

## NEGATIVE RATES DRIVE UPWARD PROFIT GUIDANCE FOR DANISH BANKS

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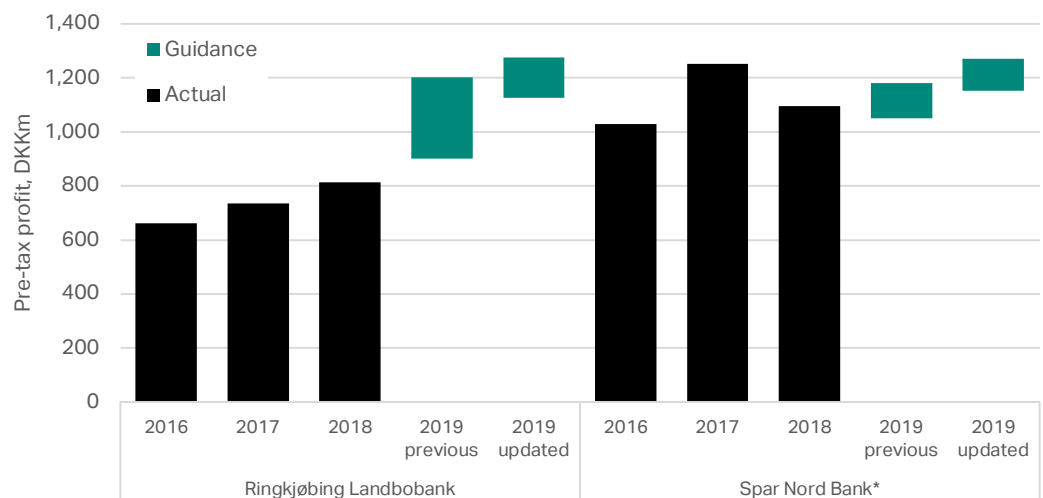
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In recent weeks, 10 publicly-listed Danish banks have revised their 2019 profit guidance upwards from an average of 14% to an average of 32% above 2018 pre-tax profits. This, only weeks after the Danish central bank returned its policy rates to a record-low negative 0.75% and a few Danish banks implemented negative deposit rates for large retail depositors. However, despite these headwinds, Nordic Credit Rating (NCR) notes that banks are benefiting, albeit temporarily, from a refinancing surge spurred by negative rates and the ability to finance fixed mortgages of up to 30 years at around 1-1.5%. In August, Jyske Bank made international headlines by offering a 10-year mortgage loan for negative 0.5% (excluding administration fees and other fees of about 1%) and Danish borrowers, among the most highly leveraged in the world, are motivated to lock in low rates.

Figure 1. Danish banks with recent pre-tax profit revisions, pre-tax profit 2016-18, original and revised 2019 guidance



Source: Bank reports and press releases. \*After-tax guidance estimated on a pre-tax basis by NCR.

### IMPROVED PROFITS DESPITE NEGATIVE RATES

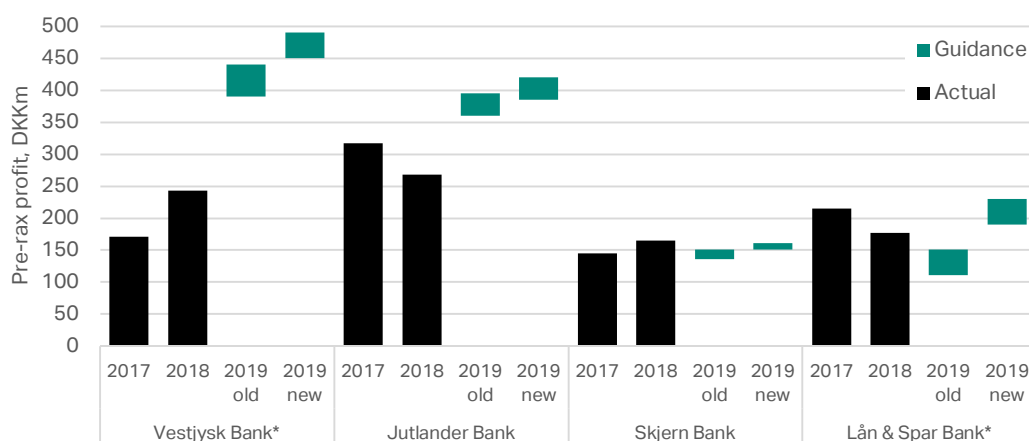
In total, the 10 banks shown in figures 1, 2 and 3 have revised their most recent 2019 pre-tax profit guidance to between DKK 3.8bn and DKK 4.2m from DKK 3.2bn to DKK 3.8bn. The average increase for the sample is 14% from the previous guidance and the upward revisions have varied between 7-73% at the low-end estimates and 6-53% at the high end across the banks.

Compared with previous year and mid-year results, the upward revisions demonstrate year-on-year improvement and continuation of already strong 2019 performances. The average pre-tax profit increase is 32% from 2018 (DKK 3.0bn), but in line with the DKK 2.0bn in pre-tax profit during the first half of 2019. The revision for Vestjysk Bank puts it on course to nearly double its 2018 pre-tax profits, while for Skjern Bank and Kreditbanken the upward revisions anticipate 2019 profits closer to 2018 levels. For the sample, pre-tax return on equity would improve to between 13.7% and 15.3% (14.5% average) compared with levels of 12.0% and 14.5% in 2018 and 2017, respectively.

## UPWARD REVISIONS ARE DUE TO EXCEPTIONAL CIRCUMSTANCES

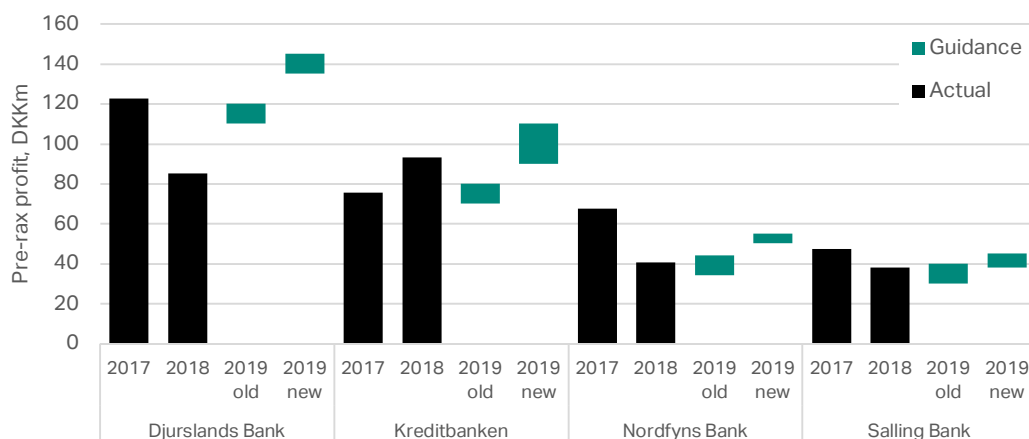
Given the exceptional nature of the upward revisions, the outlook for 2020 profits is likely to be less positive. In all instances, very high mortgage loan conversion activity was cited as the primary rationale for the upward revisions, indicating that the third quarter was exceptional across the market as interest rates fell sharply in response to signals of a global slowdown. While rates remain low, relatively high refinancing activity could continue into 2020. In addition to higher refinancing fees, falling rates have contributed to positive revaluations of the banks' shares and bonds. The banks also cited continued reductions in credit loss reserves, due in part to higher pork prices and low interest rates, and high new customer activity as contributing to their upward profit revisions.

**Figure 2. Danish banks with recent pre-tax profit revisions, pre-tax profit 2017-18, original and revised 2019 guidance**



Source: Bank reports and press releases. \*After-tax guidance estimated on a pre-tax basis by NCR.

**Figure 3. Danish banks with recent pre-tax profit revisions, pre-tax profit 2017-18, original and revised 2019 guidance**



Source: Bank reports and press releases.

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