Capital strength sets Norwegian savings banks up for 2026 growth

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Nordic Credit Rating (NCR) believes that Norwegian savings banks are well positioned for growth and strong performance in 2026. Net interest margins held up better than expected for Norwegian savings banks in 2025. Solid margins, together with strong lending growth, has boosted earnings across the sector in recent years. However, the combination of declining rates and more intense competition should increase margin pressure ahead. We believe net interest margins will remain strong as the central bank's more cautious approach to the policy rate path should help mitigate pressure on net interest margin development.

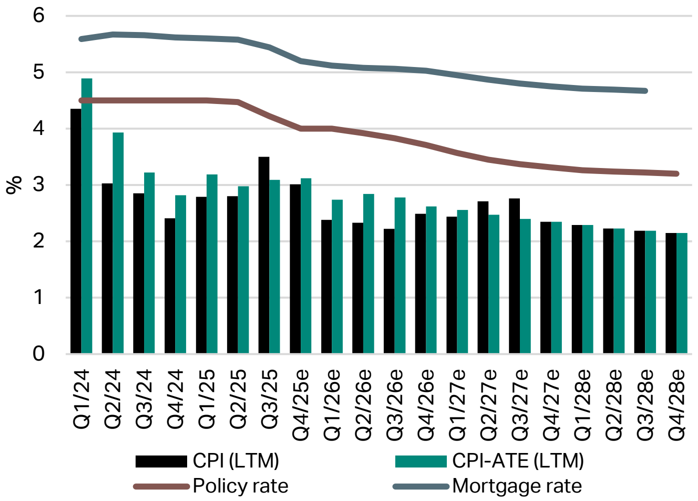
As intended, high interest rates have slowed the economic expansion and lowered inflation to more moderate levels. The central bank expects inflation to steadily decline to approach the two percent long-term target by end-2028 and we expect the central bank to follow through on two interest rate cuts through 2027. Despite elevated interest rates and slowed economy, economic indicators have remained solid over the past year and rising housing prices have strengthened credit demand. We believe the positive macroeconomic momentum will persist over the next years, albeit with continued uncertainty typical of a late-cycle environment.

The mid-2025 implementation of CRR3 has boosted the capital ratios for small and medium-sized savings banks and created a more level playing field in the credit market. This has positioned Norwegian savings banks well for growth. The majority of lending is to low-risk residential mortgage customers, and asset quality remains strong despite a modest increase in loan-loss provisions since 2023. We expect strong earnings and capitalisation to offset late-cycle loan losses in 2026, though elevated risk remains in real estate development loans and the building and construction sector.

KEY CREDIT THEMES FOR NORWEGIAN SAVINGS BANKS IN 2026

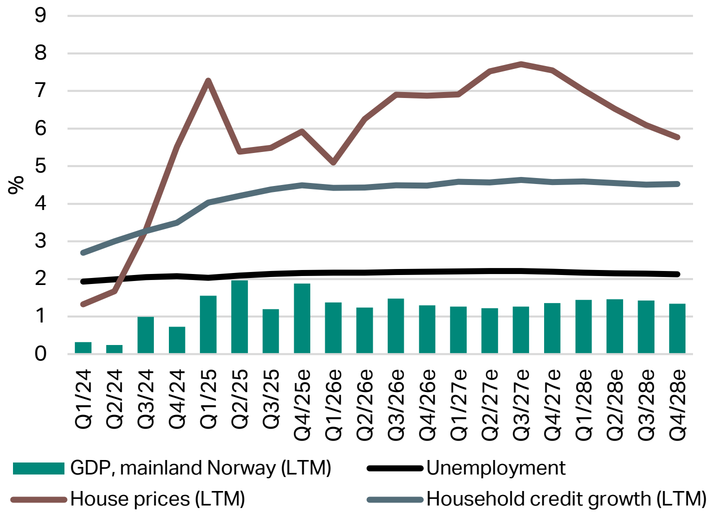
- Strengthened capital position provides room for growth as banks utilise excess capital following CRR3.
- Increasing competition adds pressure on margins.
- Loan losses and Stage 3 loans remain moderately elevated.

Figure 1. Norwegian inflation and interest rates, 2024–2028e



Source: central bank. e–estimate. CPI–consumer price index. LTM–last 12 months. ATE–adjusted for tax changes and excluding energy products.

Figure 2. Norwegian economic indicators, 2024–2028e

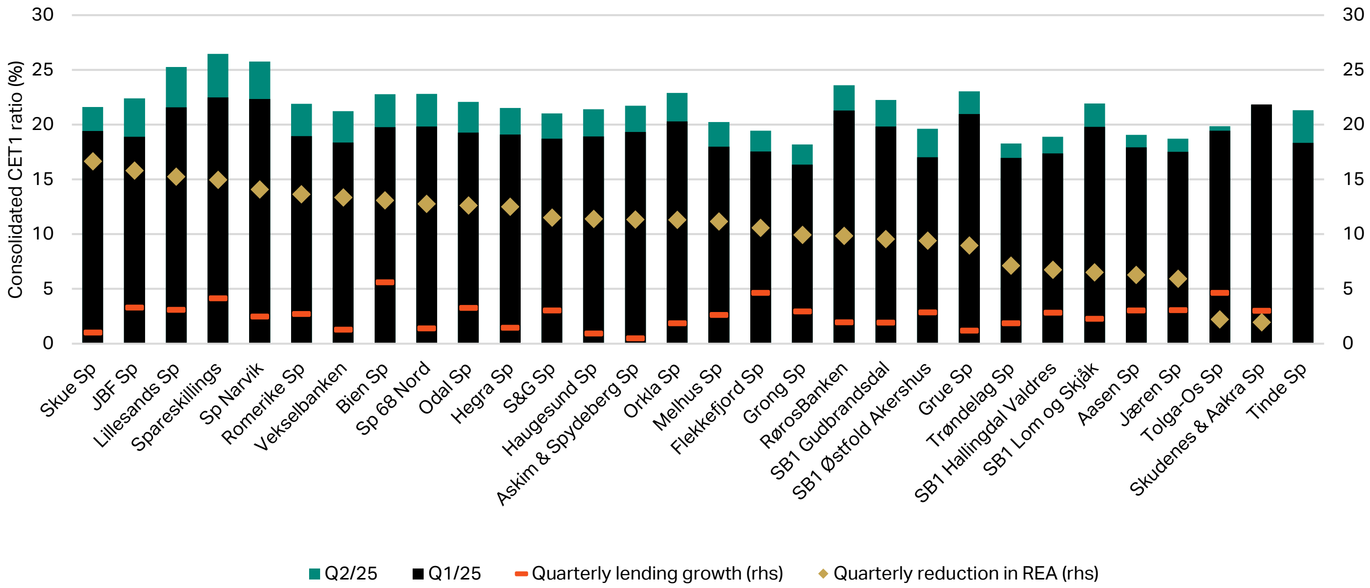


Source: central bank. e-estimate.

SAVINGS BANKS PLAN TO GROW INTO EXCESS CAPITAL FOLLOWING CRR3

CRR3 and the new standardised approach have significantly strengthened capital ratios of small- and medium-sized savings banks. For our sample of NCR-rated Norwegian savings banks, the consolidated CET1 ratio increased by 2.3pp on average in the second quarter 2025. Adjusted for lending growth, accumulated earnings, and other effects, the isolated CRR3effect was significantly higher. In addition, the new risk weights of the standardised approach have levelled the playing field for the small- and mid-sized savings banks we rate, improving their growth prospects and ambitions relative to larger banks using the internal ratings-based approach.

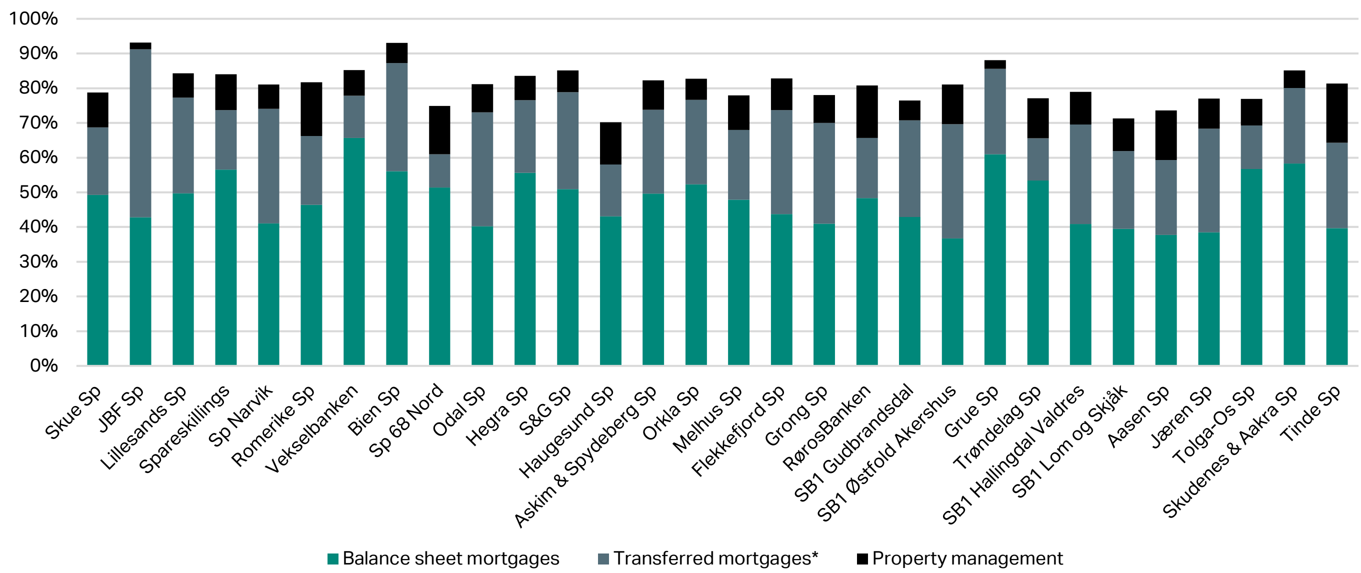
Figure 3. Norwegian savings banks' CET1 ratios, Q1 2025-Q2 2025



Source: bank reports and NCR. REA-risk exposure amount.

A high share of residential mortgage lending is common for the sample, with property management representing the largest corporate exposure. CRR3 has reduced the risk weight for the safest mortgage loans to 20% from 35%, and lowered risk weights for commercial real estate loans with low loan-to-value ratios. For members of the SpareBank 1 Alliance, the consolidated effect of CRR3 is somewhat less substantial due the jointly owned covered mortgage company's use the internal ratings-based approach.

Figure 4. Norwegian savings banks' gross lending composition, including transferred loans, 30 Sep. 2025



Source: bank reports. *net transferred loans to jointly owned covered mortgage companies.

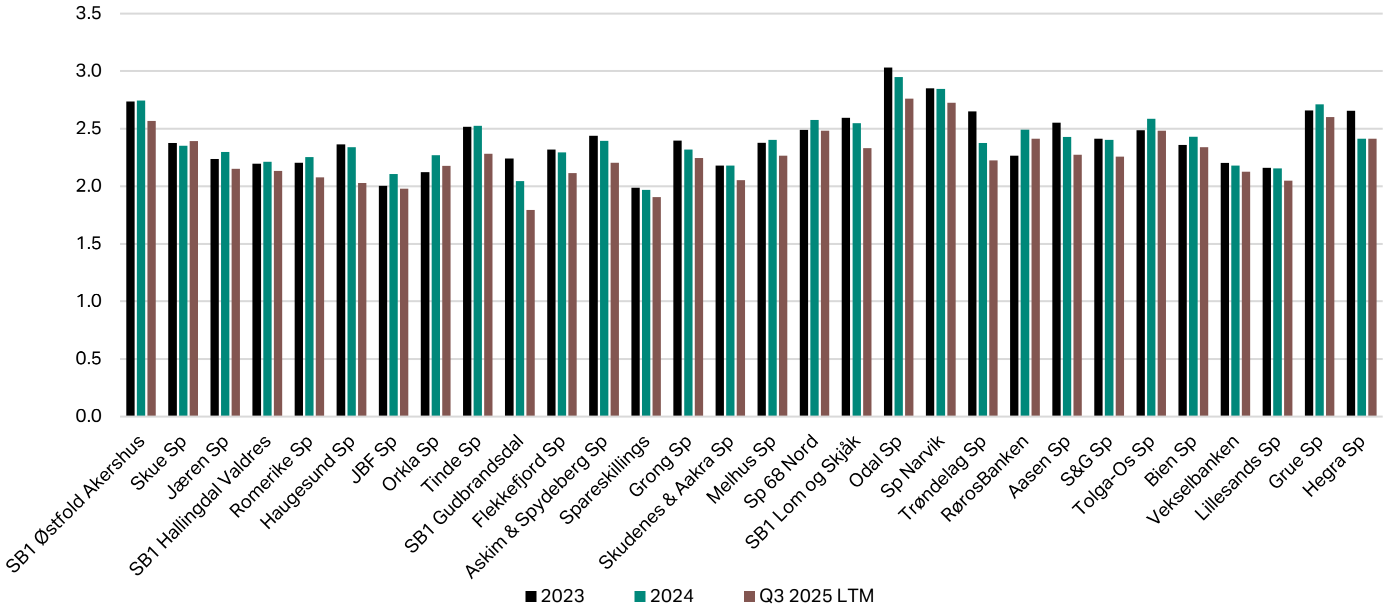
We believe a significant number of banks began adjusting their capital strategy prior to the introduction of CRR3. This includes ramping up their growth strategies, dividend payouts and adapting their use of hybrid capital instruments. We've also seen an increase in audited quarterly financial statements in order to include year-to-date profits in regulatory capital measures, avoiding temporary breaches in capital adequacy limits. Several banks have utilised their excess capital to purchase ownership stakes in leasing company Brage Finans, enabling additional services.

Looking ahead, we believe banks' current capital positions will play a vital role in shaping strategies for 2026. The majority of banks in our sample are largely funded by ownerless capital and have limited ability to increase dividends to investors. Therefore, we believe that excess capital buffers may prompt some banks to pursue more aggressive loan growth, which could improve earnings and increase risk appetite. We also expect certain banks to deploy capital by expanding their core markets into neighbouring regions, while others may focus on residential mortgage growth in metropolitan areas.

INTEREST MARGINS ON THE WAY DOWN

After net interest margins peaked in 2024, the central bank began a cautious normalisation of the policy rate, implementing two 25bps cuts in 2025. While policy rates could gradually decline towards 3% by 2027, the outlook remains uncertain due to persistent inflation, uncertain global trade and tariff policies, and a resilient domestic economy. Our current base case assumes one 25bps rate cut annually through 2027.

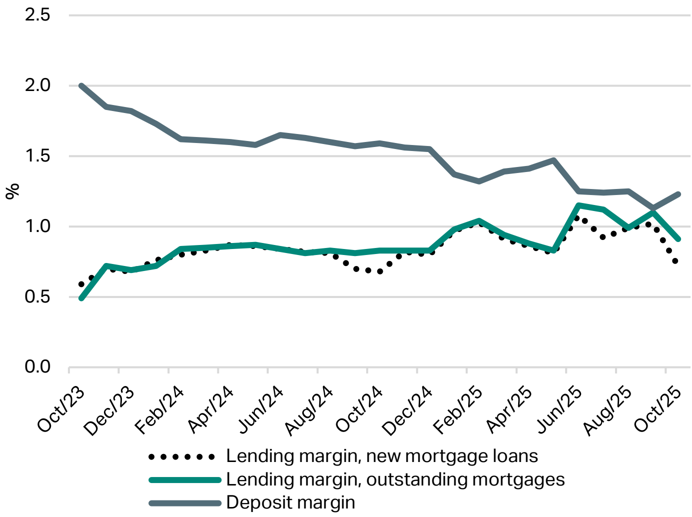
Figure 5. Norwegian savings banks' net interest margins, 2023–Q3 2025 LTM



Source: company reports.

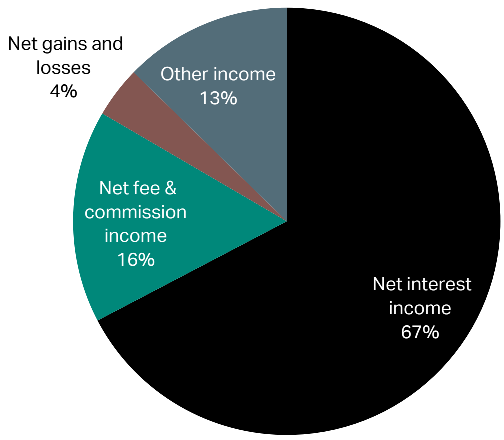
We expect lower interest rates and increased competition to pressure margins and reduce return on equity in 2026. Although the two rate cuts in 2025 had limited impact on margins as of the third quarter, we believe the regulatory two-month notice period on deposits will lead to some margin compression in fourth-quarter results and into 2026. Medium and large banks are already showing early signs of compression, and deposit repricing and heightened competition are expected to further weigh on margins. We also anticipate that margin pressure will reduce commission income from residential mortgages transferred to jointly owned covered mortgage companies. Banks' ability to defend margins will influence earnings and growth prospects.

Figure 6. Norwegian banks lending and deposit margins , Oct 2023-Oct 2025



Source: Statistics Norway.

Figure 7. Norwegian savings bank sample income composition, YTD 30 Sep. 2025



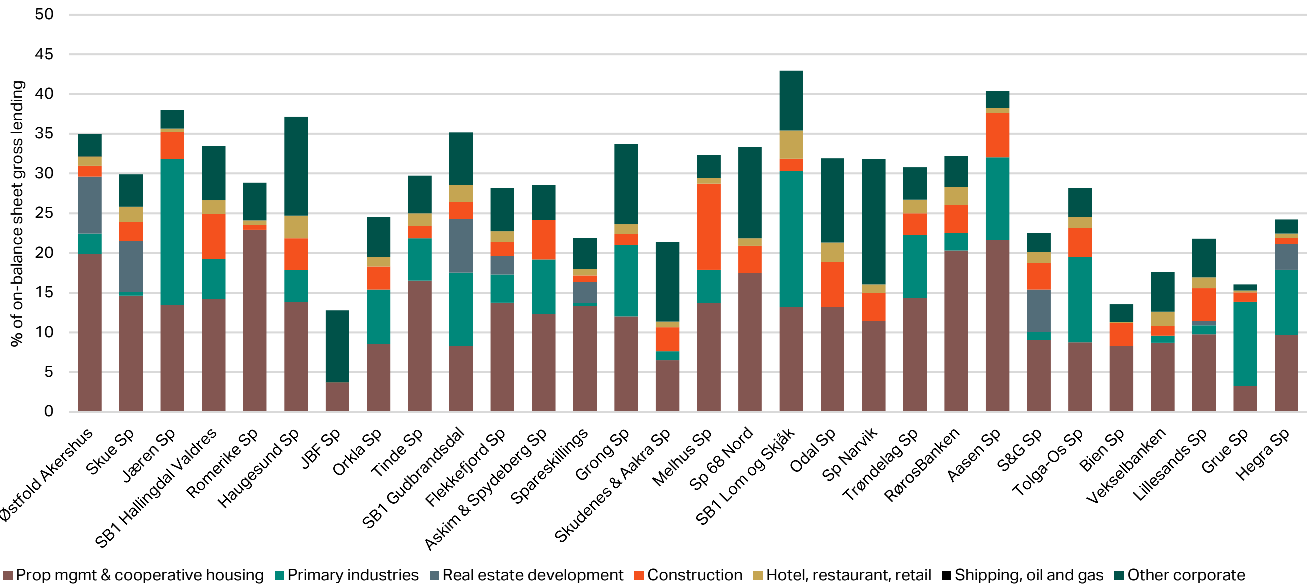
Source: company reports and NCR.

Tighter margins are likely to provide further incentive to grow and diversify revenues in order to maintain return on equity. As a result, we expect non-interest income to account for a larger portion of banks' revenue. Banks' investments in supplementary services, particularly in real estate agencies and accounting, but also investments in Brage Finans, reflect the trend of diversifying products and revenues. In addition to supporting earnings, these services enhance our view of competitive position by diversifying income, strengthening customer loyalty, and enabling cross-selling opportunities.

ASSET QUALITY AND LOSS PERFORMANCE CONCERNS REMAIN ELEVATED

We remain cautious on commercial real estate lending, particularly development loans, and construction exposures due to elevated interest costs and continued weakness in the property market. Debt-servicing capacity among commercial real estate firms remains constrained by high interest rates, which continues to weigh on their credit quality. Property management is the largest corporate customer segment for most banks in our sample, representing an average of 13% of the loan book as of 30 Sep. 2025. Other significant corporate segments are also property related, including agriculture and cooperative housing loans, though we view these as lower risk. We also note recent changes in Statistics Norway's industry classification system, which separate housing cooperatives from other corporate customers and enhance transparency for some savings banks with significant exposure to housing cooperatives.

Figure 8. Norwegian savings banks' on-balance sheet corporate lending composition, 30 Sep. 2025

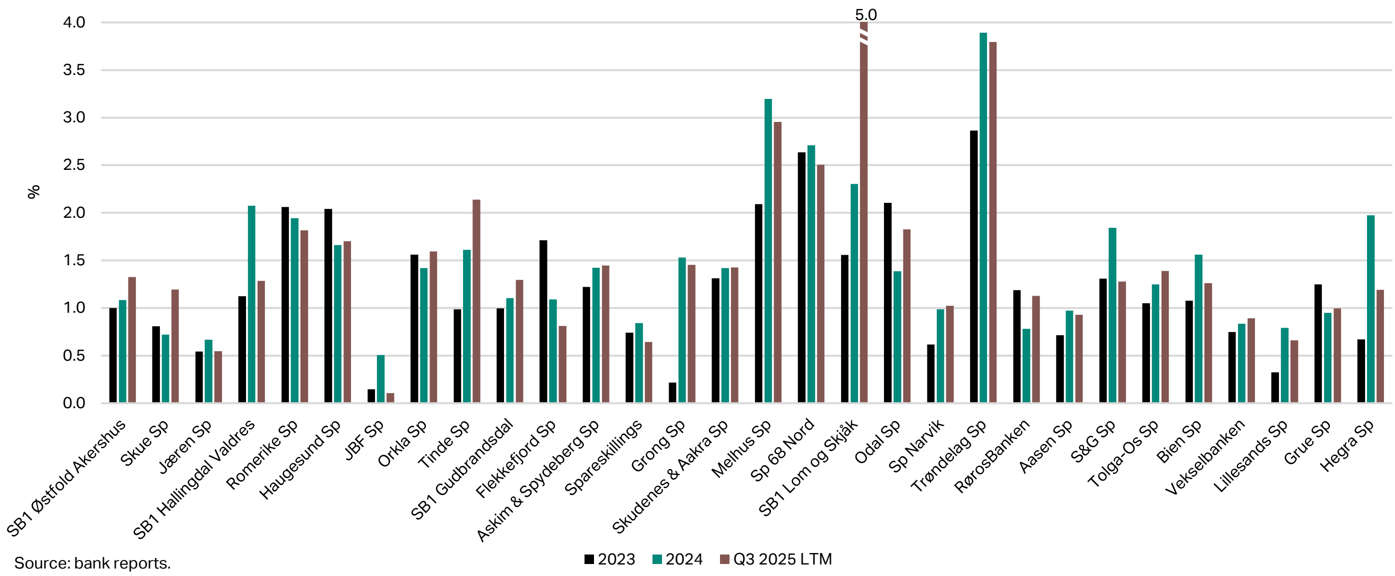


Source: bank reports.

We believe local savings banks are well positioned to support lending growth while maintaining high credit quality, given their regional market insight and solid underwriting standards. However, there is some risk of overextending into new markets or increasing single-name concentrations to support earnings. In more rural regions, local savings banks remain a cornerstone of regional value creation, supporting economic activity and access to capital for local small and medium-sized enterprises.

Among NCR-rated savings banks, the share of net Stage 3 loans remained stable at 1.5% as of 30 Sep. 2025, compared with end-2024, despite significant fluctuations among individual banks. However, internal reporting indicates a negative migration in corporate customer credit quality at several banks over the past year. As a result, we project credit losses and Stage 3 loans to remain elevated in 2026. Our concerns are partly offset by modest single name credit concentrations at most savings banks. We expect further interest rate cuts to reduce downside risks to asset quality in the coming years, although this will depend on companies' ability to manage the still elevated interest rate environment.

Figure 9. Norwegian savings banks' net Stage 3 loans to net loans, Q4 2023–Q3 2024



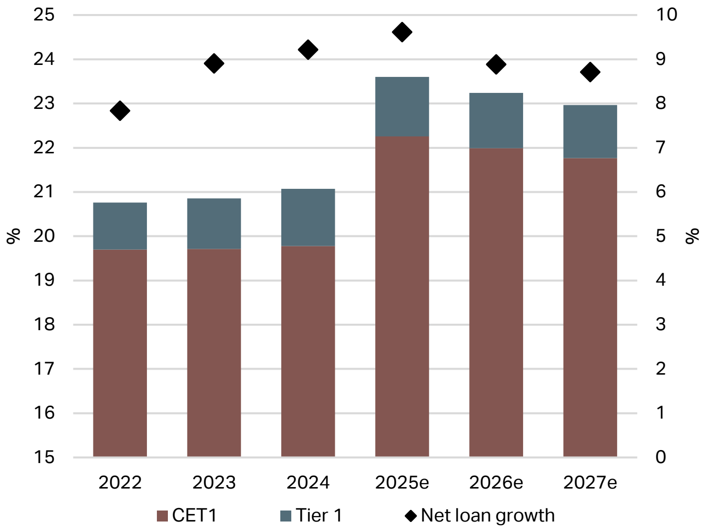
Source: bank reports.

OUTLOOK FOR NCR-RATED SAVINGS BANKS

Among NCR-rated Norwegian savings banks, we expect higher loan growth compared with domestic credit growth, supported by CRR3. Although varying across the sample, we anticipate that strong loan growth will lower capital ratios, which are likely to decline through 2027 from a peak in mid-2025.

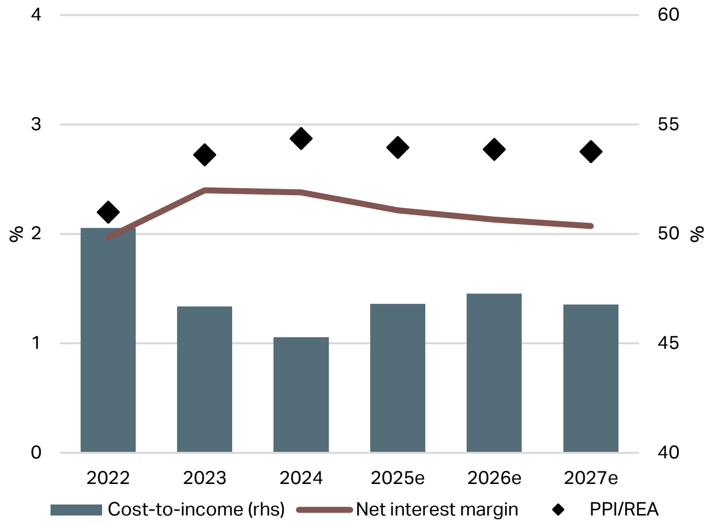
We expect our sample of savings banks to achieve estimated growth without substantial margin erosion, and to prioritise margin protection if necessary. With anticipated interest rate cuts, we project the average net interest margin will decline to 2.1% in 2027, from 2.3% in the twelve months to 30 Sep. 2025. We also expect non-interest income to become a more important contributor to earnings. However, operating costs are estimated to grow faster than operating revenue. This will weaken cost efficiency over the next few years, though the average cost-to-income ratio should remain well below 50% through 2027. Our forecasts also indicate strong risk-adjusted earnings (pre-provision earnings/risk exposure amount (REA)), averaging 2.8% in 2025-2027, providing strong buffers for potential increases in credit losses.

Figure 10. Capital ratios and loan growth for NCR-rated savings banks, 2022-2027e



Source: company reports.

Figure 11. Earnings metrics for NCR-rated savings banks, 2022-2027e



Source: company reports.

NCR-RATED SAVINGS BANKS

The following table summarises NCR's ratings on Norwegian savings banks as of 9 Jan 2026.

Figure 12. NCR ratings on Norwegian savings banks

Issuer	Long-term rating	Outlook	Short-term rating
Aasen Sparebank	BBB+	Stable	N2
Askim & Spydeberg Sparebank	A-	Stable	N2
Bien Sparebank ASA	BBB+	Stable	N2
Flekkefjord Sparebank	BBB+	Positive	N3
Grong Sparebank	A-	Stable	N2
Grue Sparebank	BBB+	Stable	N2
Haugesund Sparebank	BBB+	Stable	N2
Hegra Sparebank	BBB+	Stable	N2
JBF Sparebank	A-	Stable	N2
Jæren Sparebank	A-	Stable	N2
Kredittforeningen for Sparebanker	A-	Negative	N2
Lillesands Sparebank	BBB+	Stable	N3
Melhus Sparebank	A-	Stable	N2
Odal Sparebank	BBB+	Stable	N2
Orkla Sparebank	A-	Stable	N2
Romerike Sparebank	A-	Stable	N2
RørosBanken Røros Sparebank	BBB+	Stable	N2
Skudenes & Aakra Sparebank	A-	Stable	N2
Skue Sparebank	A-	Stable	N2
Sparebank 1 Gudbrandsdal	A-	Stable	N2
Sparebank 1 Hallingdal Valdres	A-	Stable	N2
Sparebank 1 Lom og Skjåk	BBB+	Stable	N2
SpareBank 1 Østfold Akershus	A	Stable	N2
Sparebank 68 Nord	A-	Stable	N2
Sparebanken Narvik	A-	Stable	N2
Spareskillingsbanken	A-	Stable	N2
Søgne og Greipstad Sparebank	BBB+	Stable	N2
Tinde Sparebank	BBB+	Positive	N2
Tolga-Os Sparebank	BBB+	Stable	N2
Trøndelag Sparebank	BBB+	Negative	N2
Voss Veksel- og Landmandsbank ASA	BBB+	Stable	N2

See NCR's company reports for details.

RELEVANT RESEARCH

(i) Nordic niche banks; building a foundation for growth, 4 Sep. 2025.
(ii) Swedish savings banks steadfast amid increasing headwinds, 6 May. 2025.
(iii) Lower interest margin will lead to a drop in profitability for Norwegian savings banks, 20 Jan. 2025.
(iv) NCR Comments: Norway moves to adopt new standardised approach to capital requirements, 6 Dec. 2024.
(v) Norwegian savings banks' capitalization boosted by CRR3, 26 Jun. 2024.

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