DEPOSIT SOLUTIONS

Negative Rates & Banking Profits

How five years of negative interest rates have impacted the banking sector

August 2019

Agenda

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2. Eurozone & Switzerland
3. Market spotlights
4. Methodology

Summary

Negative eurozone deposit rates to turn 5 years in June

Banks of 20 European countries are currently burdened by negative interest rates on excess liquidity deposited at central banks. Central banks of Sweden and Denmark were the first to introduce negative interest rates on some deposits in 2009 and 2012 respectively. The ECB followed suit on 11 June 2014. So here we stand, with negative interest rates of currently minus 0.40% on central bank deposits for 17 eurozone countries, celebrating a 5th anniversary.

Eurozone deposit charges reach fresh high of EUR 7.6bn in May 2019

Just in time for the 5th anniversary of negative rates, eurozone banks paid a record of EUR 7.6bn on their surplus deposits in May 2019 on an annualised basis. In other words, eurozone banks currently pay EUR 21m to the ECB every single day. Since their introduction five years ago, negative central bank interest rates have shaved off a total of EUR 21.4bn of eurozone banking profits.

German, French and Dutch Banks bear almost 70% of eurozone charges

German banks bear the lion's share of eurozone deposit charges accounting for 33% of total eurozone charges from 2016 to 2018. French banks are next in line, accounting for another 24% over the same period. Dutch banks come in third, paying 13% of eurozone deposit charges from 2016 to 2018.

Swiss banks, not being part of the eurozone, are burdened with the equivalent of 27% of total eurozone deposit charges from 2016 to 2018. This is despite more than 50% of excess liquidity deposited with the Swiss National Bank being exempt from negative interest rates charges. The negative interest rate on Swiss central bank deposits, however, currently stands at minus 0.75%, substantially higher than for the eurozone.

Deposit charges relate to 4% of eurozone banks' profits

In 2018, eurozone banks paid total deposit charges of EUR 7.5bn compared to total banking profits of EUR 176bn (pre-tax and pre-deposit charges). Therefore, negative interest amount to 4% of eurozone banking profits for 2018 alone. Amongst the major European economies, German banks bear a comparatively larger burden, with profits that could have been 9 percent higher if negative interest payments were retained. For Swiss banks, the interest payments equal a decline in profits of 13.1% of pre-tax profits before deposit charges. Overall, the negative interest rates had the greatest impact on banks in Finland (-14.1%) and Cyprus (-13.9%).

“Banks should position themselves as platforms “

"Banks that act like closed shops have few options open to them when it comes to cushioning the effects of negative interest rates on their earnings. While they can raise fees or try to get rid of customer deposits, both of these steps simply pass the burden on to the customer. Instead banks should position themselves as platforms and offer their customers a choice of third-party savings deposit products while maintaining the existing client relationship.

If you make open banking a part of your business strategy, you can use third-party products to do more business with your existing customers and win new ones. For many banks, the prospect of reducing the negative interest burden at the same time is an additional bonus. Instead of placing money with the ECB at a cost they can pass on excess liquidity to other institutions in a customer- and balance-sheet-friendly way.”

Dr. Tim Sievers, CEO & Founder of Deposit Solutions

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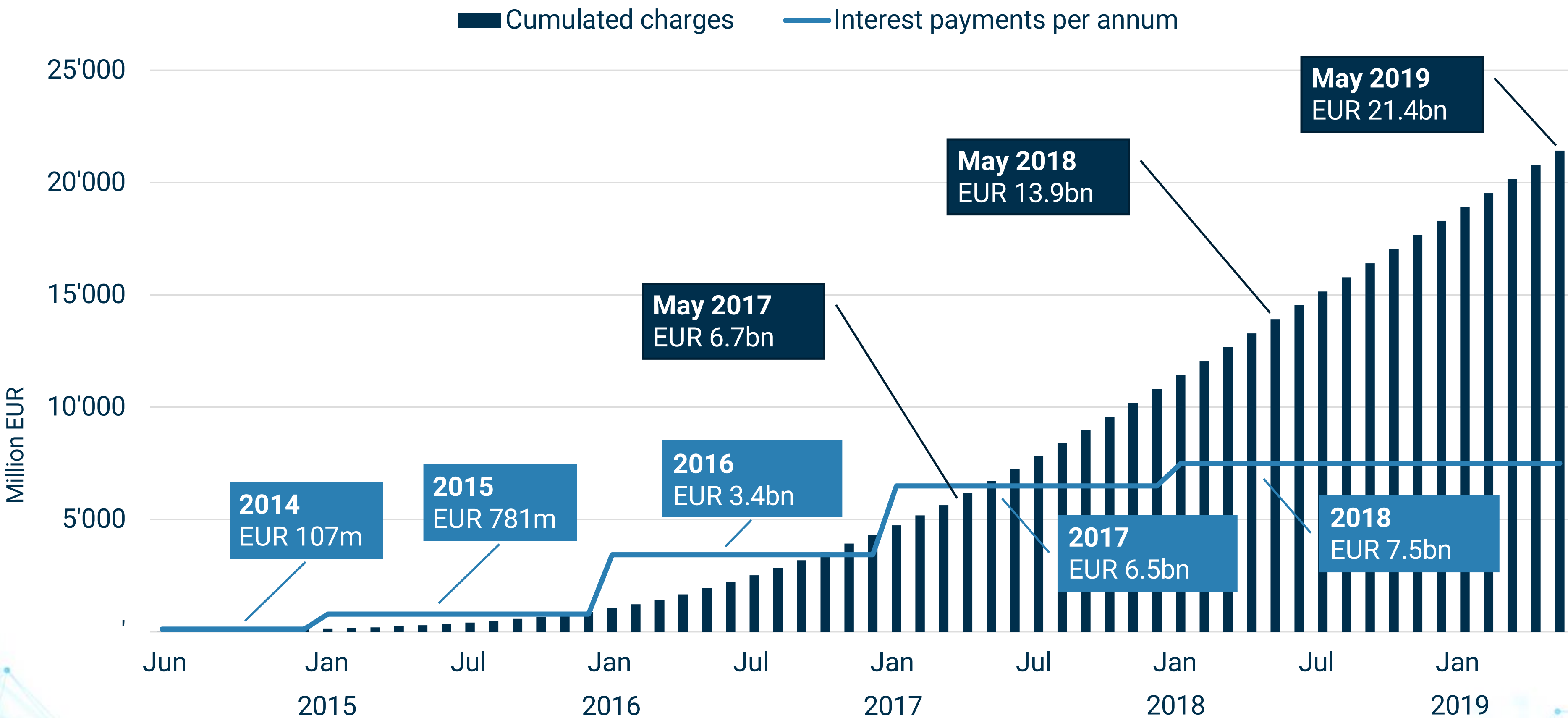
Eurozone & Switzerland

ECB charges reach a total of EUR 21.4bn in May 2019

Excess liquidity charges of all eurozone banks



Source: ECB, Deposit Solutions

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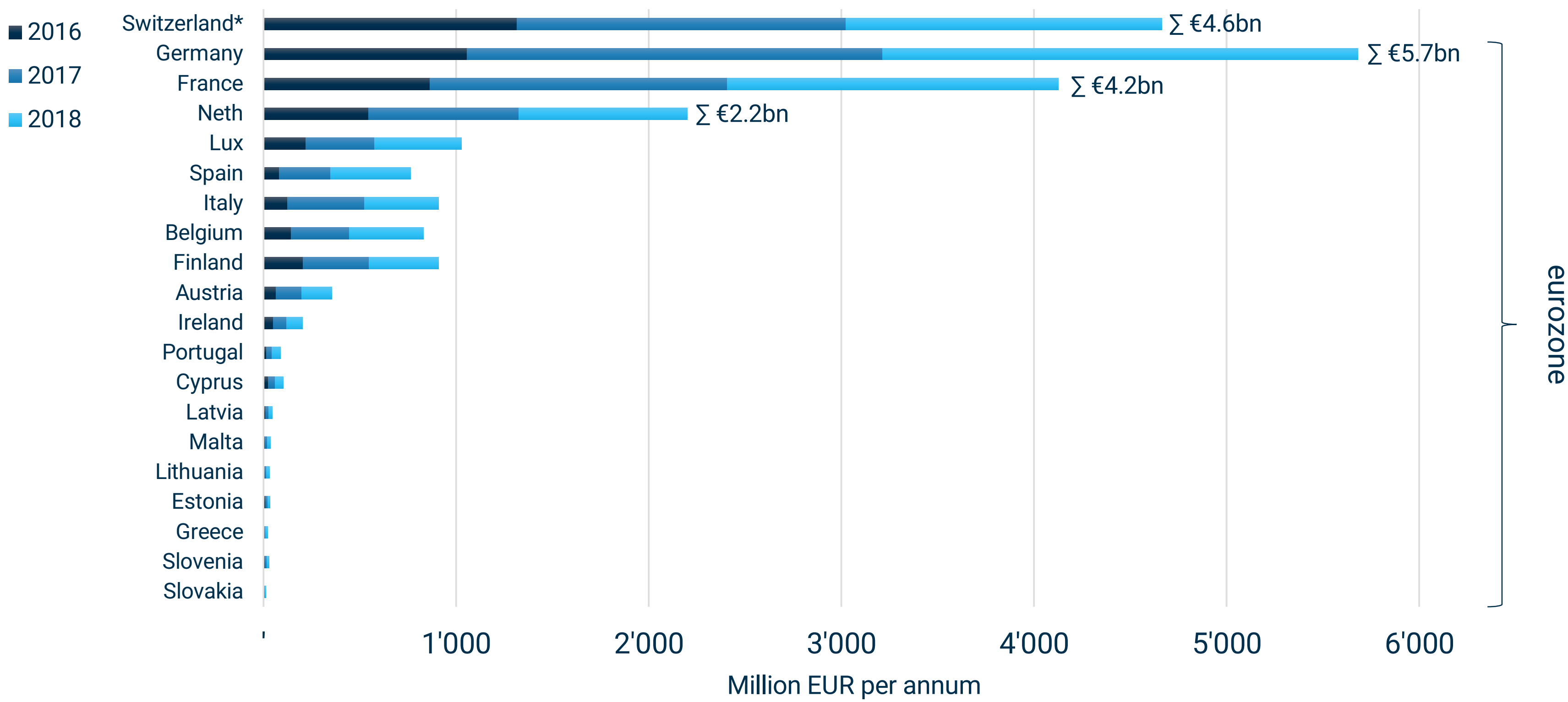
Charges per country: Swiss, German and French banks hit hardest

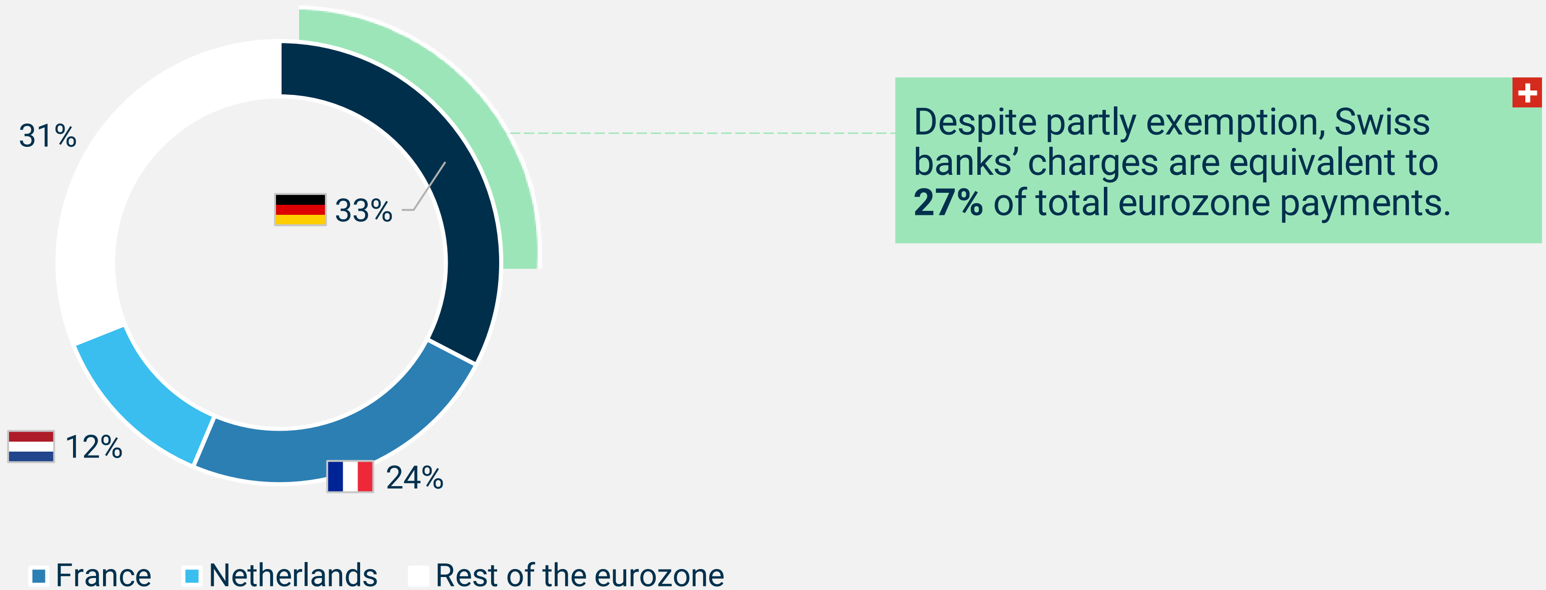
Interest payments on excess liquidity by country



*) Negative Rate of 0.75%, partly exempted, converted into Euro at average yearly exchange rate
Source: ECB, National Central Banks, Eidgenössische Steuerverwaltung, Deposit Solutions

German, French and Dutch banks bear 69% of eurozone charges

Excess liquidity charges by country in %



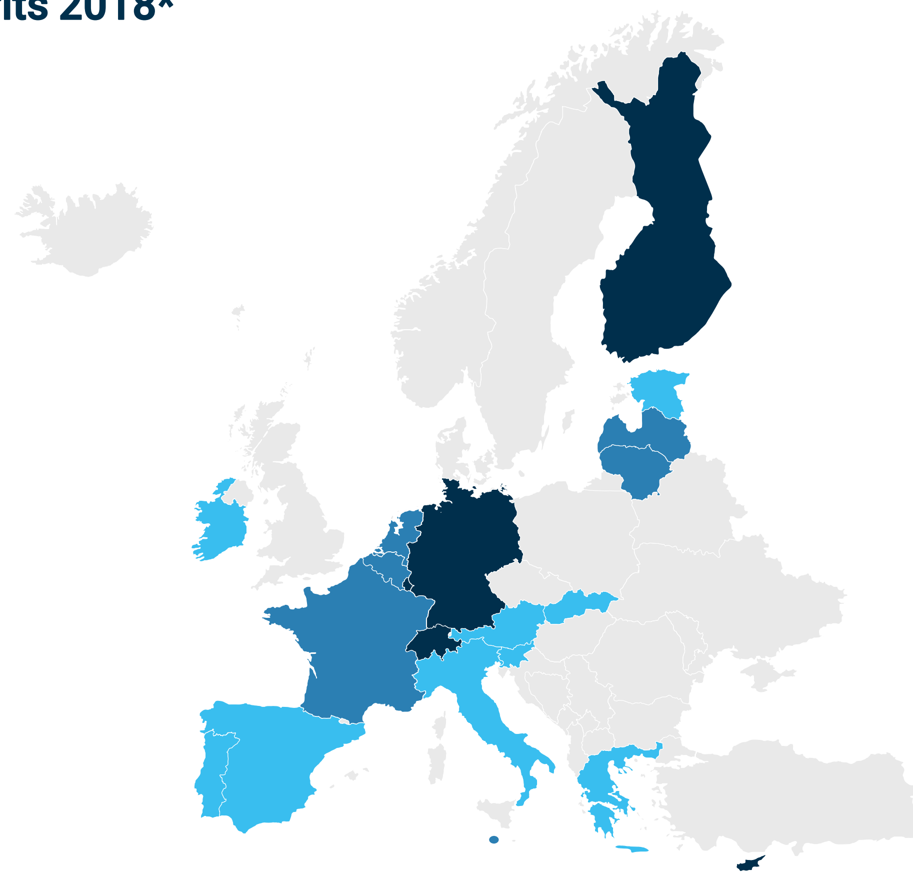
Source: ECB, National Central Banks, Eidgenössische Steuerverwaltung, Deposit Solutions

Charges amount to 4.3% of total eurozone banking profits

Profit impact by country in % of pre-tax profits 2018*

Slovakia	-0.6%
Spain	-1.3%
Portugal	-1.5%
Slovenia	-1.8%
Austria	-1.9%
Ireland	-1.9%
Italy	-2.4%
Greece	-2.5%
Estonia	-3.1%
Lithuania	-3.5%
France	-4.0%
Belgium	-4.3%
Eurozone average	-4.3%
Netherlands	-4.4%
Malta	-4.6%
Latvia	-5.2%
Lux	-8.0%
Germany	-9.1%
Cyprus	-13.9%
Finland	-14.1%
Switzerland	-13.1%

Eurozone



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*) Profit before tax and before negative deposit charges, 9M 2018 extrapolated for eurozone, 2017 for Switzerland. Source: ECB, National Central Banks, Deposit Solutions

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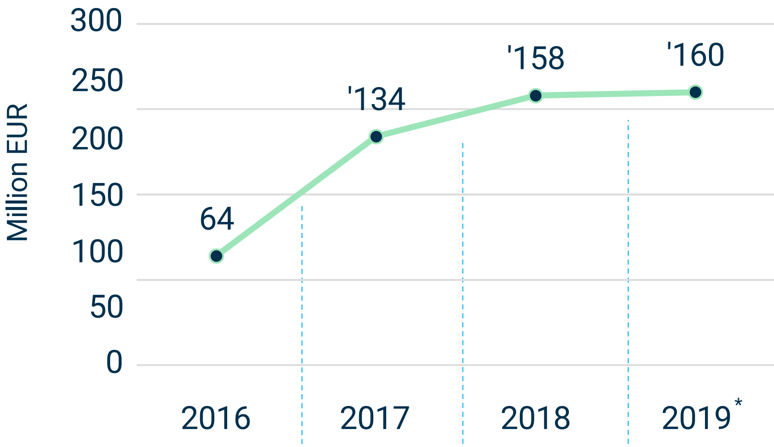
Market spotlights

Austria: Little impact on profits but charges continue to increase

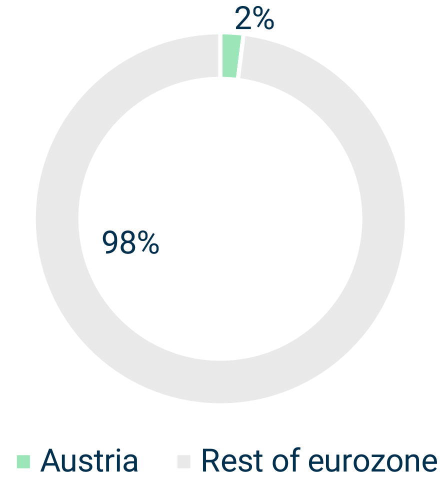
Austrian banks pay 2% of the eurozone's negative interest to the ECB. Since 2016, Austrian banks have paid EUR 356 million on their excess liquidity. Between 2016 and 2018, interest payments have increased by 147%, from EUR 64 million to EUR 158 million in 2018. However, with charges corresponding to a 1.9% decline in pre-tax profits, Austrian banks suffer less than banks in France or Germany.

Excess Liquidity Charges

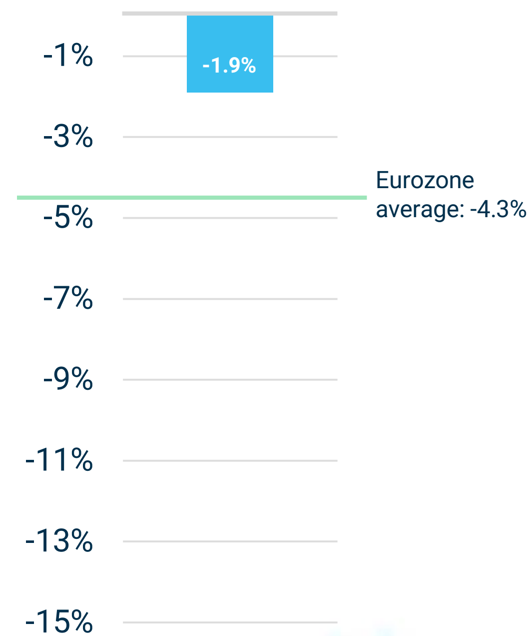


Austria	+109%	+18%	+1.3%
Reference value			
Eurozone	+89%	+15%	+0.1%

Share of total eurozone charges 2016-2018



Impact on pre-tax profits 2018**



*) January to May 2019 annualised **) January to September 2018 extrapolated
Source: ECB, National Central Banks, Deposit Solutions

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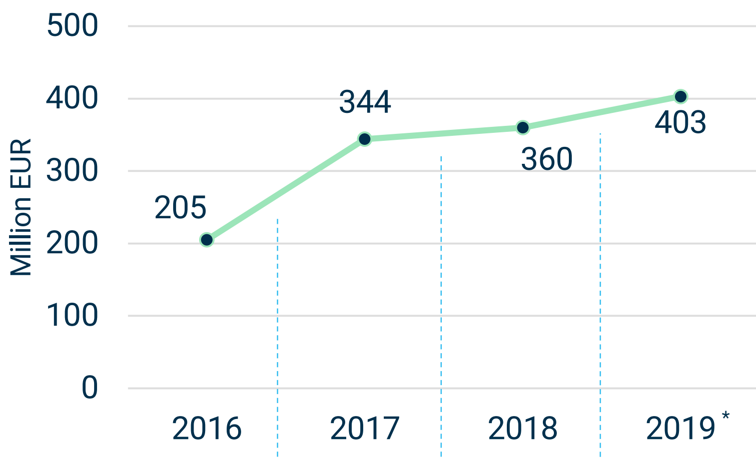
Finland: Highest percentage impact on pre-tax profits

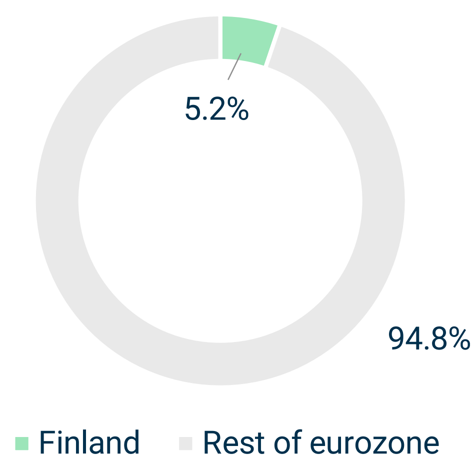
Finnish banks pay 5.2% of the ECB's negative interest rate charges. Since 2016, Finnish banks have paid over EUR 900 million to the ECB on their excess liquidity. This burden has a significant impact on the profitability of Finnish banks. In 2018, it equals 14.1% of the Finnish banking sector profits, which is the highest impact on pre-tax profits of banks amongst all eurozone countries.

Excess liquidity charges

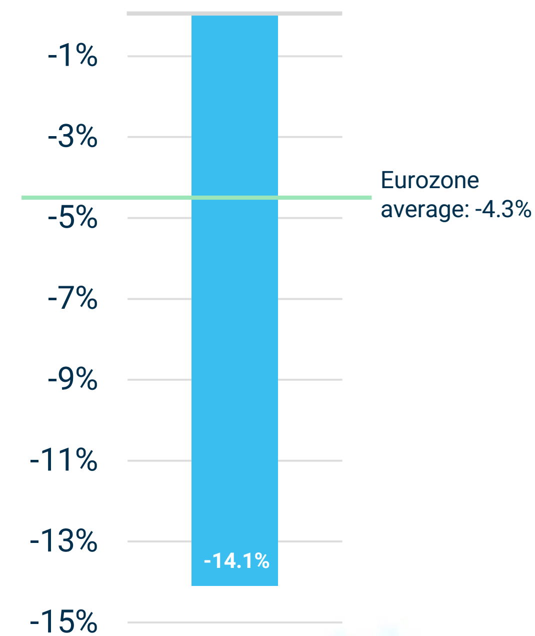


Finland	+68%	+4%	+12%
Reference value			
Eurozone	+89%	+15%	+0.1%

Share of total eurozone charges 2016-2018



Impact on pre-tax profits 2018 **

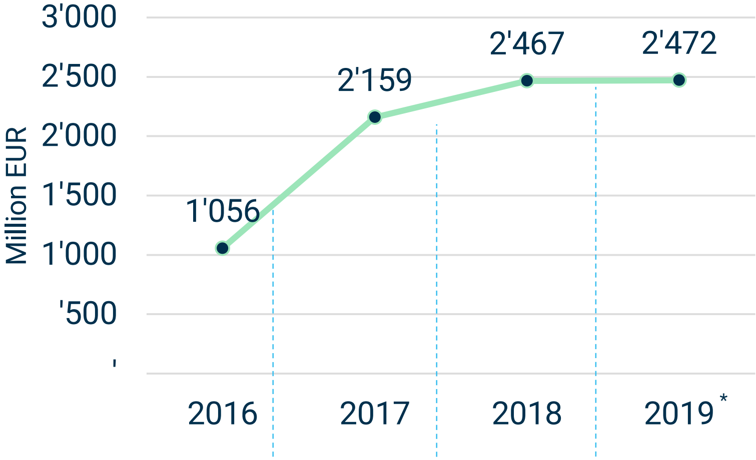


*) January to May 2019 annualised **) January to September 2018 extrapolated
Source: ECB, National Central Banks, Deposit Solutions

Germany: Charges reach a total of EUR 7 billion in May 2019

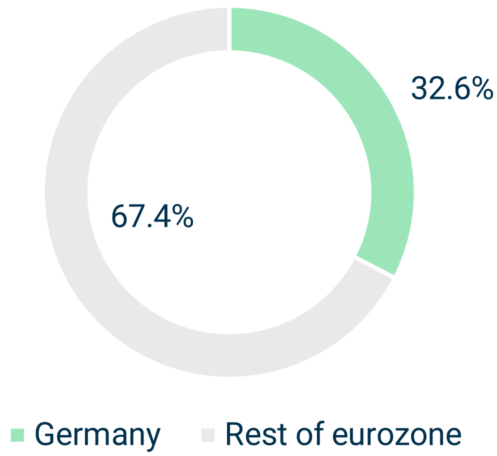
German banks pay 32.6% of the ECB's negative interest rate charges. Since 2016, German banks have paid EUR 7 billion to the ECB on their excess liquidity. German banks pay the highest negative interest rate charges among all members of the eurozone. And the German banks suffer the most – the EUR 2.5 billion they paid in 2018 correspond to a 9.1% decline in their pre-tax profits.

Excess liquidity charges

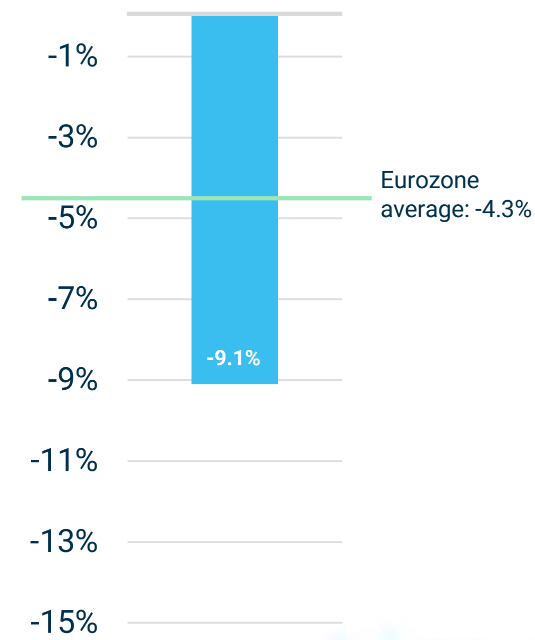


Germany	+104%	+14%	+0.1%
Reference value			
Eurozone	+89%	+15%	+0.1%

Share of total eurozone charges 2016-2018



Impact on pre-tax profits 2018 **

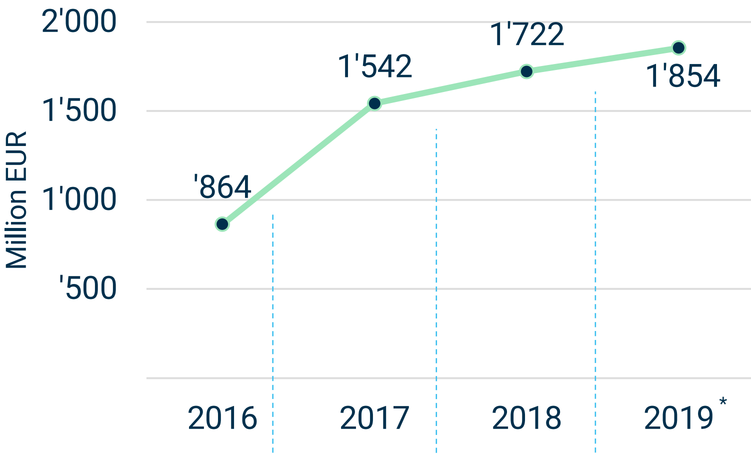


*) January to May 2019 annualised **) January to September 2018 extrapolated
Source: ECB, National Central Banks, Deposit Solutions

France: Interest rate charges continue to rise in 2019

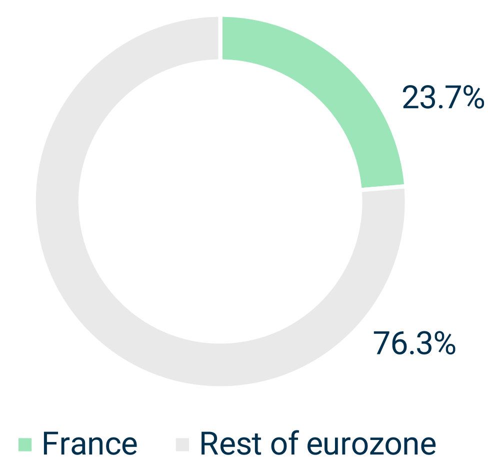
French banks pay 23.7% of the ECB's excess liquidity charges. Since 2016, French banks have paid more than EUR 4 billion to the ECB in negative interest. However, the impact on pre-tax profits was slightly below average. In 2019, the situation is likely to worsen with payments to the ECB rising faster than in the rest of the eurozone.

Excess liquidity charges

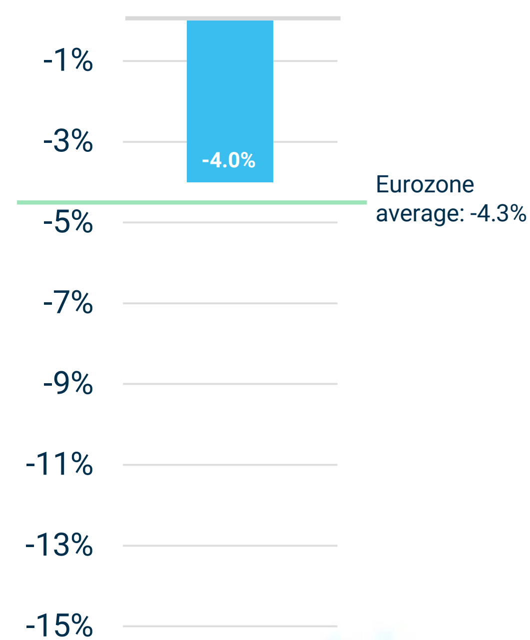


France	+78%	+12%	+8%
Reference value			
Eurozone	+89%	+15%	+0.1%

Share of total eurozone charges 2016-2018



Impact on pre-tax profits 2018 **

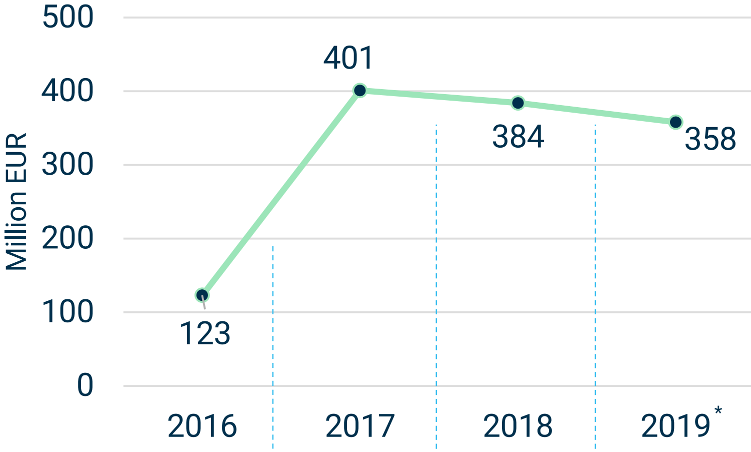


*) January to May 2019 annualised **) January to September 2018 extrapolated
Source: ECB, National Central Banks, Deposit Solutions

Italy: Only eurozone country experiencing ongoing decline in charges

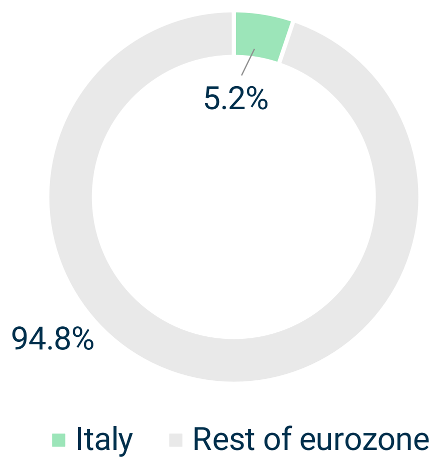
Italian banks pay 5.2% of the eurozone's negative interest to the ECB. Since 2016, Italian banks have paid over EUR 900 million on their excess liquidity. Since 2018, Italy has been the only country in the eurozone that experienced a decline in negative interest payments year-on-year. With a profit impact of -2.4%, Italian banks suffer less than French and German banks, but more than their Spanish counterparts.

Excess liquidity charges

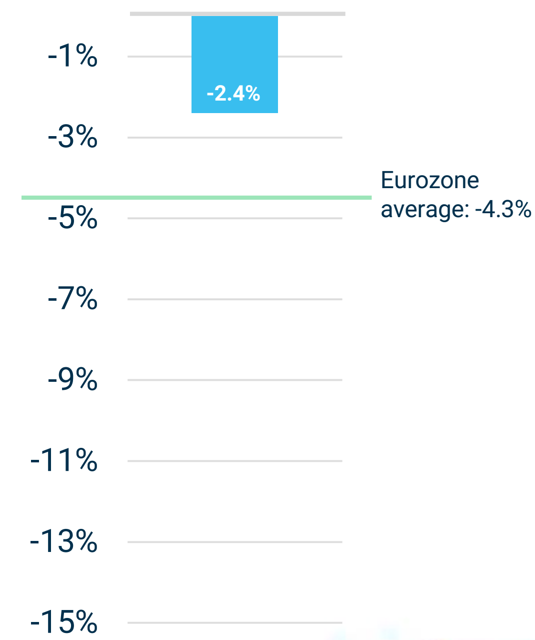


Italy	+227%	-4%	-7%
Reference value			
Eurozone	+89%	+15%	+0.1%

Share of total eurozone charges 2016-2018



Impact on pre-tax profits 2018**

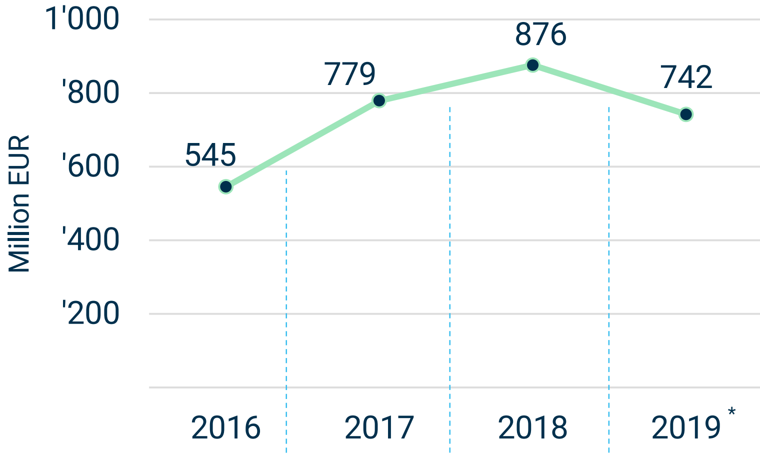


*) January to May 2019 annualised **) January to September 2018 extrapolated
Source: ECB, National Central Banks, Deposit Solutions

Netherlands: Top 3 payer in eurozone but first signs of relief

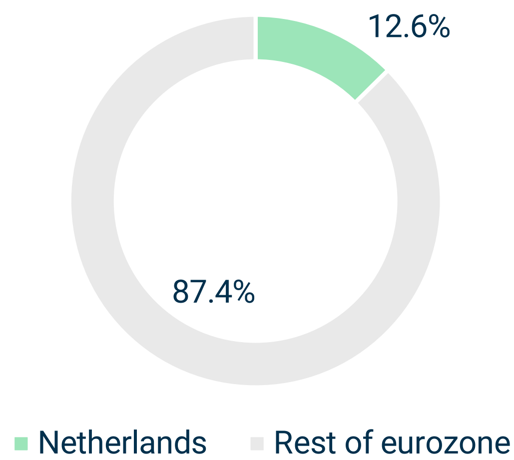
Dutch banks pay 12.6% of the ECB's negative interest rate charges. Since 2016, Dutch banks have paid EUR 2.2 billion to the ECB on their excess liquidity. This is the third highest amount in the eurozone behind Germany and France. The charges reduce the pre-tax profits of Dutch banks by 4.4%.

Excess liquidity charges

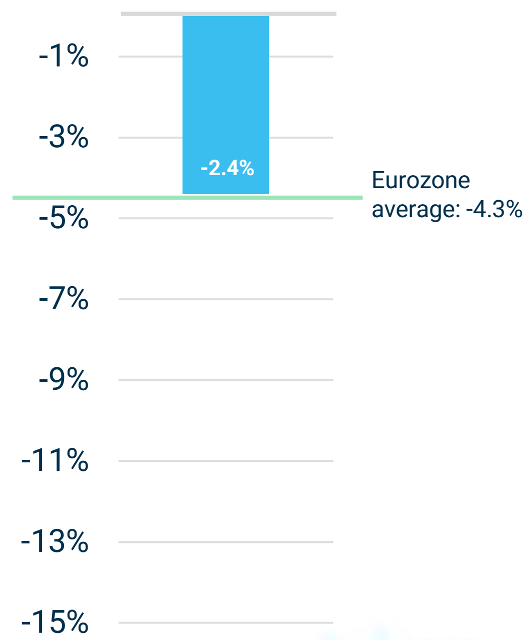


Netherlands	+43%	+12%	-15%
Reference value			
Eurozone	+89%	+15%	+0.1%

Share of total eurozone charges 2016-2018



Impact on pre-tax profits 2018 **

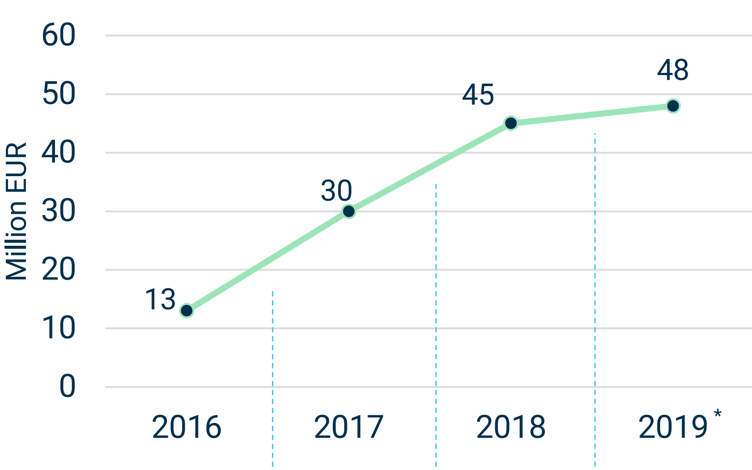


*) January to May 2019 annualised **) January to September 2018 extrapolated
Source: ECB, National Central Banks, Deposit Solutions

Portugal: Little impact on profits but charges increase

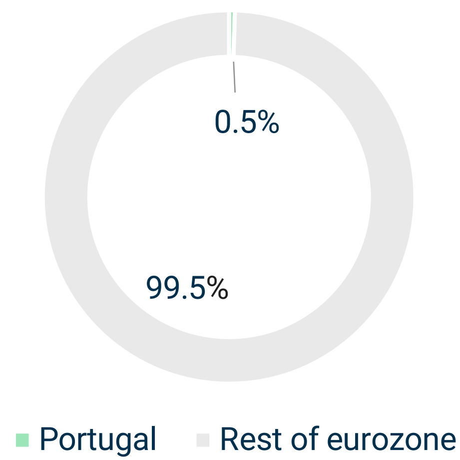
Portuguese banks pay 0.5% of the ECB's negative interest rate charges. Since 2016, Portuguese banks have paid EUR 88 million to the ECB on their excess liquidity. Although fees have risen by over 240% since 2016, Portuguese banks suffer relatively little from the ECB's negative interest rates. At -1.5%, the impact on pre-tax profits is clearly below average.

Excess liquidity charges

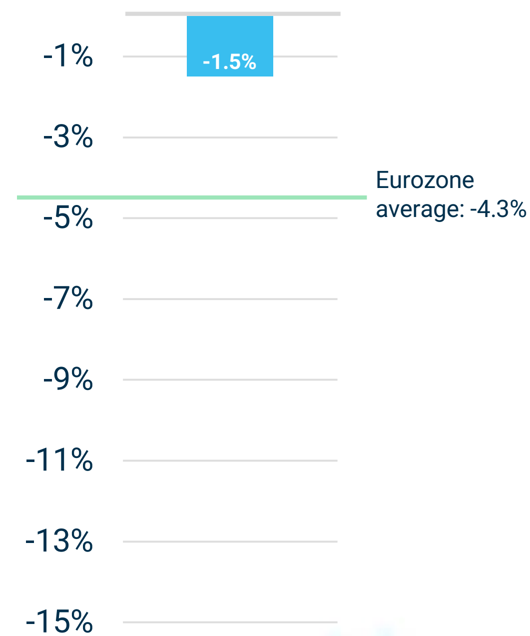


Portugal	+134%	+48%	+8%
Reference value			
Eurozone	+89%	+15%	+0.1%

Share of total eurozone charges 2016-2018



Impact on pre-tax profits 2018 **



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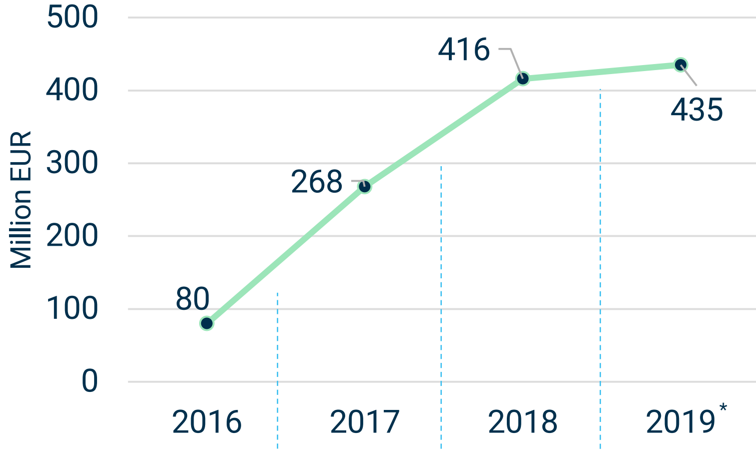
*) January to May 2019 annualised **) January to September 2018 extrapolated
Source: ECB, National Central Banks, Deposit Solutions

Spain: Lowest impact on profits amongst major economies

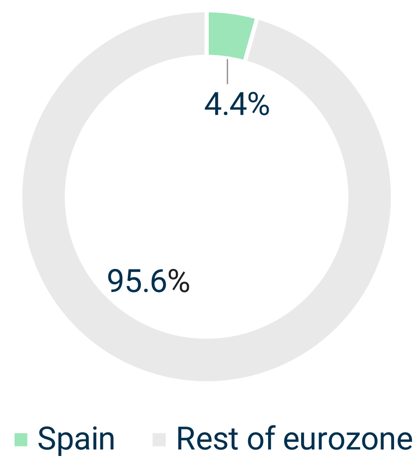
Spanish banks pay 4.4% of the ECB's negative interest rate charges. Since 2016, Spanish banks have paid EUR 764 million to the ECB on their excess liquidity. Interest payments of Spanish banks have skyrocketed by 420% since 2016, from EUR 80 million to EUR 416 million in 2018. With an impact on pre-tax profits of -1.3%, Spanish banks suffer significantly less than banks in Italy, France or Germany.

Excess liquidity charges

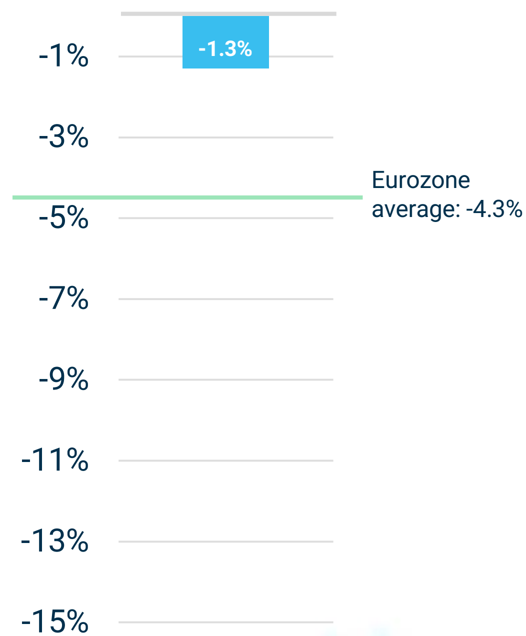


Spain	+236%	+55%	+4%
Reference value			
Eurozone	+89%	+15%	+0.1%

Share of total eurozone charges 2016-2018



Impact on pre-tax profits 2018**



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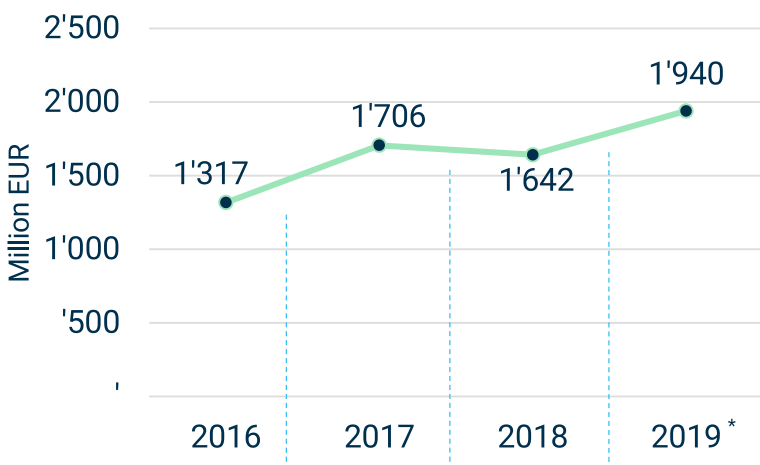
*) January to May 2019 annualised **) January to September 2018 extrapolated
Source: ECB, National Central Banks, Deposit Solutions

Switzerland: Charges expected to rise to record levels in 2019

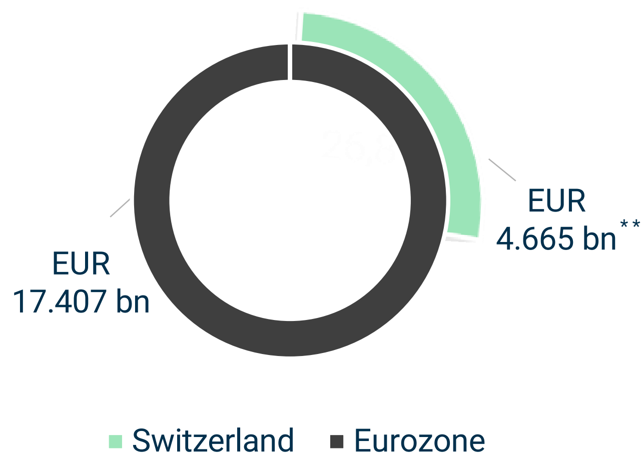
Since 2016, Swiss banks have paid EUR 4.7 billion in negative interest to the Swiss National Bank. The volume of excess liquidity charges paid by Swiss banks to the Swiss National Bank corresponds to 26.8% of all negative interest payments in the entire eurozone. Interest payments are expected to rise to a record level in 2019.**

Excess liquidity charges **

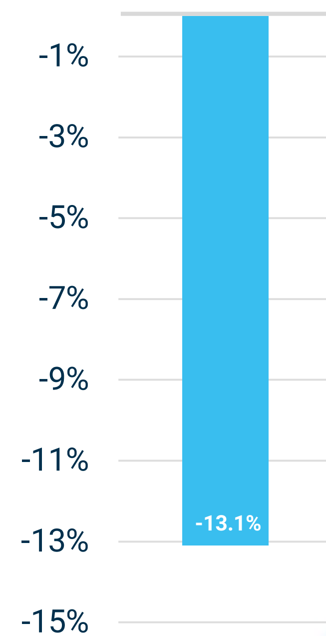


Switzerland	+29%	-4%	+18%
Reference value Eurozone	+89%	+15%	+0.1%

In relation to eurozone charges 2016-2018



Impact on pre-tax profits 2017



*) January to March 2019 annualized **) Negative Rate of 0.75%, partly exempted, converted into Euro at period average exchange rates.
Source: ECB, National Central Banks, Eidgenössische Steuerverwaltung, Deposit Solutions

Methodology

Methodology

Data collected: excess liquidity volumes, deposit rates, interest on excess liquidity per annum & cumulated, banking profits of the eurozone and Switzerland

Sources: European Central Bank, Deutsche Bundesbank, Swiss National Bank, Swiss Federal Tax Administration

All data has been sourced from publicly accessible databases. Deposit balances with central banks that are not charged to banks were not taken into account. Profit impact is being defined as the quotient of excess liquidity charges and pre-tax profits before excess liquidity charges. Eurozone banking profits are January to September 2018 extrapolated. Eurozone excess liquidity charges 2019 are January to May annualised. Swiss excess liquidity charges 2019 are January to March annualised.

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