

INTERNATIONAL SAVINGS BANKS

1 July 2022

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, 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.

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.

Author:

Jana Gieseler - DSGVO

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 2021 was about 1.8 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 average of the 2% in other European countries. The cost-income ratio of Norwegian banks in 2021 was 44.5%, 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 2021 (see charts 2 and 3).

2021 was another year in which the Covid 19 pandemic had a strong impact on the Norwegian economy. The easing of Covid restrictions during the year led to a significant upturn in the economy. In the summer, the level of activity was even higher than before the pandemic. GDP for mainland Norway continued to rise in the autumn, but growth slowed in the fourth quarter due to the introduction of new containment measures towards the end of the year. Unemployment has fallen significantly since its peak in spring 2020, and it had virtually returned to pre-pandemic levels by autumn 2021. Due to government support measures, the number of insolvencies in the business sector declined in 2021. The real estate sector continues to account for a large share of the banks' loans. High household debt and high real estate prices continue to be the main weak points in the Norwegian financial system. The debt burden of Norwegian households is high, both historically and compared to other countries. Debt growth was slightly higher in 2021 than it was before the pandemic. After a strong increase in property prices from the summer of 2020, growth slowed in the second half of 2021. Price levels were nevertheless significantly higher than before the pandemic. Commercial property prices have risen significantly over many years and continued to rise through 2021.¹

While Norway is in a boom and unemployment is at its lowest level since the financial crisis, due to Russia's attack on Ukraine, Norwegian households' expectations of their own real income in the future are falling.

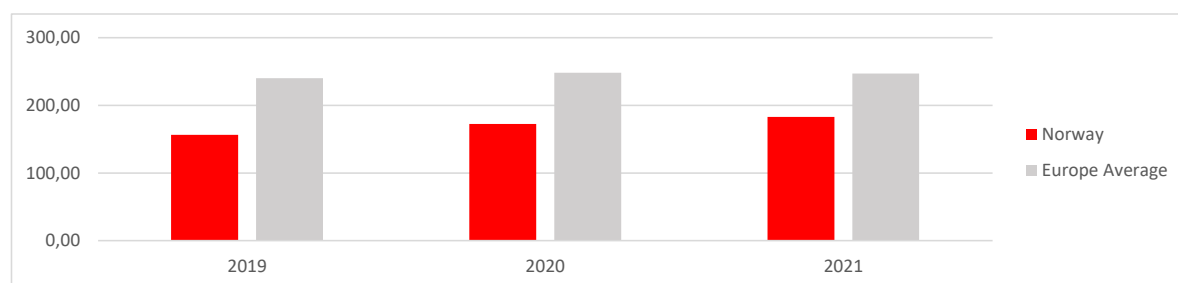
¹ Banks and other activities, <https://www.finanstilsynet.no>

Table 1: The largest Scandinavian banking groups

| Group | Country | Total Assets |
|-------------------------------|---------|--------------|
| Nordea Bank | Finland | 570 |
| Danske Bank | Denmark | 529 |
| DNB Group | Norway | 291 |
| Svenska Handelsbanken | Sweden | 325 |
| Skandinaviska Enskilda Banken | Sweden | 321 |
| Swedbank | Sweden | 267 |

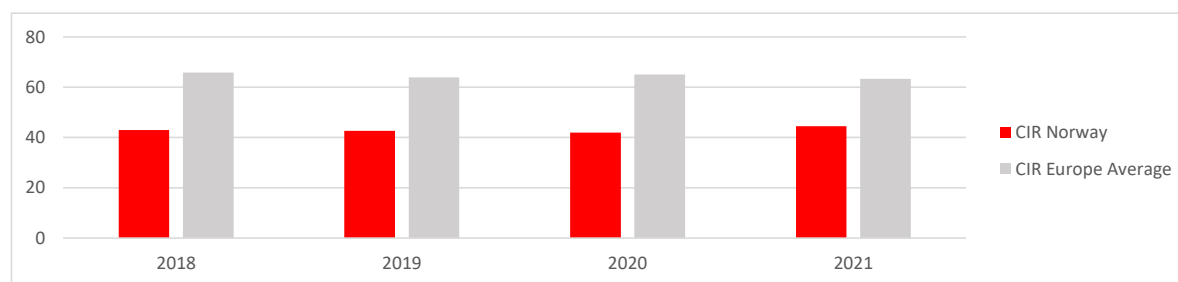
Source: Financial reports of the respective group 2021, in billion euros

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



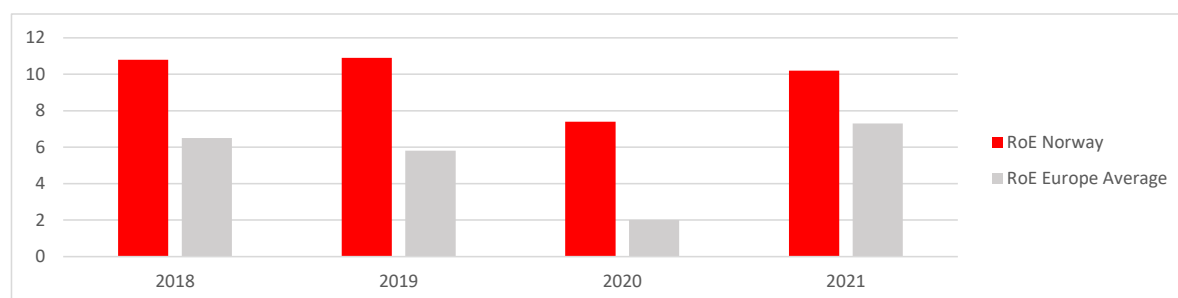
Source: Norges Bank, own calculations 2022

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



Source: European Central Bank, 2022

Figure 3: Return on equity (RoE) in %



Source: EBA Dashboard, 2021

The Norwegian savings banks

92 of the total 116 banks in Norway are savings banks (incl. DNB Bank ASA²). 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 volumes³ of the entire savings bank sector. In 2021, Surnadal Sparebank and SpareBank 1 Northwest merged under the name SpareBank 1 Nordmøre. SpareBank 1 Telemark and SpareBank 1 BV merged under the name SpareBank 1 Southeast Norway. In 2022, SpareBank 1 Modum also merged into SpareBank 1 Southeast Norway.

The majority of the savings banks have formed alliances. The Sparebank 1 Alliance, Norway's second largest financial services group, is an association of 4 mainly larger savings banks, while the Eika Group (formerly: Terra Alliance) consists of 61 mainly smaller institutions. In addition, there are 16 independent savings banks and DNB Bank, which alone accounts for 57% of the balance sheet total of the savings bank sector.

These alliances are interest groups rather than geographical alliances. Their internal cooperation generally covers that 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 issuance of Pfandbriefe.

Table 2: Largest Norwegian banks and savings banks

| | Total assets bn € |
|---------------------------|----------------------|
| DNB Bank ASA | 210 |
| SpareBank 1 SR-Bank ASA | 21 |
| SpareBank 1 SMN | 17 |
| Santander Consumer Bank / | 16 |
| SpareBank 1 Østlandet | 14 |
| Sparebanken Vest | 12 |
| SpareBank 1 Nord-Norge | 11 |
| Sparebanken Sør | 9 |
| Sbanken ASA | 7 |
| Bank Norwegian AS | 6 |

Source: Statistics section of Finans Norge website, 2022⁴

² 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").

³ Excluding DNB Bank ASA

⁴ The figures for total assets represent only the Norwegian banks at the level of the parent company, reference year 2020

Table 3: Structural characteristics of Norwegian savings banks

| | |
|--|--|
| <i>Legal form and own capital</i> | <p>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 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 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 Exchange .</p> <p>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 Sparkasse and belong to the community institutions of the savings bank sector.</p> |
| <i>Business - activity</i> | <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> |
| <i>Regional - principle</i> | <p>There is no regional principle. A banking licence is valid nationwide. DNB, in particular, uses this. The 66 smallest savings banks (total assets up to EUR 1 billion) have a very local focus focused, 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> |
| <i>Public welfare orientation</i> | <p>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.</p> |

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 Bank Association, savings banks will provide 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 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 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 Bank, 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 | 92 Savings banks including DNB |
| Legal form | Association |
| Tasks | <ul style="list-style-type: none">• Clarification of interests for savings banks and foundations vis-à-vis the authorities, politicians and other relevant stakeholders.• Dialogue and cooperation with authorities and others on framework conditions and regulations relevant to savings banks and savings banks foundations.• Building reputation and establishing a better understanding of the business and social contributions of savings banks.• Increasing knowledge and competence among the members of the Savings Banks Association in areas that are important for a well-functioning savings banks sector. |

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

Imprint

Editor

Deutscher Sparkassen- und Giroverband
Financial Markets & Economics
Charlottenstraße 47
10117 Berlin

Phone: +49 30 20225-5288
www.DSGV.de

Layout

Franz Metz, Berlin

Image credits

Seite 1: mala_ja

Responsible

Dr. Thomas Keidel – DSGVO
Thomas.Keidel@DSGV.DE

Author

Jana Gieseler
Jana.Gieseler@DSGV.DE

Note

You can find all publications in this series at
<https://www.dsgv.de/en/savings-banks-finance-group/international-savings-banks.html>