private	688,235	675,166	32.54%	32.04%

Source: Reports to the Danish FSA.

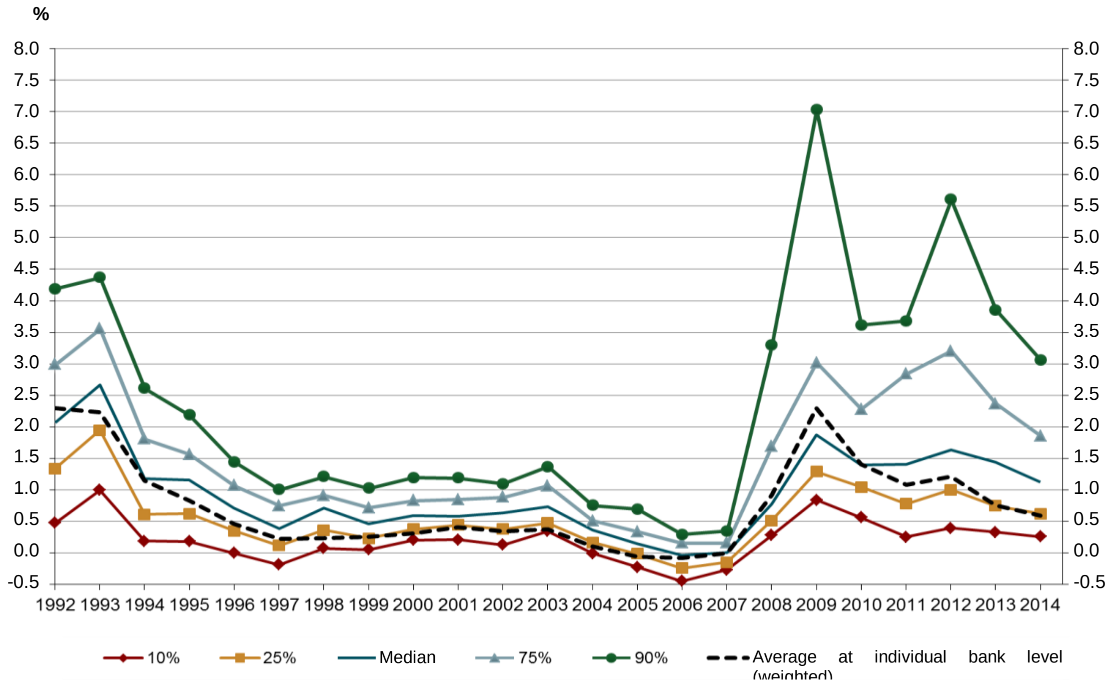
Appendix 5: Loans and guarantees by quality category, 2014

		Quality category							
		1	1 previous yr.	**2c**	2c previous yr.	**sum 1 + 2c**	sum 1 + 2c previous yr.	**2b**	**2a/3**
Total	Corporate	7.6	*7.7*	2.0	*2.4*	9.6	*10.1*	9.8	80.5
	Private	6.4	*6.5*	2.6	*2.9*	9.0	*9.4*	16.3	74.7
	Total	6.8	*7.1*	2.1	*2.5*	8.9	*9.6*	11.2	79.9
Group 1	Corporate	3.4	*3.4*	0.9	*1.1*	4.3	*4.5*	7.7	88.0
	Private	5.7	*6.0*	1.8	*2.2*	7.4	*8.3*	11.5	81.0
	Total	3.8	*4.0*	1.0	*1.4*	4.8	*5.4*	8.3	86.9
Group 2	Corporate	29.6	*26.8*	6.9	*7.3*	36.4	*34.1*	17.8	45.8
	Private	8.6	*8.2*	3.5	*4.2*	12.1	*12.4*	22.4	65.4
	Total	21.2	*19.9*	5.5	*6.1*	26.7	*26.0*	19.5	53.8
Group 3	Corporate	27.7	*26.0*	9.2	*9.9*	36.9	*35.9*	24.1	39.0
	Private	8.0	*7.4*	6.1	*5.4*	14.1	*12.8*	36.4	49.5
	Total	18.2	*17.6*	7.7	*7.8*	25.9	*25.5*	29.8	44.3
Group 4	Corporate	13.9	*14.6*	11.5	*11.7*	25.4	*26.3*	24.6	50.1
	Private	4.9	*6.3*	5.0	*4.5*	9.8	*10.7*	22.0	68.2
	Total	8.4	*10.3*	7.5	*8.0*	15.9	*18.3*	23.0	61.1

Source: Reports to the Danish FSA.

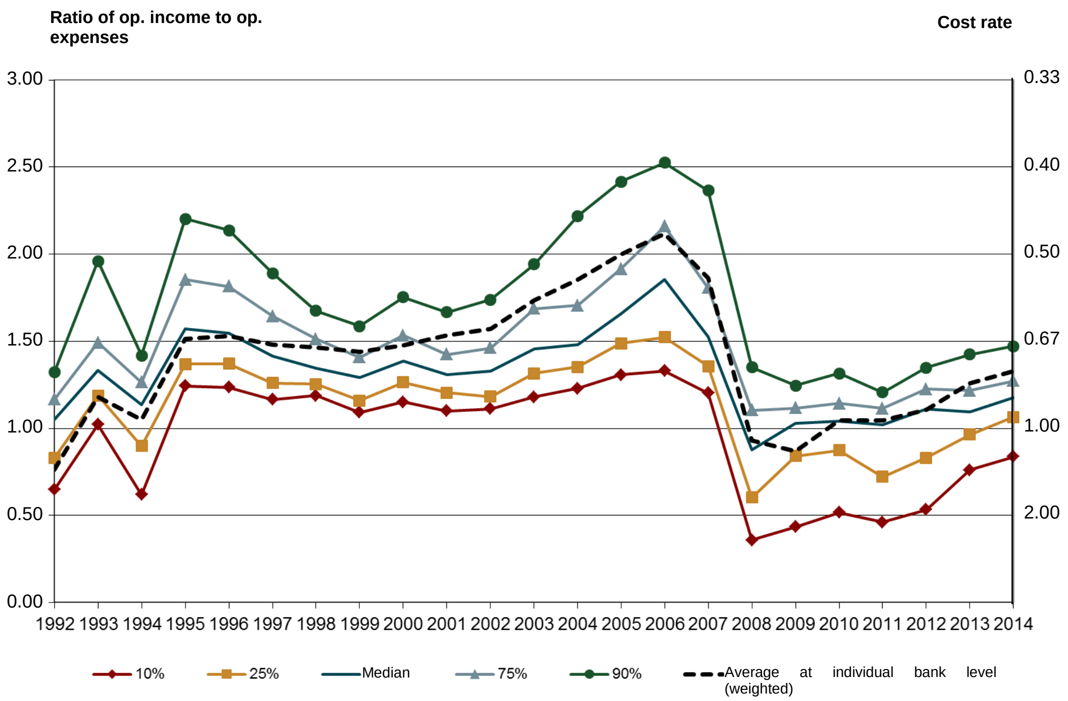
Appendix 6: Dispersion of financial ratios by fractiles

Figure A1: Annual impairment loss ratio (%) on loans and guarantees 1992-2014



Source: Reports to the Danish FSA.

Figure A2: Income/cost ratio 1992-2014



Note: The right-hand axis shows the income/cost ratio; i.e. costs in DKK as a percentage of DKK earned. Therefore the same components are included in the calculation.

Source: Reports to the Danish FSA.

Appendix 7: intensified supervision of systemically important institutions

Box 1: Intensified supervision of systemically important institutions

On 19 June 2014, the Danish FSA designated Danske Bank A/S, Nykredit Realkredit A/S, Nordea Bank Denmark A/S, Jyske Bank A/S, Sydbank A/S and DLR Kredit A/S as systemically important financial institutions (SIFIs).

As a consequence of their status as SIFIs, the institutions are subject to intensified supervision, which entails:

- More frequent and more extensive inspections in important risk areas.
- Greater focus on good corporate governance and risk management via regular inspection of risk management functions and closer regular monitoring, including supplementary reports and fixed recurring meetings with senior employees.
- Greater focus on model risk via closer monitoring and indicatoring of internal calculation models for capital adequacy purposes.

Appendix 8: Size groupings of groups 1-4 banks at the end of 2014

FSA no.	**Name**				
Group 1 - Working capital more than DKK 65 bn.					
2222	Nordea Bank Danmark A/S				
3000	Danske Bank A/S				
7858	Jyske Bank A/S				
8079	Sydbank A/S				
8117	Nykredit Bank A/S				
Total institutions: 5					
Group 2 - Working capital more than DKK 12 bn.					
522	Sjælland, Sparekassen	7681	Alm. Brand Bank A/S	9686	Den Jyske Sparekasse
1149	Saxo Bank A/S	7730	Vestjysk Bank A/S	10001	FIH Erhvervsbank A/S
5301	Arbejdernes Landsbank, Aktieselskab	9335	Kronjylland, Sparekassen	9217	Jutlander Bank A/S
7670	Ringkjøbing Landbobank, Aktieselskab	9380	Spar Nord Bank A/S		
Total institutions: 11					
Group 3 - Working capital more than DKK 250 mill.					
400	Lån og Spar Bank A/S	7320	Djurslands Bank A/S	9312	Sparekassen Balling
537	Dragsholm Sparekasse	7440	Nørresundby Bank A/S	9354	Rønde og Omegns Sparekasse
755	Middelfart Sparekasse	7500	Hvidbjerg Bank Aktieselskab	9388	Sparekassen Djursland
828	Sparekassen Fyn A/S	7570	PenSam Bank A/S	9634	Borbjerg Sparekasse
844	Fynske Bank A/S	7780	Skjern Bank, Aktieselskabet	9682	Nr. Nebel og Omegn, Sparekassen for
847	Rise Spare- og Lånekasse	7890	Salling Bank A/S	9684	Fanø Sparekasse
1671	Basisbank A/S	7930	Kreditbanken A/S	9690	Vorbasse-Hejnsvig Sparekasse
5999	Danske Andelskassers Bank A/S	8099	Nordjyske Bank A/S	9695	Saxo Privatbank A/S
6102	Landbrugets Finansieringsbank (LFB)	9044	Dronninglund Sparekasse	9740	Frøs Herreds Sparekasse
6140	Møns Bank, A/S	9070	Sparekassen Vendsyssel	9797	Broager Sparekasse
6471	Grønlandsbanken, Aktieselskab	9090	Sparekassen Thy	9827	Sparekassen Bredebro
6482	BRFkredit Bank a/s	9124	Sønderhå-Hørsted Sparekasse	9860	Folkesparekassen
6520	Lollands Bank, Aktieselskab	9133	Frøslev-Mollerup Sparekasse	13080	Frørup Andelskasse
6771	Lægernes Pensionsbank A/S	9135	Klim Sparekasse	13100	Københavns Andelskasse
6860	Nordfyns Bank Aktieselskabet	9137	Ekspres Bank A/S	13290	Andelskassen Fælleskassen
6880	Totalbanken A/S	9212	Hals Sparekasse	13330	Slagelse, Andelskassen J.A.K
7230	Østjydsk Bank A/S	9283	Langå Sparekasse	13460	Merkur, Den Almennyttige Andelskasse
Total institutions: 51					
Group 4 - Working capital less than DKK 250 mill.					
544	Refsnæs Sparekasse	9369	Søby-Skader-Halling Sparekasse	13350	Østervraa, J.A.K. Andelskassen
579	Sparekassen Den lille Bikube	9627	Ulfborg Sparekasse		
800	Flemløse Sparekasse	9629	Stadil Sparekasse		
1693	PFA Udbetalings Bank	9639	Fjaltring-Trans Sparekasse		
5125	Leasing Fyn Bank	13070	Faster Andelskasse		
6620	Coop Bank A/S	13220	Andelskassen OIKOS		
Total institutions: 13					

Acquisitions, mergers and institutions closed down in 2014			
Institutions closed down		**Continuing institutions**	
6060	DiBa Bank A/S		Closed
6160	FS Bank A/S		Closed
9351	Sparekassen Hobro	9217	Jutlander Bank A/S
9358	Vistoft Sparekasse	9388	Sparekassen Djursland
3450	Funder Fælleskasse Andelskasse		Closed

Acquisitions, mergers and institutions closed down in 2015			
Institutions closed down		**Continuing institutions**	
7440	Nørresundby Bank A/S		Closed
9690	Vorbasse-Hejnsvig Sparekasse	9335	Sparekassen Kronjylland

Note: Working capital consists of: Deposits, issued bonds etc., subordinated debt and equity.
Source: Danish FSA.