Nordic
Credit
Rating

Outook for Norwegian savings banks

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Sean Cotten
Chief Rating Officer

Geir Kristiansen
Senior credit analyst

nordiccreditrating.com

Nordic Credit Rating

Established by and for the Nordic market

Vision – Become the leading CRA in the Nordic region

- Approved by ESMA in 2018 - with full regulatory value for the rating for all users.
  - ECAI status / EBA mapping
- Well-established and recognized among market participants in the Nordic region.
  - A financial infrastructure company with the highest service ambition in the industry.
- Professional, orderly and simplified process.
  - Lowers the threshold for obtaining a rating for small and medium-sized banks.
- NCR's rating methodology is well-suited for savings banks and financial institutions.
- Significant industry expertise and local insights from NCR's banking analysis team

Strong and established Nordic institutions as owners

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Shareholders

Nordenfjelske Bykreditts Stiftelse
Danske Bank
Handelsbanken
storebrand
MP Pensjon
Pareto
eika.
Alfred Berg
Nasdaq
TDV
eika. Boligkreditt
bkp
Bergen Kommunale Pensjonskasse
TrønderEnergi
Pecunia
NordicTrustee
SpareBank 1
DNB
Gjensidige
Oslo Børs
Swedbank
KLP

Security, long-term perspective and stability

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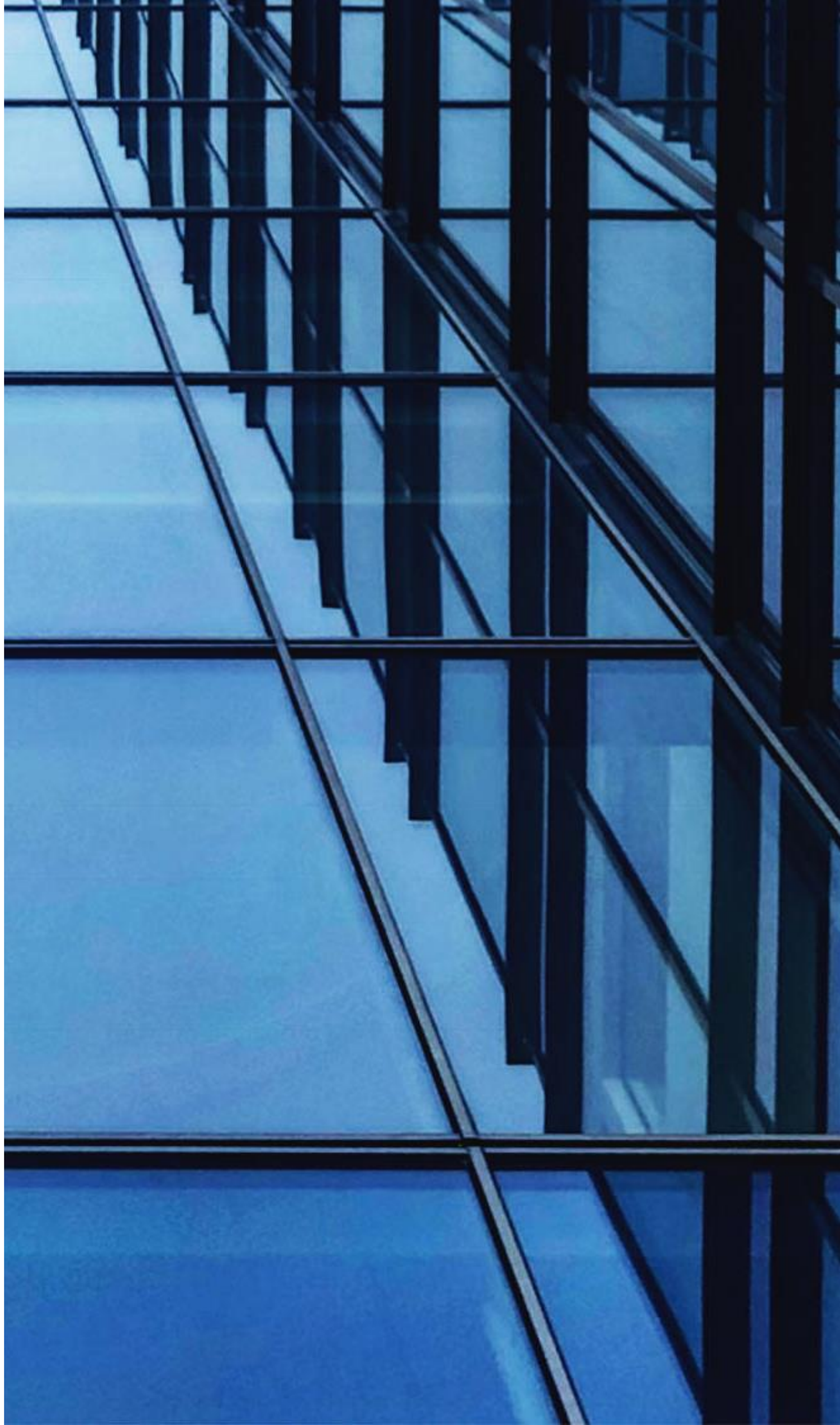
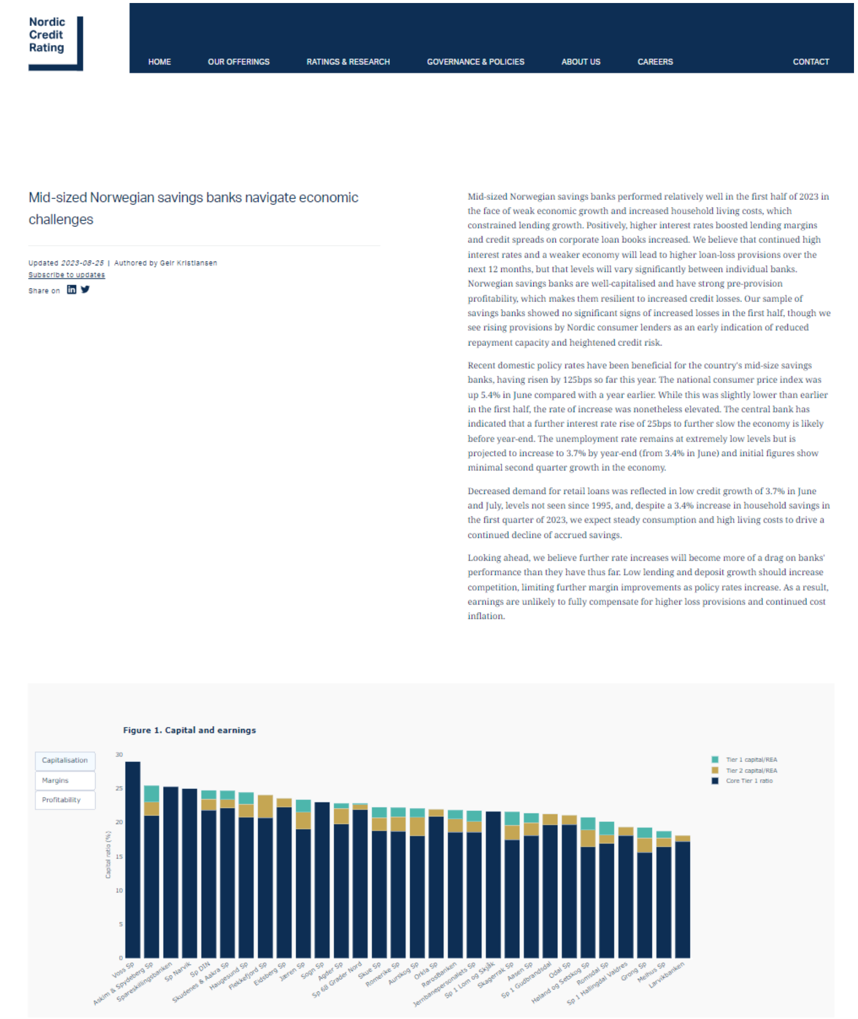
Section



During the second quarter…

- Norwegian savings banks remained robust
- Increased net margins
- Improved already strong cost efficiency
- Maintained manageable credit losses

Mid-sized Norwegian savings banks navigate economic challenges



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Mid-sized Norwegian savings banks navigate economic challenges

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Mid-sized Norwegian savings banks performed relatively well in the first half of 2023 in the face of weak economic growth and increased household living costs, which constrained lending growth. Positively, higher interest rates boosted lending margins and credit spreads on corporate loan books increased. We believe that continued high interest rates and a weaker economy will lead to higher loan-loss provisions over the next 12 months, but that levels will vary significantly between individual banks. Norwegian savings banks are well-capitalised and have strong pre-provision profitability, which makes them resilient to increased credit losses. Our sample of savings banks showed no significant signs of increased losses in the first half, though we see rising provisions by Nordic consumer lenders as an early indication of reduced repayment capacity and heightened credit risk.

Recent domestic policy rates have been beneficial for the country's mid-size savings banks, having risen by 125bps so far this year. The national consumer price index was up 5.4% in June compared with a year earlier. While this was slightly lower than earlier in the first half, the rate of increase was nonetheless elevated. The central bank has indicated that a further interest rate rise of 25bps to further slow the economy is likely before year-end. The unemployment rate remains at extremely low levels but is projected to increase to 3.7% by year-end (from 3.4% in June) and initial figures show minimal second quarter growth in the economy.

Decreased demand for retail loans was reflected in low credit growth of 3.7% in June and July, levels not seen since 1995, and, despite a 3.4% increase in household savings in the first quarter of 2023, we expect steady consumption and high living costs to drive a continued decline of accrued savings.

Looking ahead, we believe further rate increases will become more of a drag on banks' performance than they have thus far. Low lending and deposit growth should increase competition, limiting further margin improvements as policy rates increase. As a result, earnings are unlikely to fully compensate for higher loss provisions and continued cost inflation.

Interactive article featuring 30 mid-sized savings banks

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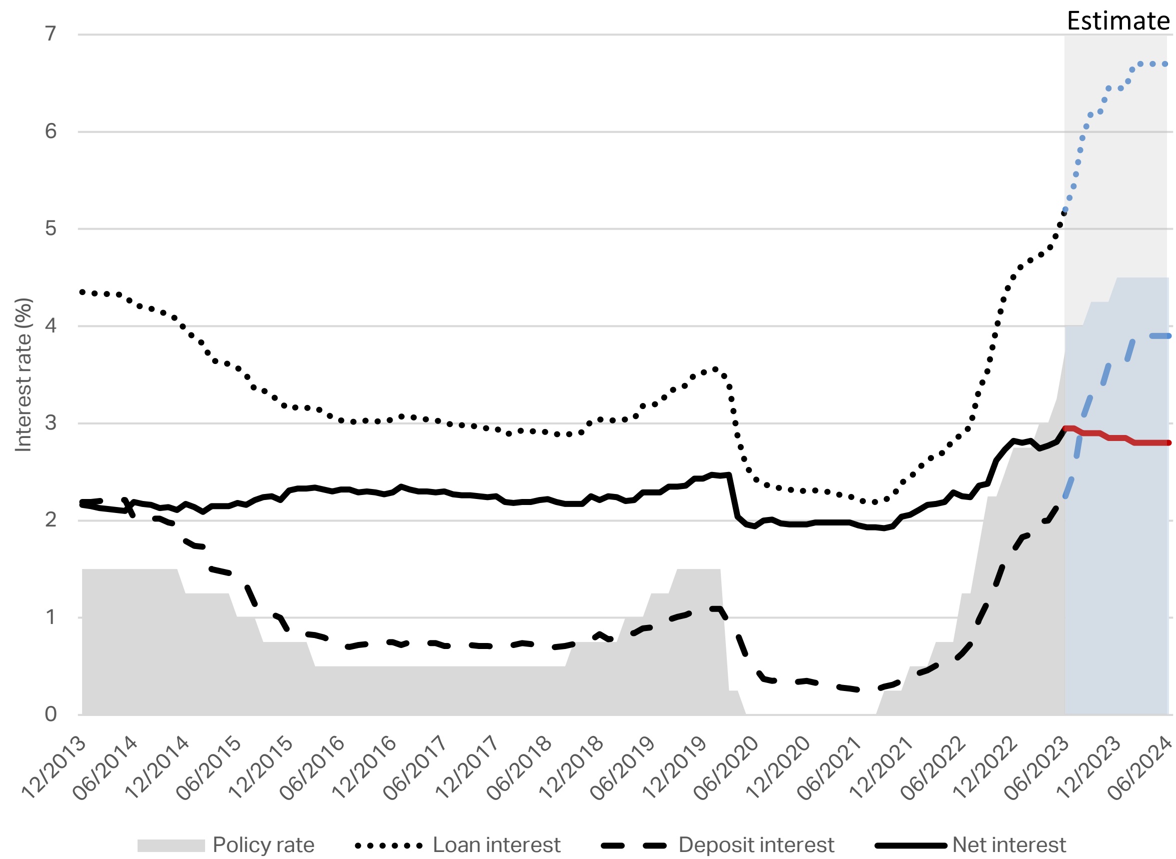
Rising rates going from boost to drag for banks

Period of significant margin improvement has ended

- Rising policy rates have thus far aided banks
- Persistent inflation and rising unemployment prompts worries of repayment capacity and credit risk
- Historically low credit growth
- Steady consumption and high living expenses impacting savings and tightening deposit base
- Weak loan and deposit growth over the next year will limit further margin improvements as policy rates increase



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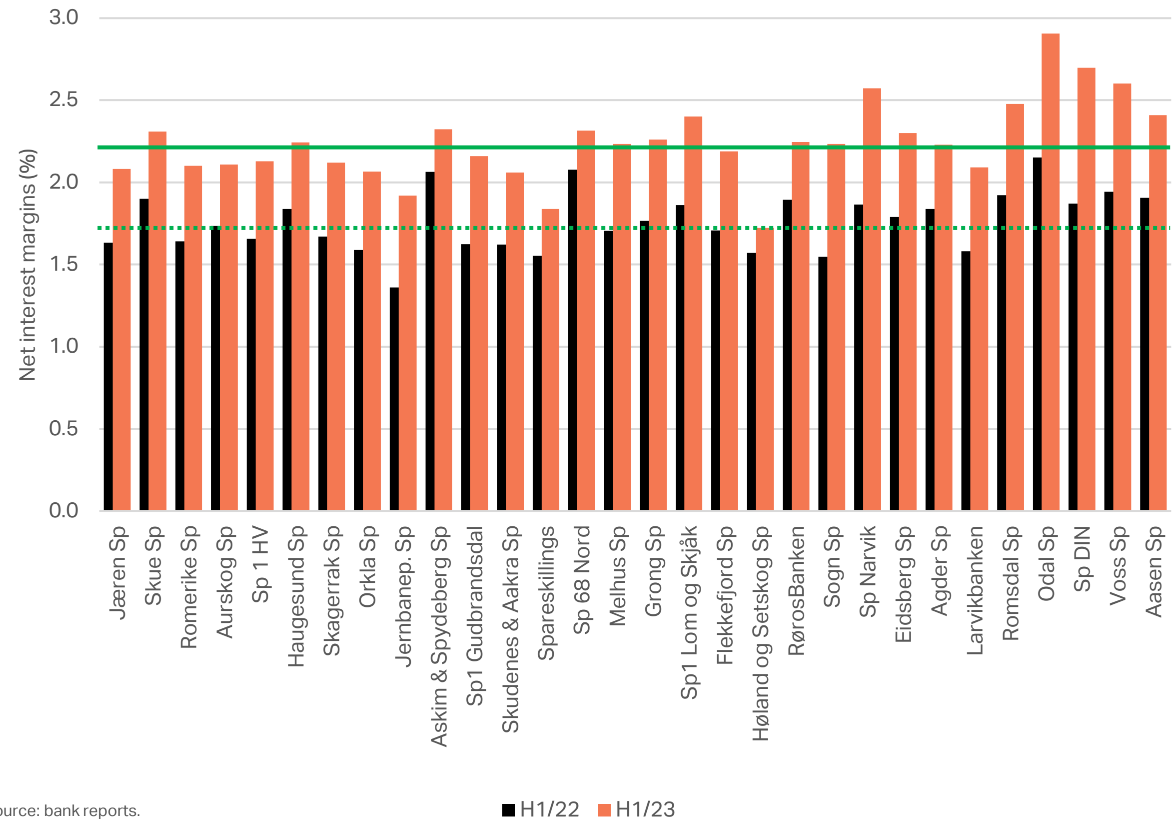
Margins have stabilized at higher levels

- Average YTD margins are over 40bps higher than a year ago
- Improvement in margins has outweighed cost inflation
- Already strong cost efficiency has improved further (47% from 51%)
- Core pre-provision income to REA to 2.5% from1.9% a year ago
- Going forward, strong margins are expected to weaken somewhat due to higher funding costs and competition
- As a result, cost inflation will have a larger impact on pre-provision earnings

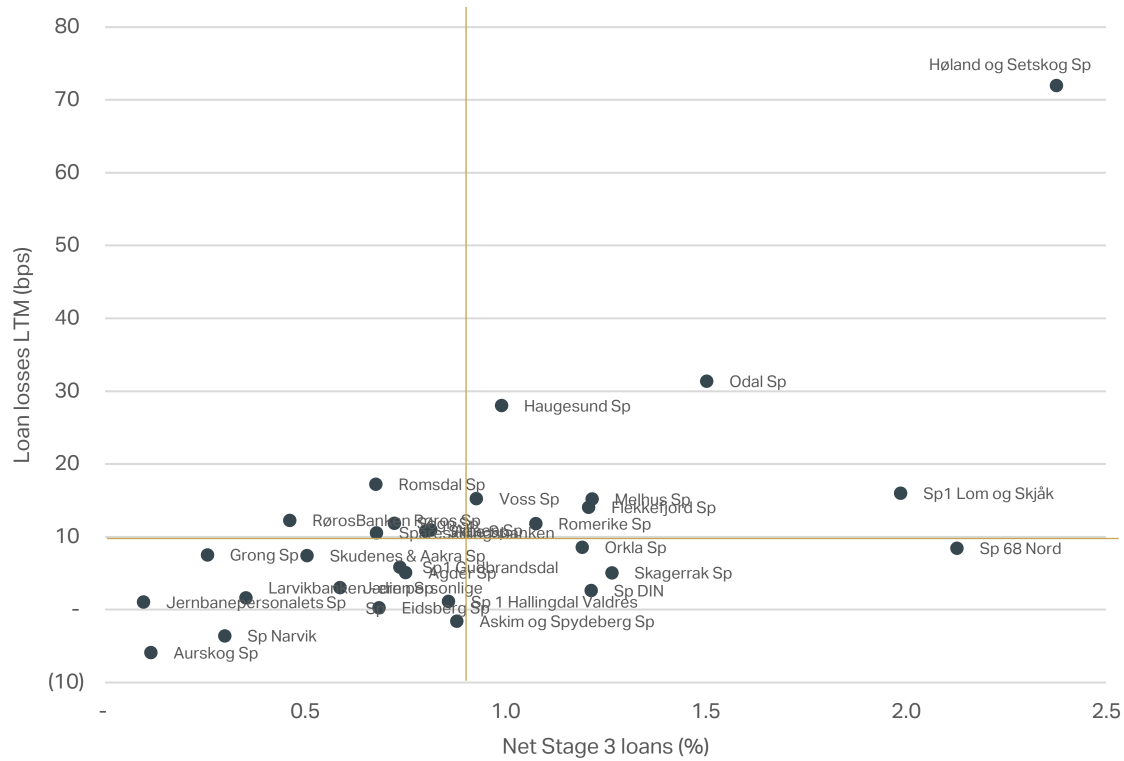


Source: bank reports.

Asset quality metrics remain strong

But loan losses are late cyclical

- Low loan losses on average last 12 months
- Losses incurred on commercial real estate and building & construction
- Net stage 3 loans has increased by 8bps last 12 months to 87bps
- We expect loan losses to rise as the effects of recent interest rate increases take effect



Source: bank reports.

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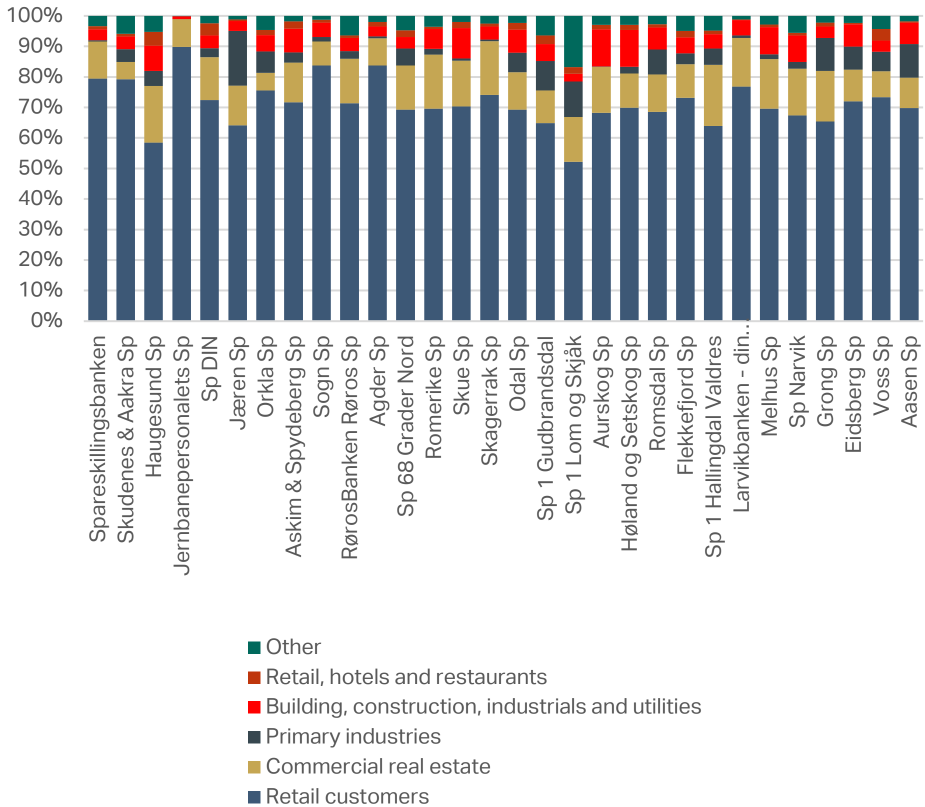
Exposure to CRE and construction a risk factor

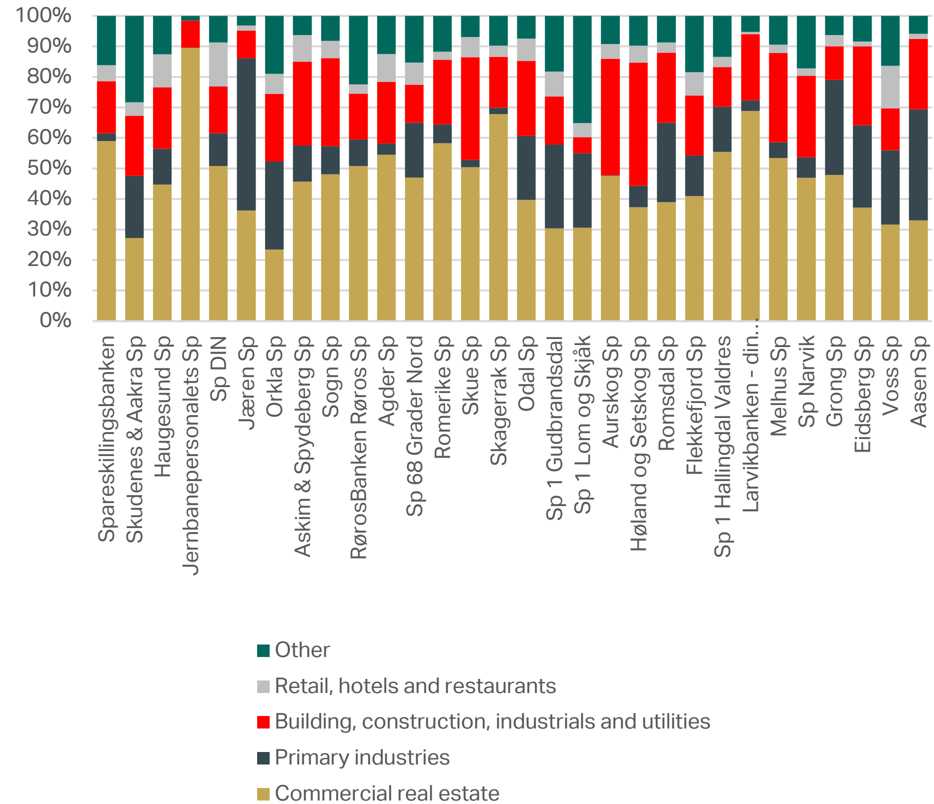
But savings banks are primarily mortgage banks

Total lending



Source: bank reports.

Corporate lending

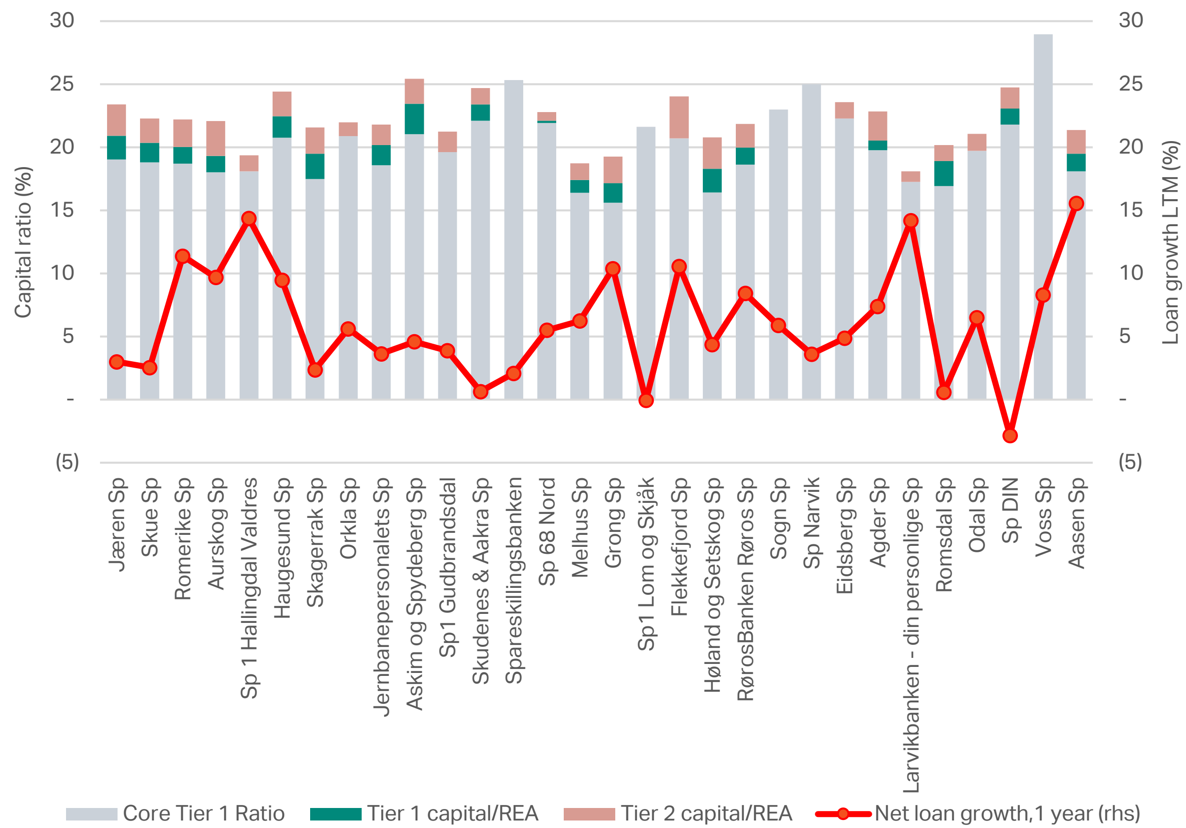


Source: bank reports.

Capitalisation remains strong

Resilient to moderate increase in loan losses

- Capital ratios have remained stable despite decent loan growth
- Strong earnings and lower growth are expected to improve capital ratios over the next year
- Improved capital buffers offer additional resilience against rising credit provisions



Source: bank reports.

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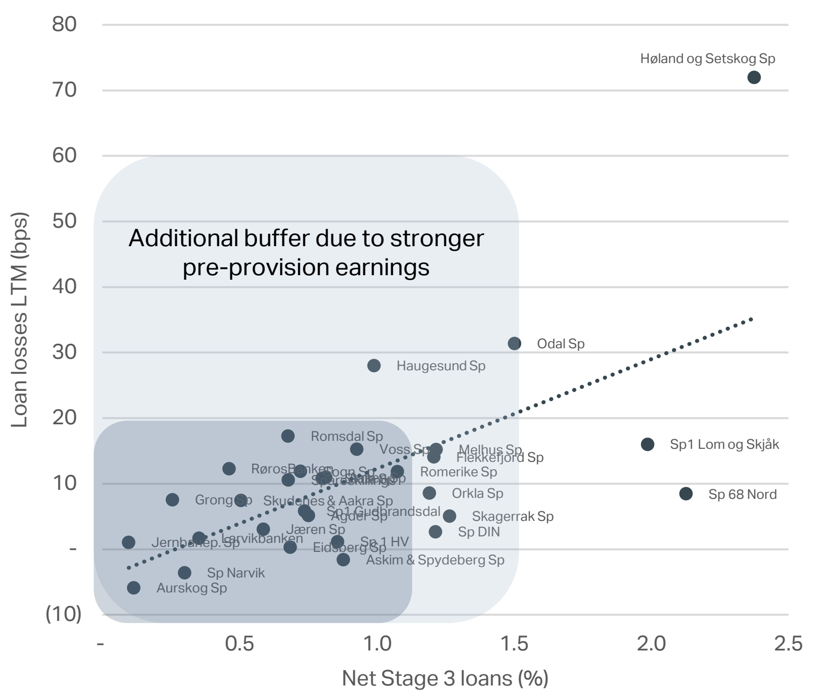
In closing…

Over the next year we expect…

- interest rates to rise at least 50bps
- macroeconomic factors are likely to weaken
- marginal declines in earnings and cost efficiency due to lower growth and savings
- credit provisions are expect to rise as further interest rate increases take effect
- increased risk associated with construction and commercial real estate exposures
- capital ratios to rise on weaker growth and still strong earnings

Stronger earnings adds to resilience



Source: bank reports.

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NCR-rated Norwegian savings banks

	SpareBank 1 Østfold Akershus	Jæren Sparebank	Kredittforeningen for Sparebanker
Long-term issuer rating	A	A-	A-
Outlook	Stable	Stable	Stable
Subfactors:			
Operating environment (20%)	a	a-	a-
Risk appetite (50%)	a	a	a
Competitive position (15%)	bbb+	bbb-	bb-
Performance indicators (15%)	a+	a-	bbb+

Nordic Credit Rating bank contacts

Henrik Blymke

Chief Commercial Officer

henrik.blymke@nordiccreditrating.com

+47 934 96 059

Sean Cotten

Chief Rating Officer

sean.cotten@nordiccreditrating.com

+46 735 600 337

Geir Kristiansen

Senior Credit Rating Analyst

geir.kristiansen@nordiccreditrating.com

+47 907 84 593

Ylva Forsberg

Credit Rating Analyst

ylva.forsberg@nordiccreditrating.com

+46 768 806 742

Christian Yssen

Credit Rating Analyst

christian.yssen@nordiccreditrating.com

+47 400 19 900

Anine Gulbrandsen

Credit Rating Analyst

anine.gullbrandsen@nordiccreditrating.com

+47 975 01 657

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