Banks

Market developments 2013

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Market developments for banks in 2013

1. Summary

Bank surpluses increased in 2013 by DKK 9 bn. from DKK 7.2 bn. in 2012 to DKK 16.2 bn. in 2013.[1] The rise in surpluses is mainly due to a decrease in impairment losses and provisions on loans and guarantees. The surpluses in 2013 were the largest since 2007 and thus also the largest since the financial crisis.

Impairments on loans decreased by 37% in 2013 to DKK 17 bn. compared with DKK 27.2 bn. in 2012. Impairment losses in 2013 were thus at the lowest level since the start of the financial crisis. Proportionally, impairment losses are now below the average for the past 25 years. Impairment losses for the sector in total accounted for 0.8% of loans and guarantees in 2013 compared with an annual average over the past 25 years of just under 1.0%.

Net interest income for banks continues to fall. This is particularly due to continued falls in lending. Adjusted for repo lending, total lending by banks fell by DKK 126 bn. in 2013 from DKK 1,478 bn. to DKK 1,352 bn. at the start of 2014.[2] In total, core earnings increased from DKK 22.0 bn. in 2012 to DKK 23.1 bn. in 2013.[3] This is due to increasing net fee income etc. and cost reductions. However, there was a large dispersion between banks.

The slowdown in the demand for loans, together with stable capital and funding conditions, has encouraged many banks to increase lending (appetite for more lending). This indicates increased competition in the market for financing undertakings and households, and, all else being equal, this is good for society.

Increased competition on good loans customers may, however, lead to a risk that banks ease their credit standards excessively in relation to the underlying credit risk, e.g. by relaxing requirements for credit quality, measuring the scope of credit, collateralisation, etc. Against this backdrop, the Danish FSA has carried out a questionnaire survey regarding

[1] At the end of 2013, 85 banks were under supervision by the Danish FSA, divided into groups 1 to 4. In addition there were four Faeroese banks. Branches of foreign banks in Denmark are not included. Groups 1-3 account for about 99% of the balance sheet total of banks. Appendix 6 shows the break-down of the individual banks within the respective groups 1-4.

[2] For accounting purposes, repos (and reverse repos), which are repurchase transactions (purchase and resale transactions) are treated as deposits and loans respectively, provided the transactions are not with other credit institutions. If the transactions are with credit institutions, the repo (and reverse repo) is entered as debt to credit institutions or receivables from credit institutions, respectively.

[3] Core earnings are net earnings before value adjustments on securities holdings etc. and impairments on loans.

developments in credit standards in selected banks and segments. The survey showed that, during the past year, the competition for the best corporate customers intensified, particularly in relation to large corporate customers and structured financing.[4]

As follow-up to the survey, in the second half year of 2014, the Danish FSA will be launching a targeted study of selected banks on their credit standards for extending new loans. Among other things, the study will review concrete new lending.

The percentage of weak loans with neither objective evidence of impairment (OEI) nor solvency reservation, was reduced overall during 2013. However, this covers a development where the percentage of weak loans has fallen considerably for group 1 banks and increased for the rest of the sector. Group 1 now has an overall share of weak loans of 5.4%, whilst groups 2 and 3 have an overall share of more than 25%.

By contrast, the coverage ratio, i.e. the share of impairment losses on bad loans, evened out between group 1 and the rest of the banks in 2013. The coverage ratio for group 1 fell from 55% in 2012 to 50% in 2013. In the other banks (groups 2-4), the coverage ratio increased from 44% in 2012 to 50% in 2013.

The capital position of banks was further strengthened in 2013, with increases in the solvency ratio as well as the core capital ratio. Since the beginning of the crisis in 2008, the capital position of banks has considerably strengthened overall. At the end of 2013, the solvency ratio amounted to 22.3% against 14.3% in 2008. In 2013, capital buffers (actual capital base) in relation to the solvency need increased from 8.0% to 8.4% of loans and guarantees. However, there was a greater dispersion and some banks continue to have weak capital buffers.

The new common European capital regulations (CRR/CRD IV) place stricter requirements on the level of capital (in a series of new buffer requirements) and the composition and quality of capital.[5] In the assessment of the Danish FSA, the sector is well prepared for the new capital regulations. Taking into account the gradual phasing in of the capital requirements, only relatively few banks will be challenged by the regulations.

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[4] See the analysis on the Danish FSA website: https://www.finanstilsynet.dk/da/Nyhedscenter/Pressemeddelelser/2014/Pressemeddelelse-Analyse-kreditstandarder-nyudlaan-300414.aspx

[5] With the implementation of CRR/CRD IV, some new terminology will be adopted, where e.g. "capital base" will now become "own funds", see the glossary in appendix 8.

After adjustment for repo deposits, bank deposits increased by DKK 19 bn. in 2013 compared with the previous year. Banks now have a more balanced funding structure, including generally a higher deposits surplus throughout 2013. Adjusted for repo transactions, in which deposits and loans supported by high quality collateral are disregarded, there was a total deposits surplus of DKK 230 bn. at the end of 2013. The increasing deposits surplus reduces the need for market financing for Danish banks. This applies in particular for banks in groups 2 and 3. The primary cause of the increasing deposits surplus is the fall in loans since 2008.

In future, Danish credit institutions will be subject to a joint European liquidity requirement called the "Liquidity Coverage Ratio (LCR)". The LCR requirement is based on a requirement defined by the Basel Committee; the final wording of the European LCR requirement still remains to be drafted. Among other things, a final definition of the assets to be included in the liquidity buffer has yet to be agreed. In the Basel version of LCR, covered bonds (including Danish mortgage-credit bonds) may, as a maximum, account for 40% of the liquidity buffer, and a haircut of 15% is added to them. The treatment of mortgage-credit bonds in the European LCR has yet to be decided and is of particular significance in a Danish context, as Danish banks hold a considerable share of covered bonds in their liquidity buffers in the form of Danish mortgage-credit bonds. Denmark is therefore working to ensure that mortgage-credit bonds can continue to account for a significant element in the liquidity buffer of Danish credit institutions. If covered bonds are allowed to be recognised in LCR with up to 70% of the overall liquidity buffer, the LCR compliance of Danish banks will be significantly higher, and banks will be able to hold mortgage-credit bonds to the same extent as today.

See part 8 for general comments on the statistics behind the analysis article, including the data basis.

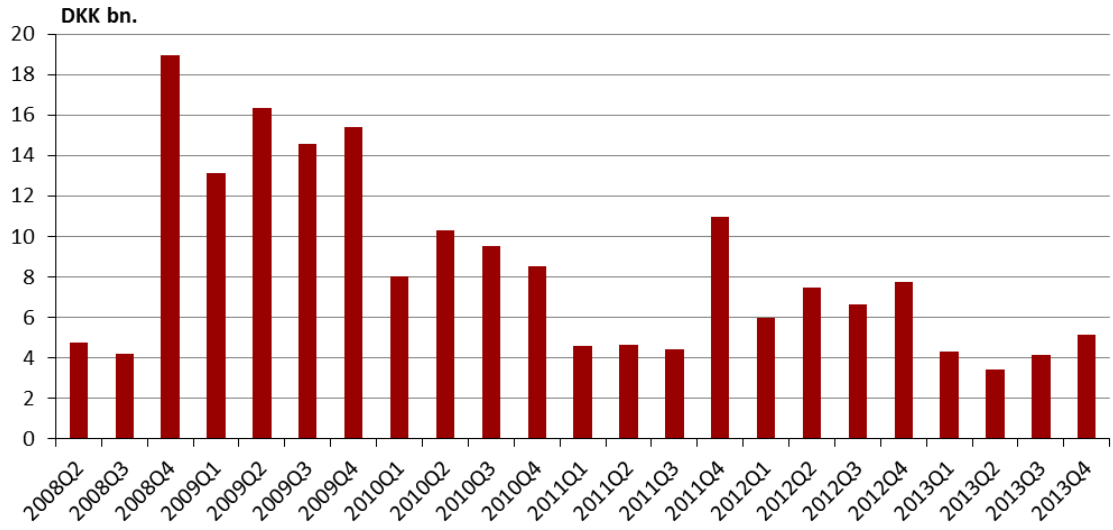
2. Main trends in Banks' financial statements

Banks' financial statements have been affected by falling impairment losses and provisions on loans and guarantees. This is compared with continued falling net interest income, primarily due to falling volumes of lending. In the financial year as a whole, impairment losses increased by 37% to DKK 17 bn. in 2013, against DKK 27.2 bn. for the previous year.

The level for impairments on loans is the lowest since the start of the financial crisis in 2008.

Overall impairment losses for the sector are spread relatively evenly over the year, see figure 1.

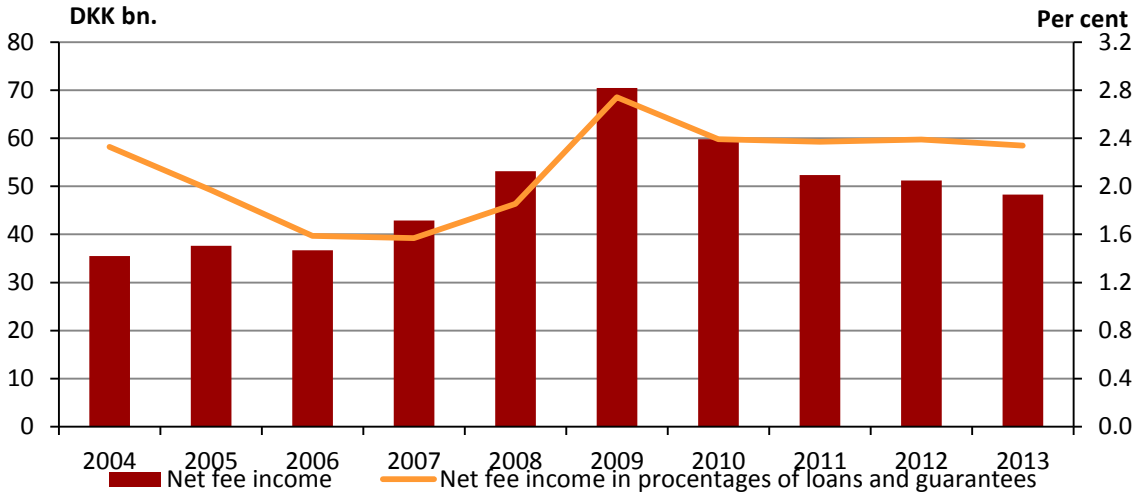
Figure 1: Quarterly impairments on loans and guarantees, Q2 2008- Q4 2013



Source: Reports to the Danish FSA.

Banks' net interest income fell in 2013 from DKK 50.3 bn. to DKK 47.4 bn., corresponding to 6%, see figure 2.

Figure 2: Net interest income, 2004-2013



Source: Reports to the Danish FSA.

Note that net interest income fell from the highest level ever in 2009 of DKK 70 bn. to DKK 47 bn. at the end 2013. The drop is primarily attributable to lower volumes of lending. In addition, banks' net interest income has been under pressure from the continued low interest rates, which put pressure on deposit margins. In 2013, the general interest margin fell for both corporate business and for households.[6]

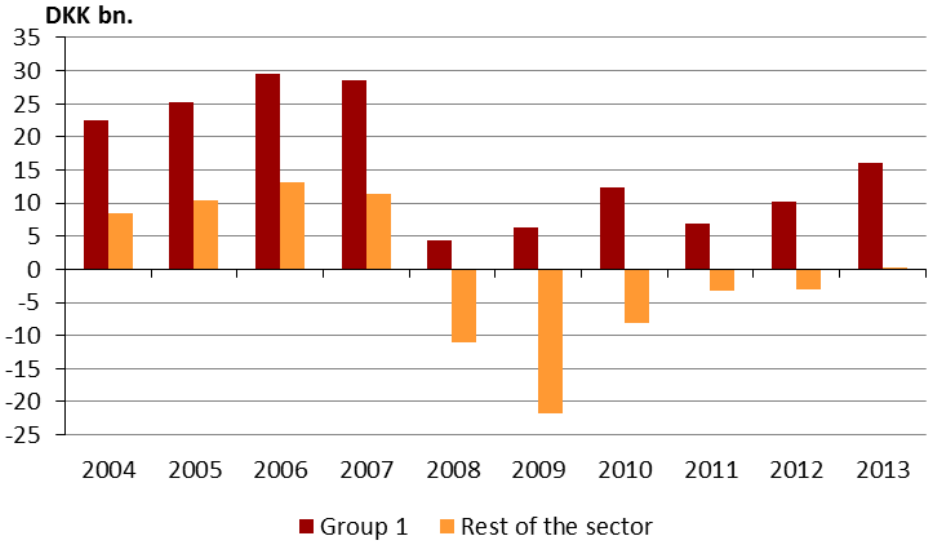
Net fee and commission income increased from DKK 19.6 bn. to 20.7 bn. (6%) in 2013. Fees and commissions from securities trading and custody accounts constituted the largest share - almost 40% of total fee and commission income for 2013.

Value adjustments of securities holdings etc. contributed positively to earnings in 2013 but were cut by 50% from total gains of DKK 8 bn. in 2012 to total gains of DKK 4 bn. in 2013. Particularly shares, currency and (for larger banks) issued bonds contributed to net gains.

Overall, banks earned profits of DKK 16.2 bn. before tax in 2013, compared with profits of DKK 7.2 bn. before tax in 2012. The positive result is attributable to large banks in group 1 whereas the rest of the sector more or less broke even, see figure 3. See also exerts from banks' overall financial statements in appendix 2.

[6] Interest statistics, Danmarks Nationalbank (Denmark's central bank)

Figure 3: Profit before tax 2004-2013



Source: Reports to the Danish FSA.

The average return on equity doubled from 2.9% in 2012 to just under 5.9% in 2013, see the financial ratios in appendix 4.

In 2013 banks charged to the income statement net impairments on loans of DKK 17 bn. against DKK 27.2 bn. in the preceding year. The impairment loss ratio for the year (impairment losses and provisions measured in relation to loans and guarantees) for the sector as a whole was 0.8% in 2013 compared with 1.2% in 2011. In relative terms, impairment losses are below a 25-year average of just under 1.0% of loans and guarantees in the period 1989 to 2013.

The dispersion between banks remains high. In table 1 different fractiles for the impairment loss ratio are presented.

Table 1: Dispersion on impairments on loans charged to the income statement as percentage of loans and guarantees 2013

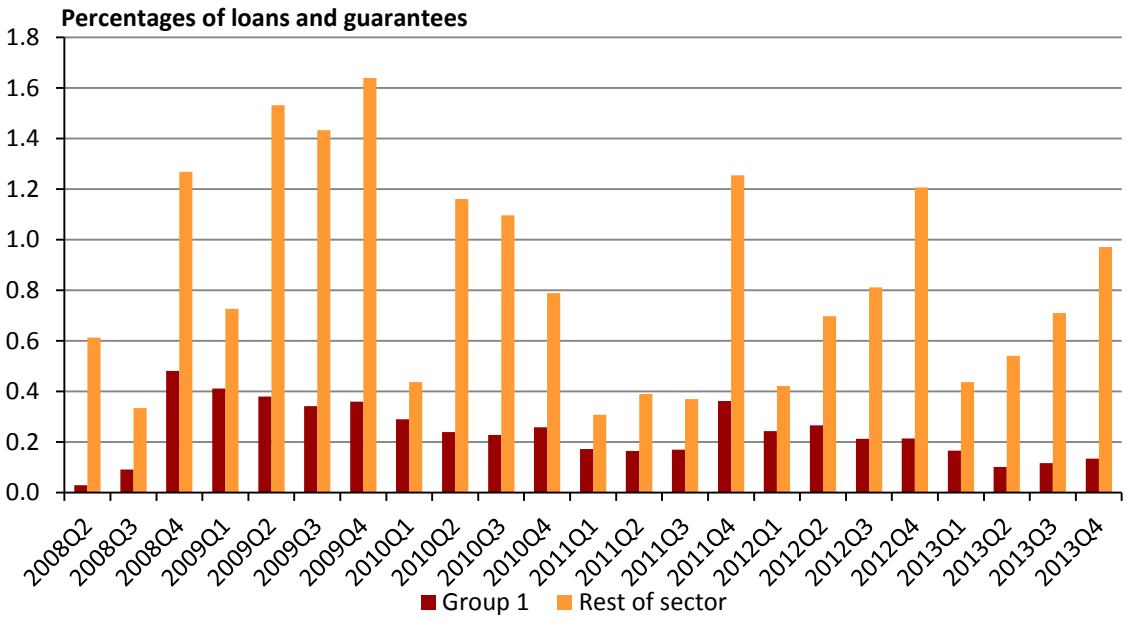
Fractiles					*Average (weighted)*
10%	*25%*	*Median*	*75%*	*90%*	
0.3%	0.7%	1.5%	2.5%	4.2%	0.8%

Source: Reports to the Danish FSA.

The table shows that 10% of banks have charged impairment losses of 4.2% or more to their income statement and this is considerably above the weighted average. In relation to

outstanding lending, the impairment losses are considerably lower for the largest banks, see figure 4.

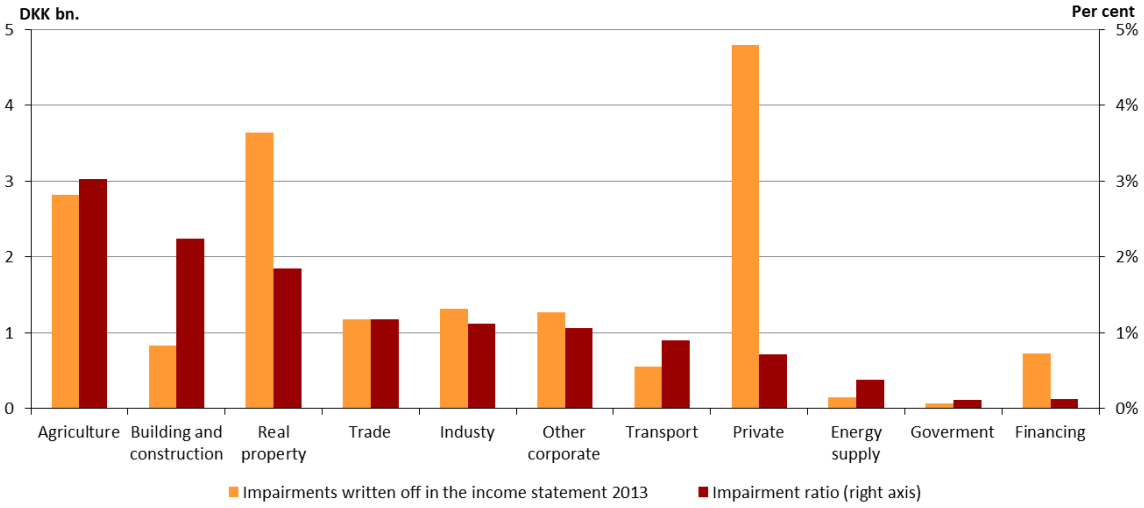
Figure 4: Quarterly impairments on loans and guarantees; group 1 against the rest of the sector Q2 2008 - Q4 2013



Source: Reports to the Danish FSA.

In 2013 banks again charged to the income statement the largest total impairment losses on private exposures and on property-related exposures, see figure 5. Relative to outstanding lending, the impairment loss ratio for the year was highest on agriculture, followed by building and construction. Lending to these two sectors accounted for a relatively modest proportion of the total lending by the sector (around 6%, see appendix 5), but impairment losses amounted to a significant percentage (about 21%) of the total impairment losses charged to the income statement in 2013.

Figure 5: Annual impairments on loans - by industry and sector, 2013



Note: The sector "information" has negative impairment losses charged to the income statement of DKK 39.8 mill. and the impairment loss ratio is minus 0.3%.

Source: Reports to the Danish FSA.

Despite the improved earnings environment in agriculture, this sector continues to constitute a serious credit risk for a number of smaller banks in particular, which have a relatively large exposures to agriculture. For example, 16 banks have exposures to agriculture of more than 15% of total lending. However, in relation to the aggregate lending for the bank sector, these banks with heavy exposure to agriculture constitute a small part - about 3%.

In absolute terms, impairment losses on households charged to the income statement are high, but because loans to households amount to a large share of total lending, they result in a relatively low impairment loss ratio of 0.7%.

The capital base of banks is a buffer against continued credit losses in the future. Both core capital and the solvency ratio for the sector as a whole rose in 2013. The increase is particularly attributable to an increased capital level. For banks in groups 1-4, the overall risk exposure in 2013 increased slightly. The increase is solely attributable to banks in group 1, see table 2, and the majority is attributable to the order from the Danish FSA regarding increasing the overall risk exposure in Danske Bank. In groups 2-3, the overall risk exposure dropped due to the fall in lending. Core capital and capital base increased in group 1 and decreased in groups 2 and 3.

Table 2: Banks' capital and overall risk exposure, 2012-2013

	Group 1			Group 2			Group 3			Group 4		
DKK millions	*2012*	*2013*	*Per cent change*	*2012*	*2013*	*Per cent change*	*2012*	*2013*	*Per cent change*	*2012*	*2013*	*Per cent change*
Tier 1 capital	230,114	239,811	4.2%	32,225	30,460	-5.5%	21,585	21,091	-2.3%	643	827	28.6%
Solvency capital	267,284	277,146	3.7%	36,459	33,759	-7.4%	23,254	22,375	-3.8%	663	846	27.6%
Risk-weighted assets	1,133,660	1,177,238	3.8%	216,476	192,258	-11.2%	128,990	123,614	-4.2%	1,715	2,053	19.7%
Total assets	3,698,739	3,344,397	-9.6%	338,646	284,280	-16.1%	181,167	176,043	-2.8%	2,480	3,196	28.9%
Tier 1 capital ratio	20.29	20.36		14.88	15.86		16.72	17.07		37.49	40.31	
Total capital ratio	23.54	23.54		16.85	17.57		18.03	18.10		38.62	41.22	

Source: Reports to the Danish FSA.

Excess coverage in relation to the capital requirements rose to 8.4% of loans and guarantees at the end of 2013. However, there is a large dispersion behind the sector figures; 10% of banks had a coverage of less than 2.6% of loans and guarantees, see also table 4.

Equity increased in 2013 by DKK 12 bn. to DKK 283 bn. and this is attributable to banks in group 1. In groups 2-3, equity fell. The increase in group 1 is due to consolidation of profits.

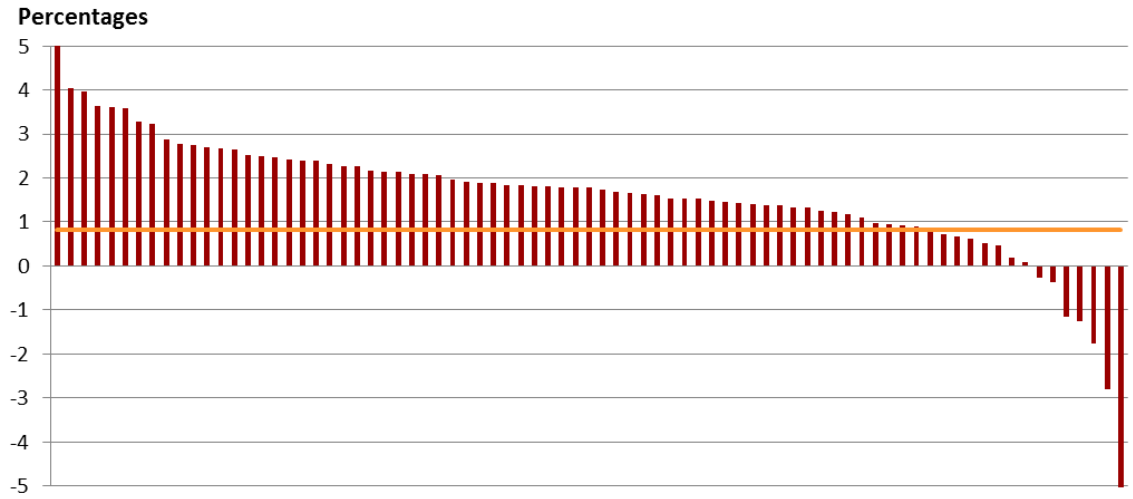
3. Core earnings and credit standards

3.1 Core earnings

Core earnings should generally be proportioned so that they cover the expected losses on lending activities such that only large unexpected losses need to be absorbed by equity reserves. In order to obtain an impression of the robustness of core earnings to losses on lending activities, core earnings have been compared with the size of loans and guarantees, see figure 6. Core earnings in this context are before impairment losses, market value adjustments, and profits/losses on participating interests.

Generally for the sector, core earnings increased from DKK 22.0 bn. in 2012 to DKK 23.1 bn. in 2013. This is an increase from a level of just under 1.0% of loans and guarantees to 1.1%.

Figure 6: Core earnings as percentage of loans and guarantees 2013



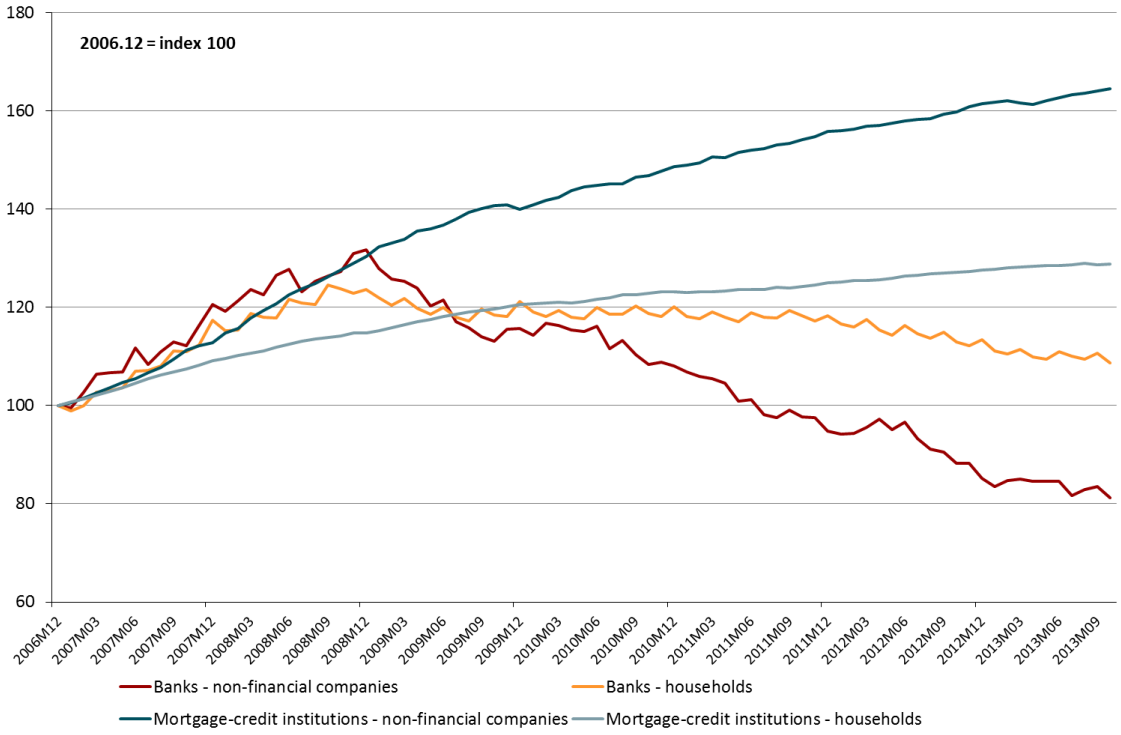
Note: Core earnings contain all income statement items except impairments on loans, market value adjustments and profits/losses on participating interests. The figure does not include banks in the Financial Stability Company and small specialist banks with limited lending in relation to their total assets. The line highlighted in yellow is the average impairment loss ratio for the sector in 2013 of 0.8%. PFA Udbetalingsbank, Landbrugets Finansieringsbank and COOP Bank are not included in this calculation.
Source: Reports to the Danish FSA.

In 2013, 14 banks had negative or weak core earnings (less than the average impairment loss ratio of 0.8% for the sector). The Danish FSA is aware that there may be challenges of a more temporary nature, e.g. on the cost side, which may affect earnings during an individual year. The Danish FSA focuses on banks which consistently generate weak core earnings. Among the 14 banks, ten also had similar weak or negative core earnings in the year before.

3.2 Bank lending and credit standards

Since the start of the crisis, bank lending, especially corporate lending, has been falling, see figure 7. The fall is due to the weak economic cycle, which has reduced investment and demand for loans, not least from the business community. At the same time there has been some substitution of bank loans, with mortgage-credit lending rising in the same period as bank lending has been falling.

Figure 7: Growth in lending, credit institutions, 2013



Note: Data loss from 2013.10 based on a new sector definition, see Danmarks Nationalbank (Denmark's central bank), MFI statistics.

Source: Danmarks Nationalbank

The trend has contributed to reducing bank's deficits of deposits and has thus made them more resilient to fluctuations in the capital markets.

A number of undertakings in exposed sectors such as property and agriculture, as well as small and medium-sized undertakings in other sectors, have experienced tighter credit standards during the crisis. A significant part of this development can be interpreted as a normalisation in relation to the large number of rather relaxed loan terms applying up to the crisis. Tighter loan terms have been a natural reaction to the new risk profile, with significant impairment write downs and higher macro-economic risk. At the same time, further to considerable impairment losses, specific banks have had to adapt their business and reduce the scope of their lending.

The combination of a stabilisation in banks' capital and funding conditions in recent years and the continued low demand for credit (with subsequently falling lending) has encouraged many banks to increase lending. This indicates increased competition in the market for financing undertakings and households, and, all else being equal, this is good for society.

However, there is also a risk that increased competition could lead to an easement in credit terms, e.g. in the form of more relaxed requirements for collateralisation, own funding etc., which imposes disproportionally large credit risks on the banks.

In the beginning of 2013, the Danish FSA carried out a questionnaire survey on the developments in credit standards for lending for a number of large and medium-sized banks.[7] The survey showed that, during the past year, competition for the best corporate customers has intensified, particularly in relation to large corporate customers and structured financing. The survey also showed that the increased competition for large corporate customers has relaxed credit standards for the best and most resilient customers. To a certain extent, there has also been a relaxation in credit standards for the best located rental properties and within structured financing.

As follow-up to the survey, in the second half year of 2014, the Danish FSA will be launching a targeted study of selected banks on their credit standards for extending new loans. Among other things, the study will review concrete new lending.

4. Write-downs and credit quality

4.1 Credit quality and weak loans

The quality of the loans portfolios is crucial for both current and future impairment and solvency needs. Measured in terms of exposures exceeding 1% of banks' capital base, a greater weight of weak loans can be ascertained in small and medium-sized banks compared with the larger banks in group 1, see table 3. The weakest loans are in quality category 1, which are loans with objective evidence of impairment (OEI) and therefore usually have to be written down. Loans in category 2c have significant signs of weakness, but do not have OEI (and therefore have not been written down), and therefore, with a prudent approach, they should be reserved for in the solvency need.

[7] See also separate analysis on the Danish FSA website (in Danish):https://www.finanstilsynet.dk/da/Nyhedscenter/Pressemeddelelser/2014/Pressemeddelelse-Analyse-kreditstandarder-nyudlaan-300414.aspx

Table 3: Loans and guarantees by quality category, 2013

		Credit quality category			
		1	1 last year	**2c**	2c last year
Total	Coporate	7.9	*11.0*	2.5	*3.8*
	Private	6.5	*4.9*	2.9	*3.3*
	Total	7.2	*8.2*	2.5	*3.5*
Group 1	Coporate	3.4	*6.1*	1.1	*2.1*
	Private	6.0	*4.5*	2.2	*2.9*
	Total	4.0	*5.2*	1.4	*2.3*
Group 2	Coporate	27.7	*23.5*	7.2	*7.2*
	Private	8.2	*7.0*	3.2	*3.9*
	Total	20.5	*17.9*	5.7	*6.0*
Group 3	Coporate	25.9	*22.8*	10.1	*9.6*
	Private	7.6	*5.5*	6.6	*5.0*
	Total	17.9	*15.0*	8.5	*7.5*
Group 4	Coporate	13.5	*8.8*	9.6	*7.4*
	Private	8.0	*4.3*	4.9	*4.0*
	Total	10.0	*6.3*	6.6	*5.5*

Note: Rating category 1; loans with OEI, 2c; loans with significant signs of weakness, 2b; loans with some signs of weakness, 2a/3; loans with normal quality. Based on a reporting solution in which, as a minimum, banks report quality classification of loans greater than 1% of capital base. The percentage distribution totals 100 within each exposure segment, e.g. group 1 corporate business.
Source: Reports to the Danish FSA.

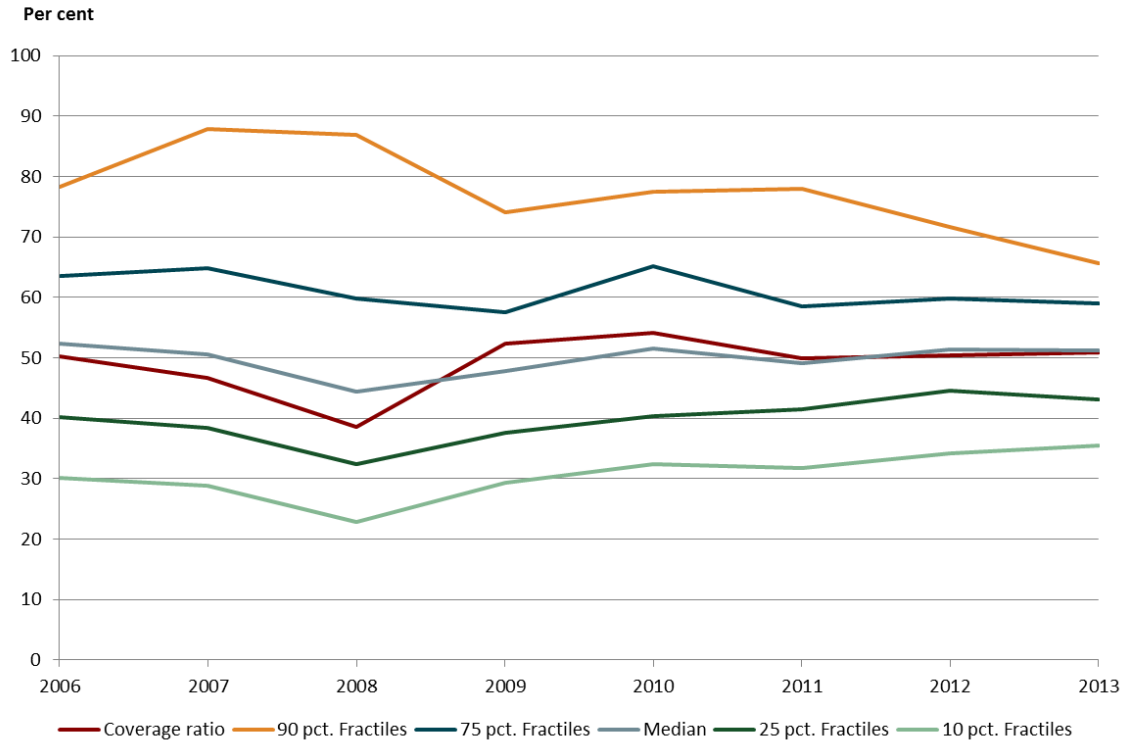
More than 25% of lending by small and medium-sized banks (groups 2 and 3) is in the weakest quality categories 1 and 2c. This is an increase of 2-4 percentage points compared with the previous year. In group 1 there was a reduction from 7.5% in 2012 to 5.4% at the end 2013. There was thus an increased dispersion between group 1 and the other groups. In the interpretation of the rest of the calculation, note that there are very large differences between the groups, in particular in the type of underlying corporate exposures. There are e.g. more small and medium-sized corporate customers (SME customers) in groups 2-4 than in group 1; only exposures exceeding 1% of the capital base in the individual bank are included.

4.2 Coverage ratio

Coverage ratio measures the scope of impairment losses on bad loans. The key ratio is calculated as the total accumulated impairment losses on the individually assessed loans as a ratio of the part of the loan portfolio on which impairments have been made. The larger the coverage ratio, the greater the coverage in the form of impairment write-downs on the

bad loans.[8] Not surprisingly, there is a large dispersion (see figure 8), not just due to differences in the underlying quality of the loans portfolios, but also because of differences in the underlying exposures to industry and sectors.

Figure 8: Coverage ratio, dispersion 2006-2013



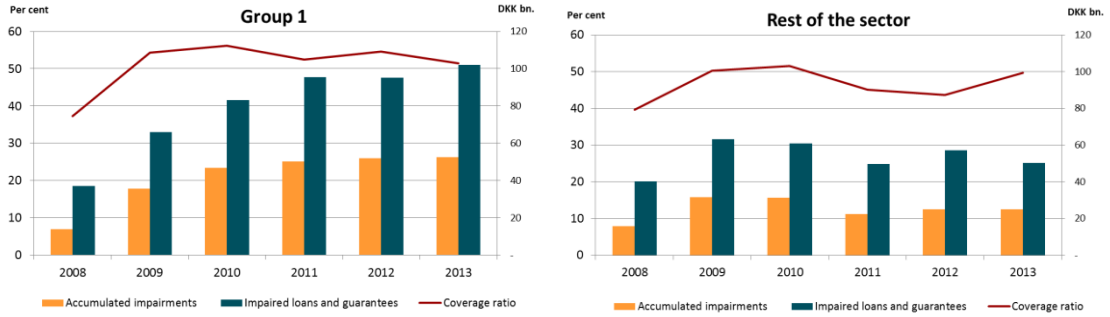
Source: Reports to the Danish FSA.

Ten percent of banks had a coverage ratio of less than 35% of the reported bad loans on which impairment had been provided. Ten percent of banks had a coverage greater than 68%.

The coverage ratio has also varied over time between the groups, see figure 9. In 2013, the gap was reduced, however. The coverage ratio for group 1 fell from 55% in 2012 to 50% in 2013, primarily triggered by an increase in loans with impairment losses, whilst total write-downs remained unchanged. In the other banks (groups 2-4), the coverage ratio increased from 44% in 2012 to 50% in 2013. In contrast, the development here was triggered by a decrease in loans with write-downs while write-downs are almost unchanged, meaning that coverage ratio increased. See figure 9 and the developments in the underlying components.

[8] Note that the coverage ratio does not indicate the share of the total lending portfolio written down.

Figure 9: Coverage ratio, group 1 versus the rest of the sector 2007-2013

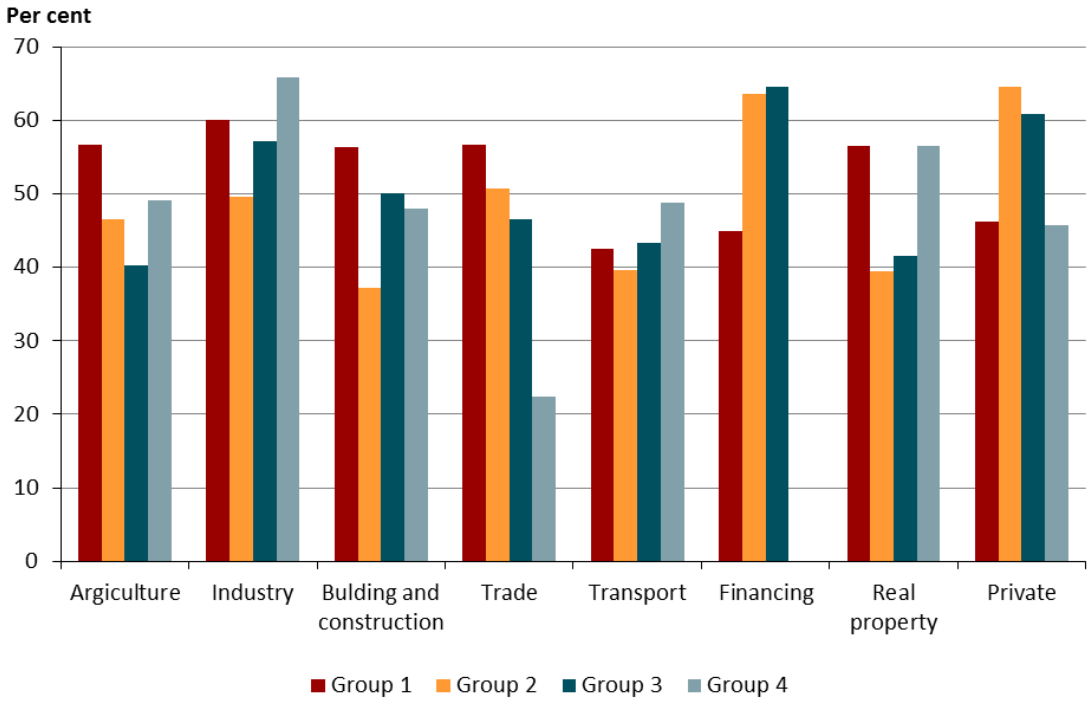


Source: Reports to the Danish FSA.

At the end of 2013, the coverage ratio was at the same level, i.e. at around 50% on average for group 1 as well as for the rest of the sector.

Broken down by sectors, the coverage ratio also fluctuates somewhat between groups, see figure 10.

Figure 10: Coverage ratio by sectors and groups, end 2013



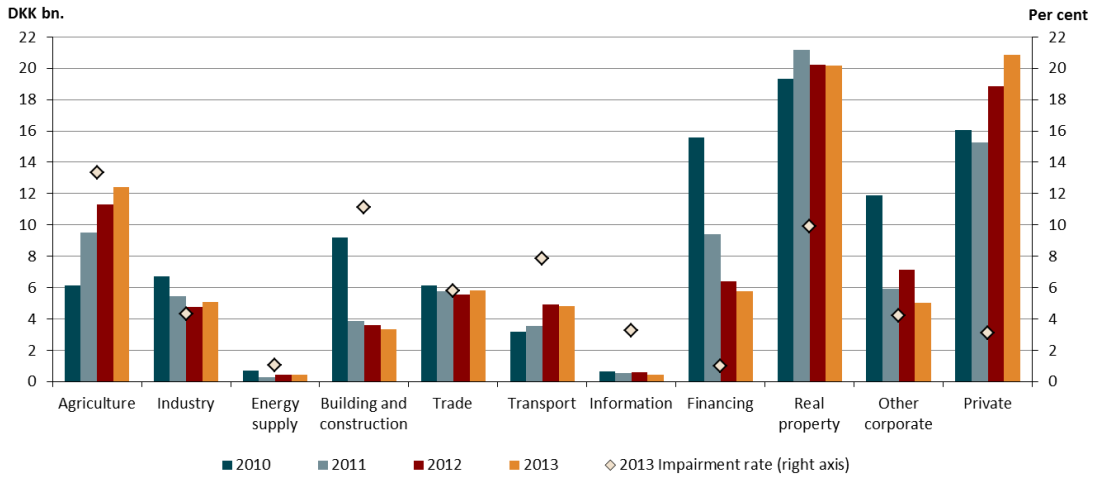
Source: Reports to the Danish FSA.

Note that e.g. group 1 has a cover on agriculture and real property higher than groups 2 and 3 which have a higher cover on households (private). In addition to differences in write-down practices, the coverage ratio is also affected by the nature of the bad loans, including not least the extent of collateral.

4.3 Accumulated impairment losses by sector

Accumulated impairment losses are the total impairment losses on loans which the banks still have on their books (on balance sheet).[9] At the end of 2013 banks' largest total accumulated impairment losses were on property-related exposures, see figure 11.

Figure 11: Accumulated impairments on loans and guarantees 2010-2013



Note: In calculating the allowance account, losses ascertained on loans which are not on the banks' loan books are no longer excluded. The impairment loss ratio for the 'building and construction' sector has been adjusted for 'completion of building projects' and this has been added to the 'real property' sector to correspond with the statement of 'property exposures' in the supervisory diamond. There is a more detailed description of the supervisory diamond on the Danish FSA website at www.finanstilsynet.dk/en/Temaer/Strategi-2011/Tilsynsdiamanten.aspx

Source: Reports to the Danish FSA.

Relative to outstanding lending, the impairment loss ratio is highest on agriculture; 13.3%. The accumulated impairment loss ratio on property-related exposures is 9.6%. Accumulated impairment losses on the loans to building projects which banks have on their loan books amounted to a total of 22% at the end of 2013.

[9] More specifically, both impairments on loans and provisions for losses on guarantees have been accumulated in this statement. Guarantees are outside the balance sheet until a provision is made for a guarantee liability, and entered in the balance sheet under provisions for losses on guarantees.

4.4 Asset Quality Review

In 2014, the Danish FSA will be assessing asset quality (Asset Quality Review - AQR) pursuant to recommendations from the European Banking Authority, see box 1.

Box 1 - Asset Quality Review 2014

The Danish AQR comprises the four largest bank and mortgage-credit institution groups and will be executed taking into account the principles applied in corresponding assessments carried out by the European Central Bank for the largest banks in the banking union.

The AQR is risk-based and focuses on assessing the quality of loans by sampling specific loans for review by the Danish FSA. In this respect the AQR does not differ considerably from the ordinary on-site inspections carried out by the Danish FSA in the credit area.

In addition to loans, the AQR will be focusing on the quality of assets without observable market prices and items in the trading portfolio, including credit value adjustments.

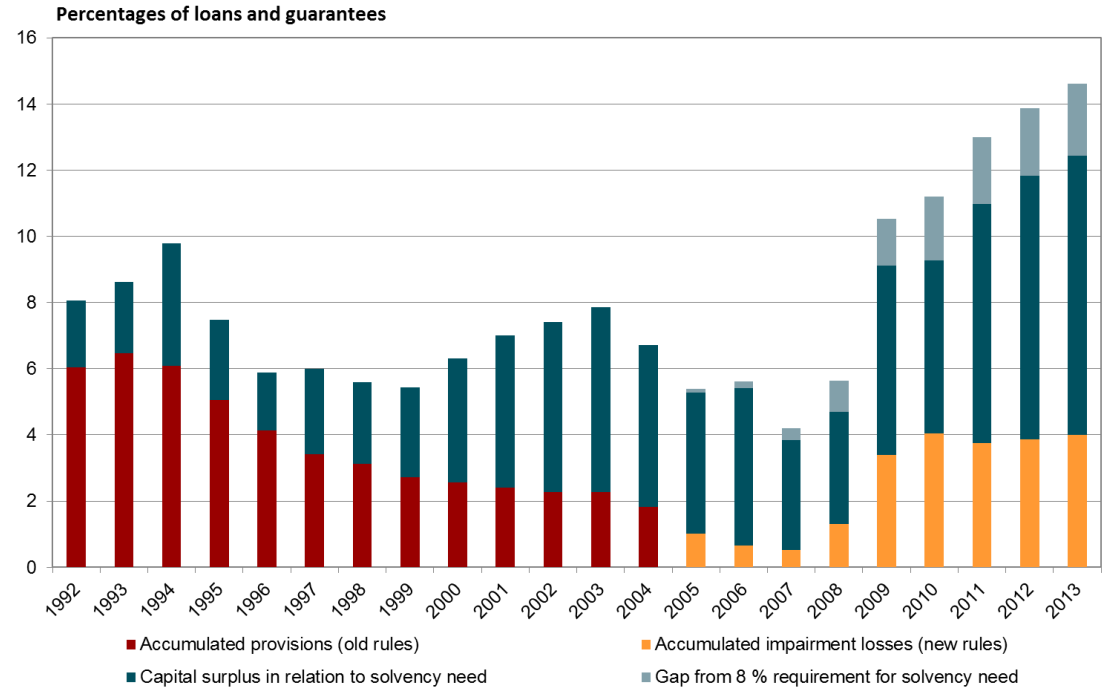
The results of the AQR will be part of the stress-test of the largest European banks in autumn 2014 under the auspices of the European Banking Authority.

5. Capital

5.1 Capital and solvency need

Ultimately, the resilience of banks to increasing credit losses should be measured in relation to excess capital coverage, see figure 12, which shows the total buffer over time.

Figure 12: Impairments and capital buffers 1992-2013



Note: From 2005 onwards, capital buffers have been calculated on the basis of the solvency need reported by banks. The distance from the 8% requirement to the solvency need has been calculated after taking into account the transitional scheme. The largest value of the solvency need, the capital requirement according to the transitional scheme and the minimum capital requirement has been included. The transitional scheme means that the new Basel II rules will not have their full impact on the capital requirements until after 2011. IRB institutions must have a capital base amounting to at least 80% of the solvency requirement calculated in accordance with the regulations applying previously (Basel I).
Source: Reports to the Danish FSA.

At the end of 2013, banks could lose 8.4% of their loans and guarantees before their capital buffers would fall below the statutory requirement.[10][11] Furthermore there is a loss-absorbing capacity of about 2% of loans and guarantees down to the minimum capital requirement of the 8%. Finally, the accumulated impairments on loans and guarantees already made amounted to just under 4% of loans and guarantees in 2013.

However, there is a large dispersion in the capital buffers between banks, see table 4. 10% of banks have a capital buffer of less than 2.6 percentage points. However, these banks account for just 1.1% of the balance sheet total of the sector as a whole.

[10] As mentioned above, current earnings are the first buffer before eating into reserves. However, the 2013 financial statements show that not all banks have a profit to utilise.

[11] The statutory requirement is therefore measured here in the form the solvency need reported by banks.

Table 4: Dispersion in capital buffers, 2013

Fractiles					*Average (weighted)*
10%	*25%*	*Median*	*75%*	*90%*	
2.6%	5.0%	7.7%	11.0%	15.4%	8.4%

Note: Banks under the Financial Stability Company have been excluded.
Source: Reports to the Danish FSA.

5.2 Readiness for CRR/CRD IV and core-capital requirements (CET1)

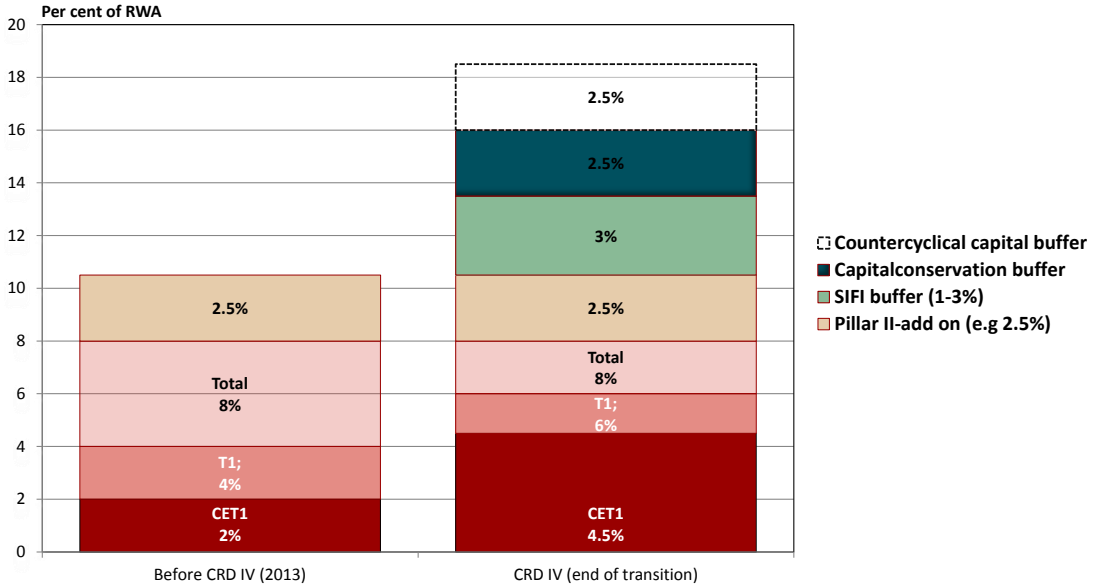
The new regulation according to CRR/CRD IV imposes new requirements on capital and liquidity etc. including new requirements for level of capital, composition of capital and quality of capital.[12] In addition there are new requirements for capital buffers comprising a permanent capital-preservation buffer and a number of other capital buffers (a counter-cyclical buffer, a systemic risk buffer and buffers for designated systemically important financial institutions). The capital buffers must be met with CET1.[13] The capital preservation buffer and the other buffers must be added to the minimum capital requirement for the capital base, including the individual solvency need.[14]

[12] The CRR entered into force in the EU on 1 January 2014, and the Danish bill (L 133/2014) which implements CRD IV entered into force on 31 March 2014. For the first time, banks will be required to report according to the new capital regulations at the end of June when the figures for Q1 are to be reported.

[13] Common Equity Tier 1 (CET1).

[14] It will be allowed for banks lying below the total buffer requirement, but in this case a number of transaction limitations enter into force. This involves the access to pay profit/dividend to shareholders of the bank, bonus to employees as well as a ban on paying interests on hybrid core capital. If the bank goes below the total capital-buffer requirement, the bank must also draw up and submit to the Danish FSA a capital preservation plan.

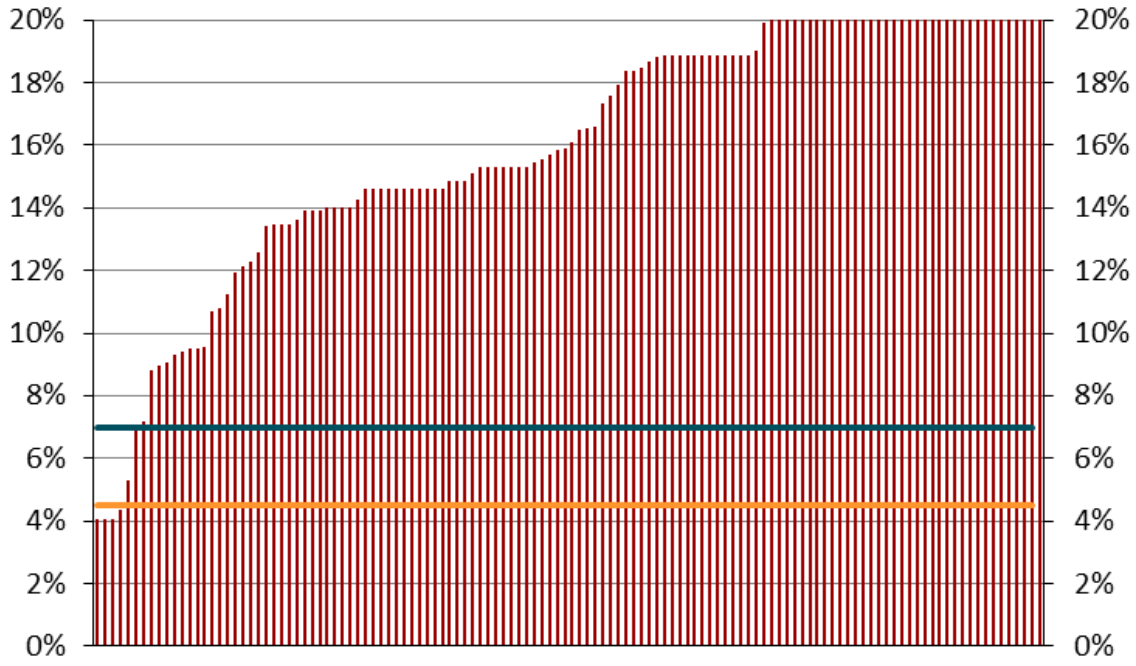
Figure 13: Capital requirement, before and after CRR/CRD IV



With the new regulations, the minimum capital requirement for CET1 will be 4.5% (4% in 2014 and 4.5% from 2015 against previously 2%) of the total risk exposure (before requirements for the individual solvency need), see figure 13. Up until the minimum capital requirement of 8% of the total risk exposure, hybrid core capital and additional loan capital can be injected; in total up to 3.5% pursuant to CRD IV (against previously up to a total of 6%). In addition to the individual solvency need (Pillar II add-on), there is a capital preservation buffer of 2.5%. The SIFI buffer (which can be triggered in the interval 1-3%) is for the designated SIFI banks. Activation of the counter-cyclical capital buffer will depend on future economic trends.

In terms of the sector as a whole, most banks have a relatively high proportion of CET 1, see figure 14. Only a minority of banks do not meet the fully phased-in CET1 requirement of 4.5%, or a CET1 requirement of 7% reached by adding the fully phased-in CET1 minimum capital requirement to the capital preservation buffer.

Figure 14: CET1 by bank, 2013



Note: Note that the 2nd axis is cut at 20% CET1. This means that more correctly there are banks which lie above 20%.
Source: Reports to the Danish FSA.

Furthermore, as mentioned, an individual solvency need must be added which initially should also comply with CET1.[15] This may create a need to build-up of capital for an additional number of banks, particularly once the capital preservation buffer is fully phased in. Finally, there are requirements for CET 1 capital in the form of the SIFI buffer, and depending on economic trends, also for the counter-cyclical capital buffer of up to 2.5%.

Further to the increased requirements for CET1, requirements for capital buffers etc., the new regulations include a number of other changes as well. These are:

- Stricter requirements for hybrid core capital and additional loan capital, e.g. increased maturity requirements and bans on redemption incentives.[16]
- In future, more deductions in capital (e.g. equity investments related to sector shares) will be made in CET1 in contrast to previously where they were made in

[15] Other liable capital, which is either converted automatically to equity, or written down (permanently or temporarily) in the event of breach of the solvency need or in the event of breach of an appropriate level of CET1, may also be considered. See the Danish FSA guidelines in this respect (in Danish): *Vejledning til Lov om finansiel virksomhed § 124, stk. 5 – Krav til kapital til opfyldelse af solvensbehovstillæg under 8+ metoden.*

[16] In relation to hybrid core capital, it must be irredeemable and without incentives for the bank to redeem it. There must also be a trigger to convert to CET1 or write-downs if the CET1 ratio hits a low level. Additional loan capital must not include redemption incentives either.

both core capital (the sum of CET1 and hybrid core capital) and total capital. This will put a greater strain on the highest quality capital (CET1) than previously.

- Tighter risk weighting of unfulfilled exposures, which however, depending on the distribution of the individual bank's exposures, are offset by lowered risk-weights on exposures to small and medium-sized enterprises.

It is generally assessed that the sector is well prepared for the new capital regulations. Thus significant challenges are only expected for relatively few banks when taking into account the gradual phasing-in of the new capital requirements up until 2019.

6. Large exposures

By experience, a high concentration risk in which a great part of the bank's exposures are concentrated on few major customers or in specific sectors, constitutes a significant risk factor. The supervisory diamond for banks now uses the benchmark "Sum of large exposures", which is the sum of exposures greater than 10% of the total capital base divided by the total capital base.

Among other things, based on a recommendation from the “Rangvid Committee”, the Danish FSA is working on a new definition of this benchmark.[17] The new definition is expected to be based on the sum of banks' 20 largest exposures (excl. credit institutions), regardless of whether these are above or below 10% of the capital base.

The application of the 20 largest exposures must counter the risk attached to a bank with many large exposures at the level of 5-10% of the capital base which will not be included in the existing benchmark. This approach is in line with the concentration targets applied in the Danish FSA guidelines on calculation of solvency need.

The sum of the 20 largest exposures is then divided by CET1.

The reason why CET1 is used in the denominator rather than the total capital base is that CET1 is the fully loss-absorbing capital in going concern and thus will be required to cover

[17] The financial crisis in Denmark - causes, consequences and lessons (2013). Recommendation no. 5: *"The Committee has found that an important reason why many financial institutions have become distressed is that they are exposed to large loan commitments, particularly in the commercial property sector. The Committee notes that the same factors applied during the previous banking crisis in the early 1990's. Against this background, the Committee recommends that the FSA tightens up the Supervisory Diamond limits for large exposures."*

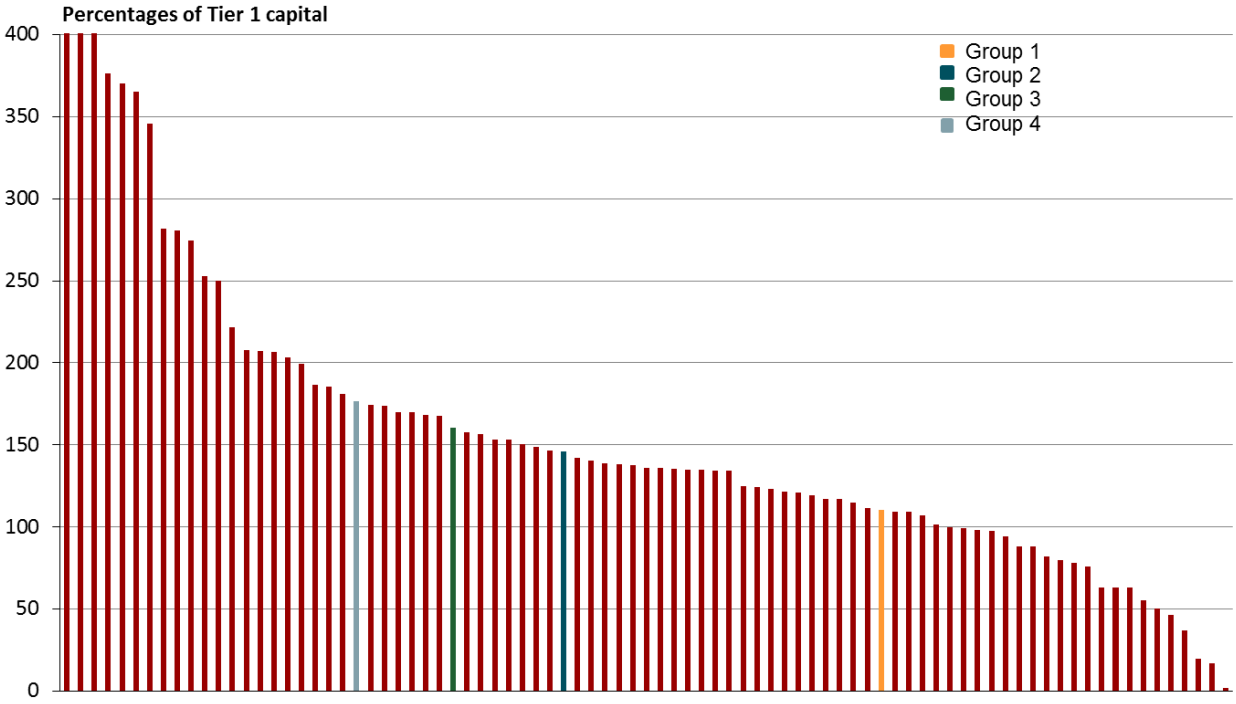
the risk of losses in practice. The change from the total capital base to CET1 is also in line with the increased focus on CET1 which follows from the new capital regulation in CRD IV/CRR.

The benchmark is expected to be as follows:

> "The sum of the 20 largest exposures (excluding credit institutions) divided by the CET1".

Like the existing benchmark, there is a large dispersion of banks in the new definition, see figure 15.

Figure 15: Sum of the 20 largest exposures, 2013



Source: Reports to the Danish FSA.

In future, the Danish FSA will continue work on this definition, as well as on establishing an appropriate limit value. In this respect, on the one hand the limit value must counteract excessive risk-taking, and on the other hand it must make it possible for resilient banks to carry out profitable banking activities. Further to the Rangvid Committee recommendation, there will be a tightening compared with the current level. The Danish FSA will also review a new definition of the liquidity benchmark in light of the new LCR requirement in CRD IV/CRR.

In its work on the new definitions, the Danish FSA will include and consult the sector. During 2014, the Danish FSA expects to publish a revised supervisory diamond with the new benchmarks and limit values. After this, there will be a period in which banks can adapt to the new benchmarks before the Danish FSA launches a systematic follow-up.

7. Banks' sources of financing and liquidity

Banks finance their loans and other assets through deposits and 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 liquidity risks.

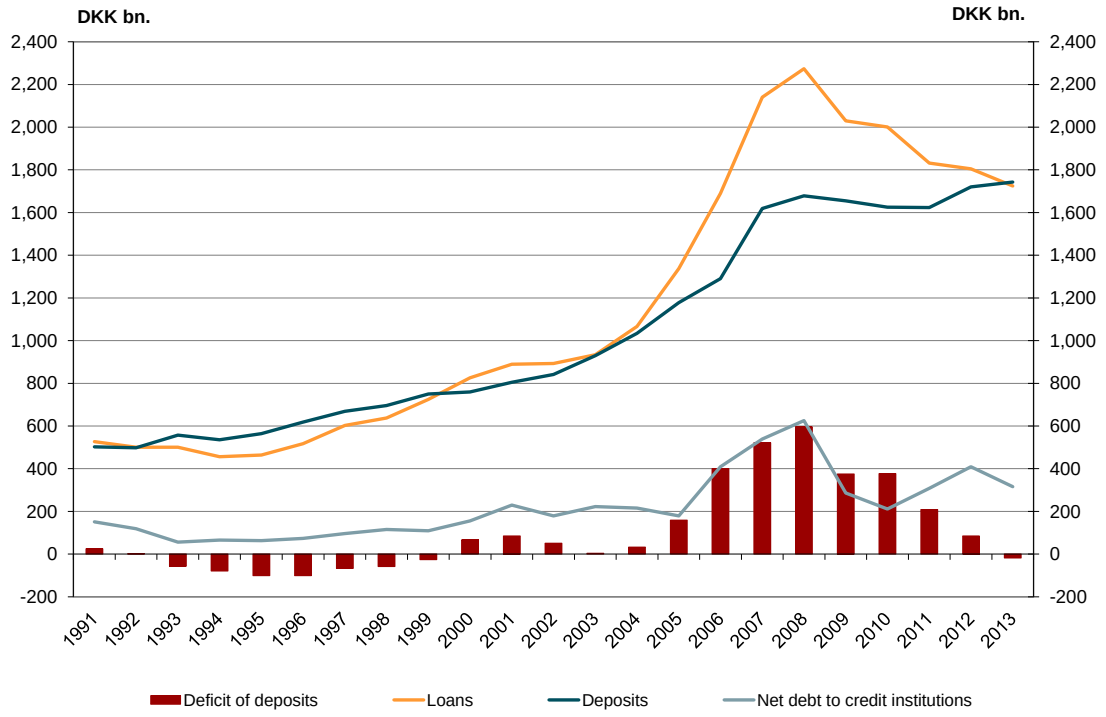
In the years leading up to the financial crisis in 2008, banks accumulated large deficits of deposits. These deficits of deposits were financed through different market-based sources of funding, of which a relatively large volume was senior unsecured debt taken up abroad. While group 1 banks have always had access to these market-based sources of funding, access to these sources of funding was new for most of the group 2 and 3 banks.

Sources of funding for small banks in certain cases underpinned unsustainable growth in loans, and management of risks, including debt documentation etc. was not appropriate for many small banks in particular. During and after the financial crisis, access to these types of market-based funding was generally non-existent for groups 2 and 3 banks.

In the period after 2008, banks have regularly reduced their total deficit of deposits and thus reduced their need for access to the above-mentioned market-based sources of funding and also reverted to a more sustainable situation.

Total deficits of deposits in Danish banks, including repo transactions, became a deposits surplus at the end of 2013 of DKK 61 bn. compared with a deficit of DKK 38 bn. at the end of 2012. Adjusted for repos (sales and repurchase transactions), the deposits surplus is even more significant. During 2013, the relationship between deposits and loans adjusted for repos improved by almost DKK 145 bn., and at the end of 2013 it was DKK 230 bn. calculated at bank level. The primary cause for the increasing deposits surplus was a fall in banks' lending. Throughout 2013, deposits were somewhat stable, whilst loans were reduced by 8.5% from end-2012 until the end of 2013, see figure 16.

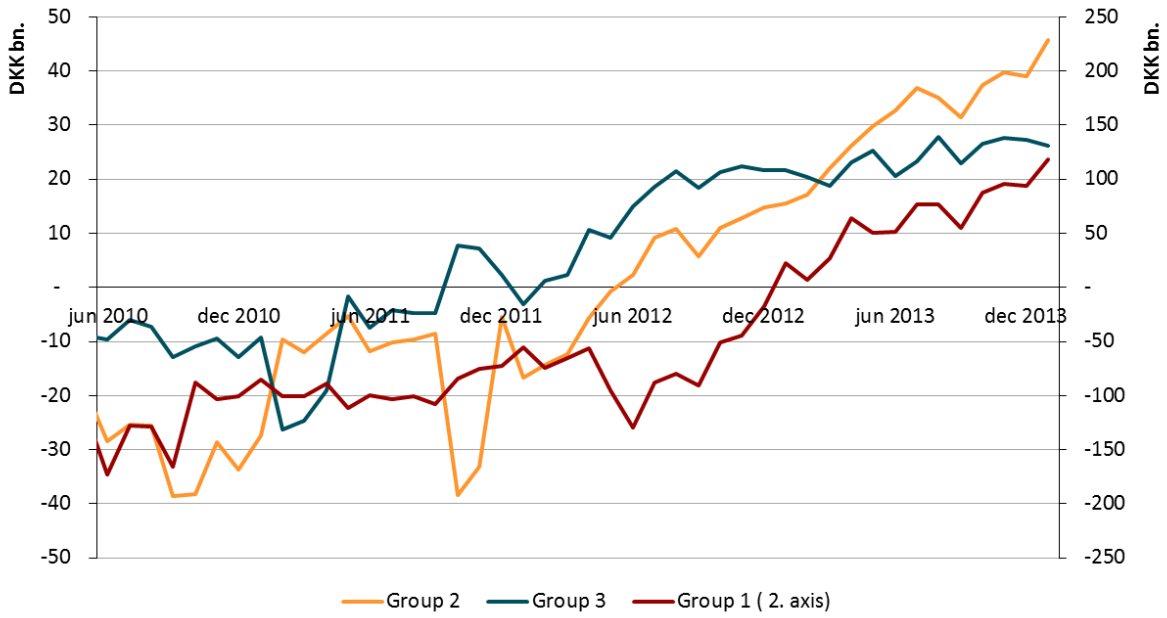
Figure 16: Loans, deposits and funding structure, 1991-2013



Source: Reports to the Danish FSA.

The development in the total deposits surplus covers a general trend towards deposits surplus among groups 1, 2 and 3 banks, however, the largest increase in deposits surplus is among groups 1 and 2 banks, see figure 17. Group 3 banks achieved a balance between deposits and loans as early as in the winter half-year 2011/2012, whereas group 2 balanced deposits and loans in the summer of 2012. The pace at which groups 1, 2 and 3 adapted must be seen in light of banks' opportunities to procure market funding in the aftermath of 2008, as well as the economic downturn in society in general, with subsequently reduced lending needs for business undertakings in particular.

Figure 17: Deposits surplus by group, 2010-2013.



Source: Reports to the Danish FSA.

As the deficit of deposits has been turned into a surplus, and as the volume of deposits has remained stable, banks have generally reduced their need to use other sources of funding. After the financial crisis, banks have significantly reduced their volume of short debt issues, but the need for market funding with longer terms of maturity has also weakened. This applies in particular for banks in groups 2 and 3, which in the crisis years had difficulty obtaining market-based funding, see figure 18.

Figure 18: Issuance volume (outstanding balance) in groups 1, 2 and 3, 2011-2013[18]

Source: Reports to the Danish FSA.

As part of Bank Package II, in 2009 and 2010 bank and mortgage-credit institutions were given the possibility of issuing senior debt with a maturity of up to three years with a state guarantee. With Bank Package IV, banks were given the possibility of extending individual state guarantees in connection with mergers between two banks where at least one bank is in distress or expected to fail, and the merging bank is viable. This possibility to extend state guarantees was exploited in connection with two mergers, and the individual state guarantees run until 2016 for the two banks. The Danish FSA regularly monitors settlement of state-guaranteed issues.

Moving forward, the Danish FSA will continue focusing on monitoring that banks retain a robust funding structure, in part through observing the benchmark for stable financing, the funding ratio, in the supervisory diamond. As part of the SIFI agreement entered into at political level, together with Danmarks Nationalbank (Denmark's central bank), the Danish Ministry of Business and Growth and the Danish FSA are to prepare a proposal on specific regulations for stable funding for SIFI banks. This proposal will be discussed at political level for incorporation into Danish legislation. Finally, pursuant to the CRR, from 1 January 2016, credit institutions are to ensure that their long-term obligations are sufficiently

[18] Calculated at bank level, i.e. not at group level and excluding FS bank. Includes banks' market-based financing with original maturity of more than 1 year.

covered by different instruments for stable funding in normal circumstances as well as in stress situations.

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

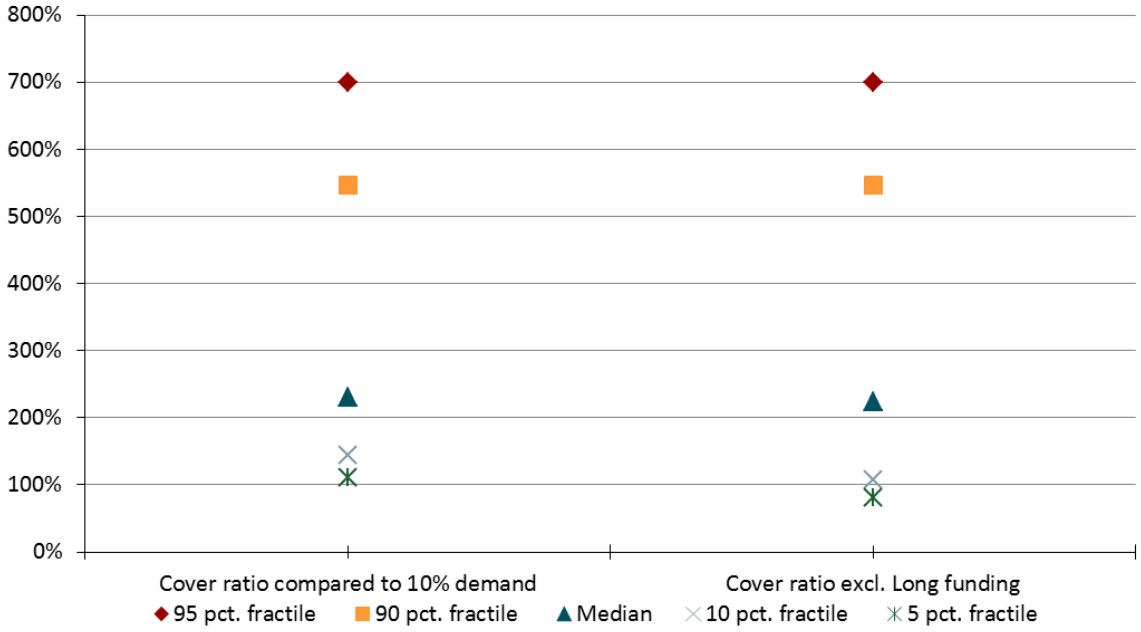
Danish banks must observe the Danish liquidity requirements which are regulated by section 152 of the Financial Business Act. The liquidity requirement in section 152 of the Financial Business Act demands that banks have an adequate holding of liquid assets to cover the binding liquidity requirement. In addition to this there is the benchmark in the supervisory diamond for excess liquidity of at least 50%.[19]

In general, at the end of 2013, Danish banks had no problems complying with the section 152 liquidity requirements and the requirements in the supervisory diamond on excess liquidity of at least 50%, see the first column in figure 19.

Excess liquidity of banks after expiry of long-term funding, assuming that market and central bank funding for repayment cannot be refinanced up to 2016 gives an indication of the sustainability of the excess liquidity in a stress scenario. Even with the repayment of long funding falling due before 2016, banks have no problem satisfying the liquidity requirement, see the other column in figure 19.

[19] Pursuant to section 152, banks must strive to have sufficient liquid funds to cover at least 10% of their total debt and guarantee liabilities or at least 15% of their short-term debt liabilities.

Figure 19: Current excess liquidity rate, and excess liquidity rate excluding funding due for repayment before 1 January 2016



Source: Reports to the Danish FSA.

7.2 Future liquidity requirements in the Capital Requirements Directive and Regulation (CRD IV/CRR)

In future, Danish credit institutions will be subject to a joint European liquidity requirement called "Liquidity Coverage Ratio (LCR)", as well as a number of reporting requirements which are to facilitate monitoring of the liquidity area.

The LCR requirement is a short liquidity requirement which will enter into force in 2015, see box 2. The LCR requirement is based on a requirement defined by the Basel Committee, though adapted to special European conditions.

The LCR requirement will apply for banks and mortgage-credit institutions and in future it will replace the current Danish liquidity requirement in section 152 of the Financial Business Act.

Box 2: Liquidity Coverage Ratio (LCR)

The LCR is aimed at strengthening banks' short-term liquidity profile and ensuring that banks have a sufficient portfolio of high-quality liquid assets (liquidity buffers) to accommodate any liquidity needs in a 30-day stress period. LCR is expressed as:

$$\text{LCR} = \frac{\text{Holding of high quality liquid assets}}{\text{Net liquidity outflows over the next 30 days}} \geq 100\%$$

The future LCR requirement is different from the current section 152 requirement in two areas: There is partly a change in the size of the required total cash and cash equivalents as the LCR requirement is much more tailored to the liquidity and funding risks of the individual bank than the current section 152 requirement. In addition, the definition of assets allowed in the calculation as liquid in LCR is restricted in relation to section 152, and the liquidity ratio of assets allowed is differentiated in LCR. This is not the case in the section 152 calculations.

The LCR requirement will initially be phased in so that the minimum requirement in 2015 will be 60%, 70% in 2016, 80% in 2017 and 100% in 2018. According to CRD IV/CRR, the supervisory authority in the individual countries may, however, choose to phase in LCR before this. Pursuant to the SIFI agreement, Denmark has decided to monitor the above phasing-in for credit institutions in general, whilst for systemically important financial institutions, an LCR requirement of 100% is being considered from 2015. Whether this will be the case depends on how covered bonds (including mortgage-credit bonds) are treated in the liquidity buffer in the final definition of LCR in the delegated legislative act.

Treatment of covered bonds in the coming liquidity standards is of particular significance in a Danish context, as Danish banks hold a considerable share of covered bonds in the form of Danish mortgage-credit bonds in their liquidity buffers.

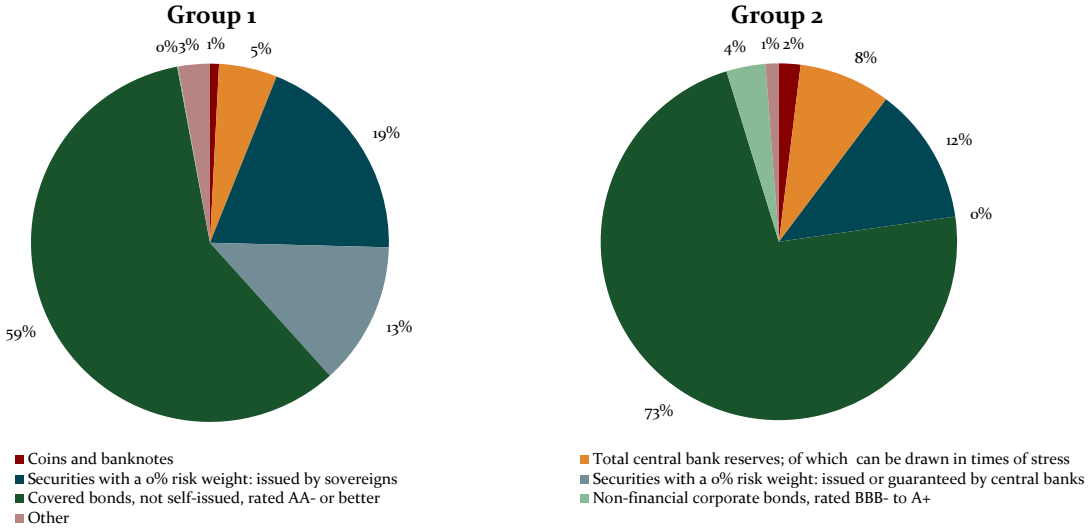
Work by the European Commission on defining which assets are sufficiently liquid to be included in the LCR liquidity buffer is, among other things, based on an analysis from the European Banking Authority (EBA).[20] The EBA analysis shows that, on the basis of objective criteria for the liquidity properties of different assets, certain covered bonds, including the majority of the Danish mortgage-credit bonds, are generally particularly liquid, and equally as liquid as the most liquid government bonds. Denmark is therefore working to ensure that mortgage-credit bonds can continue to account for a significant element in the liquidity buffer of Danish banks. In the Basel version of LCR, covered bonds (including Danish mortgage-credit bonds) may, as a maximum, account for 40% of the liquidity buffer added a haircut of 15%. The treatment of covered bonds (including Danish mortgage-credit bonds) in the European LCR has yet to be clarified. A draft by the European Commission from 8 May 2014 proposes to include certain covered bonds in the definition of level 1 assets, and for covered bonds in general to account for up to 70% of the total holdings of

[20] Report on appropriate uniform definitions of extremely high quality liquid assets (extremely HQLA) and high quality liquid assets (HQLA) and on operational requirements for liquid assets under Article 509(3) and (5) CRR, EBA, 20 December 2013 (link to the report: EBA reports on liquidity)

liquid assets. This is a draft and not the final regulation. The final wording of the LCR requirement will be in a legislative act prepared by the European Commission, with direct legal effect in the Member States. The legislative act is expected to be ready in June 2014. Prior to this, the Council (with a qualified majority) and the European Parliament (with a simple majority), will be in a position to reject the delegated legislative act. The European Commission is currently in a dialogue with the Member States at expert level.

Since autumn 2011, the Danish FSA has regularly received data from group 1 banks to calculate the LCR on the basis of the definition of the LCR from the Basel Committee. Since the end of 2012, group 2 banks have also been covered by this report. The reports show that mortgage-credit bonds account for 59% and 73%, respectively, of the total liquid assets of group 1 and group 2 banks, in relation to the asset categories allowed by Basel, see figure 20. In comparison, government bonds account for 19% and 12%, respectively, of the holdings of liquid funds.

Figure 20: Distribution of liquid assets in the LCR holding, before haircuts and limitation for group 1 banks and group 2 banks, end of 2013



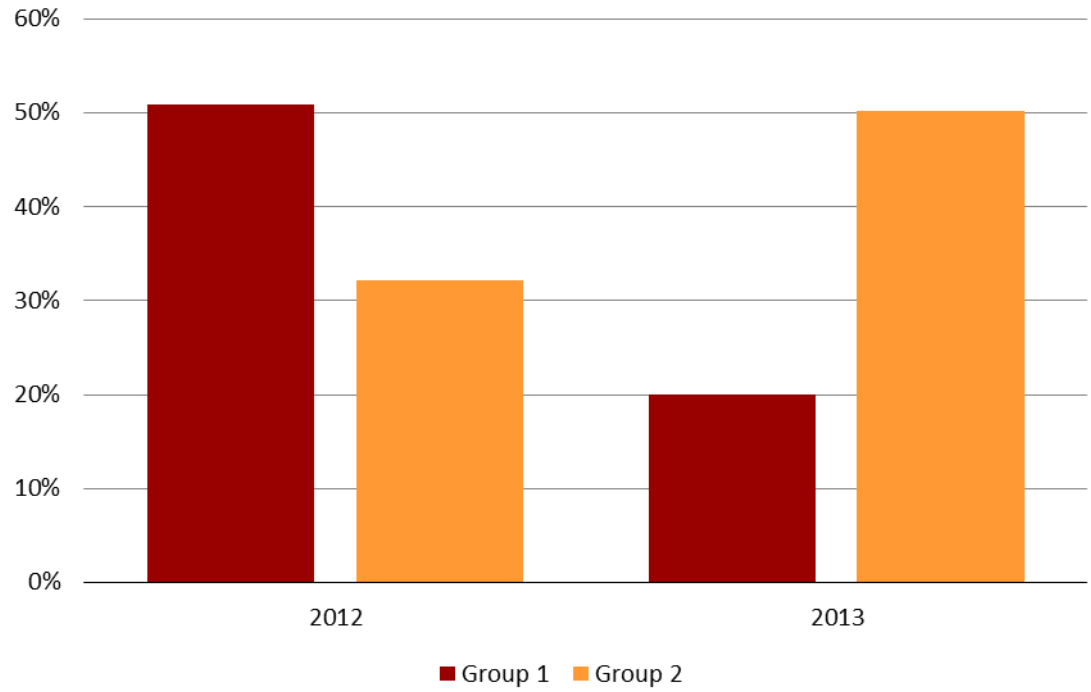
Note: The proposal by the Basel Committee treats covered bonds with a haircut of 15% and more, and in addition these can amount to a maximum of 40% of .banks' LCR liquidity buffers Data in the figure is calculated without this haircut and this limitation. Moreover, repo corrections are not taken into account.
"Other" consists of securities with 0% risk-weight, guaranteed by governments, securities with 0% risk-weight issued or guaranteed by PSEs, the BIS, the IMF, the EC, the ECB or MDBs, non-financial corporate bonds, rated AA- or better, securities with 20% risk-weight issued or guaranteed by PSEs, RMBSs rated AA or better and non-financial shares.
Source: Reports to the Danish FSA.

The total Basel LCR level of group 1 banks fell in 2013, see figure 21. For group 2 banks, however, the total LCR level increased during 2013. Definition of the LCR by the Basel

Committee, however, only allows for covered bonds to account for a maximum of 40% of the LCR liquidity buffer and also requires that cash, government bonds and central bank balances together account for at least 60% of the LCR liquidity buffer. This means that the definition of the LCR by the Basel Committee underestimates the strength in the cash resources of Danish banks. If covered bonds are allowed to be recognised with up to 70% of the liquidity buffer in the LCR, Danish banks' LCR compliance will be significantly improved.

The total fall in the Basel LCR of group 1 banks is attributable to a fall in their total holdings of government bonds, whereas total holdings of covered bonds have increased.

Figure 21. Development in aggregated LCR for groups 1 and 2 banks, 2012-2013



Source: Reports to the Danish FSA.

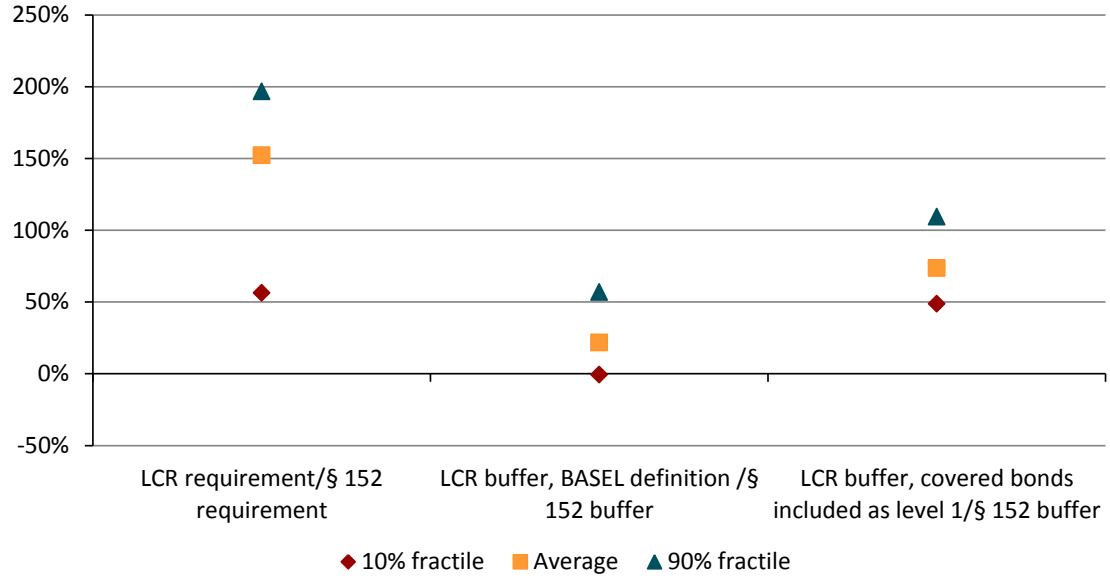
In connection with the transition from the existing section 152 liquidity requirement to the LCR requirement, changes will be made in the size of the required total cash and cash equivalents in the definition of which assets may be included as liquid, and in the liquidity ratio of the assets allowed in the total cash and cash equivalents. In relation to the size of the required total cash and cash equivalents, the LCR requirement is on average 1.5 times higher than the section 152 requirement[21], see the first column in figure 22. However, there is great variation across banks, as the LCR requirement is more adapted to the liquidity risks of the individual banks, which means that banks with different business models will be affected differently by the new requirements. Some banks will therefore see a relaxation in the requirement for their total cash and cash equivalents whilst others will be subject to stricter requirements.

The Basel LCR requirement is a relaxation in relation to the section 152 requirement with regard to the definition of assets allowed to be recognised as liquid, and the liquidity ratio of the assets allowed in total cash and cash equivalents, see the second column in figure 23. This is in part due to the management of the liquidity ratio of mortgage-credit bonds which is extremely important in a Danish context. If all mortgage-credit bonds are fully included

[21] The requirement in the supervisory diamond is liquidity of 1.5 times the section 152 requirement.

and without haircut as liquid assets, the relaxation is smaller, see the third column in figure 22.

Figure 22: The LCR requirement compared with the section 152 liquidity requirement for Danish groups 1 and 2 banks, at the end of 2013.



Source: Reports to the Danish FSA.

8. About the statistics

This article on market developments has been based on financial statements etc. submitted for banks in Denmark. Figures are at bank level (i.e. not group level), unless otherwise stated.

This article focuses on developments in selected accounts items and financial ratios at sector level as well as the underlying developments in the individual banks. At a later stage, the Danish FSA will publish "Statistical data for banks". This publication will contain more data from banks' submissions for 2013. Moreover an update will follow of financial ratios in the five-year financial summary, analysed by groups, and the individual banks in the financial ratios database on the Danish FSA website.

All banks in groups 1-4 will be included in the statistics, unless otherwise stated. The four groups are composed on the basis of size by working capital, see appendix 8 which shows the group break-down. The 67 banks in groups 1-3 cover 99% of the overall balance sheet total. Group 4 comprises 18 smaller banks.

9. Appendices

Appendix 1: List of figures and tables

Appendix 2: Banks' financial statements 2009-2013

	Groups 1-4 in total						
						Annual change	
DKK millions	*2009*	*2010*	*2011*	*2012*	*2013*	*2009-2013*	*2012-2013*
Income statement							
Net interest income	69,739	58,900	51,536	50,331	47,403	-9.2%	-5.8%
Dividends from shares etc.	691	802	890	1,170	2,485	37.7%	112.4%
Net fee income	17,929	18,787	18,412	19,563	20,748	3.7%	6.1%
Net income from interest and fees	88,359	78,489	70,837	71,064	70,636	-5.4%	-0.6%
Market value adjustments	10,650	5,010	2,094	7,988	4,099	-21.2%	-48.7%
Staff and administrative expenses	47,611	46,540	48,123	48,801	47,359	-0.1%	-3.0%
Loan impairment charges etc.	58,372	35,975	24,293	27,177	17,071	-26.5%	-37.2%
Income from associates and group unde	1,644	8,337	4,587	6,034	7,736	47.3%	28.2%
Profit before tax	-15,579	4,136	3,585	7,223	16,212	*	124.4%
Tax	-80	2,454	1,635	3,669	2,807	*	-23.5%
Net profit for the year	-15,499	1,682	1,950	3,554	13,405	*	277.2%
Balance sheet							
Due from credit institutions and central	574,016	564,315	498,453	399,954	349,983	-11.6%	-12.5%
Loans	1,983,690	1,953,603	1,786,351	1,760,028	1,683,875	-4.0%	-4.3%
loans ex. repo	*1,669,616*	*1,751,679*	*1,577,450*	*1,478,693*	*1,353,322*	*-5.1%*	*-8.5%*
Bonds	1,008,615	943,051	955,629	1,001,626	1,003,589	-0.1%	0.2%
Shares, etc.	24,359	27,762	25,698	29,047	35,605	10.0%	22.6%
Due to credit institutions and central ba	852,785	766,992	797,922	800,141	659,834	-6.2%	-17.5%
Deposits	1,657,958	1,627,502	1,625,561	1,722,021	1,744,884	1.3%	1.3%
deposits ex. repo	*1,563,912*	*1,561,665*	*1,554,746*	*1,563,474*	*1,583,963*	*0.3%*	*1.3%*
Issued bonds	676,851	634,380	500,427	389,905	310,999	-17.7%	-20.2%
Total shareholders' equity	242,903	250,245	270,069	271,869	282,866	3.9%	4.0%
Total assets	4,324,022	4,287,394	4,306,656	4,243,729	3,807,916	-3.1%	-10.3%
Key figures (non-consolidated)							
Total capital ratio	17.8	17.9	20.1	22.1	22.4		
Tier 1 capital ratio	14.6	15.0	17.2	19.2	19.5		
Return on equity before tax	-6.5	1.7	1.4	2.9	5.9		
Income/cost ratio	0.9	1.0	1.0	1.1	1.2		
Accumulated impairment ratio	3.3	3.9	3.6	3.9	4.0		
Impairment ratio	2.2	1.4	1.1	1.2	0.8		
Key figures (consolidated level)							
Total capital ratio	12.6	15.7	16.1	17.4	19.4		
Tier 1 capital ratio	9.4	12.7	13.4	14.8	16.6		

Note: * means that the calculation is not possible.

Income statement and balance sheet figures are at bank level (not group level). From 2008 banks have submitted figures in accordance with the new solvency rules in Basel II. Figures are based on the banks which existed in the individual years.

Source: Reports to the Danish FSA.

Appendix 3: Banks' financial statements by group 2011-2013

	Group 1			Group 2			Group 3			Group 4		
DKK millions	*2012*	*2013*	*Per cent change*	*2012*	*2013*	*Per cent change*	*2012*	*2013*	*Per cent change*	*2012*	*2013*	*Per cent change*
Income statement												
Net interest income	35,804	33,675	-6%	7,777	7,650	-2%	6,090	5,995	-2%	73	83	14%
Dividends from shares etc.	1,024	2,227	117%	63	151	140%	74	106	43%	0	1	0%
Net fee income	15,522	16,522	6%	1,544	1,818	18%	2,178	2,350	8%	58	58	0%
Net income from interest and fees	52,351	52,424	0%	9,384	9,619	3%	8,341	8,450	1%	131	143	9%
Market value adjustments	4,846	810	-83%	2,817	2,964	5%	422	321	-24%	10	4	-60%
Staff and administrative expenses	34,540	34,318	-1%	7,958	7,581	-5%	5,316	5,261	-1%	121	199	64%
Loan impairment charges etc.	17,085	9,099	-47%	5,576	5,353	-4%	3,151	2,593	-18%	31	25	-19%
Income from associates and group undertakings	5,917	7,113	20%	208	558	168%	-58	60	203%	0	5	0%
Profit before tax	10,275	16,111	57%	-2,079	-173	92%	-153	353	331%	-17	-79	-365%
Tax	2,908	2,461	-15%	500	209	-58%	246	146	-41%	3	-10	-433%
Net profit for the year	7,367	13,650	85%	-2,579	-382	85%	-399	207	152%	-20	-70	-250%
Balance sheet												
Due from credit institutions and central banks	375,938	330,617	-12%	15,401	11,990	-22%	6,693	7,004	5%	524	372	-29%
Loans	1,486,499	1,437,280	-3%	153,654	141,161	-8%	106,194	103,763	-2%	1,276	1,671	31%
loans ex. repo	1,205,427	1,108,656		153,392	139,232		106,194	103,763		1,276	1,671	
Bonds	863,132	888,596	3%	93,592	79,370	-15%	39,166	34,949	-11%	434	673	55%
Shares, etc.	17,843	25,768	44%	5,428	4,972	-8%	5,231	4,781	-9%	80	84	5%
Due to credit institutions and central banks	751,611	623,313	-17%	33,612	28,371	-16%	12,226	8,082	-34%	56	68	21%
Deposits	1,381,347	1,411,497	2%	190,194	195,045	3%	136,813	136,425	0%	1,661	1,918	15%
deposits ex. repo	1,222,799	1,250,575		190,194	195,045		136,813	136,425		1,661	1,918	
Issued bonds	340,628	307,821	-10%	43,590	2,155	-95%	1,835	838	-54%	1	184	18300%
Total shareholders' equity	215,957	229,470	6%	32,583	31,315	-4%	21,251	21,215	0%	676	867	28%
Total assets	3,698,739	3,344,397	-10%	338,646	284,280	-16%	181,167	176,043	-3%	2,480	3,196	29%
Guarantees	283,991	293,956	4%	26,659	22,611	-15%	24,089	22,359	-7%	174	172	-1%
Other liabilities	154,468	165,925	7%	13,229	3,481	-74%	427	941	120%	3	9	200%
Key figures (non-consolidated)												
Total capital ratio	23.54	23.54		16.85	17.57		18.03	18.10		38.62	41.22	
Tier 1 capital ratio	20.29	20.36		14.88	15.86		16.72	17.07		37.49	40.31	
Return on equity before tax	4.97	7.20		-6.29	-0.53		-0.69	1.69		-3.02	-10.22	
Income/cost ratio	1.18	1.36		0.89	0.98		0.98	1.04		0.89	0.66	
Accumulated impairment ratio	3.14	3.19		7.06	8.92		7.12	7.80		11.49	3.61	
Impairment ratio	0.93	0.51		2.87	2.98		2.25	1.90		1.91	1.32	

Note: * means that the calculation is not possible.

Comparative figures take into account mergers as well as changes 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 2013.

Source: Reports to the Danish FSA.

Appendix 4: Banks' financial ratios 2009-2013

	2009	*2010*	*2011*	*2012*	*2013*
Non-consolidated level					
Total capital ratio	17.84	17.90	20.08	22.07	22.35
Tier 1 capital ratio	14.55	15.02	17.23	19.17	19.54
Return on equity before tax	-6.54	1.69	1.42	2.92	5.87
Return on equity after tax	-6.53	0.67	0.74	1.54	4.88
Income/cost ratio	0.86	1.04	1.04	1.10	1.24
Interest rate risk	1.49	0.67	0.27	0.30	0.83
Loans and impairment losses over deposits	123.56	124.80	113.91	106.55	100.94
Excess coverage as a percentage of the liquidity requ	163.41	160.23	127.64	170.41	199.65
Sum of large exposures	45.62	46.79	32.45	16.30	8.00
Accumulated impairment loss ratio	3.30	3.86	3.59	3.85	3.98
Annual impairmant loss ratio	2.24	1.41	1.08	1.23	0.81
Growth in loans	-12.78	-0.06	-6.87	-4.40	-7.38
Gearing	8.19	7.63	6.65	6.44	5.94
Consolidated level					
Total capital ratio	12.63	15.72	16.12	17.41	19.38
Tier 1 capital ratio	9.35	12.65	13.39	14.84	16.63
Return on equity before tax	0.47	-2.75	2.25	2.25	3.48
Return on equity after tax	-0.40	-3.79	0.57	1.15	1.48
Income/cost ratio	1.01	0.94	1.05	1.06	1.11
Interest rate risk	2.58	1.79	0.89	0.44	0.35
Surplus liquidity in relation to statutory liquidity req	83.68	164.47	160.90	102.17	145.90
Sum of large exposures	103.23	49.93	53.14	23.52	14.71
Accumulated impairment ratio	0.93	2.41	2.93	2.53	2.72
Impairment ratio	0.67	1.53	1.00	0.80	0.89
Growth in loans	5.87	-7.27	1.23	-3.96	0.79
Gearing	16.21	14.56	13.59	12.01	11.62

Note: Financial ratios are calculated on the basis of the banks which existed in the individual years.

Source: Reports to the Danish FSA.

Appendix 5: Banks' loans and guarantees by sector and industry

	2013	***2012***	***2013***	***2012***
	Loans and guarantees (mio. DKK)	*Loans and guarantees (mio. DKK)*	*Loans and guarantees (per cent)*	*Loans and guarantees (per cent)*
Goverment	58,240	55,165	2.76%	2.53%
Corporate				
Argiculture	92,913	90,856	4.41%	4.17%
Industry	117,360	120,295	5.57%	5.52%
Energy supply	39,846	40,959	1.89%	1.88%
Bulding and construction	36,862	41,410	1.75%	1.90%
Trade	100,574	102,802	4.77%	4.72%
Transport	61,495	71,321	2.92%	3.27%
Information	13,867	15,372	0.66%	0.71%
Financing	593,914	551,492	28.19%	25.30%
Real property	197,024	240,925	9.35%	11.05%
Other corporate	119,905	128,110	5.69%	5.88%
Coporate total	1,373,759	1,403,542	65.19%	64.38%
Private	675,166	721,609	32.04%	33.10%

Source: Reports to the Danish FSA.

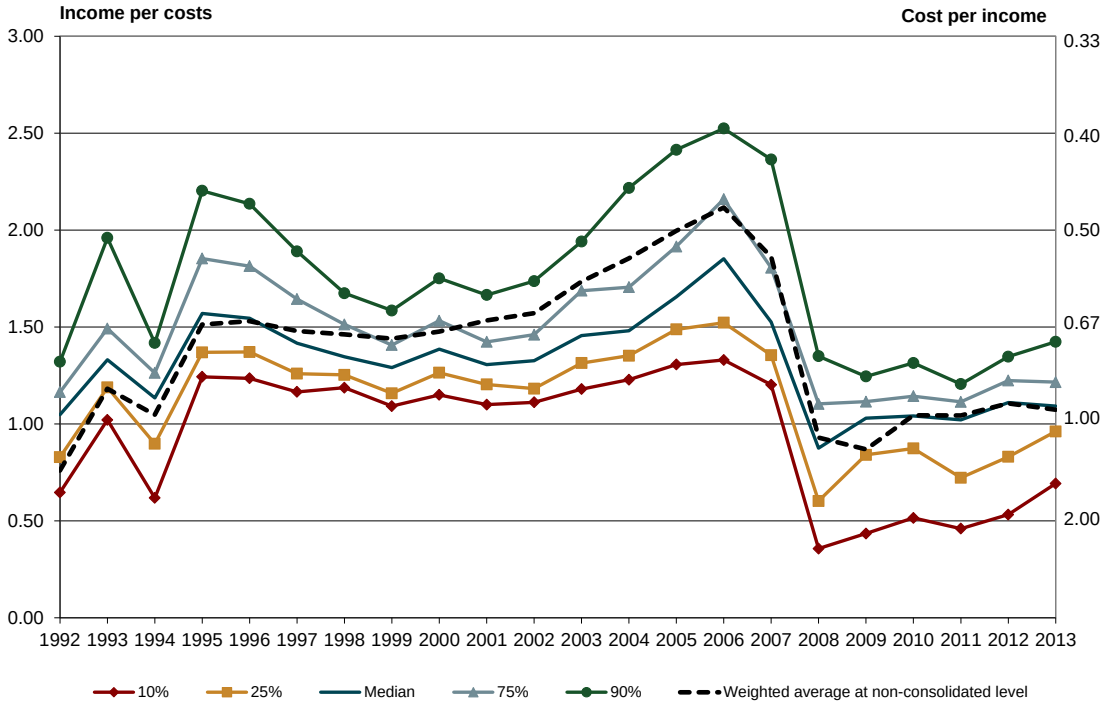
Appendix 6: Loans and guarantees by quality category, 2013

		Credit quality category							
		1	1 last year	**2c**	2c last year	**sum 1+ 2c**	sum 1+ 2c last year	**2b**	**2a/3**
Total	Coporate	7.9	11.0	2.5	3.8	10.3	14.8	9.2	80.5
	Private	6.5	4.9	2.9	3.3	9.5	8.2	16.6	73.9
	Total	7.2	8.2	2.5	3.5	9.7	11.7	11.2	79.0
Group 1	Coporate	3.4	6.1	1.1	2.1	4.5	8.2	7.0	88.5
	Private	6.0	4.5	2.2	2.9	8.3	7.4	13.1	78.6
	Total	4.0	5.2	1.4	2.3	5.4	7.5	8.6	86.0
Group 2	Coporate	27.7	23.5	7.2	7.2	34.8	30.6	17.6	47.6
	Private	8.2	7.0	3.2	3.9	11.4	10.9	25.3	63.4
	Total	20.5	17.9	5.7	6.0	26.2	23.9	20.0	53.7
Group 3	Coporate	25.9	22.8	10.1	9.6	36.0	32.4	20.0	44.0
	Private	7.6	5.5	6.6	5.0	14.2	10.5	27.3	58.5
	Total	17.9	15.0	8.5	7.5	26.4	22.5	23.0	50.5
Group 4	Coporate	13.5	8.8	9.6	7.4	23.0	16.2	19.0	58.0
	Private	8.0	4.3	4.9	4.0	12.9	8.3	20.6	66.5
	Total	10.0	6.3	6.6	5.5	16.6	11.7	20.0	63.3

Source: Reports to the Danish FSA.

Appendix 7: Dispersion of financial ratios by fractiles

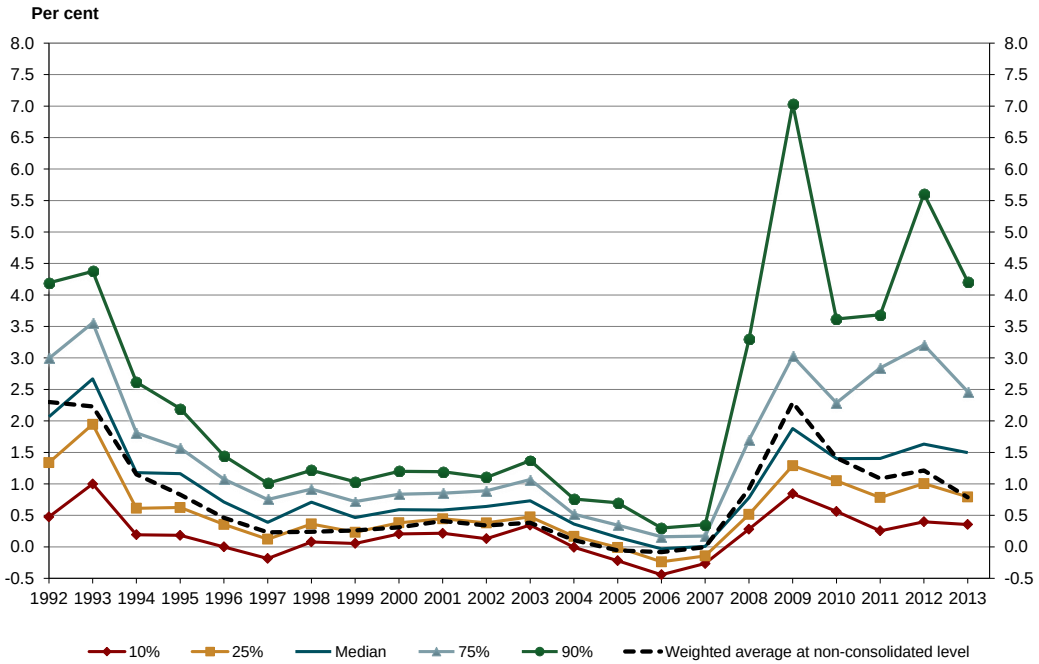
Figure A1: Income/cost ratio 1992-2013



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.

Figure A2: Annual impairment loss ratio of loans and guarantees 1992-2013



Source: Reports to the Danish FSA.

Appendix 8: Size groups 1-4 banks at the end of 2013

FT.nr.	Name				
Group 1 - Group 1 - Working capital above 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 non-consolidated: 5					
Group 2 - Working capital above DKK 12 bn.					
522	Sjælland, Sparekassen	7670	Ringkjøbing Landbobank, Aktieselskab	9380	Spar Nord Bank A/S
1149	Saxo Bank A/S	7681	Alm. Brand Bank A/S	9686	Den Jyske Sparekasse
5301	Arbejdernes Landsbank, Aktieselskab	7730	Vestjysk Bank A/S	10001	FIH Erhvervsbank A/S
5999	Danske Andelskassers Bank A/S	9335	Kronjylland, Sparekassen		
Total non-consolidated: 11					
Group 3 - Working capital above DKK 250 mill.					
400	Lån og Spar Bank A/S	7320	Djurslands Bank A/S	9283	Langå Sparekasse
537	Dragsholm Sparekasse	7440	Nørresundby Bank A/S	9312	Sparekassen Balling
755	Middelfart Sparekasse	7500	Hvidbjerg Bank Aktieselskab	9351	Hobro, Sparekassen
828	Sparekassen Faaborg A/S	7570	PenSam Bank A/S	9354	Rønde og Omegns Sparekasse
844	Fynske Bank A/S	7780	Skjern Bank, Aktieselskabet	9388	Sparekassen Djursland
847	Rise Spare- og Lånekasse	7890	Salling Bank A/S	9682	Nr. Nebel og Omegn, Sparekassen for
1671	Basisbank A/S	7930	Kreditbanken A/S	9684	Fanø Sparekasse
6060	DiBa Bank A/S	8099	Nordjyske Bank A/S	9690	Vorbasse-Hejnsvig Sparekasse
6140	Møns Bank, A/S	9044	Dronninglund Sparekasse	9695	Saxo Privatbank A/S
6160	FS Bank A/S	9070	Sparekassen Vendsyssel	9740	Frøs Herreds Sparekasse
6471	Grønlandsbanken, Aktieselskab	9090	Sparekassen Thy	9797	Broager Sparekasse
6482	BRFkredit Bank a/s	9124	Sønderhå-Hørsted Sparekasse	9827	Sparekassen Bredebro
6520	Lollands Bank, Aktieselskab	9133	Frøslev-Mollerup Sparekasse	9860	Folkesparekassen
6771	Lægernes Pensionsbank A/S	9135	Klim Sparekasse	13080	Frørup 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	9217	Sparekassen Himmerland A/S	13460	Merkur, Den Almennyttige Andelskasse
Total non-consolidated: 51					
Group 4 - Working capital below DKK 250 bn.					
544	Refsnæs Sparekasse	6620	Coop Bank A/S	9639	Fjaltring-Trans Sparekasse
579	Sparekassen Den lille Bikube	9358	Vistoft Sparekasse	13070	Faster Andelskasse
800	Flemløse Sparekasse	9369	Søby-Skader-Halling Sparekasse	13100	Københavns Andelskasse
1693	PFA Udbetalings Bank	9627	Ulfborg Sparekasse	13220	Andelskassen OIKOS
5125	Leasing Fyn Bank	9629	Stadil Sparekasse	13350	Østervraa, J.A.K. Andelskassen
6102	Landbrugets Finansieringsbank (LFB)	9634	Borbjerg Sparekasse	13450	Funder Fælleskasse Andelskasse
Total non-consolidatedt: 18					

Acquisitions, mergers and discontinued non-consolidatedt in 2013			
Discontinued		**Continued**	
631	Kongsted Sparekasse	6140	Møns Bank, A/S
681	Lolland A/S, Sparekassen	7858	Jyske Bank A/S
6850	Vestfyns Bank	844	Fynske Bank A/S
5201	Amagerbanken af 2011 A/S		Discontinued
6220	Vordingborg Bank	6520	Lollands Bank A/S
8222	BIL Danmark		Filial af Banque Internationale á Luxembourg S.A
8231	FIH Kapital Bank A/S		Discontinued
8269	Carnegie Bank		Filial af Carnegie Investment BANK AB, Sverige
9100	Fjordbank Mors af 2011 A/S		Discontinued
13240	Ebeltoft, Andelskassen J.A.K	9860	Folkesparekassen

Acquisitions, mergers and discontinued non-consolidatedt in 2014			
Discontinued		**Continued**	
9351	Sparekassen Hobro	9217	Jutlander Bank A/S
6060	DiBa Bank A/S	8079	Sydbank A/S
13450	Funder Fælleskasse Andelskasse	9860	Folkesparekassen

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

Source: Danish FSA

Appendix 9: Glossary

Before CRD IV/CRR, see the Danish Financial Business Act until 31 March 2014	After CRD IV/CRR, see section 5(6) of the Danish Financial Business Act from 31 march 2014	CRR (English)
Capital base	Capital base, see section 5(6), no. 6 of the Danish Financial Business Act	Own funds, see Article 4(1) no. 118 of CRR
Actual core capital	Actual core capital, see section 5(6), no. 7 of the Danish Financial Business Act	Common Equity Tier 1 capital (CET1), see Article 26 of CRR
Hybrid core capital	Hybrid core capital, see section 5(6), no. 10 of the Danish Financial Business Act	Additional Tier 1 capital, see Article 61 of CRR
Core capital	Core capital, see section 5(6), no. 8 of the Danish Financial Business Act	Tier 1 capital, see Article 25 of CRR
Additional capital	Additional capital, see section 5(6), no. 9 of the Danish Financial Business Act	Tier 2 capital, see Article 71 of CRR
Subordinate loan capital	Additional capital instruments, see section 5(6), no. 12 of the Danish Financial Business Act	Tier 2 instruments, see Article 63 of CRR
Risk-weighted items	Total risk exposure, see section 5(6), no. 16 of the Danish Financial Business Act	Total risk exposure (amount), see Article 92(3) of CRR