Creditinstitutions

Market development 2021

FINANSTILSYNET

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1. Summary

Credit institutions achieved a significantly better result in 2021 than in 2020 – in line with the years before. The improved result is mainly attributable to low loan impairment charges. There were also major positive price adjustments and strengthened basic earnings driven by higher fee incomes. The net interest earnings of the credit institutions were also challenged by low interest rates in 2021 and continued the downward trend. However, it was more than offset by rising net fee incomes and commissions. The declining basic earnings observed over several years were thus turned into an increase overall.

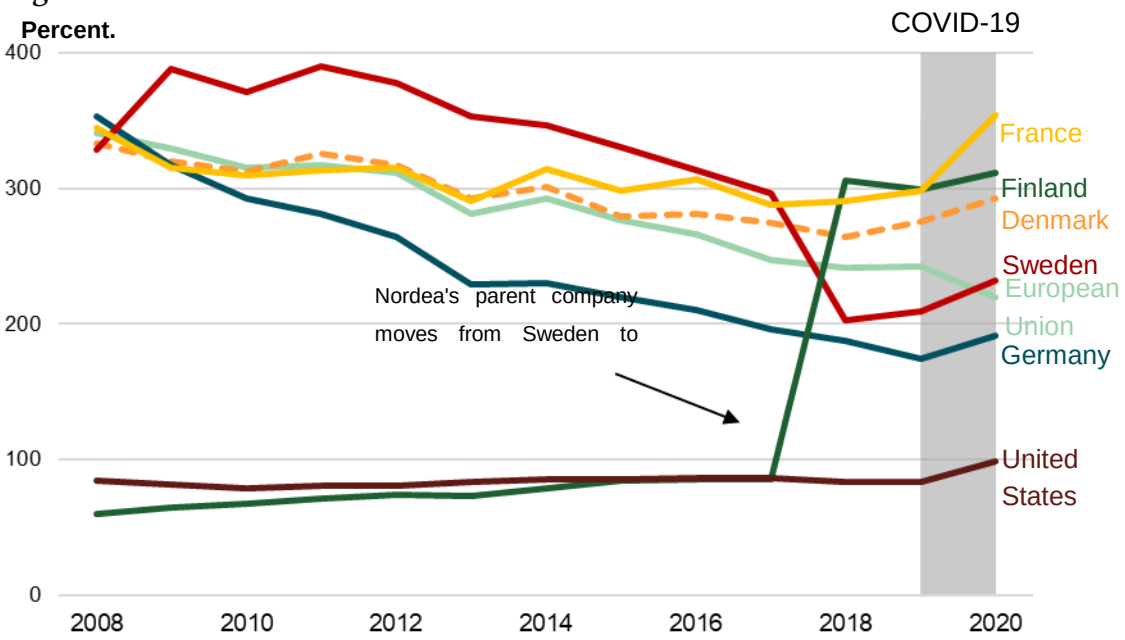
Credit institutions' capital resilience, overcollateralisation to capital requirements, remained broadly unchanged in 2021. Thus, credit institutions continue to have a sound economic starting point if financial turmoil and major economic downturns materialise in the light of the current uncertainty about growth, inflation and cyclical developments, most recently exacerbated by the war in Ukraine.

Loan growth continued in 2021, with bank lending in particular growing again after some years of stagnant growth. Credit institutions' corporate lending fell between Q4 of 2019 and Q2 of 2021 as a consequence of the COVID-19 crisis and the introduction of bailout packages for businesses by the state. Although mortgage banks' lending to businesses grew during the period, this did not offset the decline in the banks' business lending. In the second half of 2021, corporate lending grew, and the banks' business lending experienced particular progress.

2. Structure of the credit sector

Since 2008, the total balance for Danish credit institutions in relation to Denmark's GDP has fallen from 330 percent to 290 percent; see Figure 1. This is because the overall balance of credit institutions has grown more slowly than GDP over the period. During the period, the Danish credit institutions' balance grew by 14 percent, while GDP grew by 30 percent.

Figure 1: Credit institutions' balance in relation to GDP



Sources: European countries and the EU: Balance, credit institutions: Central Banking Data 2 (CBD): GDP, Eurostat National Accounts. United States: Balance, credit institutions: FRED, Total Assets, All Commercial Banks GDP: FRED, GDP (GDPA).

The same downward trend is generally seen in the EU area and in the individual countries with which Denmark is often compared. In the period 2008-2020, the credit institutions' balance across EU in relation to GDP fell from 341% to 220%. However, the decline is quite differentiated across the EU. Germany, for example, saw a decrease of 162 percentage points during the period, while France had a slight increase of 29 percentage points (though most recently strongly affected by the COVID-19 crisis).

The recent increase in the balance of credit institutions in relation to GDP must be seen in the light of the COVID-19 crisis. The crisis led to a fall in GDP, while it had a minor impact on the size of credit institutions' balances[1].

On the other side of the Atlantic, the United States has a structurally different financial system. This is reflected e.g. in the fact that the balances of US credit institutions in relation to GDP in 2020 was 99%, which is 121 percentage points less than in the EU; see Figure 1. This large difference is due to several elements of the financial systems. One element is, for example, the financing profile of non-financial corporations in the EU and the US,

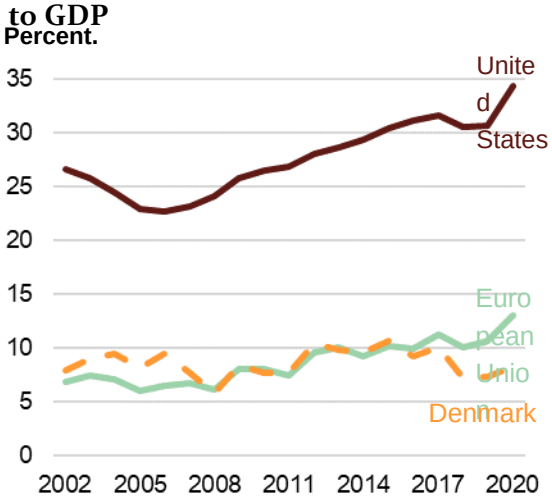
[1] However, the crisis greatly affected the composition of the balances. For example, credit demand in Denmark has been declining, thereby affecting lending in relation to other investment of the funds (asset side) in banking institutions. At the same time, deposits with the banks have been relatively unaffected (liability side) and thus only an accumulation of deposit surplus and liquidity in placements on the asset side of the banks' balances.

respectively. US companies are increasingly using the financial markets for debt financing, while European companies are increasingly using credit from credit institutions.

This is illustrated in Figure 2.A and Figure 2.B. Figure 2.A illustrates debt financing by non-financial corporations in the US and EU financial markets. Over the period 2002-2020, non-financial corporations have had outstanding debt securities in the range of 23% to 34% of total US GDP. By comparison, EU companies have had outstanding debt securities at a level between 6% and 13% of total EU GDP.

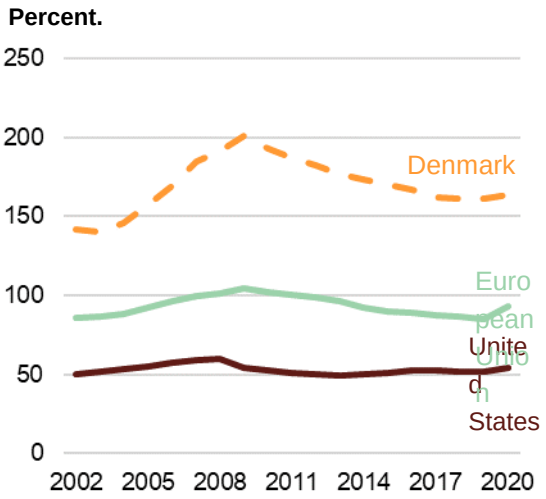
Figure 2.B shows another typical channel for debt financing by non-financial corporations, illustrated by credit institutions' credit to the private sector in relation to GDP. In the US, credit institutions gave credit to the private sector equivalent to 54% of GDP, compared to 93% of GDP in the EU. At this point in an international comparison, Denmark is very high at 163 percent of GDP in 2020.

Figure 2.A: Non-financial companies' outstanding debt securities in relation to GDP



Sources: [Nominator] Non-financial corporations debt securities, BIS Statistics Warehouse, Debt Securities. [Denominator] GDP, The World Bank DataBank.

Figure 2.B: Credit institutions' credit to the private sector in relation to GDP



Source: Monetary Sector Credit to Private Sector (% GDP), The World Bank DataBank.

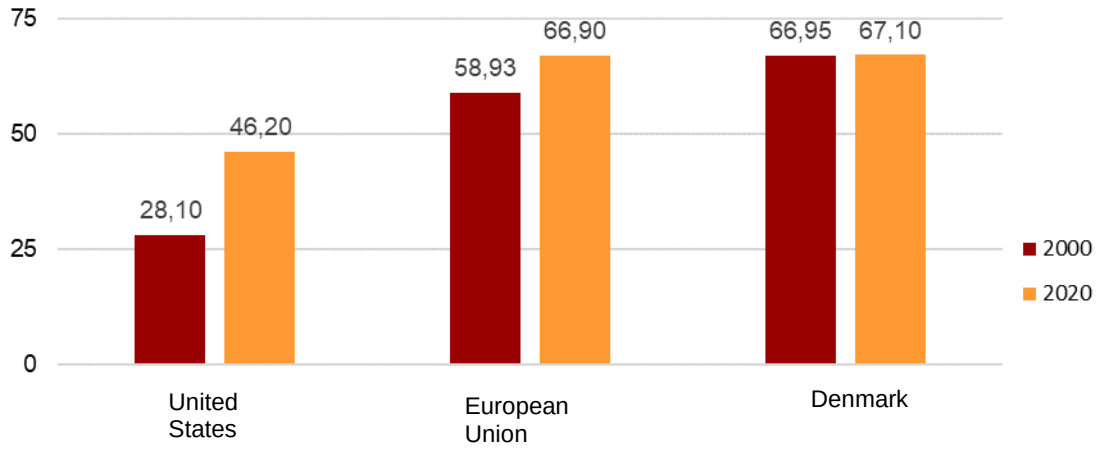
The very active and differentiated roles of credit institutions in the financial system in both the EU and Denmark compared to the US are also seen in the concentration of credit institutions. A typical measure of concentration is the share of assets in the five largest credit institutions in relation to the total assets of all credit institutions (CR-5 ratio). In the period 2000-2020, the concentration among the five largest credit institutions in Denmark did not change significantly, while the average concentration in the EU area increased by 8 percentage points; see Figure 3. The increased concentration in the rest of the EU means that Denmark had a concentration in line with the EU average in 2020.

In the United States, the concentration of credit institutions is considerably lower, but it has grown considerably over the past 20 years. In the year 2000, the five largest credit institutions in the United States contributed 28% of total assets. By 2020, the contribution

had grown to 46 percent. However, the US is still significantly below the average level in the EU and the level in Denmark.

Figure 3: Concentration of credit institutions

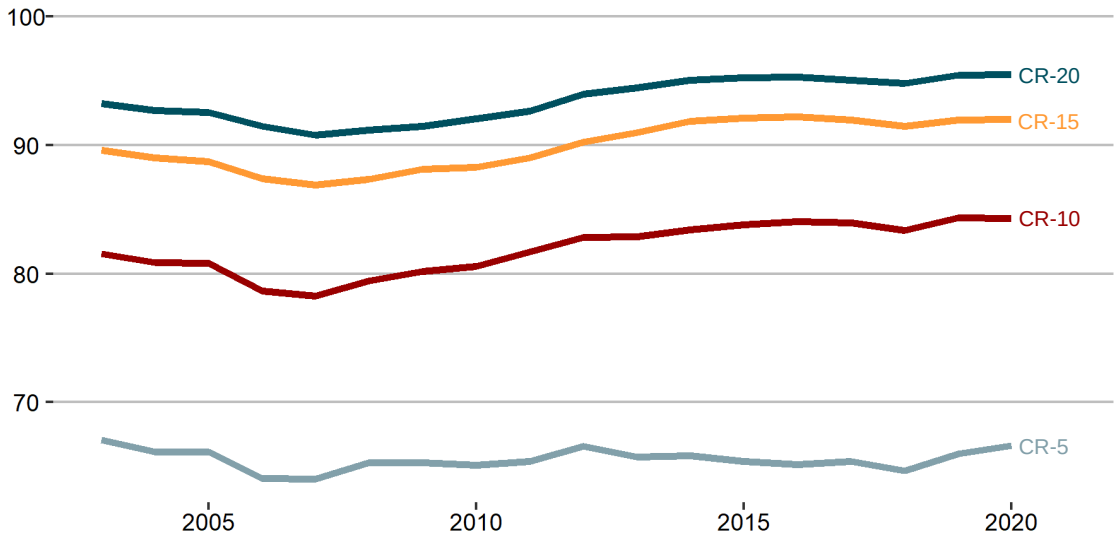
Percent.



Note: The concentration of credit institutions is measured as assets of the five largest credit institutions as a share of the total credit institution assets (so-called CR-5 ratio). The EU is calculated as a simple average of the member states. Bulgaria, Croatia and Romania are excluded from the EU due to lack of data points in the year 2000. The concentration is measured by legal entities, i.e. at solo level.
Sources: EU and Denmark: ECB, Statistical Data Warehouse, SSI: Banking Structural Financial Indicators (S10).
United States: The World Bank, Global Financial Development Database (OI01).

It should be noted, however, that although the CR-5 ratio is the typical measure for comparing the concentration of credit institutions across borders, the target is subject to certain disadvantages. For example, it does not capture consolidation in the layer below the five largest credit institutions. In Denmark, there has been consolidation among small and medium-sized Danish credit institutions over the past ten years. This is illustrated in Figure 4, where the CR-10, -15 and -20 rations, which measure the balances of the 10, 15 and 20 largest credit institutions respectively in relation to the balance of the entire sector, increased from 2003 to 2020.

Figure 4: Concentration of Danish credit institutions



Note: The figure shows different measures of concentration. For example, CR-10 is the assets of the 10 largest credit institutions in relation to the total assets of the sector.
Sources: Danish National Bank's MFI reporting and own calculations

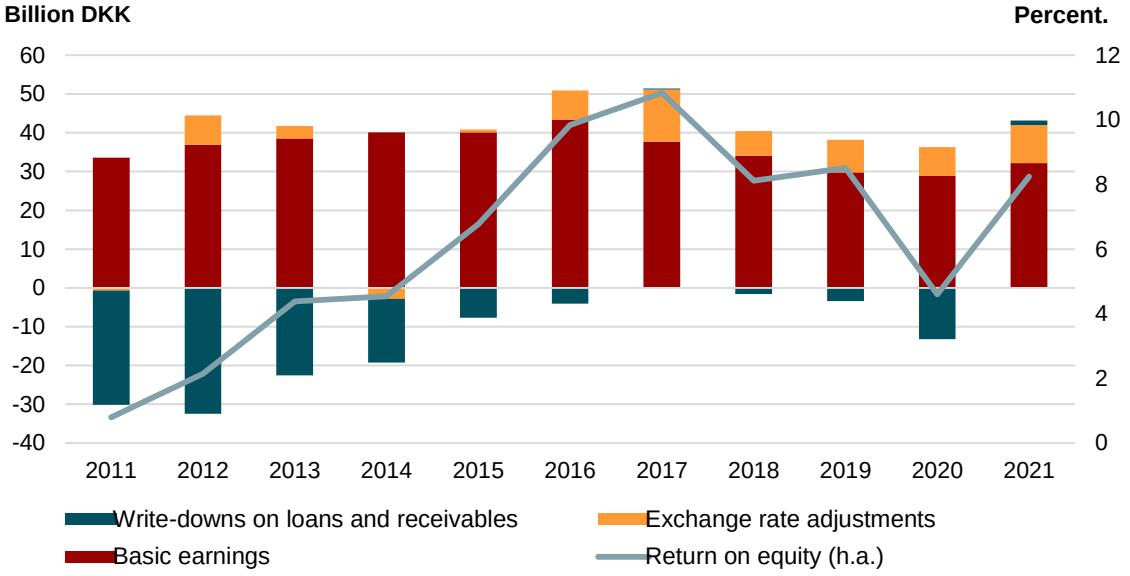
In addition, it is also difficult to compare an average of the EU and the US because the spread in the CR-5 ratio across the EU member states is high. For example, in 2020, the CR-5 ratio in Germany is 34%, while in the Netherlands it is 84%.

3. Earnings of credit institutions

In 2021, Danish credit institutions posted a total profit before tax of DKK 45.4 billion. This is DKK 20.7 billion higher than in 2020, corresponding to an increase of 84 percent. The significant growth is primarily attributable to a low result in 2020 due to larger impairments due to the COVID-19 crisis.

The credit institutions had earnings of DKK 9.8 billion from price adjustments in 2021, which is the best result on price adjustments since 2017; see Figure 5. At the same time, net impairments due to reversals ended as income of DKK 1.2 billion. Thus, the write-downs were the lowest since 2006, when they amounted to net income of DKK 2.8 billion. Finally, basic earnings improved to DKK 32.1 billion, corresponding to an increase of 11 percent compared to the previous year. That is a break with a downward trend since 2016.

Figure 5: Components of the profit of credit institutions

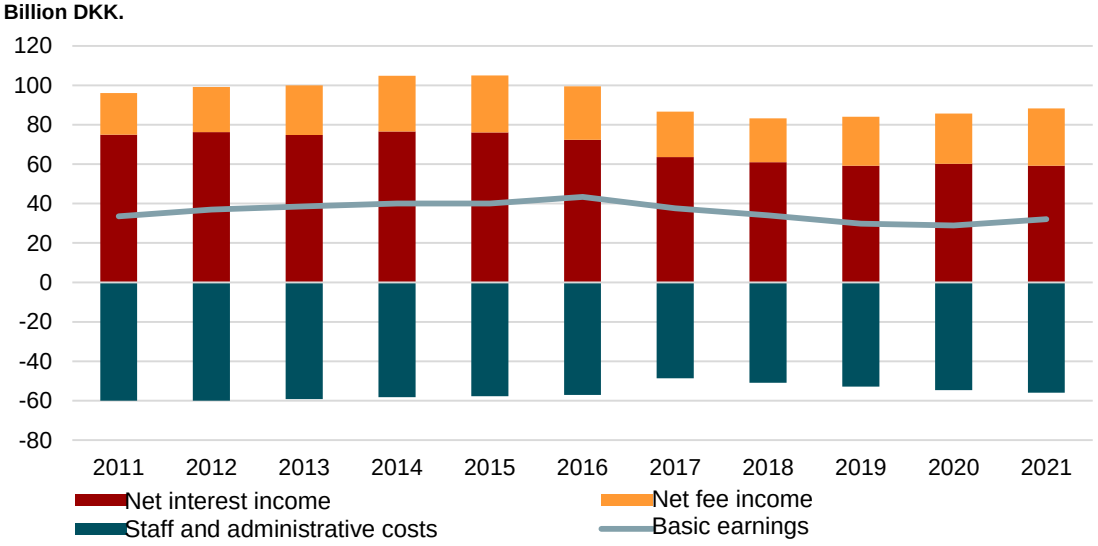


Note: Basic earnings consist of net interest and fee incomes, staff and administrative costs, depreciation and amortisation of intangible and tangible assets, and other operating income and costs. This is an expression of the core business of credit institutions. Note the transition to IFRS9 in early 2018, which may have resulted in higher impairments.
Source: Reports to the Danish FSA.

Enhanced basic earnings in 2021 were driven by higher net fee income; see Figure 6. Net fee income increased by DKK 3.5 billion to DKK 29 billion. Conversely, net interest income decreased to DKK 59.3 billion, corresponding to a decrease of DKK 0.9 billion compared to 2020. Costs for labour and administration increased for the fourth consecutive year to DKK 55.9 billion. This corresponds to an increase of DKK 1.3 billion from the previous year. The increase in basic earnings in 2021 breaks a four-year period of declining basic earnings.

Net interest income is the primary source of earnings for credit institutions. In recent years, however, credit institutions' earnings on this item have been challenged. Credit institutions' net interest income amounted to DKK 63.6 billion in 2017, corresponding to a decrease of 6.7 percent in four years.

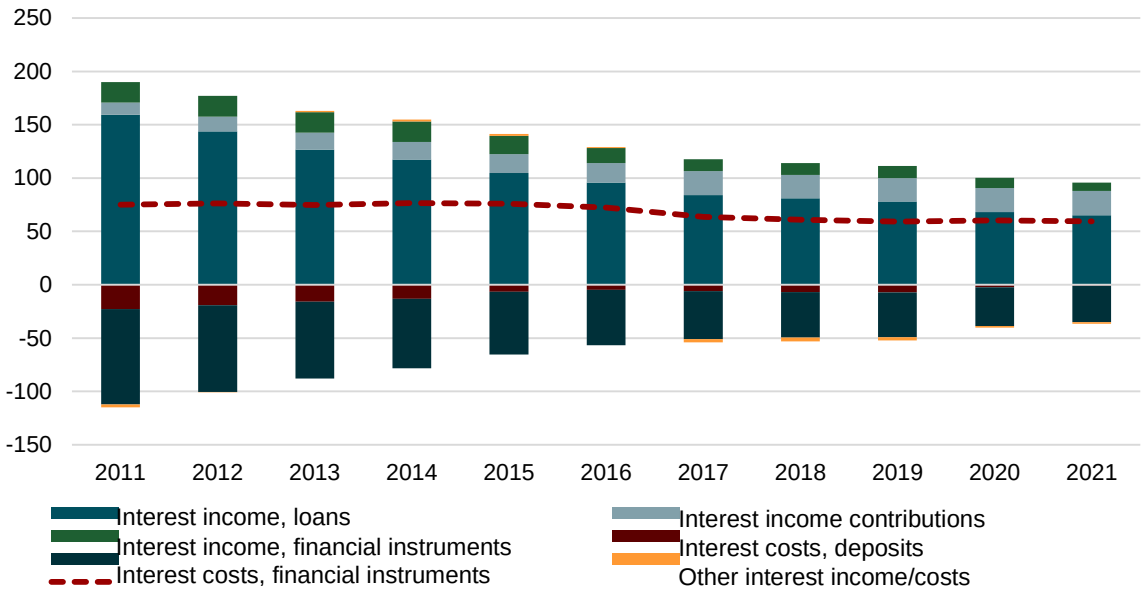
Figure 6: Components of basic earnings



Source: Reports to the Danish FSA.

Interest income on loans represents the majority of total interest income as shown in Figure 7. In 2021, credit institutions had interest income on loans of DKK 65.2 billion, which corresponds to just over two-thirds of the total interest income. Interest income on loans has decreased significantly in recent years from DKK 159.4 billion in 2011 to DKK 84 billion in 2017. This development is due to the general interest rate development, as the banks have on average remunerated their loans at an ever lower interest rate level. In addition, mortgage banks today account for a larger share of the total lending for credit institutions. This reduces the total interest income from lending, as mortgages usually have a lower interest rate than bank loans due to a better security position.

Figure 7: Interest income and costs



Note: Interest income from financial instruments includes bond interest income and interest income from derivative financial instruments. Interest expenses from financial instruments include expenses for bonds issued and subordinated capital contributions. Credit institutions have other interest income and expenses, including placements with/from other credit institutions and central banks. These fall under "Other interest income/costs".
Source: Reports to the Danish FSA.

Contribution payments make up the majority of mortgage bank earnings, and their income has increased steadily over the past decade in line with increasing lending. In 2021, revenue from contributions amounted to DKK 22.7 billion, which is almost DKK 0.4 billion more than in 2020.

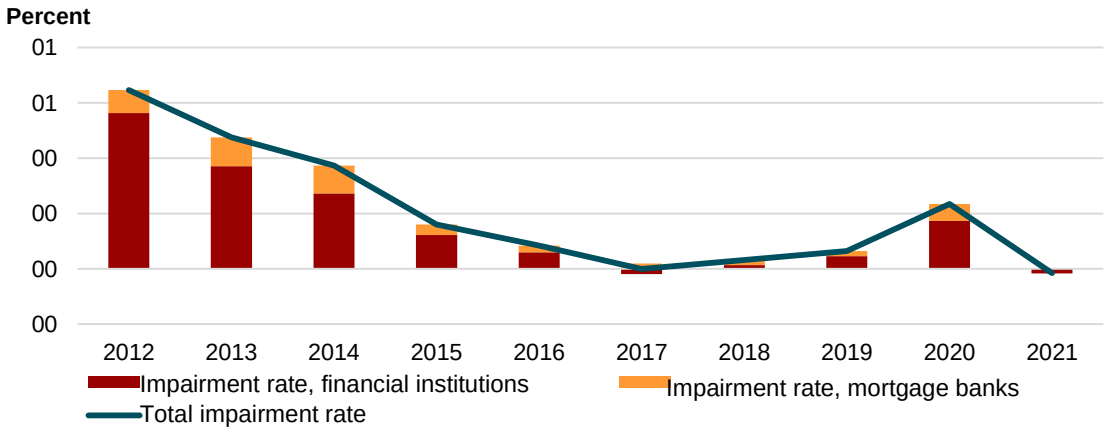
Finally, credit institutions bear interest income on their holdings of bonds and other financial instruments. In 2021, they amounted to DKK 7.9 billion, which is a decrease of DKK 1.7 billion compared to the previous year. As a result, credit institutions continue to see a declining interest income on financial instruments.

On the other hand, credit institutions make interest payments on financial instruments. Of these, payments by mortgage banks on bonds account for the majority[2]. In 2021, interest payments on financial instruments amounted to a cost of DKK 34.2 billion, which is DKK 2.2 billion less than in 2020. Interest payments on deposits have historically also been a significant expense for banks. As the low level of interest rates has taken hold, interest payments on deposits have decreased significantly for the banks. In 2021, interest payments on deposits amounted to a cost amounting to DKK 0.8 billion compared to DKK 2.3 billion in 2020. As a result, interest on deposits overall still represented a cost for credit institutions in 2021, despite the spread of negative interest rates on deposit accounts.

Write-downs

The impairment rate in 2021 was −0.02. The low write-downs are partly due to modest new write-downs and partly to reversals of previous write-downs. As credit institutions expected increasing credit losses due to the COVID-19 crisis, they significantly wrote down their lending in 2020 (see Figure 8) as the extent and effects of the COVID-19 crisis were still uncertain.

Figure 8: Impairment rate



Note: The impairment rate indicates the total operating write-downs for banks and mortgage credit institutions, respectively, in relation to the credit institutions' total loans including repos and guarantees.
Source: Reports to the Danish FSA.

In the years during and immediately after the financial crisis in 2007-2009, the impairment rate was at a significantly higher level than today. The trend towards lower impairment

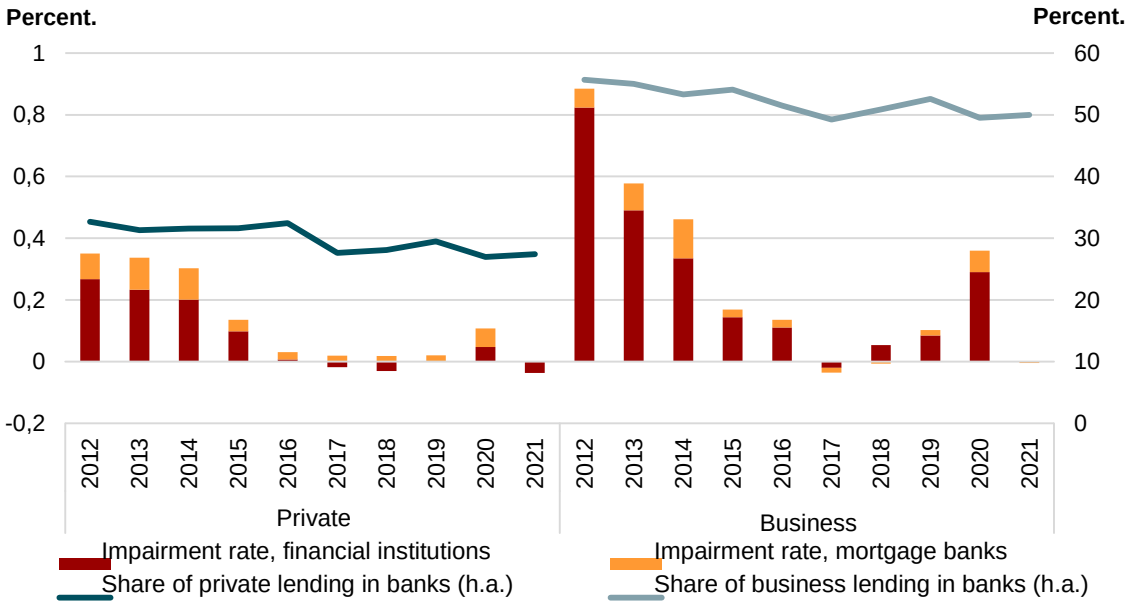
[2] When the borrower makes interest payments on his mortgage loan to the mortgage bank, the mortgage bank will have to offset the interest income by making interest payments to the owners of mortgage bonds. This process occurs as a result of the balance principle in mortgage banks.

rates in the years following the financial crisis can primarily be attributed to the cyclical development, but also to credit management and a structural movement towards more use of mortgage financing, which is a safer form of lending. Thus, 55% of all corporate loans were made by the banks in 2012 compared to 50% in 2021; see Figure 9. Similarly, the share of loans to private individuals from banks has fallen from 32% in 2012 to 27% in 2021.

Most of the credit institutions' total write-downs are attributable to loans from financial institutions. Since 2012, banking institutions and mortgage banks have on average had write-downs corresponding to 0.18 percent and 0.05 percent of the credit institutions' total loans each year, respectively. In 2021, the income of banking institutions from net write-downs corresponded to 0.02 percent of the credit institutions' total loans, while the mortgage banks' net write-downs of DKK 62 million corresponded to 0.001 percent of the credit institutions' total loans.

The impairment rate for business loans is typically higher than for loans to private individuals, as business lending is, among other things, more cyclically sensitive than private lending. Since 2012, the average annual impairment rate for corporate loans has been 0.35%, compared with 0.13% for private lending. As a result of the COVID-19 crisis, the impairment rate for business loans was 0.36% in 2020, while the impairment rate for private loans was 0.1%. In 2021, the impairment rate was marginally negative for both private and business lending.

Figure 9: Impairment rate for the purpose of



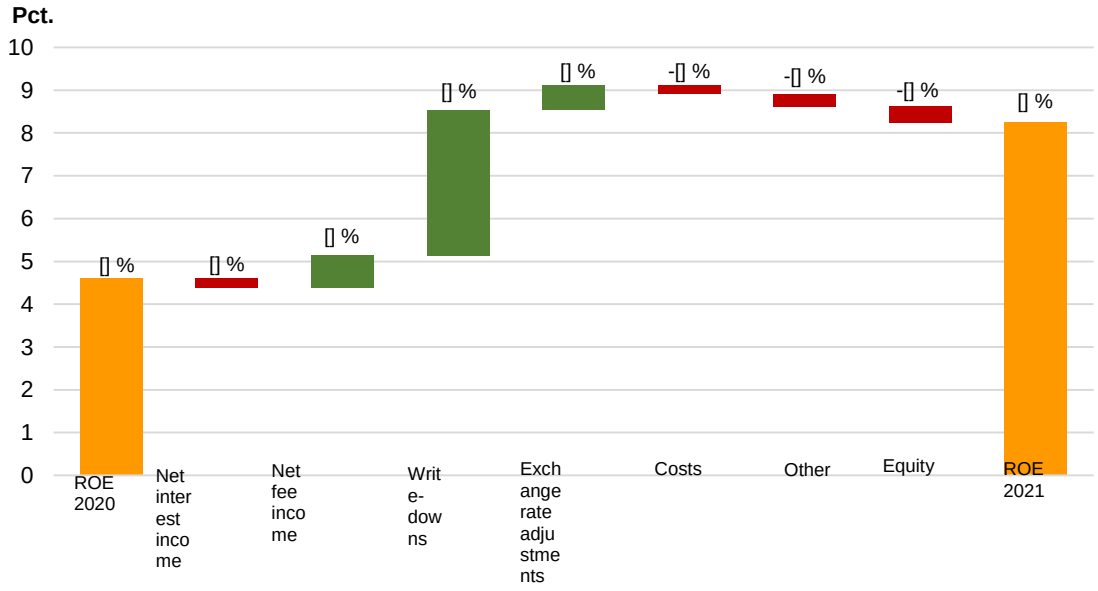
Note: The impairment rate indicates the total operating impairments for loans to private individuals and businesses relative to the total loans to the two categories. The impairment rate is also divided into loans from banking institutions and mortgage banks. For mortgage lending, lending to private individuals is defined as lending with a mortgage on owner-occupied housing or leisure/second homes, where business lending is mortgage lending with a mortgage on property that is not defined as owner-occupied housing or holiday home. Thus, mortgage lending for cooperative housing is included in business lending.
Source: Reports to the Danish FSA.

Return on equity

In 2021, the equity of credit institutions ended with a return of 8.2% after tax compared to 4.6% in 2020; see Figure 11. The improved return on equity was mainly due to the significantly lower impairments in 2021. The combination of relatively large write-downs in 2020 and negative write-downs in 2021 resulted in an increase in the return on equity of 3.4 percentage points. In addition, improved earnings on price adjustments and increasing net fee income contributed to an improved return on equity. Reduced net interest income, increased costs and strengthened capitalisation resulted in a reduction in return on equity of 0.8 percentage points.

Credit institutions came out of the year with a return on equity before tax of 10.2%, which is higher than in the period 2018-2020, but still lower than in 2016 and 2017[3].

Figure 10: Drivers for changes in return on equity



Note: The figure shows the factors that influenced return on equity (ROE) after tax from 2020 to 2021. Green bars illustrate positive contributions, while red bars illustrate factors that contributed to a worsening return on equity. The category *Costs* includes costs for labour and administration, depreciation and amortisation of intangible and tangible assets and other operating costs. The *Other* category contains tax, other income from shares, profit or loss on shares in associates and affiliates, profit or loss on assets in liquidation, and dividends on shares.
Source: Reports to the Danish FSA.

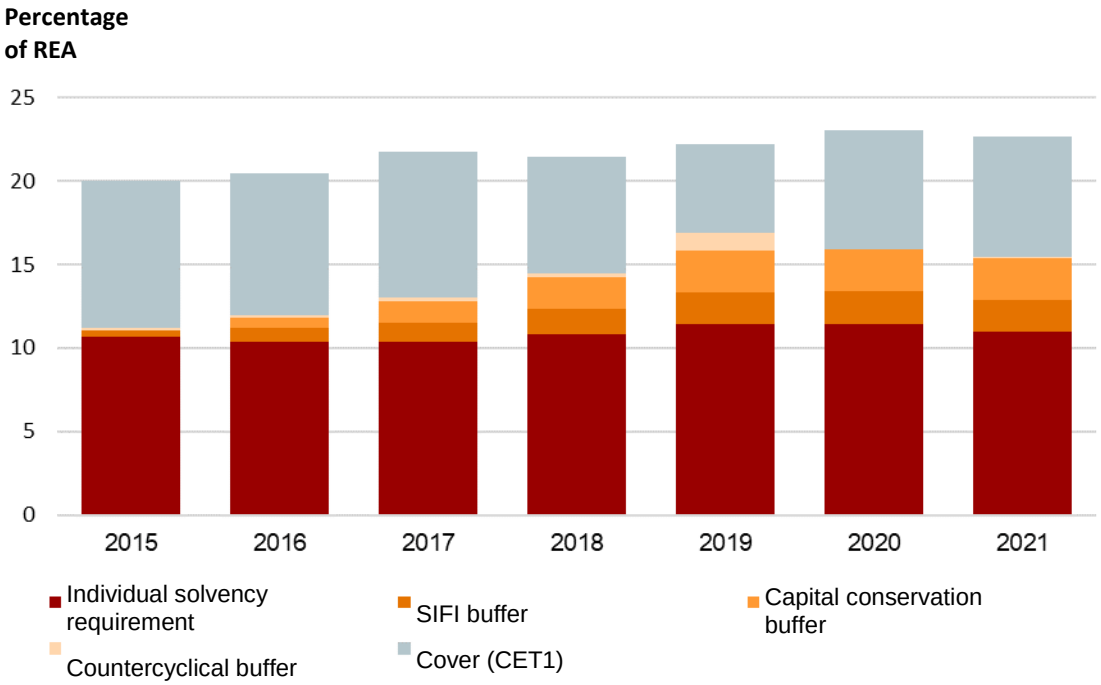
[3] Despite a significant increase in the return on equity in 2021, it was still lower after tax than in 2019, which is, however, mainly due to the fact that credit institutions had extraordinarily low tax payments in 2019 due to a tax technical situation in a single credit institution.

4. Capital

The total capital ratio of credit institutions decreased from 23.1% in 2020 to 22.7% in 2021; see Figure 11. The decline comes on the back of a period between 2018-2020 in which the total capital ratio increased by 1.6 percentage points. The decrease in the capital ratio can be attributed to an increase in risk-weighted exposures (REA), which increased by DKK 132 billion in 2021, where the total amount of capital in the same period increased by DKK 23 billion.

Capital adequacy for credit institutions based on regulatory requirements (capital and buffer requirements) increased from 7.1% to 7.3% of REA; see Figure 11. As a result, coverage remains high compared to the time leading up to the COVID-19 crisis. This is mainly due to the fact that in 2020 credit institutions held back on distributions by agreement between the sector and the government in light of the COVID-19 crisis and the release of the countercyclical capital buffer; see Figure 11[4]. The growth in the total amount of capital since 2015 (DKK 94 billion) is largely attributable to the introduction of the SIFI buffer between 0.5 percent and 3.0 percent for the largest institutions and a capital conservation buffer of 2.5 percent for all institutions.

Figure 11: Capital requirements for credit institutions



Note: The excess coverage includes the institutions' overcollateralisation of core capital (Common Equity Tier 1/CET1), as Additional and Hybrid core capital (AT1 and T2) cannot absorb losses to the same extent. The individual solvency requirement consists of 8% Tier I requirements and an institution-specific Tier II requirement. All figures are as a percentage of risk-weighted exposures (REA). The remaining countercyclical buffer is due to the fact that Norway only partially released their countercyclical buffer, and the Norwegian exposures of credit institutions therefore remain subject to a countercyclical buffer requirement.
Source: Reports to the Danish FSA.

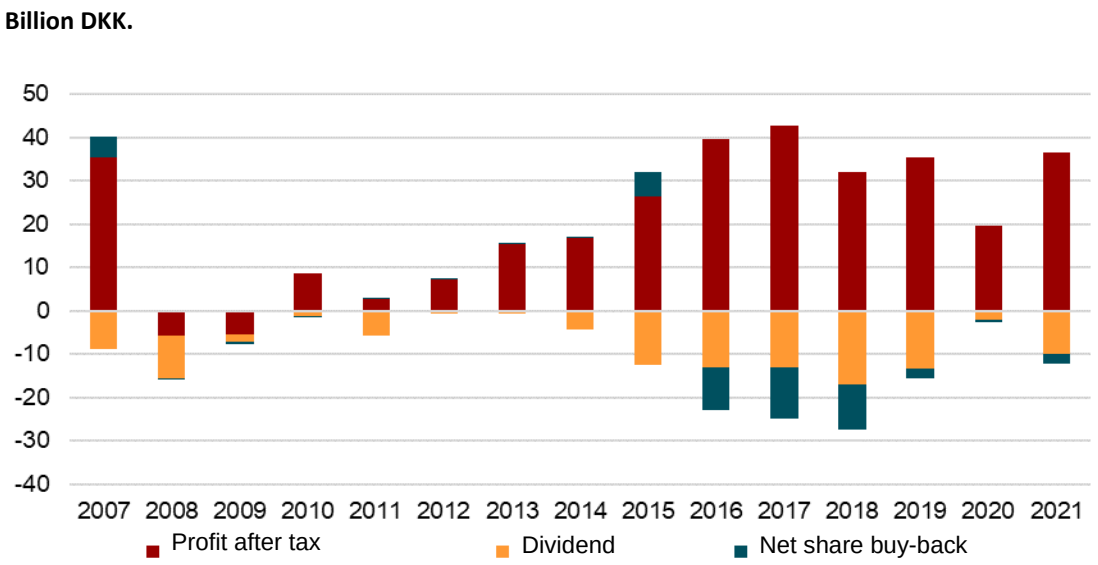
In the future, credit institutions will have to build up the countercyclical capital buffer as ordered by the Minister for Industry, Business and Financial Affairs on 13 March 2020 in response to the COVID-19 crisis. The countercyclical capital buffer was reactivated to 1%

[4] See the Financial Supervisory Authority's website, *Danish Financial Supervisory Authority follows updated recommendation on capital retention,* 18 December 2020 (link)

in Q3 of 2021 with effect from 30 September 2022[5]. Thereafter, it was further increased to 2% in Q4 with effect from 31 December 2022[6]. Finally, it was further increased to 2.5% in Q1 of 2022, with effect from 31 March 2023. Both the reactivation and the increases come as a follow-up to recommendations from the Danish Systemic Risk Council (DSRR).

In 2021, the credit institutions distributed DKK 12.1 billion in the form of dividends and share buy-backs based on the result in 2020; see Figure 12. This means that credit institutions have distributed 62% of the 2020 profit after tax, which is relatively high compared to previous years before the COVID-19 crisis. For example, in 2019, 48 percent was distributed compared to 2018 profit after tax. The difference is due to the fact that in 2020, credit institutions held back on distributions due to the COVID-19 crisis and recommendation from the Financial Supervisory Authority. The recommendation to hold back on distributions expired on 30 September 2021, after which it was possible to pay dividends again. Therefore, a share of the payments made in 2021 may be affected by both the 2019 and 2020 results.

Figure 12: Institutions' dividend payments and share buy-backs



Note: The disposition of dividend payments is made based on the result from the previous year. Therefore, dividends and net share buybacks in the year in the figure occurred based on the annual result from the previous year.
Source: Reports to the Danish FSA.

Individual solvency needs

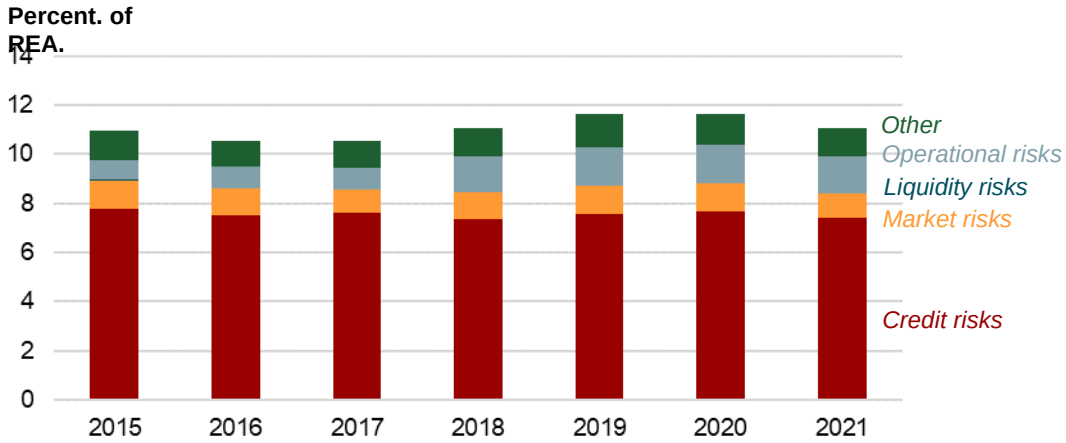
Credit institutions must calculate their individual solvency needs; see Section 124(2) of the Financial Business Act. The solvency requirement is calculated as the sufficient capital base as a percentage of the total risk exposure (REA). The detailed guidelines follow from an executive order on the calculation of risk exposures, own funds and solvency needs. The FSA has prepared guidelines that implement the detailed instructions and the FSA's

[5] See the website of the Ministry of Industry, Business and Financial Affairs, *Reconstruction of the Countercyclical Capital Buffer,* 23 June 2021 (link)
[6] See the website of the Ministry of Industry, Business and Financial Affairs, *Increase of the Countercyclical Capital Buffer in Denmark,* 15 December 2021 (link)

practice for the institutions on selected elements, including in core risk areas for credit institutions such as credit risk, market risk, operational risk, growth and earnings.

The individual solvency requirement has decreased in 2021 from 11.5% to 11%; see Figure 13. The decrease is largely attributable to credit and market risks. In 2021, credit risks accounted for 7.4 percentage points of the solvency requirement, down 0.3 percentage points from the previous year. At the end of 2021, market risks were calculated at 1.0%, which is slightly lower (0.1 percentage points) than the previous year.

Figure 13: Solvency requirements for credit institutions



Note: All figures are as a percentage of risk-weighted exposures (REA).
Source: Reports to the Danish FSA.

The Leverage Requirement

On 1 July 2021, a so-called Leverage Requirement was introduced for Danish credit institutions. The requirement implies that the leverage ratio, which measures an institution's core capital[7] in relation to the non-risk-weighted exposures[8], must be at least 3 percent.

Up to and during the financial crisis, the Leverage Degree[9] was high in the Danish banks as a consequence of the total exposures being increased in relation to the capital base; see Figure 14. In the period 1986-2006, the banks have had a leverage ratio that has fluctuated within a level between 6 and 7 percent with a declining leverage ratio (increasing leverage degree). In the two years leading up to the financial crisis, the leverage ratio fell from 6.2% in 2006 to 4.7% in 2008. During the financial crisis, financing problems forced several banks to limit their leverage, and after the financial crisis, leverage has fallen further. In 2021, the simple leverage ratio for Danish banks had risen to 9.3 percent.

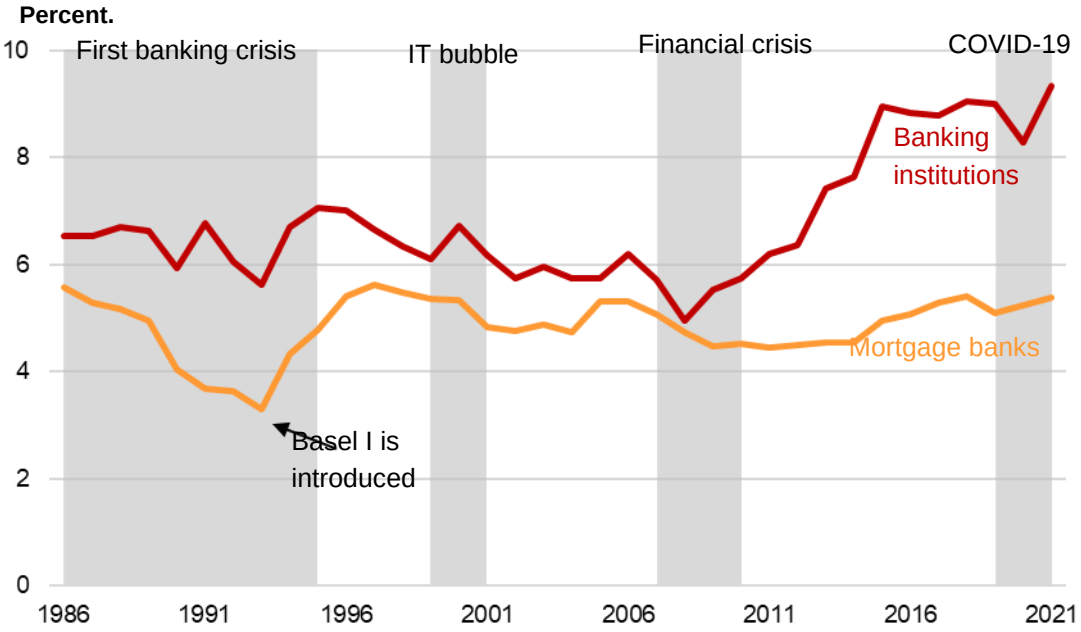
The leverage degree in mortgage banks has also been reduced in the wake of the financial crisis, but not to the same extent as in the banking institutions, as the mortgage banks' business model is much more secure and thus due to its construction allows a higher

[7] Also known as Tier-1 capital, which consists of Common Equity Tier 1 (CET1) and Additional and Hybrid core capital (AT1). CET1 is the highest quality of capital and can absorb losses instantly. This type of capital includes share-, guarantor-, and share capital, retained profits, accumulated other total income, and other reserves. AT1 consists of hybrid capital instruments, which are subordinated loans and, as a rule, without maturity, which can be used to cover losses and e.g. be written down or converted into Common Equity Tier 1 capital.
[8] The carrying value, for example, of SFT (asset-backed instruments enabling the financing of other claims) derivatives, loans and guarantees both on and off the balance sheet.
[9] The leverage degree is a reciprocal (reverse) measure of the leverage ratio. So, when the leverage ratio is low, the leverage degree is conversely high.

leverage. The mortgage banks' simple leverage ratio is therefore at roughly the same level as before the financial crisis.

Like other capital regulation, the leverage requirement aims to strengthen the resilience of institutions and promote financial stability.

Figure 14: Simple leverage ratio of credit institutions



Note: The simple leverage ratio is calculated as equity in relation to the total balance.
Sources: Financial Supervisory Authority's reports and own calculations.

The main objective of the leverage requirement is to limit an inappropriate build-up of excessive leverage[10]. Excessive leverage is when a credit institution's leverage level is unsustainable over time, including during periods of financial stress. It depends on the credit institution's business model whether the leverage is too high. Credit institutions with a generally low risk profile (e.g. mortgage credit institutions) may have a sustainable relatively higher leverage than credit institutions with a higher risk profile.

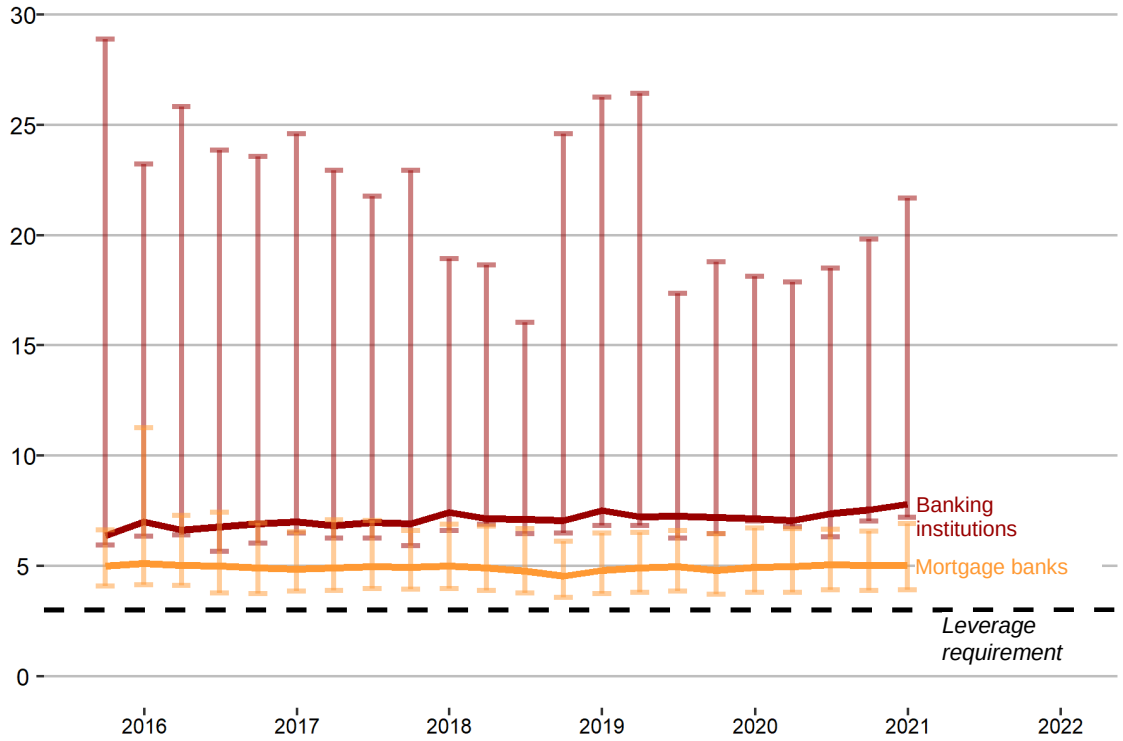
Therefore, the leverage requirement must also be seen in the light of the already implemented regulation on risk-based capital requirements. The leverage requirement differs from the risk-based capital requirements in that exposures are *not* weighted after an assessment of how risky they are. Therefore, the leverage requirement is relevant as a complement to and backstop to the risk-based capital requirement. The leverage requirement will act as an additional layer of protection against uncertainty associated with credit institutions' ratings and against measurement errors in the weighting of exposures. The Rangvid Report pointed out, among other things, that experience from recent crises showed that broad-based optimism led to an underestimation of real risks[11].

[10] See e.g. Basel Committee, *Assessing the macroeconomic impact of the transition to stronger capital and liquidity requirements,* 2011.
[11] See the Ministry of Industry, Business and Financial Affairs website, *Causes of the Financial Crisis (Rangvid Report)*, 18 September 2013 (link)

It can be argued that traditional risk-based capital requirements are disciplinary in terms of risk-taking, taking into account the risk of each asset type[12]. Risk-based capital requirements can therefore provide incentives for institutions to appropriately manage risk and portfolio composition. A leverage requirement does not contain this disciplining element in relation to risk-taking, as the leverage degree weighs all assets equally when calculating the leverage requirement's capital requirements, regardless of the risk of the assets. Therefore, when the leverage requirement is binding, a skewed incentive structure can be introduced in which granting high-risk loans will be more capital efficient than granting low-risk loans. The skewed incentive structure can arise because the institution has to hold the same amount of capital for new loans – regardless of whether they are smaller or riskier loans.

At the end of 2021, no Danish credit institutions were bound by the leverage requirement (see Figure 15) which illustrates the implemented leverage requirement[13]. At the end of 2021, the weighted average for banks and mortgage banks, respectively, was 7.8 and 5.0 percent. The weighted average of mortgage banks has remained relatively constant over the past 5 years, while the banks' weighted average has increased by 1.5 percentage points.

Figure 15: Leverage ratio for credit institutions



Note: The figure shows a weighted average and the spread of the 5 and 95 percent percentiles. The weighting is the institutions' non-risk-weighted exposures.
Sources: Financial Supervisory Authority's reports and own calculations.

[12] See e.g. Basel Committee, *Assessing the macroeconomic impact of the transition to stronger capital and liquidity requirements,* 2011.
[13] The difference between the implemented and simple leverage ratio is e.g. that the implemented leverage ratio for exposures is broader as off-balance exposures are also included.

For mortgage credit institutions, this is mainly due to the fact that capital adequacy and exposures have grown at the same rate. This is also reflected, for example, in a fairly constant spread.

For banking institutions, the increasing leverage ratio (decreasing leverage degree) is due to the fact that capital adequacy has increased while exposures have not increased as much. However, the spread among the banks' leverage ratio is worth noting. The very high spread comes from the fact that, smaller banks especially, have a higher leverage ratio (i.e. are less leveraged) than the larger banks.

Requirements for eligible liabilities (MRs)

As a result of the financial crisis and in order to meet the serious consequences that future financial and economic crises may entail for the Danish and European economies and financial stability, Denmark and the EU have implemented a directive on the recovery and resolution of credit institutions and investment firms (BRRD). The directive requires the Danish FSA to lay down an MREL requirement for Danish credit institutions and investment firms.

The MREL is intended to facilitate the resolution strategy and help shareholders and creditors bear the costs associated with crisis management of a credit institution.

The preferred resolution strategy for SIFIs is the recapitalisation and continuation of the entire institution. For non-SIFIs, the preferred resolution strategy will most often involve restructuring the institution in order to continue the viable parts in the market as soon as possible through a divestment process, while any remaining non-saleable activities are settled under the auspices of the Financial Stability Fund of the institution or in a so-called bridge institution.

The MREL for SIFIs is significantly higher than the MREL for non-SIFIs, as the strategy is to recapitalise the entire institution after crisis management – and without the use of public funds[14].

With the introduction of BRRD2, the Danish FSA has adjusted the calculation model for setting the MREL for non-SIFIs in connection with the latest MREL decisions, which is described in more detail in Box 1. As early as 2020, the Danish FSA implemented an adjusted calculation model for the determination of MREL requirements for SIFIs in connection with the MREL decisions.

Setting a subordination requirement for SIFIs

The MREL requirement for SIFIs must be partially met with capital and liabilities bearing losses before simple claims (subordination). The Danish FSA has set a requirement for subordination of twice the solvency requirement plus the combined capital buffer requirement. The own funds used to meet the combined capital buffer requirement may also be used to meet the subordination requirement.

[14] Mortgage banks are exempt from an MREL. On the other hand, the Danish Financial Supervisory Authority sets a debt buffer requirement that mortgage banks must comply with.

The subordinated funds protect simple claims (e.g. corporate deposits above DKK 750 000) against losses if an institution is wound up. A high degree of subordination also increases transparency for investors about which creditors are expected to make contributions in a resolution situation, as subordinated funds are designed to bear losses.

Introducing a leverage-based MREL
Under BRRD1, the MREL has only consisted of a so-called risk-based MREL requirement (based on the institution's risk-weighted exposures, REA). With the implementation of BRRD2, the FSA must also set a leverage-based MREL based on the institution's total unweighted exposures.

The leverage-based MREL consists of a loss-absorbing amount and a recapitalisation amount. The loss-absorbing amount corresponds to the loss that the institution should be able to absorb, while the recapitalisation amount must ensure that the institution can meet the capital requirements and maintain sufficient market confidence after crisis management so that the institution can continue as viable.

Fact Box 1: Setting the risk-based MREL for non-SIFIs
The risk-based MREL consists of two main components; a *loss absorption amount* and a *recapitalisation amount*, respectively.

The amount of the risk-based MREL depends on the institution-specific resolution strategy chosen. For institutions to be taken into financial stability resolution, the risk-based MREL consists of both a loss-absorbing amount and a recapitalisation amount. The loss-absorbing amount is the institution's individual solvency needs.

The recapitalisation amount consists of a recapitalisation floor and a recapitalisation supplement. The recapitalisation supplement will be used to capitalise on the part of the institution's activities that cannot be immediately resold and which must therefore be continued by the Financial Stability Authority for a period of time. The recapitalisation floor covers those exposures to which there is considerable uncertainty as to whether the activities can be resold.

For non-SIFIs with a balance above EUR 3 billion, the amount of recapitalisation will, in addition to the recapitalisation floor and the recapitalisation supplement, also consist of a size supplement. This covers, on the one hand, the costs associated with the fact that the divestment of assets will be more difficult the larger the institution is, and, on the other hand, that for these institutions there is no prior approval from the Commission that the liquidation assets can be used.

For all Danish non-SIFIs with a balance below EUR 3 billion, the level of the recapitalisation amount will be in the range of 3.5 to 6.0 percent of the REA, while the level of the recapitalisation amount for all Danish non-SIFIs with a balance above EUR 3 billion will be in the range of 4.75 to 11 percent.

For the leverage-based MREL for all SIFIs, both the loss-absorbing amount and the recapitalisation amount are set at 3% of total exposures, so the total leverage-based MREL

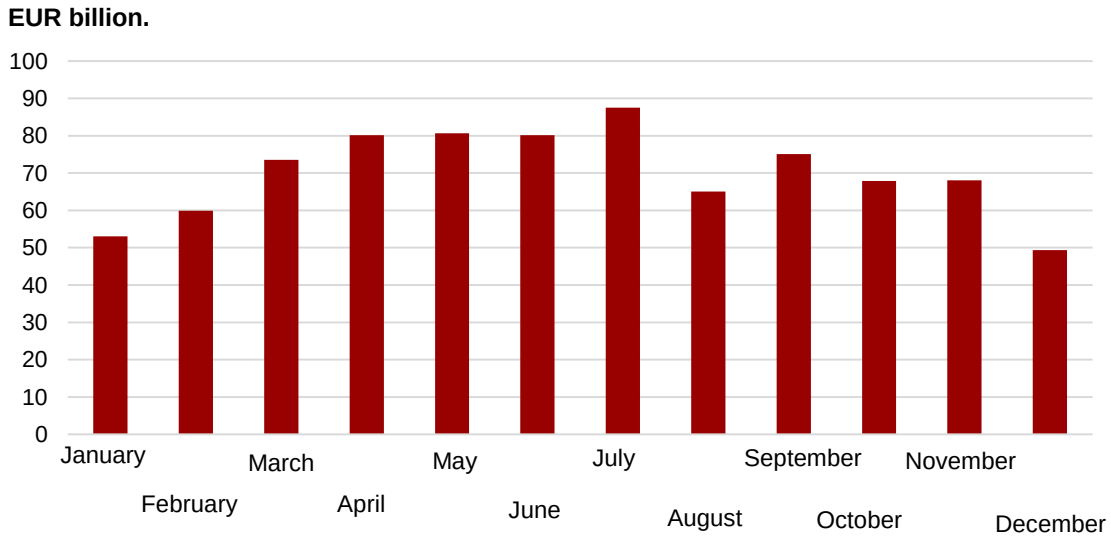
is 6%. For non-SIFIs, the leverage-based MREL represents 4.5% of the institution's total exposures (3% in loss-absorbing amounts and 1.5% in recapitalisation amounts, respectively).

Market issues for Danish credit institutions

In 2021, the capital and debt markets performed well and there was great investor interest both in Denmark and internationally, while credit spreads on capital and debt issuance due to monetary policy measures were at a low level.

Towards the end of the year, inflation created uncertainty in relation to monetary policy in the United States and Europe, leading to increased credit spreads. In the US and Europe, the purchase programmes of central banks were gradually reduced; see Figure 16. On 16

Figure 16: ECB's purchases in 2021 under the Pandemic Emergency Purchase Programme (PEPP)



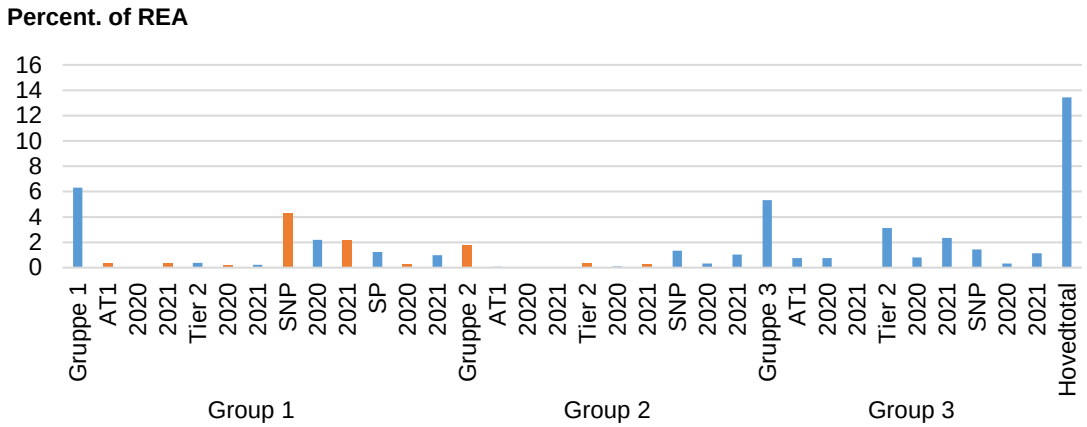
Source: ECB PEPP.

December 2021 the ECB announced that its PEPP[15]purchase programme would be closed in March 2022. Re-investments related to PEPP will continue until the end of 2024 and the ECB will have the possibility to resume the PEPP purchase programme if deemed necessary.

Inflation developments gave rise to some upfront financing in the second half of 2021 to cover parts of the credit institutions' funding needs for 2022. Throughout 2021, investors had a large placement requirement, and overall, Danish institutions issued capital and debt instruments for a slightly larger amount than in 2020; see Figure 17.

[15] Pandemic Emergency Purchase Programme (PEPP).

Figure 17: Issues related to risk exposures in 2021

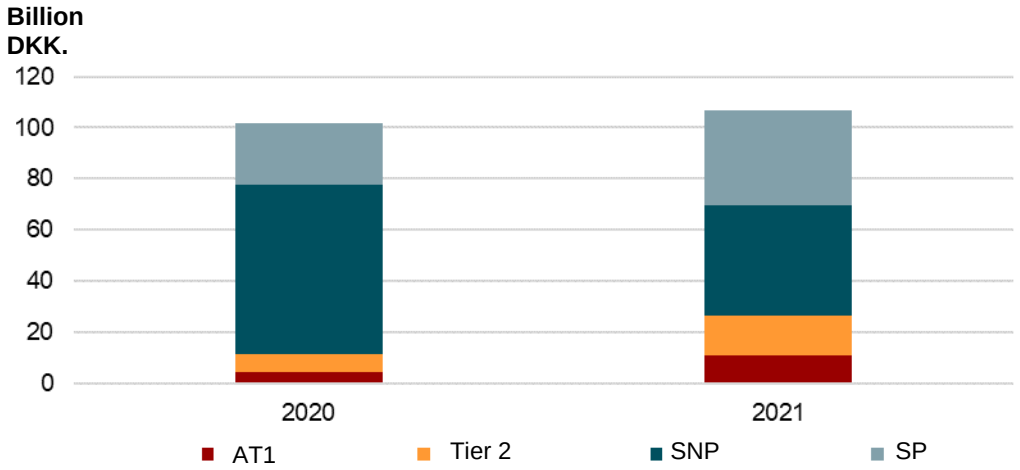


Note: In addition to Common Equity Tier 1 (CET1), the capital structure of credit institutions consists of other core capital (AT1) and additional capital (Tier 2). In addition, institutions may issue Senior preferred obligations (SP) and Senior non-preferred obligations (SNP), respectively, which is loss-absorbing in the event that the institution is to be settled.
Source: Financial Supervisory Authority's reports and own calculations.

The development for small and medium-sized institutions is due e.g. to the phasing-in of the MREL requirement for Group 2, 3 and 4 institutions in 2021. This has led several small and medium-sized banks to issue SNP obligations. In addition, Group 1 institutions have issued a number of SNP obligations, which can be used to meet the part of the MREL that is subordinated.

The total capital and debt issues were approx. DKK 107 billion; see Figure 18. This primarily covers the build-up of senior obligations, but also the issuance of capital instruments worth almost DKK 26 billion. In 2020, total capital and debt issues amounted to approx. DKK 102 billion. The issuance requirement primarily covers the build-up of outstanding senior obligations to meet MREL and debt buffer requirements, but also refinancing of expired capital instruments of approx. DKK 12 billion. Compared to 2020, the level of issuance of capital instruments in 2021 was significantly higher due to the COVID-19 crisis, prompting some institutions to wait for better market conditions in the primary market.

Figure 18: Total capital and debt issues issued by type of instrument by type of credit institutions



Source: Financial Supervisory Authority's reports and own calculations.

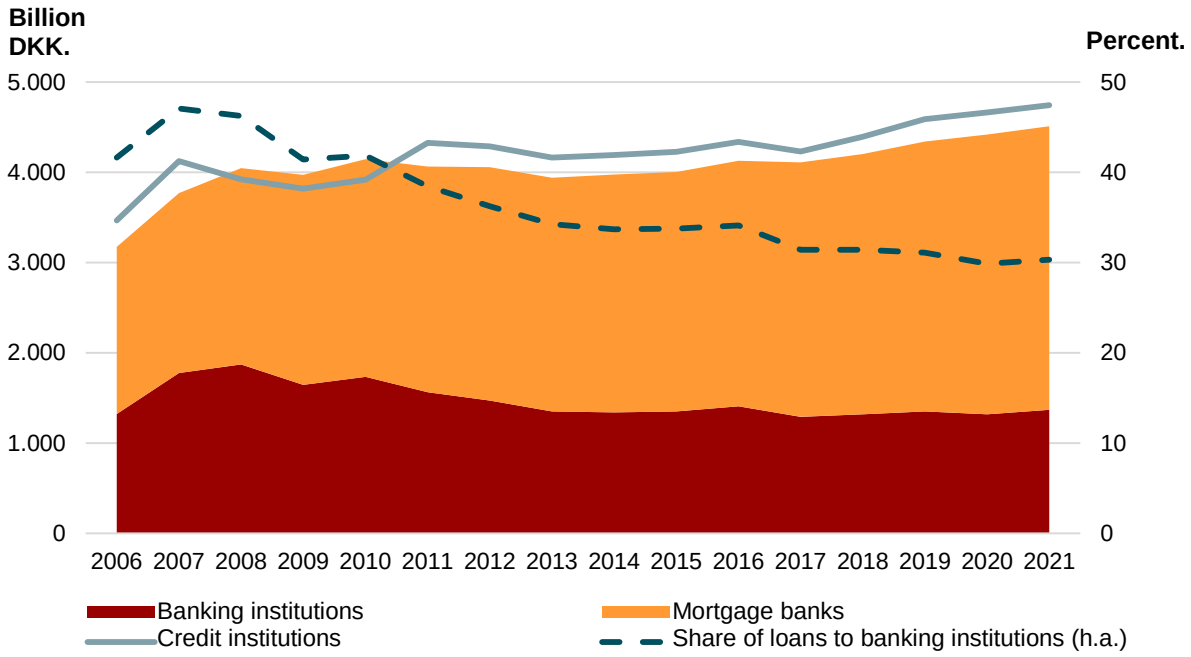
Some of the largest Danish credit institutions also issued so-called GREEN SNP obligations in 2021, which is also expected to become more important in the future. Three Group 1 institutions issued a total of EUR 1.1 billion in green SNPs. Two issues are so-called benchmark issues, which have five and eight years of maturity and the possibility of redemption one year before maturity, respectively. There is increasing investor interest in investing sustainably, including in the green senior obligation market. For the specific issuers, there has currently been a price advantage (a so-called greenium) by issuing green instruments, compared to similar non-green instruments. The specific prices of green capital issues in the primary market depend, among other things, on the institutions' sustainability rating and specific green bond framework[16]. All other things being equal, an increasing uniformity of market standards in the area must be expected in the future, including as regulation also becomes clearer in terms of sustainability taxonomy etc.

[16]ICMA, *Indicative Guidelines for Green Bond Issuance Processes*, June 2018 (link)

5. Lending

Danish credit institutions' loans amounted to DKK 4.743 billion at the end of 2021; see Figure 19. This is DKK 79 billion more than in 2020, which corresponds to a loan growth of 1.7 percent. Lending has grown by DKK 48 billion for the banks and DKK 44 billion for the mortgage banks, respectively. This is the highest loan growth for the banks since 2016, when lending grew by DKK 57 billion. Conversely, mortgage banks' loan growth has slowed, and the increase in 2021 is the lowest since 2015, when mortgage lending grew by DKK 16 billion. This is the first time since 2010 that the banks' lending has increased more than the mortgage banks' loans.

Figure 19: Loans for banking and mortgage institutions

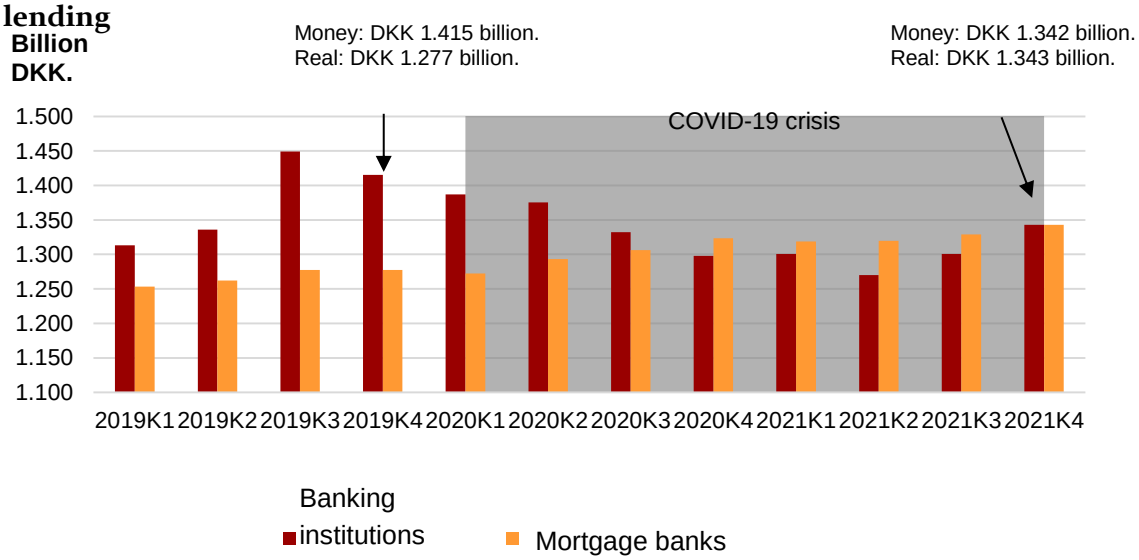


Note: Please note that the sum of loans from banking institutions and mortgage-credit institutions, respectively, is not equal to the consolidated amount of credit institutions. This is due to the fact that more activities are included in the consolidated figures, e.g. subsidiaries abroad.
Source: Reports to the Danish FSA.

The banks' lending to corporate customers was DKK 2.686 billion at the end of 2021, corresponding to a slight decrease since 2019, when the total corporate lending was DKK 2.692 billion; see Figure 20. However, the composition of corporate lending has changed significantly over the past two years. At the end of 2019, the banks' corporate lending was DKK 1.415 billion, while the mortgage banks' were DKK 1.277 billion. In 2021, however, the difference was evened out, and both the banks and mortgage banks have loans to corporate customers of approx. DKK 1.340 billion.

However, since Q2 of 2021, both banks' and mortgage banks' business lending has increased. The growth in corporate lending can be attributed to strong economic activity in 2021. In addition, some of the government liquidity schemes already expired in the second half of 2021, which may have supported the need for business credit.

Figure 20: Business lending



Note: The grey area indicates the period since the COVID-19 crisis occurred in Denmark. For mortgage banks, business lending is defined as lending that does not have a mortgage on owner-occupied homes or a holiday homes. Thus, mortgage lending for cooperative housing is included in business lending.
Source: Reports to the Danish FSA.

As the state-guaranteed schemes with deferred tax and VAT payments expired in January 2022 and the majority of tax and VAT loans expired on 1 April 2022[17], it is to be expected that the credit demand from Danish non-financial companies will increase. In the Danish National Bank Lending Survey, several of the banks surveyed answer that they expect increased credit demand from corporate customers in the first and second quarters of 2022[18].

[17] Tax, *Payment and deadlines* (link), and the Danish Tax Agency, *140 000 companies will receive a letter today about new interest-free A-tax loans,* 8 March 2021 (link).
[18] Danish National Bank (2021): *Banks expect increased demand from business (Lending Survey Q4 2021)*, 10 January 2022 (link).

6. Regulation

Commission proposal for CRR/CRD

On 27 October 2021, the Commission published a proposal to revise the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR). The proposal aims e.g. to implement the Basel Committee's recommendations from 2017 (the final Basel 3 recommendations). In addition, with the proposal, the Commission will adapt regulation to the latest developments in the EU, including tackling climate risks and the consequences of Brexit.

During 2022, the proposal will be negotiated in the Council with a view to establishing a general approach, after which it will be negotiated and adopted with the European Parliament. The Commission proposes that the majority of the proposal should be implemented by 1 January 2025, but the main changes will have a longer phase-in period.

The following describes the elements of the Commission's proposal that are expected to have the greatest impact on Danish credit institutions' capital requirements.

Changes to the standardised approach to credit risk

The Commission proposes a number of changes to the standard approach to credit risk in the CRR, which generally introduces a more detailed approach in determining the default risk weights to reflect differences in risk of loss on the different types of exposures to a greater extent than under existing rules.

The so-called Credit Risk Standardised Approach is used by financial institutions that do not have internal models to calculate their capital requirements and sets out a number of standard risk weights for different types of exposures that are the same for all institutions. The standard approach is typically used by smaller institutions.

The proposal is based on the Basel Committee's recommendations from 2017. This includes e.g. a more detailed and exposure-specific risk weighting of financial institutions and other companies, an increased risk weighting of equities that reflects the higher risk compared to, for example, debt instruments, and a risk weighting of real estate that better reflects the risk of different types of loans, including the introduction of a special risk weight for project properties.

The proposal also contains a number of minor changes, including in the treatment of off-balance-sheet exposures, such as guarantees and overdraft facilities, a new exposure class for special corporate entities created solely for the purpose of financing or operating a particular asset (Specialised Lending Entities (SLE)), and an increase in the risk weight of loans contracted in a currency other than the borrower's income.

Changes to the IRB method

The Commission's proposal contains a number of amendments to the use of internal models for the calculation of capital requirements for credit risk (IRB method). The IRB method implies that an institution must calculate a number of risk parameters to calculate

the capital requirement on its loans[19]. In particular, the purpose of the amendments is to reduce the complexity of the IRB methodology and to reduce differences in the capital requirements of IRB institutions that are not due to differences in risk.

To this end, the Commission proposes to strengthen the framework for the use of the IRB method. The Commission's proposal is in line with the Basel Committee's recommendations of 2017. This includes a restricted use of IRB models for large corporate clients, financial entities and equity exposures. The proposal also introduces minimum levels of the risk parameters that institutions may calculate themselves, to ensure that the institutions' own calculations do not lead to an inappropriately low capital requirement.

Changes to market and credit value adjustment risk
The Commission's proposal to amend the Capital Requirements Regulation entails that the Alternative Standard Approach[20] (A-SA) and the Alternative Internal Model[21] (A-IMA) in the area of market risk will move from being a reporting requirement, as it is today, to being a capital requirement.

In addition, the proposal to amend the Capital Requirements Directive introduces prudential benchmarking of the alternative standard approach to market risk. The current proposal includes all institutions that use A-SA to calculate capital requirements on market risk. However, in connection with the negotiation of the new Capital Requirements Directive, it is being discussed to introduce a proportionality consideration in relation to which financial institutions should be included.

The proposal to amend the Capital Requirements Regulation also introduces new methods for calculating capital requirements for Credit Value Adjustment Risk (CVA risk). The current standard approach will be replaced by a basic approach. The basic approach is structured in the same way as the current standard approach, but has been recalibrated with new risk weights. The proposal also contains a simplified approach, which is already available to institutions today, but which is formalised as a stand-alone approach.

The current A-CVA approach used by institutions using internal counterparty and market risk models is deleted and replaced by a new standard methodology, which is very complex. The Financial Supervisory Authority must approve the use of the new standard methodology.

As part of the CVA negotiations, Member States are discussing whether the current capital requirements exemption for non-financial counterparties should continue to apply. The exemption has been introduced so as not to raise the costs of hedging, for example, currency and interest rate risk for ordinary companies, but it is a departure from the international recommendations of the Basel Committee.

[19] In Denmark, the IRB method will be used at the end of 2021 by Danske Bank, Nykredit, Jyske Bank, DLR Kredit, Sydbank, Lån & Spar Bank and Nordea Kredit.
[20] The Alternative Standard Approach includes a new and more complex standard methodology, based on sensitivity calculations, to set capital requirements in the area of market risk. The new method comes from BCBS' Fundamental Review of the Trading Book. Also called FRTB-SA
[21] The Alternative Internal Model includes an Expected Shortfall (ES) model, which is expected to replace the current VaR models as an internal market risk model. The new method comes from BCBS' Fundamental Review of the Trading Book. Also called FRTB-IMA.

The capital floor

In line with the Basel Committee's recommendations from 2017, the Commission proposes to introduce a capital floor for those institutions that use internal models to calculate capital requirements.

The purpose of the capital floor is to ensure that the capital requirement of institutions using internal models is not underestimated and becomes inappropriately low compared to institutions that do not have internal models. The capital floor therefore sets a lower limit for how low the capital requirement can be for institutions using internal models. The floor is set at 72.5% of the standard approaches and ensures that an institution using internal models can obtain a maximum "discount" on its capital requirement of 27.5% compared to the capital requirement under the standard methods.

As the capital floor is expected to have a major impact on the capital requirements of several institutions, the Commission proposes a five-year gradual phasing-in period between 2025 and 2030. The level of the capital floor will be 50% from 1 January 2025, and the limit will be increased every year until 1 January 2030, when the final level of the capital floor of 72.5% has been reached.

The Commission is also proposing some transitional arrangements aimed at reducing the impact of the capital floor through 2032. The transitional arrangements for low-risk corporate customers (without external credit rating) and low-risk mortgages are particularly relevant for Danish institutions.

Estimation of the impact on capital requirements of credit institutions

The Commission's proposal is expected to lead to some increase in capital requirements. This applies in particular to the largest Danish credit institutions, which use internal models for calculating credit risk (IRB institutions). The increase is largely due to the capital floor.

The Danish FSA estimates that the Commission's proposal could lead to an increase in Danish IRB institutions' current capital requirements of up to 15 percent when the capital floor is fully phased in[22]. This corresponds to an increase in the institutions' total capital requirements of DKK 30-40 billion. However, it is important to stress that the estimate is based on a number of assumptions and is subject to considerable uncertainty.

For Danish institutions, the increase in the IRB institutions' capital requirements will mainly be on mortgage loans and loans to larger corporate customers. As mentioned above, the Commission's proposal contains some transitional arrangements aimed at home loans and business lending. The Danish FSA expects that the transitional arrangements may result in a lower effect of the capital floor for Danish institutions compared to the above estimates. The transitional arrangements expire in 2032 and need to be reviewed before their expiry date.

[22] This estimate is significantly lower than previous assessments of the effect of the Basel Committee's recommendations, including by a Danish expert group in 2018, which estimated an increase of approximately 34 percent. This is due to a number of factors, in particular new guidelines from the EBA with requirements for the use of the IRB approach. These guidelines entered into force on 1 January 2022 and increase the capital requirement for IRB institutions. All other things being equal, the increased requirements resulting from the EBA guidelines will reduce the impact of the Commission's proposal.

IRB institutions have current earnings and are generally well capitalised with a large overcollateralisation compared to current capital requirements. They will therefore be able to meet the increase in the capital requirement. In addition, due to the phasing-in of the capital floor and the above-mentioned transitional arrangements, the institutions will have several years to raise any additional capital.

The proposal also affects small and medium-sized credit institutions. Parts of the proposal, including changes to the standard methodology regarding risk weighting of shares, will thus entail an increased capital requirement for small and medium-sized credit institutions – among other things related to jointly owned companies.

Entry into force and examination of the Disclosure Regulation

The Disclosure Regulation entered into force on 10 March 2021[23]. The Regulation contains a number of disclosure obligations for financial market participants and financial advisors, including credit institutions, on environmental, social and governance issues (so-called sustainability factors or ESG factors).

In 2021, the Danish FSA investigated the implementation of Article 3 of the Disclosure Regulation among a number of banks and pension companies. Article 3 requires the companies in question to have sustainability risk integration policies available on their websites. The Danish FSA finds that the implementation among the investigated companies can be significantly improved, including in particular in relation to identifying specific sustainability risks and describing where and how these risks are integrated into the companies' investment decision-making and advisory processes[24].

New disclosure obligations for credit institutions under Article 8 of the Taxonomy Regulation

Credit institutions covered by the Non-Financial Reporting Directive[25] (NFRD) are required to provide some additional information from 1 January 2022 (in the Annual Report 2021) under the Taxonomy Regulation[26].

Article 8 of the Taxonomy Regulation requires all enterprises subject to NFRD, including large credit institutions, to disclose how and to what extent their activities are linked to economic activities that qualify as environmentally sustainable under the Regulation. In other words, the large credit institutions must apply the four criteria for environmental sustainability of the Taxonomy Regulation to their business activities and provide this information in their corporate social responsibility statement in the annual report. The FSA's information letter for financial reporting 2021 describes the disclosure obligations of the large credit institutions under Article 8[27]of the Taxonomy Regulation.

[23] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
[24] Danish Financial Supervisory Authority, *Thematic Study of the Disclosure Requirements under the Disclosure Regulation,* 10 December 2021 (link)
[25] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial information and information on diversity for certain large companies and groups of companies (NFRD).
[26] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 laying down a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088.
[27] Danish Financial Supervisory Authority, *Information Letter for Financial Reporting 2021*, 15 December 2021 (link)

Fact Box 2: New SIFI model

The FSA designates systemically important financial institutions (SIFIs) each year. On 1 January 2022, new rules entered into force, providing for a new model for the designation of SIFIs[1]. The FSA is of the opinion that the new model is more robust and gives a more accurate picture of the systemic importance of credit institutions than the previous one, as it contains several indicators of systemicity.

In the new model, credit institutions are designated as SIFIs on the basis of a calculated systemicity score. The score is based on the institution's market shares for the 12 indicators presented in Table 1[2]. The institution's market share for the individual indicator is weighted so that the institution's market share for deposits in Denmark, for example, weighs 2/24 in the overall score. The final score is calculated as the sum of the institution's weighted market shares in basis points. Institutions with a systemicity of 100 basis points or more for two consecutive years shall be designated as SIFI.

The designated SIFIs shall be placed in systemicity categories which determine which SIFI buffer should be imposed on them. The different categories are shown in Table 2. The Minister for Industry, Business and Financial Affairs sets an annual SIFI buffer requirement for SIFIs based on the Financial Supervisory Authority's designation.

Table 1: Indicators for calculating systemicity

Criteria	Indicator	Weight
Size	Total assets	6/24
Importance	The value of national payment transactions	2/24
	Deposits in Denmark	2/24
	Lending in Denmark	2/24
Complexity	Nominal value of derivatives not listed on a regulated market (OTC derivatives)	2/24
	Liabilities across jurisdictions	2/24
	Cross-jurisdictional assets	2/24
Relatedness	Outstanding debt issues	2/24
	Liabilities within the financial system (worldwide)	1/24
	Assets within the financial system (worldwide)	1/24
	Liabilities within the financial system (Denmark)	1/24
	Assets within the financial system (Denmark)	1/24

Table 2: Systemicity categories and SIFI buffer rates for 2022

	Systemicity	SIFI buffer
Category 1	From 100 up to 300	1.0 percent.
Category 2	From 300 up to 1000	1.5 percent.
Category 3	From 1000 up to 2000	2.0 percent.
Category 4	From 2000 up to 4000	2.5 percent.
Category 5	From 4000 and above	3.0 percent.

Note: The Minister for Industry, Business and Financial Affairs sets annual SIFI buffer requirements for Systemically Important Financial Institutions (SIFIs).

[1] The new rules are set out in Act #2382 of 14 December 2021 – Act amending the Financial Business Act, the Capital Markets Act, the Investment Funds Act etc. and various other acts.

[2] Market share is to be understood here as the value of the individual indicator in relation to the total value of the indicator for all Danish banking institutions and mortgage-credit institutions and significant branches in Denmark of foreign banks and mortgage banks.

7. Appendix 1: Annual accounts for credit institutions, 2017-2021

	2017	2018	2019	2020	2021	Changes, 1 year	Changes, 5 years
Income statement	*million DKK.*					*pct.*	
Interest income	119.240	115.063	112.714	101.371	96.915	-4,40	-18,72
Interest costs	55.654	54.098	53.532	41.176	37.624	-8,63	-32,40
Net interest income	***63.585***	***60.965***	***59.181***	***60.195***	***59.291***	***-1,50***	***-6,75***
Dividends on shares, etc.	722	778	1.277	657	936	42,47	29,61
Fees and commission income	35.191	34.840	37.500	38.500	42.717	10,95	21,38
Paid fees and commissions	12.746	13.259	13.872	13.713	14.701	7,21	15,34
Net interest and fee income	***86.753***	***83.323***	***84.087***	***85.640***	***88.243***	***3,04***	***1,72***
Staff and administrative costs	48.671	50.844	52.866	54.681	55.928	2,28	14,91
Other operating income	5.996	7.886	8.566	7.197	8.671	20,47	44,60
Other operating costs	572	272	420	517	539	4,43	-5,63
Depreciation and amortisation of intangible and tangible assets	5.825	5.992	9.569	8.732	8.315	-4,78	42,74
Basic earnings	***37.682***	***34.102***	***29.797***	***28.908***	***32.132***	***11,15***	***-14,73***
Exchange rate adjustments	13.515	6.317	8.435	7.404	9.830	32,78	-27,27
Write-downs on loans and receivables, etc.	- 202	1.596	3.405	13.242	- 1.196		493,10
Profit(/loss on shares in associated enterprises	1.823	1.316	3.456	1.626	2.213	36,10	21,40
Pre-tax profit/loss	53.222	40.139	38.283	24.699	45.371	83,70	-14,75
Tax	10.533	8.003	2.744	5.141	8.698	69,18	-17,43
Profit/loss for the period	42.688	32.136	35.538	19.557	36.673	87,52	-14,09

Source: Reports to the Danish FSA.

Note: The figures cover Danish credit institutions and are consolidated so that subsidiaries' earnings are not shown twice.

Balance sheet items *(DKK million)*	*2017*	**2018**	**2019**	**2020**	**2021**	***Changes, 1 year*** *(pct.)*	**Changes, 5 years** (pct.)
Cash in hand and on-demand receivables with central banks	118.673	70.134	152.404	413.216	478.693	15,85	303,37
Receivables from credit institutions and central banks	490.994	355.505	313.622	264.627	166.301	-37,16	-66,13
Lending	4.483.441	4.700.149	4.981.761	4.954.927	5.035.802	1,63	12,32
Lending, excluding Repos	*4.231.830*	*4.393.576*	*4.587.674*	*4.663.930*	*4.743.481*	*1,71*	*12,09*
Bonds	805.299	766.201	842.593	975.777	874.194	-10,41	8,56
Shares, etc.	46.349	32.621	38.515	42.079	40.180	-4,51	-13,31
Equity participation in associates	2.021	1.908	3.461	3.505	2.721	-22,38	34,63
Shares in affiliated enterprises	16.623	18.544	20.491	22.013	23.700	7,66	42,57
Assets associated with pooled schemes	114.046	114.947	135.007	144.019	163.036	13,20	42,96
Intangible assets	10.765	12.117	13.689	13.896	15.212	9,47	41,31
Land and buildings	11.691	10.627	16.576	16.023	14.923	-6,86	27,65
Other tangible assets	11.313	11.939	13.886	12.997	12.959	-0,29	14,56
Tax assets	3.366	4.525	4.812	7.041	6.489	-7,84	92,75
Assets in temporary possession	1.384	2.120	3.768	1.740	7.220	314,94	421,59
Other assets	354.111	336.540	399.918	492.274	365.934	-25,66	3,34
Period accrual items	3.357	3.727	3.805	4.178	3.467	-17,01	3,29
Total assets	6.473.434	6.441.603	6.944.306	7.368.312	7.210.833	-2,14	11,39
Amounts owed to credit institutions and central banks	305.841	316.985	231.340	289.331	242.910	-16,04	-20,58
Deposits	1.832.545	1.867.968	2.021.848	2.250.375	2.251.733	0,06	22,87
Deposits, excluding Repos	*1.689.821*	*1.686.788*	*1.826.733*	*2.096.302*	*2.123.675*	*1,31*	*25,67*
Bonds issued	3.320.239	3.270.293	3.590.718	3.649.206	3.638.521	-0,29	9,59
Other commitments	20.010	6.912	5.572	10.558	13.615	28,96	-31,96
Period accrual items	1.826	1.727	1.718	1.649	1.700	3,11	-6,90
Total debt	***6.016.550***	***5.986.563***	***6.460.372***	***6.873.758***	***6.692.592***	***-2,64***	***11,24***
Provisions for commitments	11.160	13.507	8.805	8.938	8.283	-7,33	-25,78
Subordinated capital injections	51.718	45.779	57.844	60.221	65.117	8,13	25,91
Equity	394.006	395.753	417.285	425.396	444.841	4,57	12,90
Total liabilities	6.473.434	6.441.603	6.944.306	7.368.312	7.210.833	-2,14	11,39

Source: Reports to the Danish FSA.

Note: The figures cover Danish credit institutions and are consolidated so that subsidiaries' earnings are not shown twice.

8. Appendix 2: Key figures for credit institutions, 2017–2021

	2017	2018	2019	2020	2021
	pct.				
Capital ratio	22,14	21,68	22,46	23,31	22,87
Core capital ratio	19,72	19,78	19,96	20,63	20,31
Real core capital ratio	18,09	17,86	18,04	19,10	18,74
Return on equity before tax	13,51	10,14	9,17	5,81	10,19
Return on equity after tax	10,83	8,12	8,52	4,60	8,24
Earnings per cost kroner (DKK)	1,97	1,67	1,55	1,33	1,68
Cumulative impairment rate	1,21	1,15	1,07	1,14	0,99
Impairment rate for the period	-0,01	0,04	0,08	0,24	-0,01
Loans in relation to equity (ratio)	10,74	11,10	10,99	10,96	10,66
Total risk exposures (DKK billion)	**1819**	**1850**	**1916**	**1934**	**2043**
Of which are for credit risk	*1520*	*1536*	*1599*	*1605*	*1727*
market risk	121	115	120	129	107
operational risk	170	176	173	174	173