

DANMARKS NATIONALBANK

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The large banks' earnings are buoyed up by low loan impairment charges

Lower growth may cause bank earnings to fall

Economic growth continues in Denmark and many other parts of the world, but the pace is set to slow down in the coming years. A substantial dampening of economic growth would lead to higher loan impairment charges and consequently lower earnings in the banks in the future, Danmarks Nationalbank points out in its semi-annual analysis of financial stability in Denmark.

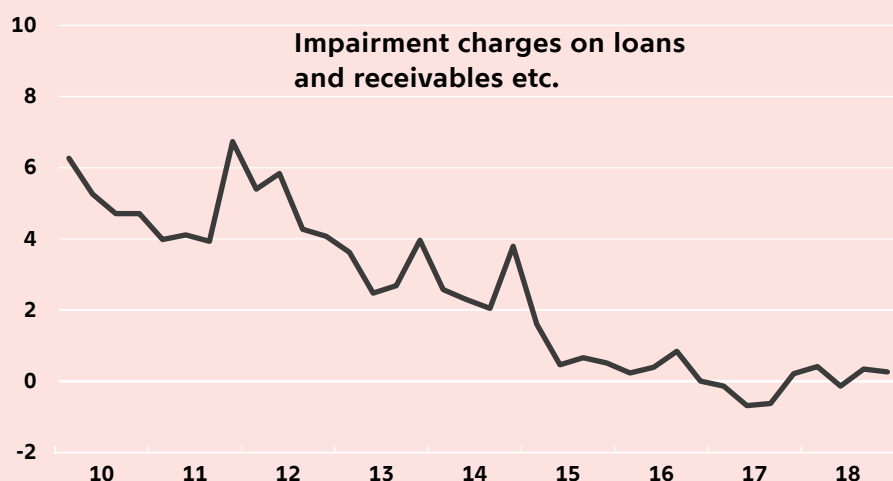
In general, the Danes have solid financial buffers, which is one reason why the banks are experiencing limited demand for new loans. At the same time, the

banks have ample liquidity which they wish to lend. Precisely this situation could induce the banks to ease their credit policies and so take greater risks. And ultimately this could entail larger losses on lending.

Since 2010, growth in lending has been driven mainly by mortgage credit, while bank lending has decreased during much of this period. Nevertheless, the Danes remain heavily indebted. Denmark still has a higher credit-to-GDP ratio than the other EU member states, although it has approached those of comparable countries in recent years.

**Lower growth
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banks**

Kr. billion



Source: Banks' financial statements

However, the large debts of the Danish households are offset by high household assets, such as pension savings or home equity.

Although bank lending is growing only slightly, the banks have been reporting near-record-high earnings in recent years. The large profits since 2010 are attributable to low loan impairment charges, among other factors. At times, loan impairment charges have even been negative due to large reversals of previous provisions.

The traditional source of earnings for the large banks, net interest income, has been decreasing for several years. This is a result of the low level of interest rates, which has led to a narrowing of the spread between lending and deposit rates. In 2018, net interest income made up 43 per cent of bank earnings, compared with 67 per cent in 2010.

Fluctuations in the profits of the large banks are mainly attributable to other items than the general sources of bank earnings such as net interest and fee income. Thus, the fall in overall bank profits since mid-2017 to a large extent reflects lower income from value adjustment.

Earnings may decline further as lower growth could lead to increased loan impairment charges for the banks.

Overall, the large banks channelled more than their profits for the year back to their shareholders in 2018. These disbursements, in the form of both dividends and share buy-backs, contributed to reducing the banks' excess capital adequacy. Furthermore, it is likely that the requirements for the banks' capital structure will be tightened in the coming years, which may also cause the excess capital adequacy to fall if the banks do not build up further capital beforehand.

ABOUT NEWS



News are news articles based on analyses, working papers or other longer texts from Danmarks Nationalbank. News primarily

address journalists, politicians, government officials, specialists and others who want to be updated on current topics.

The news article consists of a Danish and an English version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

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