

Earnings outlook for Norwegian banks more nuanced than zero interest rates suggest



Scope
Ratings

Unlike in most of Europe, interest rates in Norway were in positive territory as the Covid-19 pandemic began to spread. As part of the monetary response, the key policy rate was reduced to 0.25% from 1.5% in March and subsequently to 0% in May. According to the central bank, this is unlikely to change until the second half of 2022.

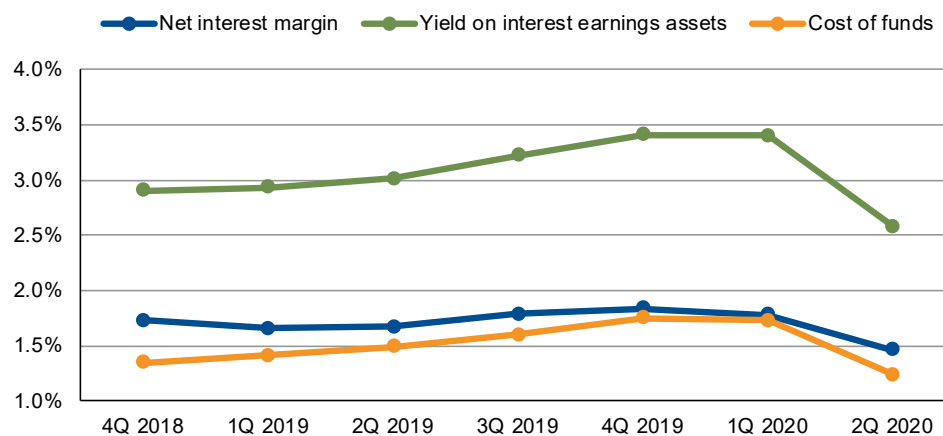
This has helped support the Norwegian economy, with GDP expected to decline by 3.6% for the year, less severe than in many other countries. Unemployment has also come down from a peak of 10.4% in April to 3.7% at the start of October.

Banks quickly repriced their loans, facilitated by the largely variable rate nature of mortgage loans. Cuts to deposit rates and lower financing costs followed. Consequently, during the first half of 2020, banks' net interest margins declined on average by 20%.

With net interest income accounting for a relatively high proportion of Norwegian banks' operating income (about 70% on average), this puts pressure on earnings. We see some stabilisation, however, and even some recovery compared to the second quarter as repricing both on the asset and liability sides of the balance sheet takes full effect and loan growth continues to be positive.

Further, non-interest income such as fees and commissions from product distribution and real-estate broking continues to sustain earnings. Meanwhile, with clients benefiting from lower debt servicing costs, this should be supportive for the level of credit impairments. Underpinned by a recovering economy, the earnings outlook for Norwegian banks is more nuanced than suggested by zero interest rates.

Figure 1: Norwegian banks' interest margins



Note: Averages based on a universe of banks with more than NOK 10bn in assets.

Source: SNL, Scope Ratings

Analyst

Pauline Lambert
p.lambert@scoperatings.com

Team leader

Dierk Brandenburg
d.brandenburg@scoperatings.com

Media

Keith Mullin
k.mullin@scopegroup.com

Scope Ratings GmbH

3rd Floor
111 Buckingham Palace Road
London SW1W 0SR

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP



Earnings outlook for Norwegian banks more nuanced than zero interest rates suggest

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

London

3rd Floor
111 Buckingham Palace Road
London SW1W 0SR

Oslo

Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Madrid

Edificio Torre Europa
Paseo de la Castellana 95
E-28046 Madrid

Phone +34 914 186 973

Paris

23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

Milan

Regus Porta Venezia
Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

info@scoperatings.com

www.scoperatings.com

Disclaimer

© 2020 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Analysis GmbH, Scope Investor Services GmbH and Scope Risk Solutions GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5 D-10785 Berlin.

Scope Ratings GmbH, Lennéstraße 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Director: Guillaume Jolivet.