

Nordic bank creditworthiness stable despite COVID-19 impact

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Nordic Credit Rating's (NCR's) average credit assessment of over 300 Nordic banks remains at the 'bbb+' level, despite downward revisions of our country and segment-level creditworthiness and increased uncertainty due to the COVID-19 pandemic. However, the large number of savings banks in the region is weighing heavily on the average scoring, and two subsectors, namely mortgage banks and private banks, have seen their average credit assessments fall by one notch.

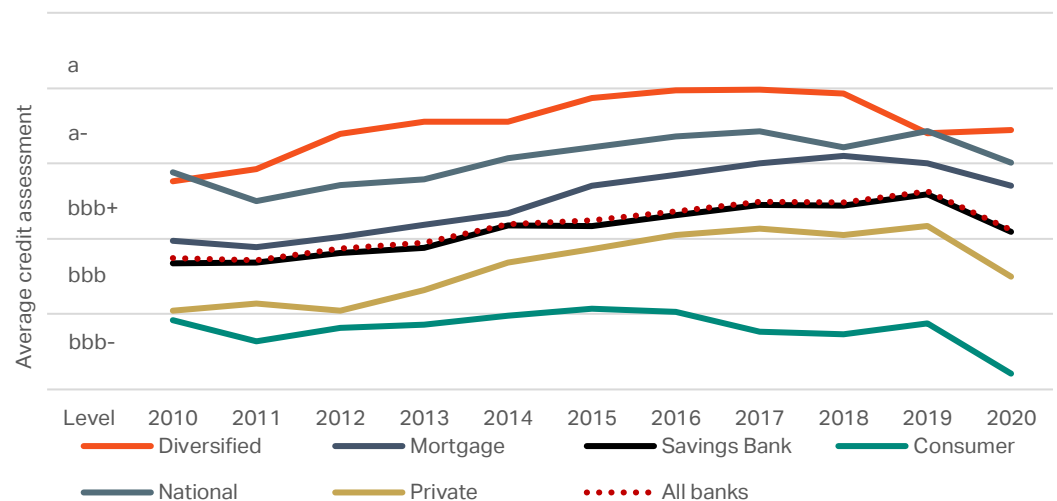
IMPACT OF COVID-19 ON CREDIT ASSESSMENT

While our previous credit assessments of the regional banking sector were based on 2018 accounts, this time we have made a pre-COVID-19 assessment based on 2019 data and a post-outbreak assessment which we refer to as the 2020 assessment. Unlike the credit scores published by some banks, NCR's credit assessments are forward-looking and not solely based on historical data. Covering the past decade, our assessments of most bank types had steadily improved until the outbreak (see Figure 1). While the average credit score for 2019 was the strongest seen in a decade, the 2020 level is lower, but still better than the levels recorded during the financial crisis of 2008-09, mainly due to lower risk appetite, better capital positions, and improved liquidity.

NCR recently lowered its assessment of the Norwegian banking sector to 'a-' from 'a' and the Swedish banking sector to 'bbb+' from 'a-' due to the economic effects of the pandemic (see [NCR sees increased risk for Norwegian banks](#), 3 Apr. 2020 and [NCR sees increased risks in the Swedish banking sector](#), 3 Apr. 2020). In line with these revisions, we have lowered our scores for the operating environment subfactor (20% weighting in our financial institution ratings) by one notch for most Nordic banks. In addition, we have reduced our operating environment score for consumer lenders by two notches given increased political risk and challenges to banks' business models.

We also see a significantly increased risk of lower pre-provision profit due to margin pressure and losses on net financials, as well as higher credit losses (see [A zero interest rate environment will hurt the profitability of Norwegian savings banks](#), 15 May 2020 and [Norwegian savings banks – A bank crisis scenario](#), 29 Apr. 2020). Accordingly, in our assessments we have lowered the 2020 scoring of key performance indicators (KPIs), which carry a 15% weighting in our financial institution ratings, by two notches for most banks. Exceptions include low-risk mortgage and national banks, for which we have made no adjustments from the 2019 assessment.

Figure 1. Average credit assessment of Nordic financial institutions by sector, 2010-2020



Source: Nordic Credit Rating analysis

Our average credit assessment of Nordic banks increased from 'bbb' in the years immediately following the 2008-09 financial crisis to 'bbb+' in 2014 and thereafter. The main driver behind this shift was an improvement in the capital subfactor score to 'a+' from 'bbb+' due to stricter capital requirements. The capital subfactor, which carries a 17.5% weighting in our total assessment of financial institutions, has improved across all regions and subsectors, and capital remains a strength in our 2020 assessment, in part due to Nordic regulators reducing countercyclical buffer requirements.

The other significant positive driver in the past decade has been an improvement in pre-provision earnings and lower loan losses. Recent changes in KPIs are illustrated in figures 4 and 5, in which we can also see that the adjustments made in our 2020 assessment have more than reversed the improvements of the previous decade (from 'bbb+' to 'a+' and then down to 'bbb').

Figure 2. Average assessment of capital subscore by country

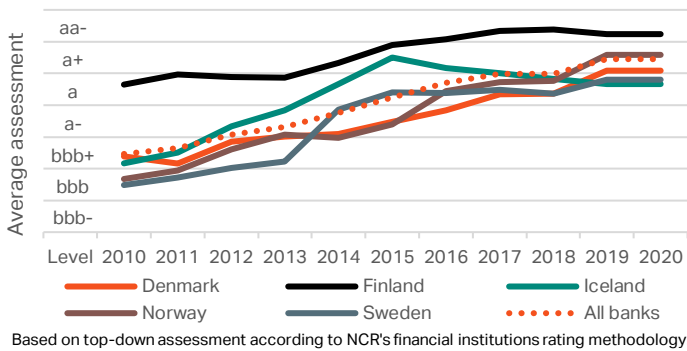


Figure 3. Average assessment of capital subscore by sector

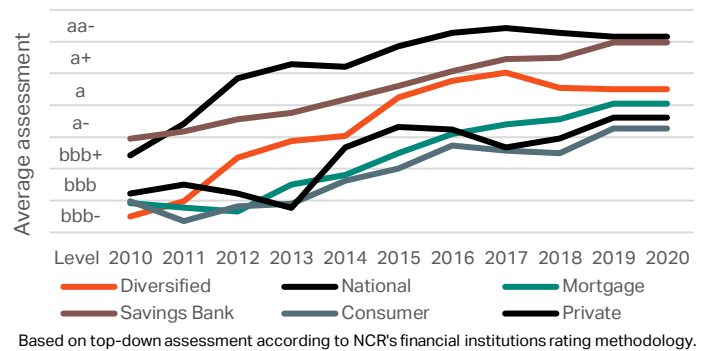


Figure 4. Average assessment of KPI subscore by country

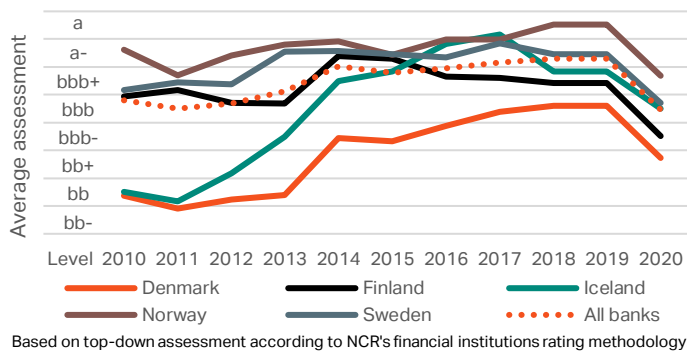
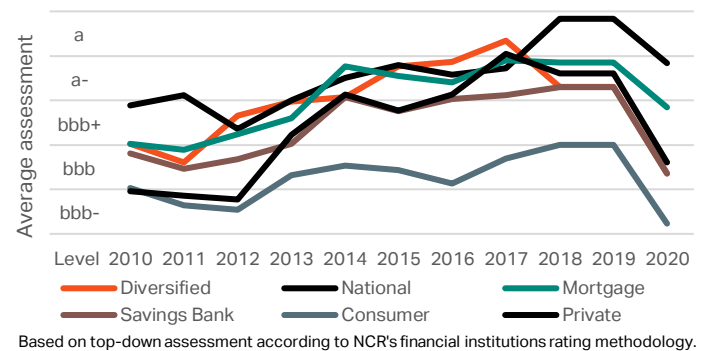


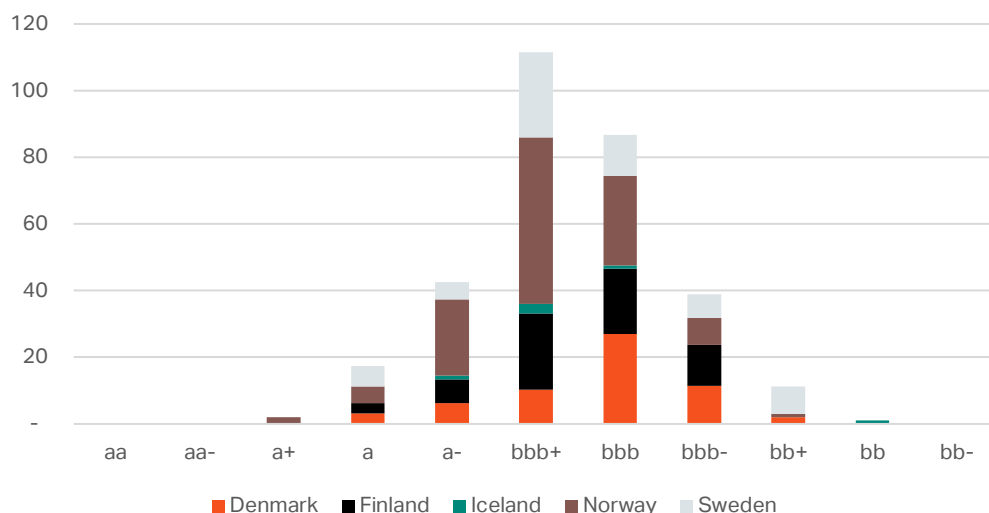
Figure 5. Average assessment of KPI subscore by sector



SEGMENT ASSESSEMENTS VARY BY RISK PROFILE

At the segment level, diversified Nordic issuers (21 Nordic banks) have an average credit assessment of 'a-' ('a' in 2018) under NCR's methodology. A collection of "national" lenders (12 municipal, export or otherwise nationally important issuers) score 'a-' (unchanged) and mortgage lenders (20 primarily standalone mortgage lending institutions) average 'bbb+' ('a-'). A large group of savings, regional, and cooperative banks (219 in total) score 'bbb+' (unchanged) and private banks (11 banks focused on private banking and investment) average 'bbb' ('bbb+'). Finally, consumer lenders (26 unsecured and secured consumer lenders) average 'bbb-' (unchanged), though a higher share of lenders are now scored 'bb+'.

Figure 6. Nordic financial institution credit assessments by sector, 2020



Source: NCR analysis, based on top-down assessment according to NCR's financial institutions rating methodology.

In our 2020 assessment, large diversified banks tend to have a stronger market presence than their smaller competitors, resulting in a higher assessment of their competitive position. On average, savings banks have weaker competitive positions but benefit from strong capital positions and funding. Mortgage lenders tend to have weaker earnings, but very strong loss experience. While consumer and secured lenders tend to have higher margins, they also have price-dependent funding and relatively weak asset quality.

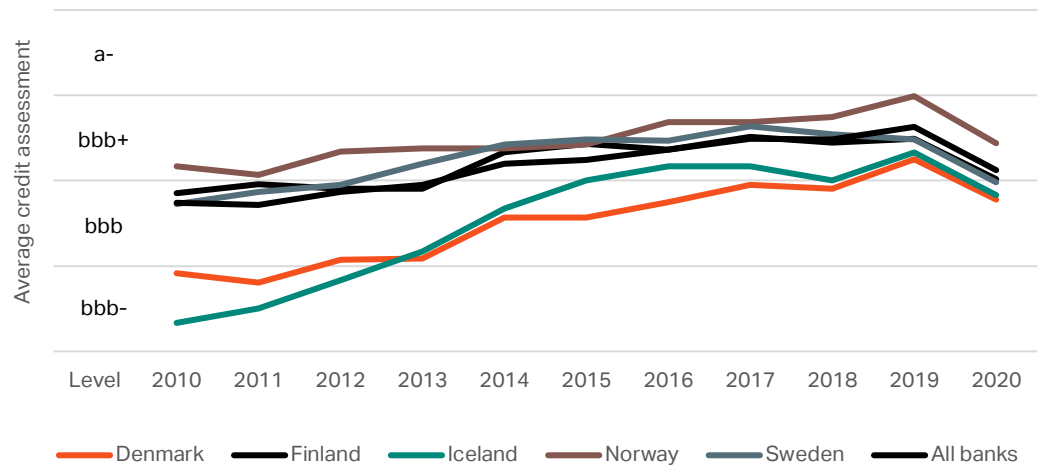
Figure 7. Average Nordic financial institution assessments by subfactor and segment, 2020

	WEIGHT (%)	DIVERSIFIED	NATIONAL/MUNICIPAL	MORTGAGE	SAVINGS BANKS	CONSUMER /SECURED	PRIVATE
Credit assessment	100.0	a-	a-	bbb+	bbb+	bbb-	bbb
Op. environment	20.0	bbb+	bbb	bbb	bbb-	bb+	bbb
Risk appetite	50.0	a	a	a-	a	bbb	bbb+
of which Capital	17.5	a	aa-	a	a+	a-	a-
of which Funding	15.0	a-	a-	bbb+	a	bbb-	bbb+
of which Credit risk	7.5-10.0	a+	a	a	bbb+	bbb	bbb
Competitive position	15.0	a-	bbb	bbb-	bb	bb-	bb
Performance	15.0	bbb	a-	bbb+	bbb	bbb-	bbb
of which Earnings	7.5	bbb	a-	bbb	bbb	bbb+	bbb
of which Losses	7.5	bbb	a	a	bbb+	bb	bbb+
Total assessments		21	12	20	223	26	9

NORWEGIAN BANKS HAVE THE STRONGEST CREDITWORTHINESS, DANISH THE LOWEST

Finnish, Norwegian and Swedish banks have 'bbb+' average assessments while Danish and Icelandic banks have 'bbb' average assessments. Norwegian banks stand out with the highest average assessment, mainly driven by relatively strong performance indicators. Danish banks have the lowest average assessment with relatively weak performance indicators and competitive positions (in large part because we consider savings banks' alliances as supportive of banks' competitive positions in other Nordic countries). Unsurprisingly, Icelandic and Danish banks have undergone the largest improvement since 2010, moving from average assessments of 'bbb-' to 'bbb+' in 2019 before the COVID-19 pandemic.

Figure 8. Average credit assessment score for Nordic financial institutions, 2010-2020



Source: NCR analysis, based on top-down assessment according to NCR's financial institutions rating methodology.

The national assessments shown below demonstrate the influence of the high number of Norwegian savings banks, which have both high capital and relatively strong earnings metrics. By contrast, in Denmark, Finland and Sweden, the markets are relatively top-heavy with large diversified banks and strong mortgage companies dominating the landscape.

Figure 9. Nordic financial institution credit assessments by country, 2020

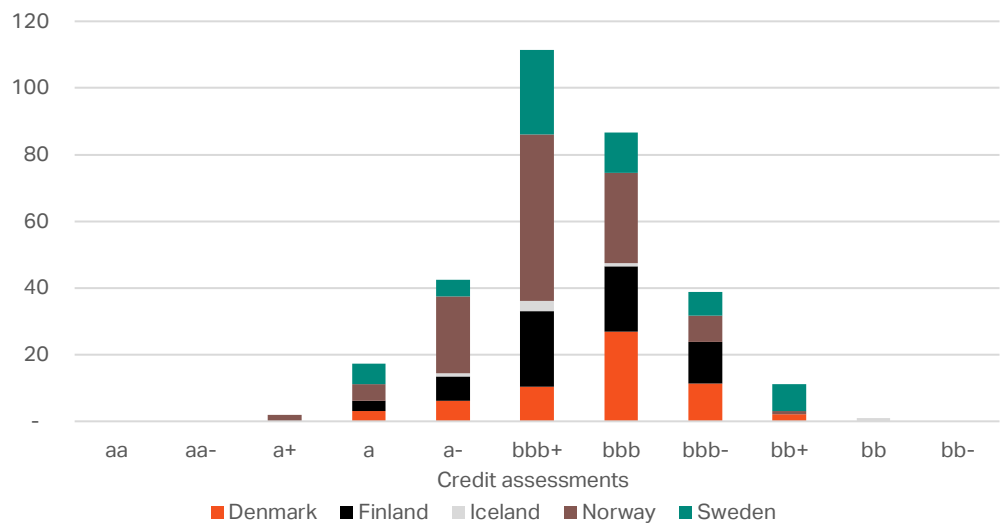


Figure 10. Average financial institution assessments by subfactor and country, 2020

	WEIGHT (%)	DENMARK	FINLAND	ICELAND	NORWAY	SWEDEN	NORDIC
Credit assessment	100.0	bbb	bbb+	bbb	bbb+	bbb+	bbb+
Op. environment	20.0	bbb-	bb+	bb+	bbb-	bbb	bbb-
Risk appetite	50.0	a	a	a-	a-	a-	a-
of which Capital	17.5	a+	aa-	a	a+	a	a+
of which Funding	15.0	a	a	a-	a-	a-	a-
of which Credit risk	7.5-10.0	bbb+	bbb+	a-	bbb+	bbb+	bbb+
Competitive position	15.0	bb-	bb+	bb+	bb+	bb	bb
Performance	15.0	bb+	bbb-	bbb	bbb+	bbb	bbb
of which Earnings	7.5	bbb-	bb+	bbb+	a-	bbb	bbb
of which Losses	7.5	bb+	bbb+	bbb	bbb+	bbb+	bbb
Total assessments		58.0	65.0	6.0	120.0	63.0	312.0

ASSESSMENT METHODOLOGY

NCR's credit assessments are conducted using a top-down analysis of each bank's annual public reporting and broad assumptions about qualitative factors such as risk governance, other material risks, credit risk concentrations, risks associated with regional or sectoral concentrations and similar. NCR expects that about 90% of the credit assessments conducted in this manner would be within one notch of the actual rating for the issuer, with the exception of additional notches for ownership support or government role or notching to reflect specific peer comparisons or transitions. The weightings by risk factor are based on NCR's [Financial Institutions Rating Methodology](#). When NCR evaluates banks during an actual rating process, we take a long-term and forward-looking approach to quantitative measures and qualitative assessments to avoid year-to-year volatility in our ratings.

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