

ISSUER COMMENT

22 September 2020

 Rate this Research

RATINGS

SpareBank 1 Nord-Norge

Domicile	Norway
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

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SpareBank 1 Nord-Norge

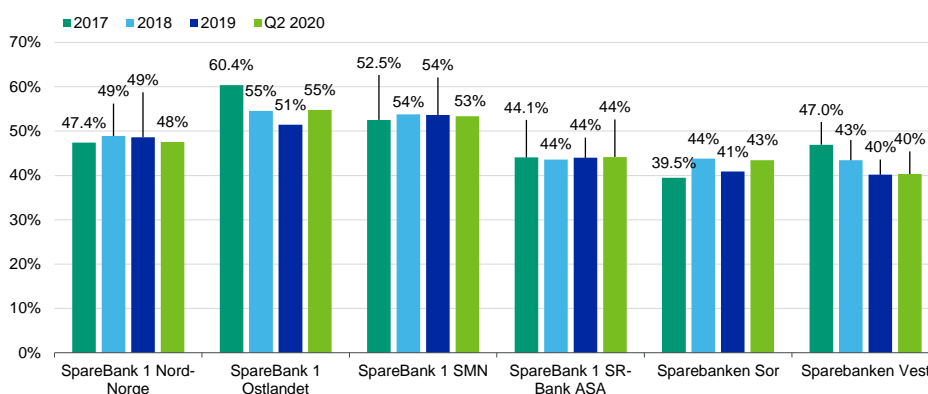
SpareBank 1 Nord-Norge's branch closures is credit positive

On 17 September [SpareBank 1 Nord-Norge](#) (Aa3/Aa3 stable, a3¹) [announced](#) the closure of 16 of its current 35 branches in the Northern Norway region. This strategic branch restructuring is credit positive because it will reduce the bank's cost base as part of its long-term profitability enhancing programme.

The bank aims to improve its earnings by NOK200 million (approximately €18.4 million) by the end of 2021, while the closure of its branches will result in annual cost savings of around NOK40 million. In addition to the 16 branches closing, another four branches will be transferred to [Helgeland Sparebank](#) (A3/A3 stable, baa2), a smaller regional bank in Northern Norway, as part of an [earlier deal](#). Most of the 16 branches were small, had short opening hours and employed one to two employees; they are also located in smaller communities in less densely populated areas in Norway.

The branch closures will improve SpareBank 1 Nord-Norge's cost-to-income ratio and profitability metrics over the next 12-18 months. Despite the challenges in the Norwegian economy in the current context of the coronavirus pandemic, the bank reported very good profitability metrics in the first half of the year, with a return on equity (ROE) of 12.9% as of June 2020 and a Moody's-adjusted cost-to-income ratio of around 48% (see exhibit below). These ratios compare well among the bank's similarly rated global and local peers. Potential further improvements in these ratios will give the bank an edge in its financial performance, supporting its recurring profitability and solvency.

SpareBank 1 Nord-Norge's cost-to-income ratio relative to its local peers



Ratios are fully adjusted in accordance with Moody's methodology.
Source: Moody's Investors Service

The decision to close the branches comes at a very crucial time for the bank, when tough competition among Norwegian banks along with very low interest rates are exerting pressure on net interest margins. During the first six months of 2020 Norges Bank, Norway's central bank, lowered its key policy rate by 150 basis points to the current rate of 0% to help shield the economy from the negative effects of the coronavirus spread and the lock-down measures introduced last March.

A leaner cost structure and better efficiency will give SpareBank 1 Nord-Norge more room to absorb the potential negative effect on its borrowers' liquidity, and help weather the current uncertainty in the Norwegian economy. Despite fewer branches, which poses some downside risks to the bank's franchise, SpareBank 1 Nord-Norge still aims to further strengthen its leading local market position in the Northern part of the country. In 2019, the bank reported that it had a market share of more than 36% in its home region, while it still targets up to 5% growth in the retail market and up to 8% growth in the corporate market for 2020.

The other driving factor behind the bank's decision is the clear shift in banking preferences among Norwegian customers, as the coronavirus pandemic has enhanced significantly the use of digital channels. Banking clients now prefer to use digital channels for their everyday financial needs or account problems, and visit branches only when dealing with more complex matters requiring use of special advisory services.

The bank's remaining 15 branches will offer a full array of redesigned services, including brokerage, leasing, accounting and real estate advice, and act as a hub for sharing knowledge through seminars and courses. Combining the bank's physical presence and service offering at the remaining branches, aligns the bank closer to its customer needs. This should support SpareBank 1 Nord-Norge's local franchise, despite the decrease in its physical presence in some of the smaller communities in the region.

Similar trends in customer banking preferences towards digital solutions and cost-cutting initiatives are occurring at other Nordic banks, and these trends, along with the need to improve efficiency levels, will likely trigger consolidation among the around 100 smaller regional savings banks in Norway with elevated cost bases. Bigger regional banks such as SpareBank 1 Nord-Norge are likely to benefit from this consolidation and become more dominant players in their region.

Moody's related publications

- » [Strategic partnership between SpareBank 1 Nord-Norge and Helgeland Sparebank is credit positive for both \(March 2020\)](#)
- » [SpareBank 1 Nord-Norge Credit Opinion \(September 2020\)](#)

Endnotes

- ¹ The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt or issuer rating and Baseline Credit Assessment.

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