

## ISSUER COMMENT

27 February 2020



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## Danske Bank A/S

### Negative rates for personal deposits are credit positive for Danske Bank

On 20 February, [Danske Bank A/S](#) (A2 negative/A3 stable, baa2<sup>1</sup>) announced that it will reduce interest rates to negative 0.75% for personal credit balances of more than DKK1.5 million (around €200,000) for customers with a NemKonto account (essentially their primary personal bank account) and DKK750,000 for customers without such an account, effective 1 June 2020. The higher limit for NemKonto account holders aims to address an increased inflow of deposits from customers with whom Danske Bank has no other transactions. According to the bank, the interest rate cut covers less than 1% of personal clients in Denmark.

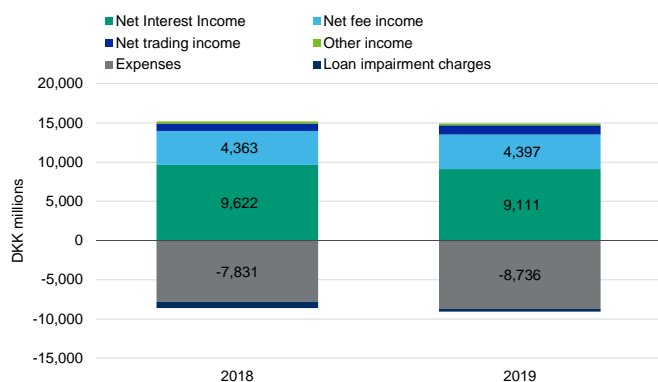
The move is credit positive for Danske Bank because it will support its net interest income and profitability slightly, particularly by disincentivising customers of other Danish banks who have already applied negative rates, from moving their deposits to Danske Bank. However, profitability remains under pressure because of factors such as anti-money-laundering investigations and higher compliance costs. Negative rates on private deposits will slightly mitigate pressure on the bank's net interest income following a prolonged period of negative central bank interest rates, during which the deposit margin has fallen to zero and banks have been forced to pay for excess liquidity placed at the central bank. The Danish central bank's deposit rate is currently negative 0.75% following a 10-basis-point cut in September 2019. Rates have been negative in Denmark for longer than in any other country. <sup>2</sup>

Net interest income from Danske Bank's Danish operations<sup>3</sup> fell by 5% in 2019, reflecting pressure on deposit margins because of the negative interest rate environment. The bank has also faced increased funding costs as it issues senior non-preferred debt to comply with its minimum requirement for own funds and eligible liabilities, replacing less costly senior unsecured debt. Group operating expenses increased by 10% in 2019 to DKK27.5 billion. The increase was mainly because of higher costs for compliance and anti-money-laundering related investments in both people and IT systems for more automated processes and controls, as well as costs related to the alleged large-scale money laundering at Danske bank's Estonian branch during 2007-15. Excluding a one-off donation in 2018 related to the Estonia case,<sup>4</sup> the increase was 17%.

Exhibit 1

### Net interest income at Danske Bank's Danish operations has been under pressure...

#### Breakdown of core profits, Banking DK

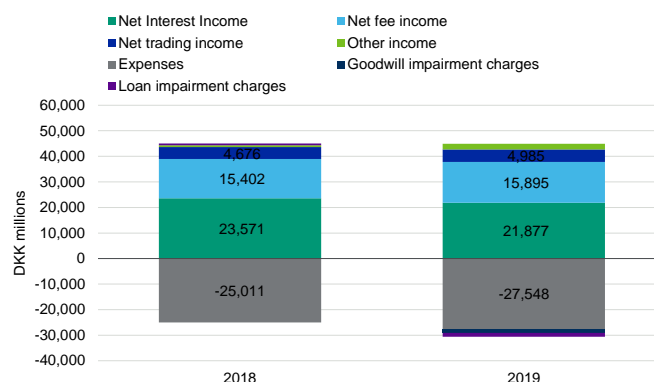


Source: Danske Bank

Exhibit 2

### ...as has group profitability overall

#### Breakdown of core profits, Danske Bank Group



Source: Danske Bank

While negative rates on retail deposits will slightly alleviate pressure on net interest income, profitability pressure persists because of strong competition in all Danske Bank's markets. Additionally, the bank faces continued higher funding costs relating to the issuance of senior non-preferred debt and, more broadly, higher funding costs than its peers, reflecting higher perceived risk. The bank also has increased costs relating to compliance-related activities, which Danske Bank expects to peak at DKK3.3-DKK3.5 billion in 2020.

In addition to profitability pressures, another unintended consequence of low interest rates has been an increased risk of customers receiving poor advice on investment products, which has attracted the attention of Denmark's Financial Supervisory Authority. Danske Bank in June 2019 found that it had overcharged customers investing in one of its products over a certain period. With low interest rates, expected returns on the product were negative when adding the product's fees, making the product worse for customers than a regular deposit.

Although other major Danish banks have introduced negative rates on retail deposits above a certain level since August 2019, Danske Bank until now has been the only major Danish bank to exempt personal clients from negative rates. This is likely to have been because it wanted to avoid "early mover" risk, given that its franchise had already been affected by money-laundering allegations and the mis-selling of the investment product. [Jyske Bank A/S](#) (A2/A2 stable, baa1), the first large Danish bank to announce negative interest rates on private depositors last August, on 25 February [announced](#) that it is lowering the threshold on which it charges a negative rate for private customers further to DKK250,000, the lowest level in Denmark.

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## Moody's related publications

[Jyske Bank A/S: Jyske Bank expands negative rates for deposits in bid to mitigate a low interest-rate environment](#), 27 February 2020

[Jyske Bank A/S: Jyske Bank expands scope of negative rates for depositors, which will help alleviate profitability pressure](#), 26 September 2019

[Jyske Bank A/S: Negative rates on personal clients' deposits will partly mitigate profitability pressures for Jyske Bank](#), 23 August 2019

## Endnotes

- <sup>1</sup> The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.
- <sup>2</sup> Interest rates have been negative since 2012 with the exception of a brief period in 2014 when rates turned positive.
- <sup>3</sup> Danske's Banking DK business unit.
- <sup>4</sup> In 2018, Danske Bank donated DKK1.5 billion, the estimated gross income from the non-resident portfolio in Estonia at the centre of the money-laundering scandal. The amount was set aside in operating expenses, and the bank announced in its 2018 annual report its intention to transfer it to an independent foundation.

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