

INTERNATIONAL SAVINGS BANKS

15 August 2021

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 usually 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 there is the possibility to increase the 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 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.

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The Norwegian banking market

In macroeconomic terms, the importance of the banking sector in Norway is below average compared to other European countries. The balance sheet total of all Norwegian banks in 2020 was about 1.7 times the total economic output of Norway. By comparison, the European average was 2.5 times GDP.

At 1.6%, the portfolio of loans at risk of default at Norwegian banks is significantly lower than the average of 2.6% in other European countries. The cost-income ratio of Norwegian banks in 2020 was 41.9%, 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 2020 (see charts 2 and 3).

The Norwegian banking system has come through the international financial crisis well and has weathered the Corona crisis so far. However, the impact of the pandemic on the financial sector remains uncertain. 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.

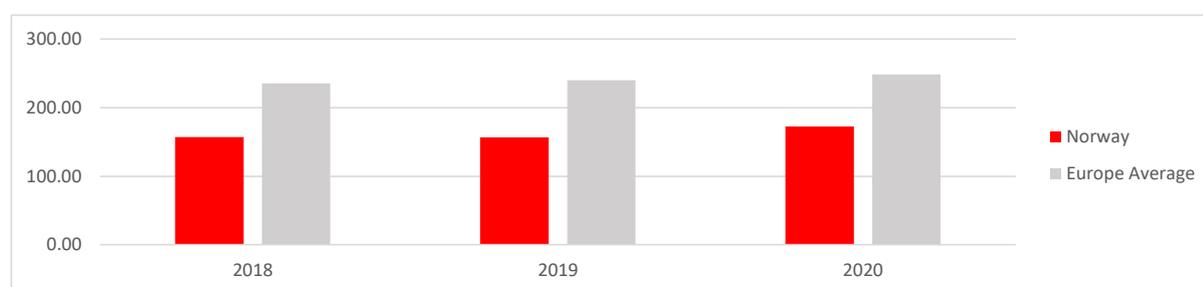
However, household debt in Norway reached a new high of 114.5% of GDP. The high proportion of variable-rate property loans represents a high risk in the event of rising interest rates. Driven by high demand and the provision of property loans, property prices have risen sharply in recent years, especially in large cities such as Oslo.

Table 1: The largest Scandinavian banking groups

Group	Country	Total Assets
Nordea Bank	Finland	552
Danske Bank	Denmark	552
DNB Group	Norway	296
Svenska Handelsbanken	Sweden	312
Skandinaviska Enskilda Banken	Sweden	303
Swedbank	Sweden	258

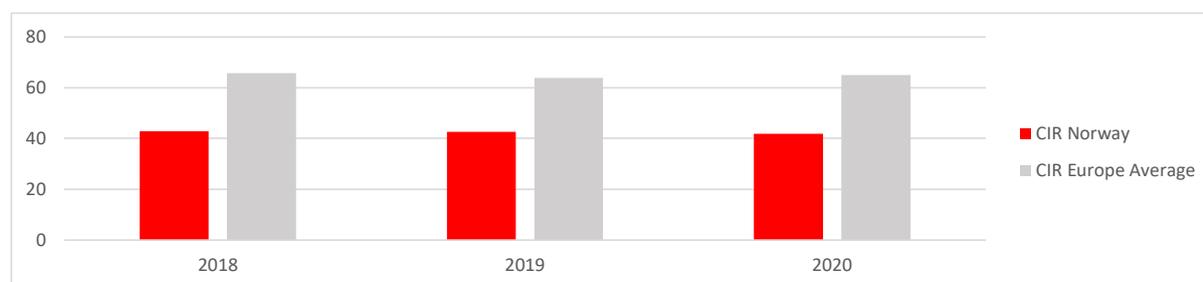
Source: Financial reports of the respective group 2020, in billion euros

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



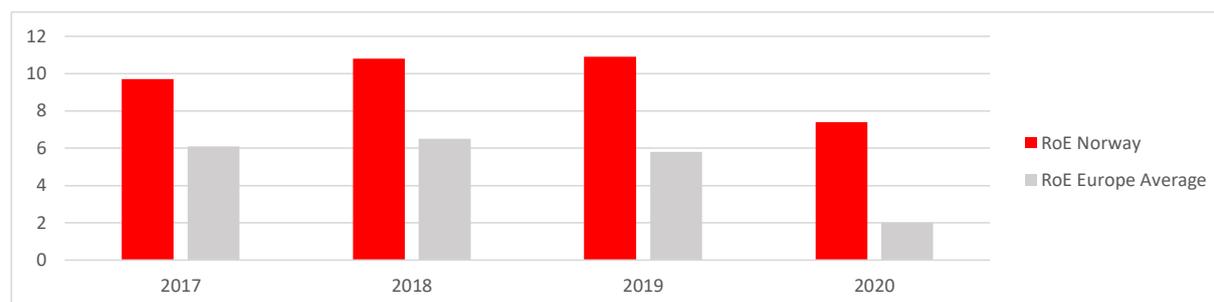
Source: Norges Bank, own calculations 2020

Chart 2: Cost-income ratio (CIR), in %



Source: European Central Bank, 2021

Chart 3: Return on Equity (RoE), in %



Source: EBA Dashboard, 2020

The Norwegian savings banks

94 of the 118 banks in Norway are savings banks (incl. DNB Bank ASA¹). The highest administrative body, the Assembly of Representatives, comprises employees, customers and representatives of the public administration. The 20 largest savings banks own approx. 76% of the balance sheet volumes of² the entire savings bank sector. In 2020, Ofoten Sparebank and Sparebank 68° Nord merged under the name Sparebank 68° Nord. Sparebank and Skue Sparebank merged under the name Skue Sparebank.

The majority of the savings banks have formed alliances. The Sparebank 1 Alliance, Norway's second largest financial services group, is an alliance of 15 mainly larger savings banks, while the Eika Group (formerly: Terra Alliance) consists of 61 mainly smaller institutions. In addition, there are 17 independent savings banks and DNB Bank, which alone accounts for 58% of the balance sheet total of the savings bank sector.

These alliances are interest groups rather than geographical alliances. 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 issuing Pfandbriefe.

Table 2: Largest Norwegian banks and savings banks

	Total assets bn €
DNB Bank-konsernet	213
Nordea Norge	20
Danske Bank Norge	16
Handelsbanken Norge	16
SpareBank 1 SR-Bank	14
SpareBank 1 SMN	12
Sparebanken Vest	11
Santander Consumer Bank	9
SpareBank 1 Østlandet	7
SpareBank 1 Nord-Norge	6

Source: Statistics section of Finans Norge website, 2021

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 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").

² Excluding DNB Bank ASA

Table 3: Structural characteristics of Norwegian savings banks

Legal form and equity	<p>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) which are similar to shares. Since 2009, it has also been possible, in the case of a merger of savings banks, to establish local foundations that hold shares in the new institution via ECCs.</p> <p>Tier 1 ECCs establish limited ownership of the bank. The right to 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 a 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.</p> <p>Since 2001, 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 Sparkasse and to belong to the community institutions of the savings banks sector.</p>
Business activities	<p>Since an amendment to the Savings Banks Act in 1961, savings banks have not been subject to any restrictions on their business activities.</p>
Regional principle	<p>A banking license is valid nationwide. The 68 smallest savings banks (total assets up to EUR 1 billion) have a very local focus, but their business areas may overlap. The 22 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.</p>

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

**Deposit insu-
rance**

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 (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 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: Important structural features of the Norwegian Savings Banks Association

Members	94 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

The umbrella organisation of the Norwegian savings banks is a member of the World Institute of Savings Banks (WSBI) and the European Savings Banks Association (ESV).

Imprint

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Deutscher Sparkassen- und Giroverband
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