

## INTERNATIONAL SAVINGS BANKS

1 August 2023

# The Savings Banks Organisation in Norway

There are two types of banks in Norway: commercial banks and savings banks. The Norwegian commercial banks are predominantly subsidiaries or branches of foreign institutions and are usually organised as public limited companies. The savings banks, on the other hand, were originally independent and ownerless foundations which fed their equity capital from retained earnings. Since 1987, it has been possible to increase share capital through the issue of equity-like Equity Capital Certificates (ECCs) to raise external equity. The ECCs are also traded on the Oslo Stock Exchange.

Traditionally, the commercial banks have been responsible for corporate and business customers and the savings banks for private customers. The majority of Norwegian savings banks have formed alliances. These are not geographical alliances, but rather interest groups.

The first savings bank was founded in Oslo on 29 June 1822 under the name Christiania Sparebank. This was followed by a number of other savings banks spread throughout the country. They contributed to local growth and development and facilitated self-financing for residents and businesses. The number of savings banks has declined in recent years due to a wave of mergers.

Although there are no legal obligations, the savings banks foundations have considerable funds to promote cultural and social purposes. The savings banks are expected to act within the framework of responsible lending for economic promotion in their region.

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## The Norwegian banking market

Compared to other European countries, the banking sector in Norway plays a smaller role in the overall economy. The balance sheet total of all Norwegian banks in 2022 was about 1.7 times total economic output of Norway. By comparison, the European average was 2.4 times GDP.

At 1.2%, the portfolio of loans at risk of default at Norwegian banks is significantly lower than average of the 1.8% in other European countries. The cost-income ratio of Norwegian banks in 2022 was 40.5%, which is below the level of other European countries. The profitability of Norwegian banks, measured by return on equity, was well above the European average in 2022 (see figures 2 and 3).

The Norwegian banking market is dominated by the partly state-owned DNB, which recently took over the online bank Sbanken. Also important are the pan-Nordic Nordea, based in Finland, and the various smaller regional banks, some of which are organised in network structures.

Norway's banks are currently experiencing a positive development in that they can benefit from an increasing volume of lending. However, they are not only competing with foreign banks, which are particularly strong in the corporate customer segment, but also increasingly with fintech companies that are trying to gain market share through innovative solutions, especially in retail banking. Nevertheless, banks are taking action themselves in this increasingly disruptive area by setting up their own app-based digital banks, such as Sparebanken Vest with Bulder Bank, or acquiring digitally competent competitors, such as DNB, which has acquired the online bank Sbanken.

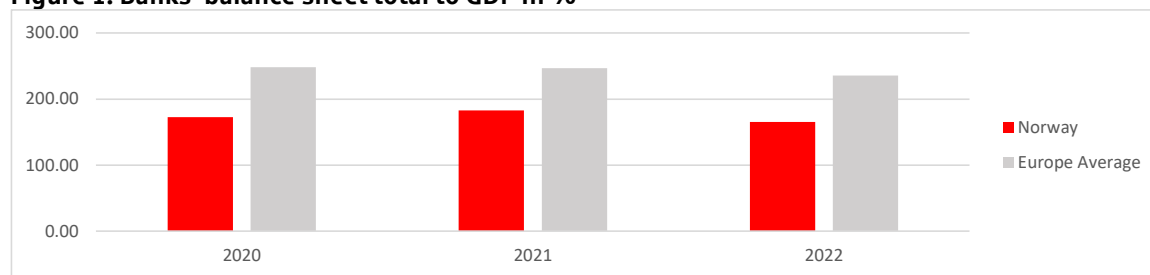
A substantial part of Norwegian banks' lending is concentrated in the real estate sector. High household debt and real estate prices remain the biggest risks in the Norwegian financial system. Norwegian household debt is historically high and also above average compared to other countries. Many households have very high debt in relation to their income. House prices in Norway have increased significantly over a long period of time and have significantly exceeded disposable income per capita. However, there has been a decline in house prices in the last months of 2022, especially in Oslo.

**Table 1: The largest Scandinavian banking groups**

Group	Country	Total Assets
Nordea Bank	Finnland	595
Danske Bank	Dänemark	505
Skandinaviska Enskilda Banken	Schweden	316
Svenska Handelsbanken	Schweden	309
DNB Group	Norwegen	308
Swedbank	Schweden	255

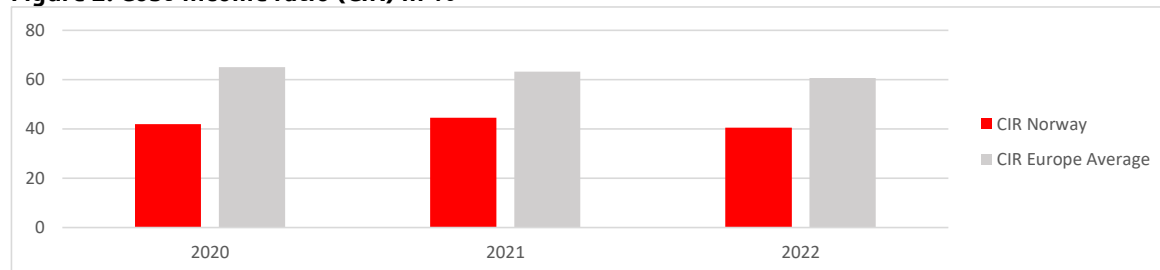
Source: Financial reports of the respective group 2022, in EUR billion

**Figure 1: Banks' balance sheet total to GDP in %**



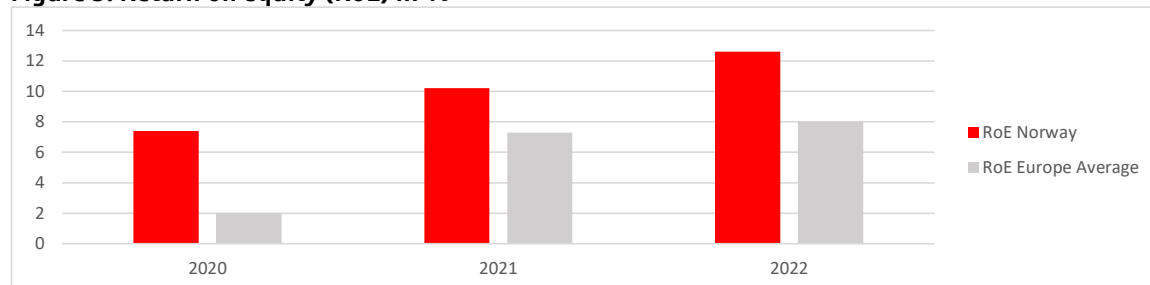
Source: Norges Bank, own calculations 2023

**Figure 2: Cost-income ratio (CIR) in %**



Source: EBA Dashboard, 2022

**Figure 3: Return on equity (RoE) in %**



Source: EBA Dashboard, 2022

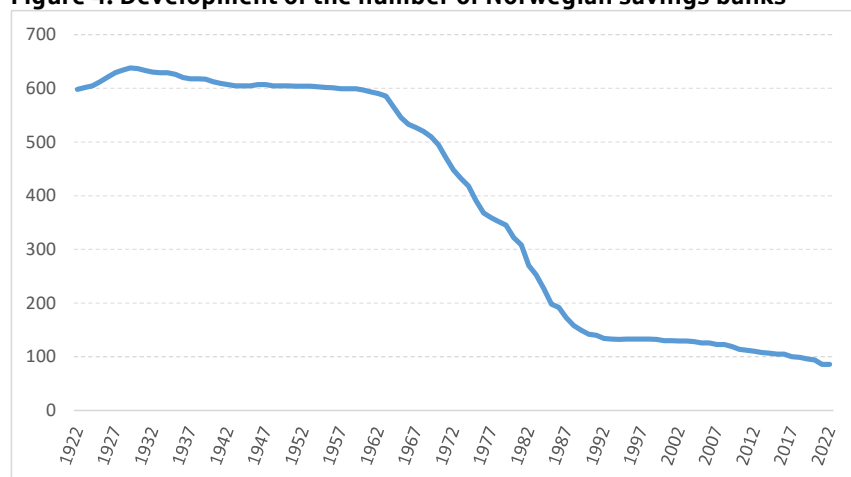
## The Norwegian savings banks

86 of the 116 banks in Norway are savings banks (incl. DNB Bank ASA<sup>1</sup>). The highest administrative body, the Assembly of Representatives, comprises employees, customers and representatives of the public administration. The 20 largest savings banks own approx. 78% of the balance sheet volumes<sup>2</sup> of the entire savings bank sector. In 2022, Etne Sparebank and Sparebanken Vest merged under the name Sparebanken Vest. Similarly, Blaker Sparebank and Romerike Sparebank merged under the name Romerike Sparebank. Furthermore, Arendal og Omegns Sparekasse and Østre Agder Sparebank merged under the name Agder Sparebank. And SpareBank 1 Modum and SpareBank Sørøst-Norge merged under the name SpareBank 1 Sørøst-Norge.

The majority of the savings banks are in alliances. The Sparebank 1 Alliance, Norway's second largest financial services group, is an association of 14 mainly larger savings banks, while the Eika Group (formerly: Terra Alliance) consists of 51 mainly smaller institutions. In addition, there are 21 independent savings banks and DNB Bank, which alone accounts for 58% of the balance sheet total of the savings bank sector.

The alliances are interest groups rather than geographical alliances. Their internal cooperation generally covers the areas of technology and processing, advertising and communication, exchange of experience and purchasing. There are also joint subsidiaries, e.g. in the insurance sector or for the issuance of Pfandbriefe.

**Figure 4: Development of the number of Norwegian savings banks**



Source : Association website, 2023

<sup>1</sup> Since 2015, DNB Bank has been treated as a private bank rather than a savings bank in some statements. The reason for this is that the shareholding of the savings bank foundations in DNB Bank has fallen below 10%. Nevertheless, DNB Bank continues to be a member of the Savings Banks Association (see also section "Legal form and equity").

<sup>2</sup> Excluding DNB Bank ASA

**Table 2: Largest Norwegian banks and savings banks**

	Total assets bn €
DNB Bank ASA	226
SpareBank 1 SR-Bank ASA	23
SpareBank 1 SMN	19
Santander Consumer Bank /	17
SpareBank 1 Østlandet	15
Sparebanken Vest	14
SpareBank 1 Nord-Norge	12
Sparebanken Sør	10
Sbanken ASA	8
SpareBank 1 Sørøst-Norge	7

Source: Statistics section of Finans Norge website, 2023<sup>3</sup>

**Table 3: Structural characteristics of Norwegian savings banks**

**Legal form and own capital** Savings Banks were originally founded as independent ownerless companies. Their equity capital was fed by retained profits. Since 1988, it has been possible to raise external equity capital by issuing equity-like Equity Capital Certificates (ECCs) which are similar to shares. Since 2009, it has also been possible, in cases of savings banks mergers, to establish local foundations that hold shares in the new institution via ECCs .

Tier 1 ECCs establish limited ownership of the bank. The right of co-determination is limited to 40% of the shareholders' representatives. Decisions directly affecting ECC require a two-thirds majority of ECC representatives. Moreover, ECCs only absorb losses of the savings bank once the primary equity capital (i.e. retained earnings) has been used up. 39 savings banks have issued ECCs so far, 28 of which are listed on the Oslo Stock Ex-change.

Since 2002, savings banks can be converted into private limited companies. The equity capital of these savings banks must then be contributed to foundations. Only institutions in which more than 10% of the equity capital is in the hands of a savings banks foundation (Sparkassenstiftung) are allowed to call themselves a savings bank and

<sup>3</sup> The figures for total assets represent only the Norwegian banks at the level of the parent company, reference year 2020

belong to the community institutions of the savings bank sector.

**Business - activity** Since an amendment to the Savings Banks Act in 1961, savings banks have not been subject to any restrictions on their business activities.

**Regional - principle** There is no regional principle. A banking licence is valid nationwide. DNB, in particular, uses this. The 54 smallest savings banks (total asset up to EUR 1 billion) have a very local focus, but their business areas may overlap. The 27 medium-sized savings banks (up to EUR 10 billion) often maintain their customer relationships outside their traditional business area - a reaction to the high mobility of Norwegians within their country.

**Public welfare orientation** Profits may be used without limitation for public welfare purposes. In case of a distribution of more than 30%, the financial supervisory authority must be informed; above 60%, its approval must be obtained.

The savings bank sector is one of Norway's largest private contributors to sport, culture and voluntary projects. According to a survey by the Savings Banks Association, savings banks provided between 2 and 2.5 billion NOK (approx. EUR 245 million) to public welfare projects in 2022.

**Inserts- security** The State Deposit Insurance Fund was established in 2004. It is obligatory for all institutions based in Norway. The previously existing deposit protection funds of the savings banks and commercial banks have been incorporated into this fund. The fund protects deposits per person up to NOK 2 million (approx. EUR 250,000).

## The umbrella organisation: Sparebankforeningen



The umbrella organisation of Norwegian savings banks was founded in 1914.

The Norwegian financial association Finance Norway (FNO) was founded on 1 January 2010. FNO represents savings banks, commercial banks, insurance companies and other finance companies. The savings banks are still members of the Savings Banks Association, which in turn is a member of FNO. The Association of Commercial Banks, in contrast to the Savings Banks Association, has been completely absorbed into the FNO. The merger was triggered by the merger of the largest Norwegian bank DNB with the largest savings bank Gjensidige Nor to form DNB Nor in 2003. However, most of the employees of the Savings Banks Association now also work for Finance Norway.

**Table 4: Important structural features of the Norwegian Savings Banks Association**

<b>Members</b>	87 Savings banks including DNB
<b>Legal form</b>	Association
<b>Tasks</b>	<ul style="list-style-type: none"><li>• Clarification of interests for savings banks and foundations vis-à-vis the authorities, politicians and other relevant stakeholders.</li><li>• Dialogue and cooperation with authorities and others on framework conditions and regulations relevant to savings banks and savings banks foundations.</li><li>• Building reputation and establishing a better understanding of the business and social contributions of savings banks.</li><li>• Increasing knowledge and competence among the members of the Savings Banks Association in areas that are important for a well-functioning savings bank sector.</li></ul>

The umbrella organisation of the Norwegian savings banks is a member of the World Savings and Retail Banking Institute (WSBI) and the European Savings and Retail Banking Group (ESBG).

# Imprint

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