

## NCR sees increased risk for Norwegian banks

### ANALYSTS

Geir Kristiansen  
+4790784593  
geir.kristiansen@nordiccreditrating.com

Sean Cotten  
+46735600337  
sean.cotten@nordiccreditrating.com

### COMMERCIAL MANAGERS

Gustav Liedgren  
+46736496543  
gustav.liedgren@nordiccreditrating.com

Kristine Sunde  
+4799326979  
kristine.sunde@nordiccreditrating.com

Today Nordic Credit Rating (NCR) lowered its assessment of the Norwegian banking sector to 'a-' from 'a' due to the economic effects of the COVID-19 pandemic. This assessment affects up to 20% of an overall issuer credit rating on a financial institution. We have revised down our scores and expectations for output growth, housing prices, unemployment and the international cycle as shown below. We have increased the impact of sovereign strength in our overall assessment given the Norwegian government's support for individuals, banks and corporations.

We note that many companies have elected to furlough employees using a government-supported programme which reduces costs for employers and maintains up to 80% of employees' wages. However, there was a significant rise in unemployment during the last weeks of March and we believe there will be long-term challenges for many sectors given varying degrees of economic shut down for Norway's neighbours and global trading partners.

NCR views the outlook for the domestic operating environment as negative given the abrupt reduction in activity and the uncertain prospects and timeline of an economic recovery. Initially, the government's efforts to counter the severe macroeconomic disruption could be effective, however, we believe that maintaining stability, especially in terms of bank earnings and credit losses, will become increasingly difficult the longer economic activity remains subdued.

### Norway – scoring of national indicators, previous score in parentheses

SUBFACTOR	SCORE	RATIONALE
Sovereign strength	aa	Major credit rating agency average: AAA, minimum: AAA. We give extra weight to sovereign strength given the support initiatives for individuals and businesses taken since the crisis began.
Output growth	bb (a)	We expect an abrupt decline in economic growth due to restrictive measures taken to contain the spread of COVID-19 in Norway. The recent fall in both the oil price and demand for oil is also affecting growth prospects.
Credit growth	bbb	Credit growth has grown at twice the rate of GDP since the outbreak of the pandemic. Despite uncertainty in demand from private individuals, there has likely been a material increase in corporate lending as a result of the crisis.
Housing prices	bbb (a)	The housing market is expected to weaken due to uncertainty, but long-term, fundamental need for housing remains high.
Unemployment	bbb (a)	Unemployment increased dramatically in the second half of March and is expected to rise further.
Available stable funding	a	Available stable funding in the form of stable deposits and domestic covered bonds exceeds monetary financial institution private-sector loans in most likely market conditions.
International cycle	b (bb)	International growth prospects are weak given global shutdowns and expected contractions in most economies on the back of COVID-19 responses.

## DISCLAIMER

Disclaimer © 2020 Nordic Credit Rating AS (NCR, the agency). All rights reserved. All information and data used by NCR in its analytical activities come from sources the agency considers accurate and reliable. All material relating to NCR's analytical activities is provided on an "as is" basis. The agency does not conduct audits or similar warranty validations of any information used in its analytical activities and related material. NCR advises all users of its services to carry out individual assessments for their own specific use or purpose when using any information or material provided by the agency. Analytical material provided by NCR constitutes only an opinion on relative credit risk and does not address other forms of risk such as volatility or market risk and should not be considered to contain facts of any kind for the purpose of assessing an issuer's or an issue's historical, current or future performance. Analytical material provided by NCR may include certain forward-looking statements relating to the business, financial performance and results of an entity and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. Forward-looking statements contained in any analytical material provided by NCR, including assumptions, opinions and views either of the agency or cited from third-party sources are solely opinions and forecasts which are subject to risk, uncertainty and other factors that could cause actual events to differ materially from anticipated events. NCR and its personnel and any related third parties provide no assurance that the assumptions underlying any statements in analytical material provided by the agency are free from error, nor are they liable to any party, either directly or indirectly, for any damages, losses or similar, arising from use of NCR's analytical material or the agency's analytical activities. No representation or warranty (express or implied) is made as to, and no reliance should be placed upon, any information, including projections, estimates, targets and opinions, contained in any analytical material provided by NCR, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained in any analytical material provided by the agency. Users of analytical material provided by NCR are solely responsible for making their own assessment of the market and the market position of any relevant entity, conducting their own investigations and analysis, and forming their own view of the future performance of any relevant entity's business and current and future financial situation. NCR is independent of any third party, and any information and/or material resulting from the agency's analytical activities should not be considered as marketing or a recommendation to buy, sell, or hold any financial instruments or similar. Relating to NCR's analytical activities, historical development and past performance does not safeguard or guarantee any future results or outcome. All information herein is the sole property of NCR and is protected by copyright and applicable laws. The information herein, and any other information provided by NCR, may not be reproduced, copied, stored, sold, or distributed without NCR's written permission.

## NORDIC CREDIT RATING AS

[nordiccreditrating.com](http://nordiccreditrating.com)

### OSLO

Biskop Gunnerus' gate 14A  
0185 Oslo  
Norway

### STOCKHOLM

Engelbrektsgatan 9-11  
114 32, Stockholm  
Sweden