FINANSTILSYNET

Banks

Market developments

FINANSTILSYNET

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1. Summary

Banks' profits fell in 2019 to DKK 25 billion as opposed to DKK 30 billion the previous year. Core earnings also fell by DKK 5 billion to DKK 8.9 billion and are still under severe pressure due to the low interest rate environment. The banks' current earnings situation has been affected by the COVID-19 crisis and loan impairments are expected to increase significantly as a result of customers experiencing difficulties during and possibly even after the crisis. Impairments during the period 2015-2019 have been historically low, but with impairments corresponding to the historical average for the period 1980-2019 of 0.9 per cent of loans and guarantees, profits in 2019 would, on the other hand, be more than halved, with several small banks ending up with an outright deficit. In light of this, it is positive that the sector is overall significantly better capitalised than before the last financial crisis in 2008-2009. Therefore, the banks are considered to be better equipped to handle an economic downturn.

Banks' lending increased by 2.2 per cent in 2019, which was the same as the year before. However, there is still a large difference in lending growth between the banks and across groups, with the smaller banks in particular experiencing strong growth. The moderate growth in lending in recent years, combined with the sector being well-capitalised and also the release of the countercyclical capital buffer, means that banks have the capacity to provide loans to customers faced with temporary problems as a result of the COVID-19 crisis.

The impairment rules do not prevent credit from being granted in the current crisis situation. Loans to companies with healthy finances must continue to be treated as healthy. Conversely, it is important that banks write down loans to companies which are credit-impaired and that they do not relax the requirements for timely impairments. One lesson learnt from past crises is that nothing has been gained by postponing impairments. The outside world will lose confidence in the financial statements and financial resilience of financial companies.

Along with the financial crisis, the agricultural sector in particular has been under great strain due to many bad loans, and banks have had a hard time reversing this development. For the first time since 2015, the NPL ratio in agriculture fell from 25 per cent in 2018 to 22 per cent in 2019, following the general progress made by many farms[1]. In addition, agriculture has, for the time being, not been considered as being severely affected by the current COVID-19 crisis. Unlike companies within the retail and hospitality sectors. The banks' total lending to these industries was DKK 103 billion in 2019, and impairments and NPLs are expected to increase substantially as a result of the crisis.

Banks still have a considerable deposit surplus and their liquidity situation is well-equipped to handle the current COVID-19 crisis. Since autumn 2019, many banks have introduced negative deposit rates for private customers and the amount limit for deposits which are not covered has been significantly reduced on an ongoing basis in several institutions.

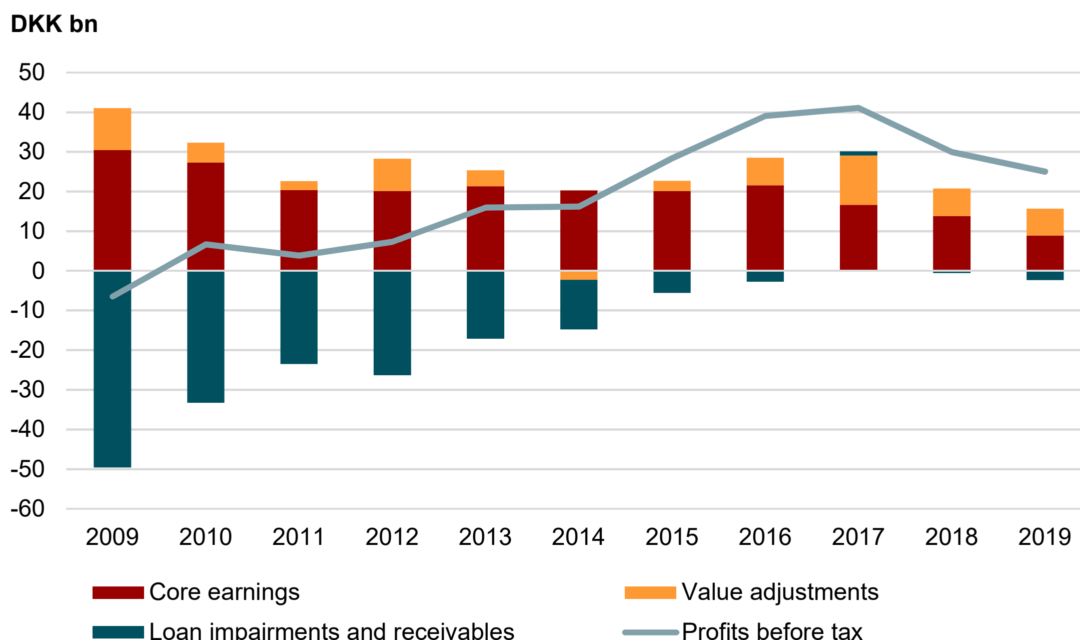
[1] Non-performing loans (NPL) are loans that are more than 90 days past-due or the debtor is assesed as unlikely to pay its credit obligations in full without realisation of collateral.

2. Core earnings

The banks' profits reached DKK 25 billion at the end of 2019, see figure 1. This is DKK 5 billion down from 2018. The decline in the past year is due to a fall in core earnings of DKK 5 billion and an increase in impairments on loans by DKK 1.8 billion, but starting from a very low level. On the other hand, earnings from subsidiaries increased by DKK 1.9 billion. Value adjustments are unchanged.

The earnings situation of banks is currently affected by the COVID-19 crisis, which the results presented in this article do not reflect. Several institutions have suspended their financial expectations for 2020 due to the current very uncertain situation. Danish banks are generally well-capitalised, and their capital and liquidity situation is significantly better than before the financial crisis. Therefore, banks are considered to be better equipped to handle an economic downturn resulting from the COVID-19 crisis. However, the banks' impairments for customers will rise sharply as a result of the deteriorating finances of businesses and households. The stress test applied by the Danish Financial Supervisory Authority (FSA) to Danish credit institutions includes a scenario involving a global crisis which hits as hard or harder than the current scenarios.[2] Therefore, the current assessment is that credit institutions generally have sufficient capital to deal with future losses, ensuring that the crisis does not pose a threat to financial stability.

Figure 1: Banks' profits continue to fall



Note: Core earnings are net interest and fee income, staff and administration expenses and other operation income and costs. It is a measure for banks' core business.
Source: Reports to the FSA.

Although profits were initially high in 2019, they must be seen in relation to the very low impairment level up to that point. A historical average loss for the period 1980-2019 of 0.9

[2] Danmarks Nationalbank, Ministry of Finance, the Economic Council and IMF

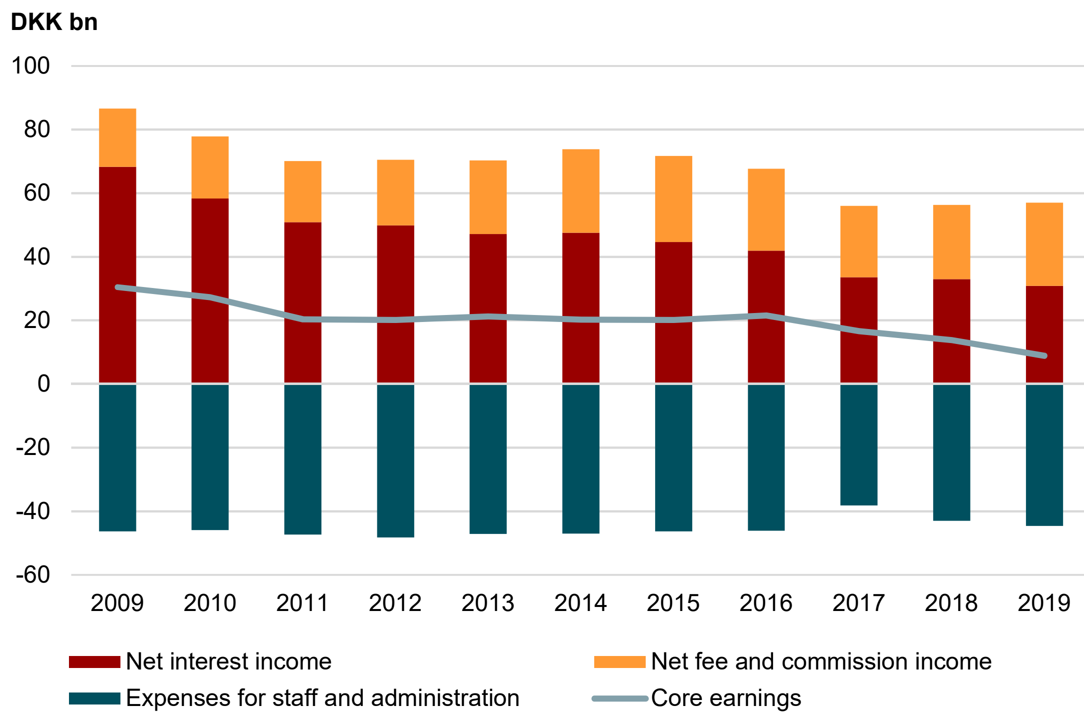
per cent of loans and guarantees would amount to total impairments of DKK 16 billion for the banks. In that case, the profits would be more than halved and nine banks would be in deficit as opposed to the four that were actually in that position in 2019. However, only smaller banks, including newer institutions and niche banks, would have been in deficit. The pressure on banks' core earnings means that current earnings do not have the capacity to withstand major losses, which must therefore be covered by own funds. A loss of DKK 16 billion should be viewed in relation to the fact that the banks' core earnings, which act as the first buffer against losses, have fallen by DKK 22 billion since 2009. In order to maintain the same buffer capacity in 2019, the fall in core earnings needed to be offset by higher own funds of 1 percentage point. Even though own funds have risen by 6.3 percentage points during the period, among others because of increased capital requirements, the capital adequacy ratio, on the other hand, has decreased by 1.4 percentage points.

The banks' core earnings in 2019 were DKK 8.9 billion. This means that this figure has more or less halved in the past two years, see figure 2. Core earnings are under pressure from the low interest rate level, and with the prospect of this continuing, banks are also expected to be challenged in their core business going forward.

In 2019, net interest income fell by DKK 2.1 billion. This decrease was offset by a slightly larger increase in net fee income due to a historically high remortgaging activity in the summer of 2019. In the longer term, however, the institutions cannot expect the fees to fully offset the decrease in net interest income.

The fall in core earnings is due to staff and administrative expenses rising by DKK 1.5 billion, while other operating income has decreased by DKK 1.4 billion. In addition, depreciation and impairments on assets have increased by DKK 2.6 billion.

Figure 2: Considerable pressure on core earnings as a result of the low interest rate environment

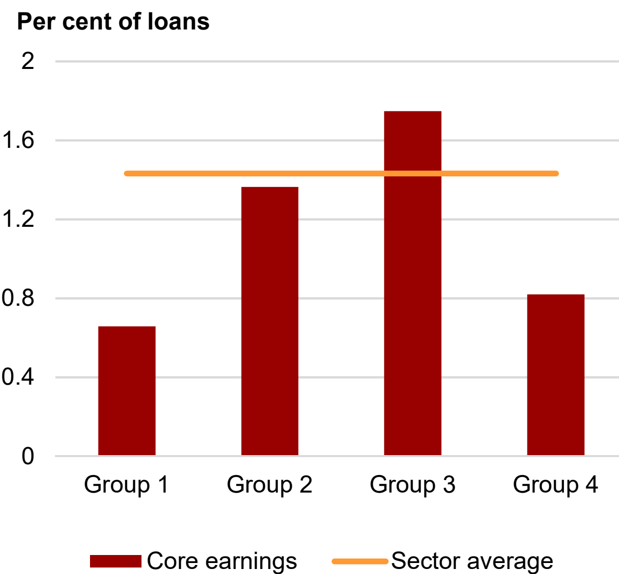


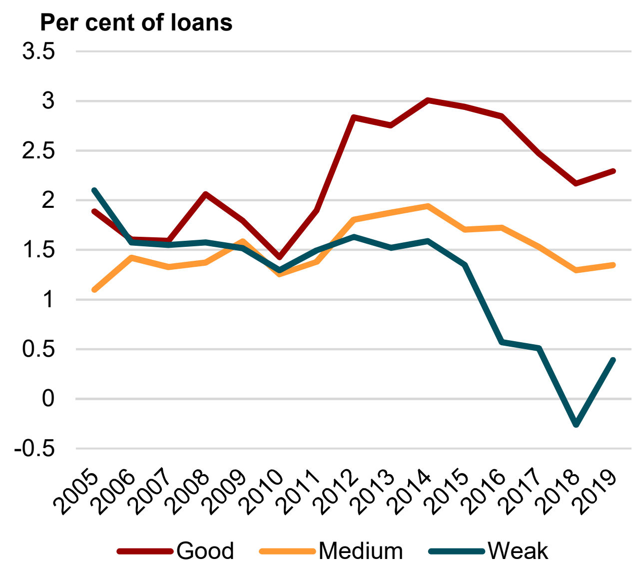
Source: Reports to the FSA

There are significant differences in core earnings between the individual banks. There is a general tendency for the large institutions and the very small institutions to have lower core earnings in relation to loans than the medium-sized institutions, see figure 3 .a.

Figure 3.b shows core earnings for the banks in the period 2005-2019, with the institutions being divided into three equal groups according to the size of their core earnings in 2019. The figure shows that earnings problems are concentrated in the institutions which belonged to the weakest third in 2019. However, it is true for all banks that the pressure on core earnings came about in 2014-2015, when the low interest rate environment was seriously gaining ground. However, the group of institutions described as "weak" in the figure differs in particular by having higher costs than the other groups.

Figure 3: Large difference in core earnings across institutions





Note: The average for groups and the sector is calculated as a simple average. In the graph on the right, the banks are divided into three equal groups: "Good", "Medium" or "Weak", according to the size of their core earnings in 2019. Outliers are not included.
Source: Reports to the FSA.

While the banks' core business is under pressure, new technology and legislation are creating new business opportunities. The EU PSD2 Directive, which regulates the payment services market, has helped open up the payment markets for new operators. This should lead to more competition, greater choice and better prices for consumers.

The number of banks in Denmark has fallen from 222 in 1990 to 67 in 2019. This is due to mergers as well as discontinued institutions and relatively few new banks have appeared. Since the financial crisis, only Coop Bank (2013), Maj Bank (2015), Lunar Bank (2019) and Facitbank (2019) have been authorised to operate as banks, see box 1.

Box 1: Banking licences

Companies which receive deposits from the public and provide loans at their own expense must have a licence to operate as a bank.

Obtaining a licence to run a bank is a major process, very much tailored to the individual institution. There is no application form on the FSA's website for this. The company prepares material for the application together with its advisors. The Financial Business Act's sections 14 and 7 are among the texts stating the conditions for obtaining authorisation to operate as a bank.

One of the conditions is that the company is a joint stock company with a share capital amounting to at least EUR 5 million. However, the company's capital requirements are set specifically on the basis of the business model and budget presented, so that all applicable capital requirements can be met with capital adequacy throughout the budget period. The company must also have its registered office and head office in Denmark.

As part of the application process, the company and the FSA discuss the business model and budget. The company must set up a number of alternative scenarios and stress tests which illustrate its profitability and capital situation if things do not go as planned. It is crucial that the company presents a business model that can be proven to be sustainable and where the company is capitalised from the outset to handle both the budgeted business development and the scenario where the situation evolves less favourably.

In addition, the company must have a board of directors and executive board which meet the fit and proper requirements. Shareholders who own a qualifying holding in the company must be approved by the FSA. A qualifying holding is at least 10 per cent of the share capital or voting rights. The purpose of the FSA's assessment is to ensure sound and proper management of the company.

The FSA will make a decision within six months of the company submitting all the necessary information and no later than 12 months after the FSA has received the application.

However, development must also be viewed in light of the regulation on the payment service area, which since 2009, has made it possible to offer certain bank-like products with authorisation as a payment or e-money institution instead, see box 2.

Box 2: Fintech, payment and e-money institutions

The payment service area was regulated independently in Denmark in 2009. In 2018, the revised Payment Services Directive, PSD2, was implemented in Denmark. One of the aims of regulating the payment service area has been to increase competition in the payment area by introducing new types of licences which would allow, for example, fintech companies to offer bank-like products, such as mobile payment solutions, crowdfunding, credit card issuance to SMEs and individuals, financial management assistance and cross-border payments.

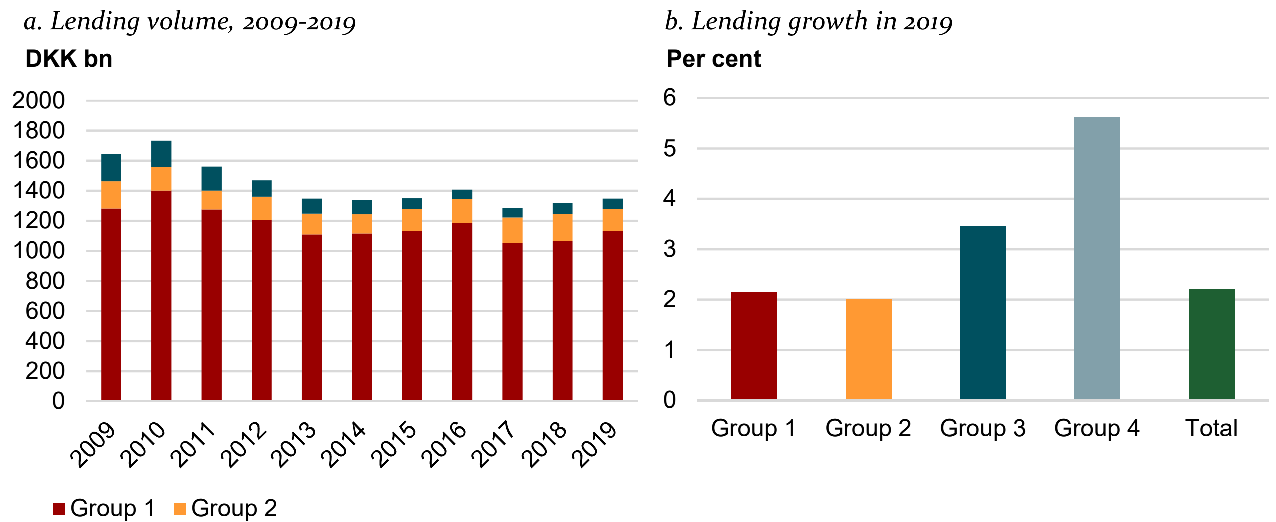
The common denominator among several of these activities is that they have traditionally been offered by the banks, but that they can also be offered if a company has authorisation to operate as a payment or e-money institution from the FSA. In Denmark, 16 licences of this type have currently been issued. Authorisation to operate as a payment or e-money institution is often the first encounter fintech companies have with financial regulation.

This development must also be viewed in light of the fact that a licence granted as a payment or e-money institution is less extensive than a bank licence, as the risks are less, but that it still allows funds to be received, stored and distributed in the manner of a bank. The licence contains capital requirements and a number of consumer protection obligations. Measures to combat money laundering and terrorist financing are also required. However, it also contains restrictions. For example, the institution cannot receive deposits and the licence typically does not allow participation in the central financial infrastructure. Therefore, there is an emerging trend being observed in the EU, that certain types of payment institutions, over time, apply to become banks.

3. Developments in granting credit

Banks' total lending grew by 2.2 per cent in 2019, see figure 4. The growth level was the same as the year before. If an adjustment is made for Nordea's subsidiaries becoming branches, which caused a decline in 2017, the sector has increased its lending since 2014. The smaller institutions saw the largest growth in 2019, with 5.6 per cent and 3.5 per cent for group 4 and group 3 respectively. Both groups 1 and 2 had a lending growth rate of around 2 per cent.

Figure 4: Growth in lending continued in 2019



Note: Balanced loans excluding repo transactions. The graph on the right is adjusted for locked groups and mergers.
Source: Reports to the FSA.

Box 3: Accurate impairments – even during a crisis

In the current COVID-19 crisis, the FSA understands that simplified authorisation procedures may be needed compared to usual practice, so that good customers can have reasonable requests fulfilled for additional liquidity for a limited period.

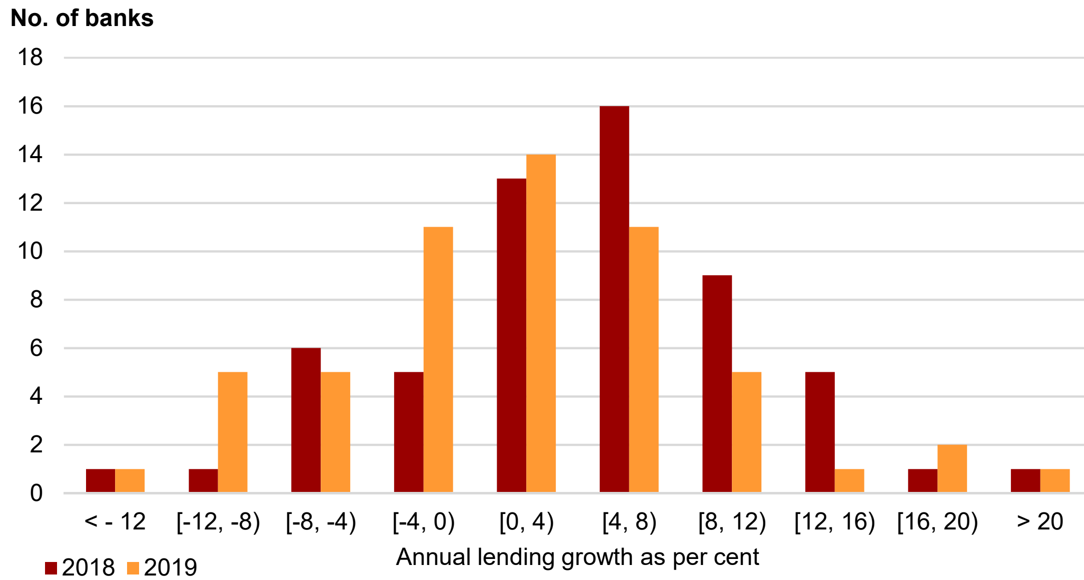
Under the international accounting rules for financial instruments, IFRS-9, credit institutions are required to make loan impairments forward-looking, and not only when they actually realise losses. When assessing expected losses, the institutions must take into account current conditions and their expectations for economic development.

Temporary forbearance measures for creditworthy customers as a direct result of the COVID-19 situation do not in themselves result in a significant deterioration in the customer's creditworthiness and in increased impairment requirements.

In the case of temporary breaches of terms or conditions, each individual bank should carry out a specific, individual assessment of the circumstances. If there is an indication of credit deterioration but not an impairment in the most likely scenario, there is no need to put the customer in stage 3 and, therefore, no need in many cases either to categorise the customer as non-performing. The size of increased impairment requirements will depend on the institution's credit ratings.

When the banks' core business is under pressure, it creates a breeding ground for an increased risk appetite, e.g. through easier credit lending. Increased risk-taking increases vulnerability when times change, such as in the current situation. In recent years, many institutions have seen double-digit lending growth, see figure 5.

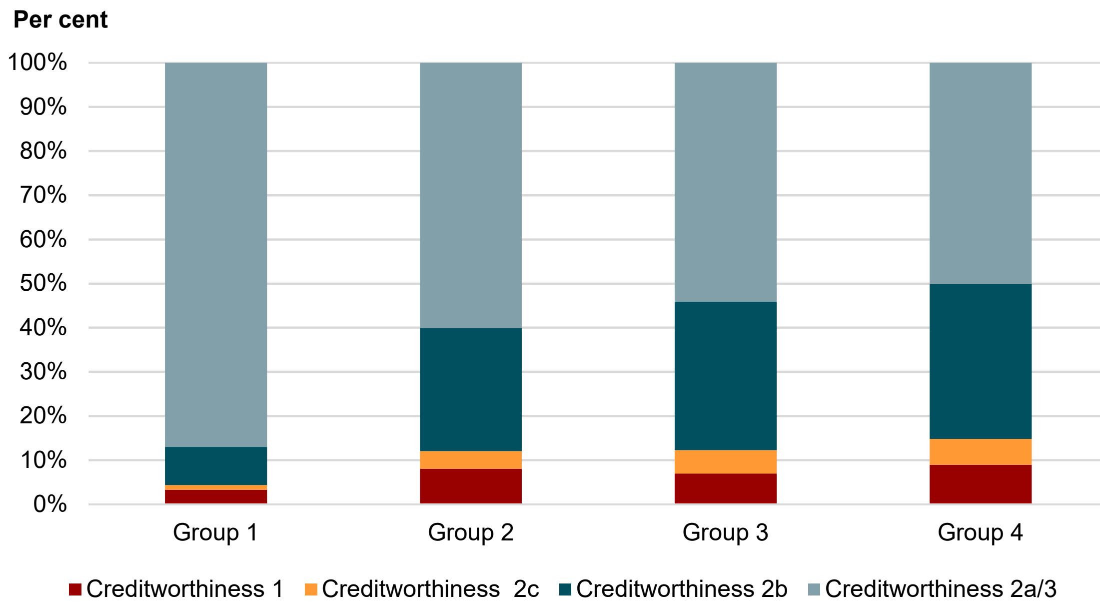
Figure 5: Many institutions have high growth in lending



Note: Annual lending growth in balanced loans excluding repo transactions. Adjusted for locked groups and mergers.
Source: Reports to the FSA.

For smaller institutions, loans with poor creditworthiness make up a relatively high proportion, see figure 6. This has been the general picture for many years.

Figure 6: Loans from smaller institutions have poorer creditworthiness



Note: Creditworthiness categories are: 3 - Customers with unquestionably good creditworthiness, 2a - Customers with normal creditworthiness, 2b - Customers with certain weakness indicators, 2c - Customers with severe weakness indi-cators, but with no objective indication of credit deterioration (OIK), 1 - Customers with objective indication of credit deterioration (OIK)
Source: Reports to the FSA.

The banks' risk classification of customers is significant for the credit risk area, and it is important that banks regularly check and test that the classifications are correct and properly documented. The FSA monitors developments regularly and has also conducted a preliminary study in 2019, to identify significant risks, as well as a thematic study in 2020 focusing on management and control of the institutions' risk classification, see box 4.

Box 4: Risk classification study

Banks must regularly produce a correct risk classification of all their customers, which must be divided according to their financial health, i.e. creditworthiness.

For example, the banks use the risk classification of customers when making decisions about granting credit and when management needs to form an overview of and decide on the overall credit risks. Banks also usually use classifications as input for calculating impairments on credit exposures.

The risk classification of customers is therefore significant for the credit risk area in banks. It is important that the classification does not paint too positive a picture of the credit risk and that banks regularly check and test that the classifications are correct and properly documented.

The FSA regularly monitors the development of banks' creditworthiness and receives a bi-annual report on their credit exposures organised according to creditworthiness and sectors. In this instance, creditworthiness must be calculated according to the FSA's scoring system of 3, 2a, 2b, 2c and 1, which goes from definitely good creditworthiness (3) to definitely poor creditworthiness (1). If a bank uses a different rating system which may have different features to the one used by the FSA, the institution must, when reporting to the FSA, ensure proper calibration with the FSA's rating scale.

The FSA will normally include the banks' risk classification in its ordinary investigations of the institutions because errors and inaccuracies in classifications entail a significant risk to the individual institution.

In 2019, the FSA completed a preliminary study of the banks' risk classification in connection with the planning of a thematic study on classifications. The purpose was to identify the significant risks in the area in order to target the thematic study at the most relevant areas.

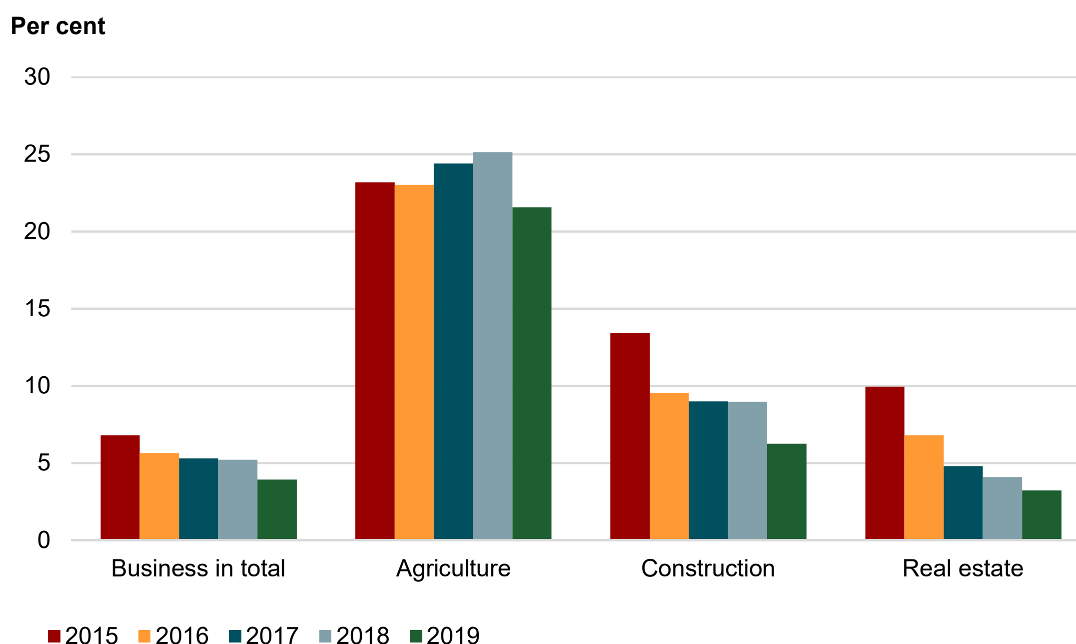
In early 2020, the FSA conducted a thematic study of six selected small and medium-sized banks' use of risk classification of customers. It focused on the institutions' management and control of risk classification, including databases, regular updates, responsiveness to cyclical factors, internal controls, validation and reporting. The FSA also looked at whether the institutions were correctly calibrated with the FSA's rating scale when reporting the distribution of creditworthiness.

It is still too early to draw conclusions based on the thematic study. The FSA will publish the main conclusions when the study is completed.

Over the past five years, the ratio of non-performing loans (NPLs) as part of total corporate lending has been steadily declining. In 2019, the ratio was 3.9 per cent versus 6.8 per cent in 2015, see figure 7. In particular, banks' lending to the agriculture sector has been adversely affected by many bad loans. So far, it has been difficult for banks to reverse this trend, and NPL loans to agriculture have largely been unaffected by the favourable economic climate. However, the NPL ratio in agriculture has fallen from 25 per cent in 2018 to 22 per cent in 2019, see figure 7. In 2018, the agriculture sector was affected by severe drought, low settlement prices and losses, while there were large price increases especially for pork in 2019 and general progress among pig, dairy and arable farmers.[3] In addition, agriculture has, for the time being, not been considered as being severely affected by the current COVID-19 crisis.

On the other hand, as a result of the public lockdown and the ban on gatherings and people entering the country, companies, particularly in the retail and hospitality sectors, are being exposed to factors which are exacerbating the situation drastically. The banks which are most exposed to these industries are expected to suffer significant losses. The banks' total lending to the retail and hospitality sectors was DKK 103 billion at the end of 2019.

Figure 7: NPL ratio has fallen significantly for agricultural lending



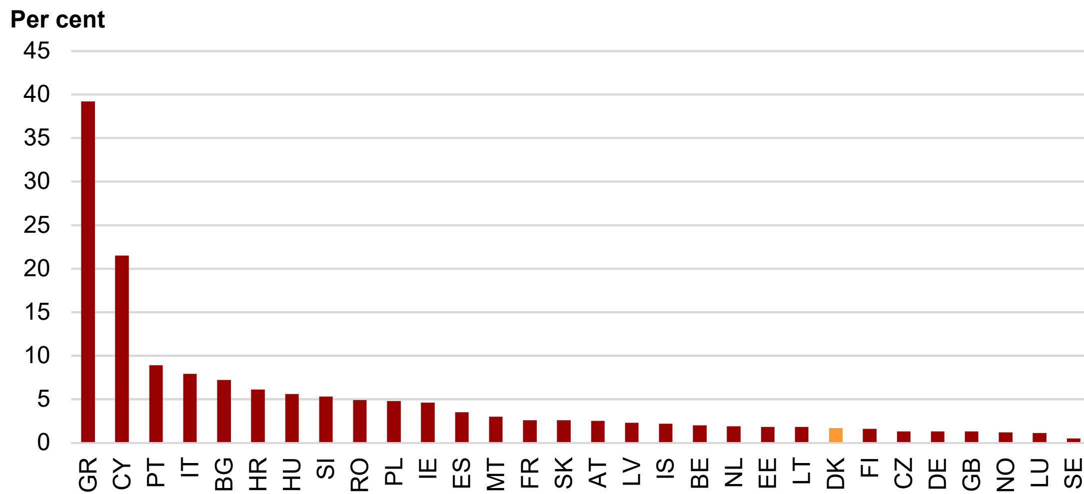
Note: Includes banks in group 1-3. Non-performing loans (NPL) are loans that are more than 90 days past-due or the debtor is assesed as unlikely to pay its credit obligations in full without realisation of collateral.
Source: Reports to the FSA.

Bad loans usually take a long time to settle, and it is difficult for a bank with many bad loans to raise new capital on reasonable terms. Settling bad loans will often cause a significant loss, and many institutions have been reluctant to pursue this. Particularly in southern Europe bad loans have been a great problem for banks, see figure 8. The EU has adopted a new

[3] SEGES, Knowledge Centre for Agriculture and Food

minimum capital adequacy requirement for non-performing exposures to make it less attractive for banks to keep bad loans on the balance sheet and grant new bad loans, see box 5.

Figure 8: NPLs are a greater problem for southern European countries in particular



Note: NPL ratio in percentage of total loans and advances. Includes the largest banks in Europe on consolidated level.
Source: EBA Report on NPLs - Progress made and challenges ahead

Box 5: Introduction of minimum capital loss coverage - the NPE backstop

The EU has adopted a new requirement for minimum capital adequacy coverage for non-performing exposures (NPEs), which came into force on 26 April 2019. The new requirement requires credit institutions to deduct own funds to ensure sufficient capital to cover NPEs. It is referred to as an NPE backstop.

The purpose of the NPE backstop is to make it less attractive for banks, on the one hand, to keep the bad loans on the balance sheet and, on the other, to grant new bad loans. It is intended to make the financial system more resilient.

The calculation of minimum coverage for NPEs depends partly on how long the exposure has been an NPE and partly on how the exposure is protected by different types of security, e.g. a mortgage on property. The calculation is also based on a factor between 0 and 1, which is dependent on the above-mentioned variables.

$$\text{The minimum capital loss coverage:}$$
$$(\text{Unsecured part of NPE} * \text{Factor}) + (\text{Secured part of NPE} * \text{Factor})$$

When calculating the secured part of the exposure, the institution may use collateral which meets the security type and limits requirements in CRR. The unsecured part is then calculated as the difference between the exposure and the secured part.

The unsecured part of the NPE must be fully covered after three years (corresponding to a factor of 1), while the secured part must be fully covered after seven or nine years, depending on the type of security. Since the factor is zero for the first two years when the exposure has been an NPE, the minimum coverage will be zero until 26 April 2021.

The deduction of own funds is calculated as the difference between the calculated minimum cover and impairments and other reductions in own funds for each NPE.

There is a transitional arrangement for exposures created prior to 26 April 2019. This means that these exposures are not covered by the NPE backstop. However, it assumes that the institution will not subsequently change terms and conditions in a way that increases its exposure to the debtor.

Regardless of the transitional arrangement and the time of implementation, banks should take into account the new requirements in their capital objectives and capital plans. In this context, banks should estimate the potential capital effect over time.

Finally, the EU technical regulation on reporting is being amended, with one of the reasons being to take into account the new requirements for NPEs. The first report according to the adapted rules is expected to be submitted by 30 June 2021.

The FSA is also in the process of examining the relationship between banks' NPL loans, arrears and stages in an ongoing investigation of IFRS-9 impairments, see box 6.

Box 6: Investigation of IFRS-9 impairments

The FSA has launched a benchmark analysis of the banks' implementation of the new accounting rules arising from IFRS-9, which came into force in 2018. The analysis concerns the majority of institutions in groups 1-3 and deals with the institutions' classification of exposures in stages and at impairment levels.

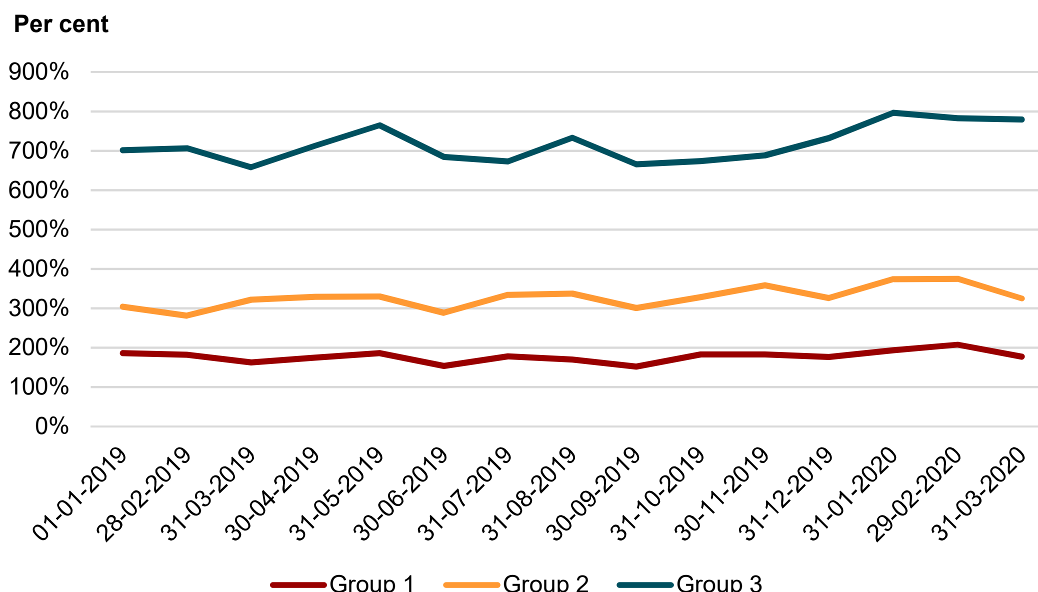
Among other things, the FSA is investigating whether there is any correspondence between any arrears on exposures and the stage they are recognised at and whether some institutions have particularly high or low impairment levels at both industry and portfolio level.

The FSA will publish the main conclusions when the study is completed.

4. Deposit surplus and negative deposit rates

During 2019 as well as at the beginning of 2020, the banks had strong liquidity positions and were therefore at a good starting point for the COVID-19 crisis, see figure 9. The banks' strong liquidity positions mean, among other things, that they are well equipped for any unexpected withdrawal of overdraft facilities from SMEs and large companies.

Figure 9: Strong liquidity positions measured by LCR

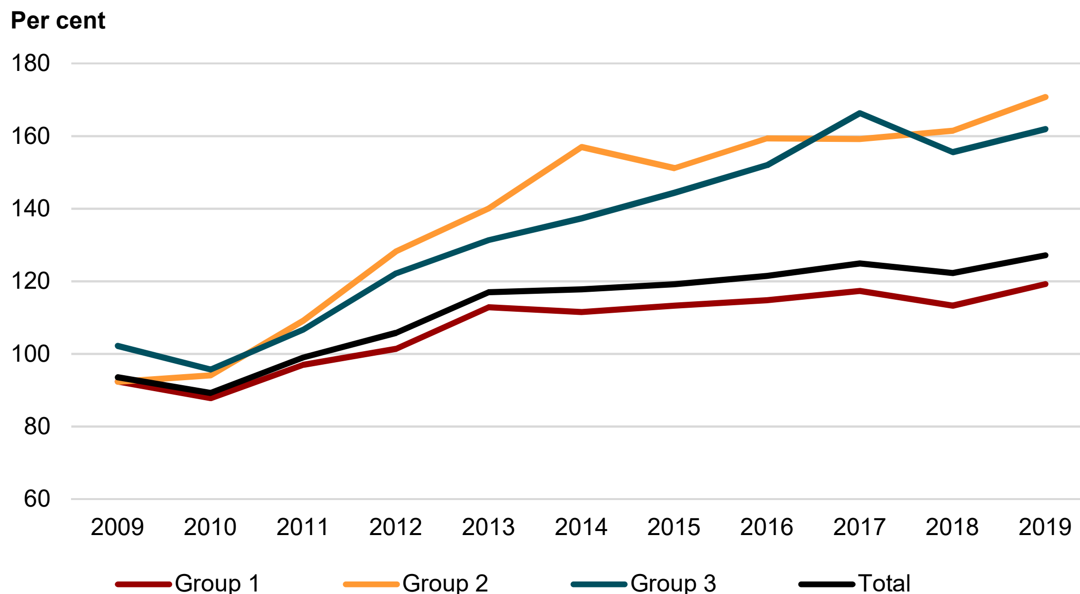


Note: Simple average of LCR levels. The LCR requirement is min. 100 per cent.
Source: Reports to the FSA.

The sector's total deposit surplus excluding repos was DKK 366 billion in 2019, marking an increase of 25 per cent from the previous year. This comes from deposits increasing more than loans. With a positive deposit surplus, banks are not, at the time of writing, relying on having to finance themselves in the market for their lending business.

The sector as a whole has had a positive deposit surplus since 2012, see figure 10. Only a few smaller institutions have had a deposit deficit over the past few years.

Figure 10: High deposit surplus in the sector



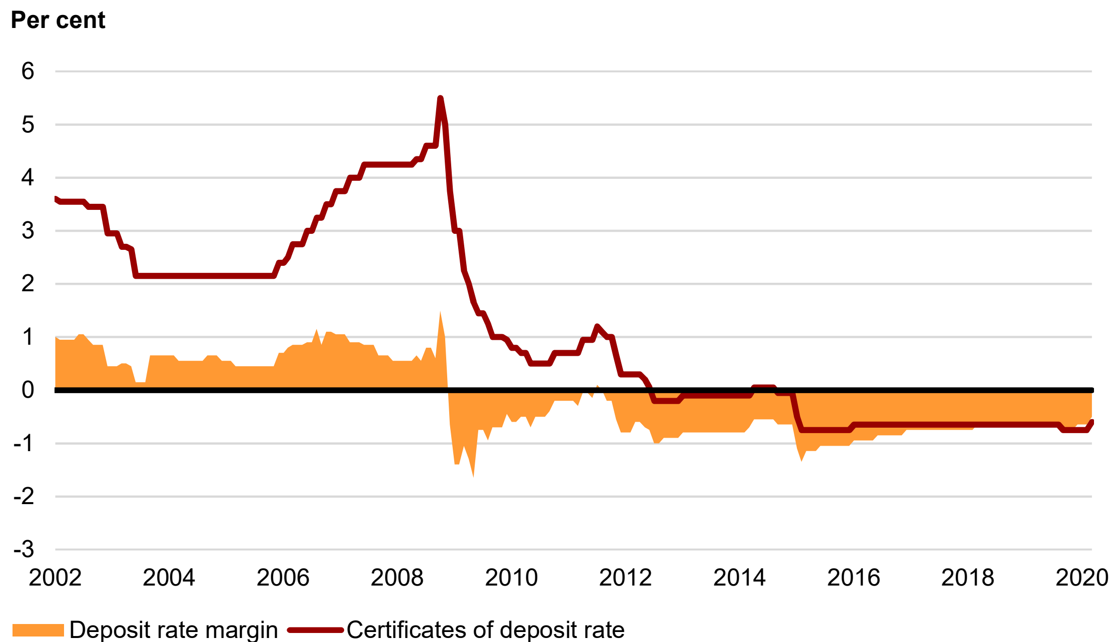
Note: The deposit surplus is calculated as balanced surplus towards balanced loans excluding repo transactions. There is a deposit surplus, when the ratio is over 100 per cent.
Source: Reports to the FSA.

Since September 2014, the certificates of deposit rate at Danmarks Nationalbank has been negative, see figure 11. In September 2019, the interest rate were reduced to -0.75 per cent, which was the first change in more than three years. As a result of Danmarks Nationalbank's sale of currency, the interest rate were raised to -0.6 per cent from 20 March 2020.

The certificates of deposit rate fell dramatically during and after the financial crisis and the banks' average deposit interest rate margin has been largely negative since then, see figure 11. This means that the banks' deposit rates have been higher than what they have been able to invest excess liquidity for at Danmarks Nationalbank or on the money market. The persistently low level of interest rates initially led to negative deposit rates for business customers. Since the autumn of 2019, many banks have also introduced negative deposit rates for private customers. Initially, these applied to customers with large deposits (typically above DKK 750,000), but the amount limit was subsequently lowered substantially in several banks. Some institutions now take negative interest rates on deposits from customers who do not have a NemKonto in the respective bank.

It is the opinion of the FSA that financial legislation is unable to prevent banks from charging negative interest rates to customers. It is up to the financial complaint boards and courts to decide whether the individual banks are restricted on a contractual basis from imposing negative deposit rates.

Figure 11: Banks' deposit interest margin has been negative for many years



Note: The cerfiticates of deposit rate at Nationalbanken and average deposit rate margin in banks. Deposit rate margin is calculated as the difference between certificates of deposit rate and the average deposit rate. The deposit rate is determined quarterly, while the certificates of deposit rate is determined monthly. Thus the calculated average deposit rate margin in 2009 is higher, than it actually was.
Source: Nationalbanken and Danmarks Statistik

5. Consumer aspect

Banks play a key role as a distributor of financial products and services to consumers. This applies regardless of whether financial consumers, for example, need a mortgage credit loan, want to make free asset investments or want additional retirement savings. Banks in financial groups offer customers who pool their financial businesses in the group's companies particularly favourable terms. Banks which are not part of groups typically have similar agreements with other financial companies to offer similar full-service benefits.

Banks can put together a variety of products in financial packages for consumers. For example it may be a financing agreement for a new homeowner, which includes both a mortgage credit loan, a bank loan for residual financing and a life insurance contract, thereby ensuring that the loan is repaid in the event of the borrower's death.

In light of their great insight into financial consumers' finances, wishes and needs, banks have, at the same time, a great influence on the products which, for example, the mortgage banks or investment firms develop.

With such a key role comes a particular responsibility for ensuring that the individual consumer's total package of financial products also fits the individual's needs, wishes and financial capacity. The same is true in situations where there is a risk that consumers, without being aware of it themselves, will "inflate their balance", e.g. by taking out a loan at the same time as they have savings or investments.

In 2018, new rules came into force requiring financial companies to have procedures for approving new products. The procedures must ensure that companies determine the relevant target groups for new products. This means that the financial product must be appropriate and suitable for the customers who are offered it. The companies must carry out product tests to assess how the product will affect consumers in a number of scenarios, including stress scenarios.

Box: 7 Credit rating assessment

A bank is obliged to carry out a credit rating assessment as part of granting credit to a financial consumer. Based on the borrower's income, outgoings and other debts, the bank assesses whether the borrower will be able to repay the loan with interest, instalments and any fees in accordance with the loan agreement. The bank must only grant the loan if this is the case.

A credit rating assessment differs from an assessment of the creditor's loss risk. A loss risk assessment focuses on whether the lender is supposed to make a profit or lose money on concluding a credit agreement.

6. Annexes

Annex 1: Annual accounts for banks 2015–2019

	2015	2016	2017	2018	2019	Change, 1 year	Change, 5 years
Income statement	*DKK millions*					%	
Interest income	59,947	57,318	46,945	49,528	49,133	-0.80	-18.04
Interest expenses	15,342	15,407	13,377	16,576	18,330	10.58	19.47
Net interest income	***44,605***	***41,910***	***33,568***	***32,952***	***30,803***	***-6.52***	***-30.94***
Dividends from assets, etc.	1,455	893	543	525	1,060	101.89	-27.16
Fee and commission income	31,855	31,022	27,070	28,354	30,421	7.29	-4.50
Fee expenses and commission	6,234	6,175	5,236	5,515	5,320	-3.52	-14.66
Net interest and fee income	***71,681***	***67,651***	***55,945***	***56,316***	***56,964***	***1.15***	***-20.53***
Expenses for staff and administration	46,329	46,149	38,200	43,104	44,650	3.59	-3.62
Other operating income	3,096	3,415	2,206	3,994	2,568	-35.70	-17.04
Other operating expenses	1,119	213	240	178	182	1.93	-83.74
Amortisation and impairments of intangible and tangible assets	7,225	3,160	3,059	3,231	5,842	80.82	-19.14
Core earnings	***20,104***	***21,545***	***16,653***	***13,797***	***8,858***	***-35.79***	***-55.94***
Value adjustments	2,565	6,940	12,437	6,935	6,781	-2.23	164.32
Loan impairments and receivables, etc.	5,618	2,752	- 1,009	609	2,379	290.88	-57.65
Profit from investments in associates	11,332	13,368	10,988	9,830	11,775	19.78	3.91
Profits before tax	**28,383**	**39,101**	**41,087**	**29,954**	**25,036**	-16.42	-11.79
Tax	4,480	5,362	6,033	4,181	- 1,481		
Net profit for the year	**23,903**	**33,739**	**35,054**	**25,773**	**26,517**	2.89	10.94

Note: The figures are based on the banks which existed in the individual years.
Source: Reports to the FSA.

	2015	2016	2017	2018	2019	Change, 1 year	Change, 5 years
Balance sheet items	*DKK millions*					*%*	
Cash in hand and demand deposits with central banks	64,998	48,379	97,809	47,775	106,796	123.54	64.31
Receivables from credit institutions and central banks	238,290	407,124	405,580	309,305	205,482	-33.57	-13.77
Loans	1,642,226	1,689,317	1,543,397	1,664,321	1,792,231	7.69	9.13
Loans excl. repos	*1,351,385*	*1,408,636*	*1,291,786*	*1,320,320*	*1,349,395*	*2.20*	*-0.15*
Bonds	824,236	801,874	690,538	661,093	706,531	6.87	-14.28
Shares etc.	41,989	43,826	39,942	25,468	31,011	21.76	-26.15
Equity investments in associates	3,075	1,767	1,941	1,952	3,518	80.24	14.40
Equity investments in affiliates	158,802	157,103	114,555	118,856	123,861	4.21	-22.00
Assets linked to pool schemes	126,560	135,276	120,027	118,582	135,007	13.85	6.67
Intangible assets	11,670	11,661	10,355	11,561	12,014	3.92	2.95
Land and buildings	7,765	7,163	6,814	6,745	12,573	86.41	61.91
Other property, plant and equipment	4,384	4,760	4,574	4,732	5,661	19.63	29.11
Tax assets	3,196	2,541	2,959	4,194	5,313	26.69	66.25
Assets held temporarily	6,446	460	350	333	1,883	464.92	-70.78
Other assets	444,366	451,660	341,694	326,030	386,402	18.52	-13.04
Accruals and deferred income	3,042	2,858	2,461	2,687	2,713	0.98	-10.79
Total assets	**3,581,045**	**3,765,769**	**3,382,995**	**3,303,633**	**3,530,996**	6.88	-1.40
Debts to credit institutions and central banks	475,899	464,930	349,339	362,970	342,168	-5.73	-28.10
Deposits	1,672,728	1,797,322	1,756,102	1,784,500	1,899,053	6.42	13.53
Deposits excl. repos	1,610,547	*1,711,466*	*1,613,378*	*1,613,820*	*1,715,888*	*6.32*	*6.54*
Issued bonds	378,441	407,888	408,480	306,996	332,109	8.18	-12.24
Other liabilities	34,029	53,808	14,965	8,938	8,222	-8.02	-75.84
Accruals and deferred income	1,227	1,472	1,161	1,007	936	-7.08	-23.73
Liabilities, total	***3,189,233***	***3,366,382***	***3,035,867***	***2,959,077***	***3,161,428***	***6.84***	***-0.87***
Provisions	12,063	11,782	9,646	11,823	6,566	-44.47	-45.58
Subordinated debt	58,881	55,142	39,926	33,918	45,340	33.68	-23.00
Equity	320,868	332,463	297,556	298,816	317,663	6.31	-1.00
Total liabilities	**3,581,045**	**3,765,769**	**3,382,995**	**3,303,633**	**3,530,996**	6.88	-1.40

Note: The figures are based on the banks which existed in the individual years.
Source: Reports to the FSA.

Annex 2: Banks' financial ratios 2015–2019

	2015	2016	2017	2018	2019
%					
Capital ratio	22.00	23.24	23.83	23.32	24.64
Core capital ratio	19.74	20.68	21.35	21.51	22.03
Common Equity Tier 1 capital ratio	18.05	18.32	19.29	19.03	19.54
Return on equity before tax	8.85	11.76	13.81	10.02	7.88
Return on equity after tax	7.45	10.15	11.78	8.63	8.35
Ratio of op. income to op. expenses (DKK)	1.47	1.75	2.02	1.63	1.45
Accumulated impairment rate	3.28	2.75	2.41	2.32	1.91
Impairment ratio for the period	0.30	0.14	-0.03	0.05	0.10
Lending in relation to equity (ratio)	4.21	4.24	4.34	4.42	4.25
Total risk exposures (DKK billion)	1,507	1,496	1,270	1,286	1,328

Annex 3: Group breakdown, 2019

Group 1 - Working capital exceeding DKK 75 billion.

3000	Danske Bank A/S	8117	Nykredit Bank A/S
7858	Jyske Bank A/S	9380	Spar Nord Bank A/S
8079	Sydbank A/S		

Group 2 - Working capital exceeding DKK 12 billion.

5301	Aktieselskabet Arbejdernes Landsbank	9070	Sparekassen Vendsyssel
7670	Ringkjøbing Landbobank. Aktieselskab	400	Lån & Spar Bank A/S
1149	Saxo Bank A/S	9217	Jutlander Bank A/S
9335	Sparekassen Kronjylland	9686	Den Jyske Sparekasse A/S
522	Sparekassen Sjælland-Fyn A/S	7681	Alm. Brand Bank A/S
7730	Vestjysk Bank A/S		

Group 3 - Working capital exceeding DKK 750 million.

755	Middelfart Sparekasse	9682	Sparekassen for Nr. Nebel og Omegn
5999	Danske Andelskassers Bank A/S	9797	Broager Sparekasse
9090	Sparekassen Thy	6620	Coop Bank A/S
7320	Djurslands Bank A/S	9137	Ekspres Bank A/S
844	Fynske Bank A/S	9388	Sparekassen Djursland
9740	Frøs Sparekasse	7570	PenSam Bank A/S
6771	Lægernes Bank A/S	9827	Sparekassen Bredebro
7780	Skjern Bank A/S	537	Dragsholm Sparekasse
7890	Salling Bank A/S	7500	Hvidbjerg Bank. Aktieselskab
6860	Nordfyns Bank, Aktieselskabet	847	Rise Flemløse Sparekasse
13460	Merkur Andelskasse	9283	Langå Sparekasse
6520	Lollands Bank A/S	13080	Frørup Andelskasse
7930	Kreditbanken A/S	9312	Sparekassen Balling
6140	Møns Bank A/S	9354	Rønde Sparekasse
6880	Totalbanken A/S	9860	Folkesparekassen
1671	Basisbank A/S	9133	Frøslev-Mollerup Sparekasse

Group 4 - Working capital less than DKK 750 million.

13290	Andelskassen Fælleskassen	579	Sparekassen Den lille Bikube
9684	Fanø Sparekasse	5125	Leasing Fyn Bank A/S
9124	Sønderhå-Hørsted Sparekasse	13350	Østervrå Andelskasse
9135	Klim Sparekasse	28001	Maj Bank A/S
9634	Borbjerg Sparekasse	9629	Stadil Sparekasse
1693	PFA Bank A/S	28002	Lunar Bank
13070	Faster Andelskasse	28003	Facit Bank