Finanzgruppe
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INTERNATIONAL SAVINGS BANKS

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The Savings Banks Organisation in Norway

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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 usually as public limited companies. The savings banks, on the other hand, were originally independent and ownerless foun-dations, which fed their equity capital from retained earnings. Since 1987 there is the possibility to increase the share capital through the issue of equity-likeEquity Capital Certificates (ECCs) to raise external equity.The ECCs are also traded on the Oslo Stock Exchange.

Traditionally, the commercial banks were rather responsible for corporate and business customers and the savings banks were responsible for private customers. The majority of Norwegian savings banks are in alliances and have joined forces. The alliances are not geographical alliances, but interest groups.

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 regions.

The Norwegian banking market

In macroeconomic terms, the importance of the banking sector in Norway is similar to that in other European countries. The balance sheet total of all Norwegian banks in 2019 was approximately 1.5 times the total economic output of Norway. By comparison, the European average was 2.4 times GDP. The bank branch network in Norway is significantly underperforming, with 6,134 inhabitants per branch office. By comparison, the European average is 3,145 inhabitants per branch (see charts 1 & 2).

At 1.30%, the portfolio of loans at risk of default at Norwegian banks is significantly lower than the average of 2.7% in other European countries. The CET1 ratio of Norwegian banks in 2019 was 17.9%, which is above the level of other European countries. The profitability of Norwegian banks, measured by return on equity, was well above the European average in 2019 (see charts 3 and 4).

The Norwegian banking system has come through the international financial crisis in good shape. The sector's profitability has been stable over the past few years. Low credit default rates enabled banks to build up equity from profits, which led to improved capitalisation and thus increased the sector's stress resistance.

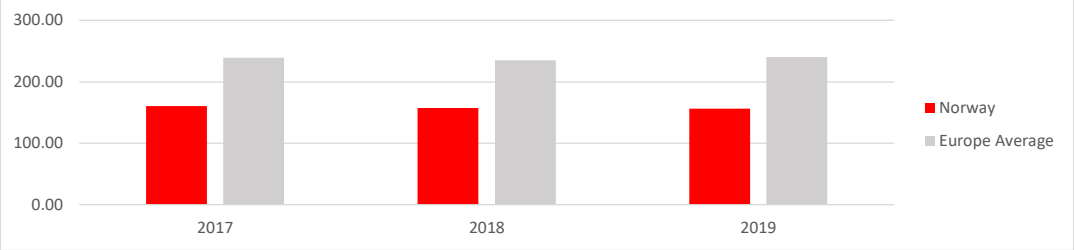
However, household debt in Norway reached a new high of 105.1% of GDP. The high proportion of variable-rate property loans represents a high risk in the event of rising interest rates. Property prices have risen sharply in recent years, especially in large cities such as Oslo, also driven by growth in property loans.

Table 1: The largest Scandinavian banking groups

Group	Country	Total Assets
Nordea Bank	Finland	555
Danske Bank	Denmark	536
DNB Group	Norway	284
Svenska Handelsbanken	Sweden	292
Skandinavska Enskilda Banken	Sweden	272
Swedbank	Sweden	229

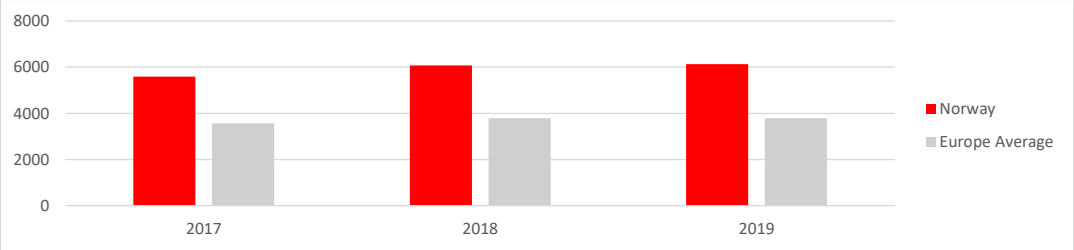
Source: Financial reports of the respective group 2019, in billion euros

Chart 1: Balance sheet total of banks as a percentage of GDP



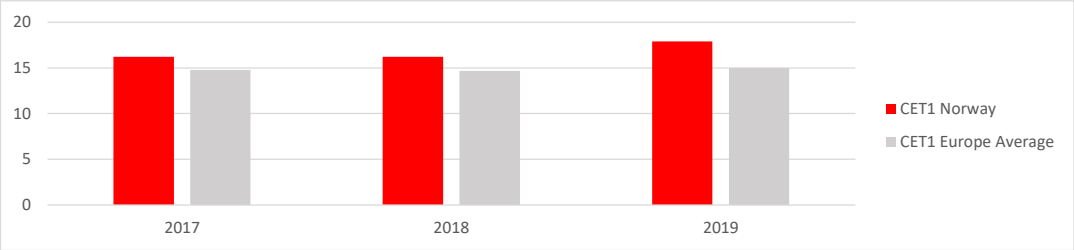
Source: Norges Bank, own calculations 2020

Figure 2: Inhabitants per branch office



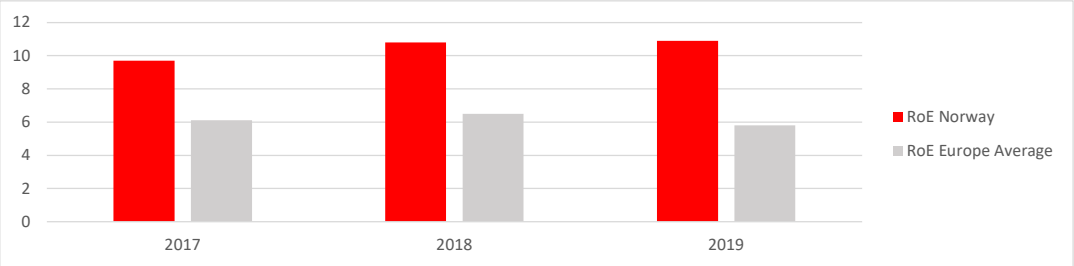
Source: European Central Bank, Eurostat 2020, own calculations

Figure 3: CET 1 Ratio, in %



Source: Norges Bank 2020, EBA Dashboard, 2020

Figure 4: Return on equity (RoE), in %



Source: EBA Dashboard, 2019

The Norwegian savings banks

98 of the 124 banks in Norway are savings banks (including DNB Bank ASA[1]). The highest administrative body, the Assembly of Representatives, is made up of employees, customers and representatives from public administration. The 20 largest savings banks own approx. 75% of the balance sheet volumes of[2] the entire savings bank sector. In 2019, two new savings banks, Sogn Sparebank and Sparebank 68°Nord, were created through mergers.

The majority of the savings banks have formed alliances. The Sparebank 1 Alliance, the second largest financial services group in Norway, is an alliance of 14 mainly larger savings banks, while the Eika Group (formerly: Terra-Alliance) consists of 64 mainly smaller institutions. In addition, there are 20 independent savings banks and DNB Bank, which alone account for 57% of the balance sheet total of the savings bank sector. The alliances are not geographical alliances, but interest groups. Their internal cooperation generally covers the areas of technology/processing, advertising/communication, exchange of experience and purchasing. There are also joint subsidiaries, e.g. in the insurance sector or for the issue of Pfandbriefe.

Table 2: Largest Norwegian banks and savings banks

	Total assets bn €
DNB Bank-konsernet	245
Nordea Norge	66
Danske Bank Norge	44
Handelsbanken Norge	26
SpareBank 1 SR-Bank	24
SpareBank 1 SMN	20
Sparebanken Vest	19
Santander Consumer Bank	18
SpareBank 1 Østlandet	17
SpareBank 1 Nord-Norge	14

Source: Statistical part of the Finans Norge website, 2020

[1] 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 share of shares of the savings bank foundations in DNB Bank has fallen below 10%. Nevertheless, DNB Bank is still a member of the Savings Banks Association (see also section "Legal form and equity").

[2] Without DNB Bank ASA

Table 3: Structural characteristics of Norwegian savings banks

Legal form and equity	Savings banks were originally founded as independent, ownerless companies. Their equity capital was fed by retained earnings. Since 1988 it has been possible to raise external equity capital by issuing equity-like Equity Capital Certificates (ECCs). Since 2009, it has also been possible to set up local foundations in the event of a merger of savings banks, which will hold an interest in the new institution via ECCs. Tier 1 ECCs establish limited ownership of the bank. The right to have a say is limited to 40% of the shareholders' representatives. Decisions that directly affect the ECCs require a two-thirds majority of the 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 Exchange. Savings banks have been able to be converted into private limited companies since 2002. 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 Sparkassenstiftung are allowed to call themselves Sparkasse and to belong to the community institutions of the savings banks sector.
Business activities	Since an amendment to the savings banks Act in 1961, the savings banks have not been subject to any restrictions on their business activities.
Regional principle	A banking license is valid nationwide. It's mostly DNB. The 76 smallest savings banks (total assets up to EUR 1 billion) have a very local focus, but their business areas may overlap. The 17 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. If more than 30% of the profits are distributed, the financial supervisory authority must be informed, and if more than 60% are distributed, its approval must be obtained.

In the period from 2005 to 2015, the savings banks and savings banks foundations in Norway spent around EUR 650 million on cultural, sporting and social activities. Prizes and scholarships were also donated.

In 2019, the savings banks and savings banks foundations provided around EUR 254 million for culture, sport and voluntary projects.

Deposit insurance

The State Deposit Insurance Fund was established in 2004. It is mandatory 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 (approximately EUR 250,000).

The umbrella organisation: Sparebankforeningen I Norge

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 financial institutions. The savings banks are still members of the Savings Banks Association, which in turn is a member of the 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 3: Key structural features of the Norwegian Savings Banks Group

Members	98 savings banks including DNB
Legal form	Association
Tasks	Representation of the savings banks vis-à-vis authorities and the public Promotion of cooperation between the savings banks

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