FINANSTILSYNET
THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

Report

Risk Outlook

December 2025

Risk Outlook

Financial stability and well-functioning financial markets help ensure efficient use of society's resources, good services for consumers and other market participants and confidence in the financial system. The financial system should be able to cope with disruptions and unexpected events while carrying out its functions, thus preventing an economic downturn from being amplified. This requires sound and liquid financial institutions with good internal management and control.

The Risk Outlook report summarises Finanstilsynet's analyses and assessments of the stability of the Norwegian financial system. The report builds on Finanstilsynet's ongoing supervision of institutions and markets and provides an important basis for its work. The report is published twice a year, in June and December.

Developments in financial institutions and financial markets are discussed in more detail in the following reports from Finanstilsynet:

- Residential mortgage lending survey (in Norwegian only)
- Financial institutions' use of flexibility quotas in the lending regulations (in Norwegian only)
- Report on alternative investment funds (in Norwegian only)
- Report on financial institutions' performance (in Norwegian only)
- Risk and vulnerability analysis for ICT security in the financial sector
- Solvency reports for financial institutions (in Norwegian only)

Cut-off date: 3 December 2025.
Data in the charts updated as of 30 November 2025 unless otherwise stated.

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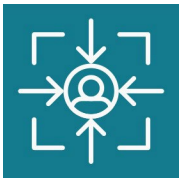
IN BRIEF

Geopolitical tensions and increased trade barriers continue to cause high uncertainty



High valuations heighten the risk of sudden and large price corrections in financial markets

High household debt and elevated property prices are key domestic vulnerabilities

The risk within property development has increased

Norwegian banks are profitable, well capitalised and competitive

The resilience of the financial system should be maintained and broadened

SUMMARY

International economic growth has remained strong so far in 2025, despite geopolitical changes and increased trade barriers. There has been relatively low volatility in the financial markets in recent months. Share indices have risen to new record highs, largely due to the share price performance of companies within technology, especially artificial intelligence. Risk premiums in the bond markets have declined, and property prices are at high levels in many economies. Heightened **international tensions** and uncertainty about the impact of shifts in trade policy contribute to elevated geopolitical and real economic risks. The International Monetary Fund (IMF) expects moderate growth in the world economy and points out that there is uncertainty about future growth prospects.

For the **financial markets**, high valuations of shares and other capital assets, combined with generally low risk premiums, entail a risk of sudden and significant price corrections. Investors have also turned to alternative investments such as gold and bitcoin. The strong growth in stablecoins and other crypto assets creates new vulnerabilities in the financial system.

High and rising **sovereign debt** in many countries, combined with increased debt servicing costs, reduces the ability of governments to counteract the consequences of future shocks. In several countries, there is pressure to increase government spending, among other things to strengthen defence, carry out repairs after natural disasters and cover rising costs resulting from an ageing population. At the same time, the IMF, among others, points out that there seems to be little willingness to reduce public deficits through increased taxes, and they therefore estimate that by 2029, global sovereign debt will rise to its highest level since 1948.

The IMF and the European Systemic Risk Board (ESRB) emphasise that increased concern about sovereign debt could trigger a sudden rise in long-term interest rates and have serious contagion effects in financial markets. This could lead to a sharp slowdown in economic activity and cause banks and other financial institutions with substantial holdings of government bonds to record significant losses. A sharp fall in international stock markets and increased risk premiums will have a negative impact on the Norwegian economy and markets.

High household debt and elevated residential and commercial property prices remain the key vulnerabilities in the Norwegian financial system.

Norwegian households' debt burden has decreased in recent years but is still at a high level, both historically and compared to other countries. Finanstilsynet's 2025 residential mortgage lending survey shows that the average loan-to-value (LTV) ratio for new residential mortgages has increased, and there is a clear shift of loans towards the new requirement in the Lending Regulations for a maximum LTV ratio of 90 per cent for instalment loans. High debt burdens and LTV ratios elevate the risk for both the borrower and the lender. Experience shows that households' debt problems can have significant ripple effects on the rest of the economy in the event of a severe economic downturn.

House prices in Norway have continued to rise in 2025, although there are significant regional differences. Measured as a proportion of households' disposable income, the house price level has declined. There has been a high level of activity in the market for existing homes so far this year. Housing investment is at a low level, and the new homes market remains relatively weak. Developments in house prices and household debt are closely interrelated. Debt levels and house prices may rise further if inflation and interest rates decline in the years ahead. Increased collateral values could bolster credit growth.

The high interest rate level has led to a fall in the value of **commercial properties** and reduced earnings in companies engaged in real estate activities. Many of the companies have a high debt-to-earnings ratio. The proportion of debt in commercial property groups with weak debt servicing capacity continued to rise in 2024. Developments in key factors such as interest rates and rental prices indicate that this proportion has not declined so far in 2025. Yields on commercial real estate investments

remain low compared to returns on long-term risk-free investments. If interest rates remain high, risk premiums increase or rental prices show a weaker than expected development, commercial property values may fall further.

Property development companies are facing growing challenges. Finanstilsynet's analyses show that companies with high bankruptcy risk account for an increasing share of debt, and many of these have weak debt servicing capacity. This may indicate that the risk of losses on loans to property development companies has increased. Lending to this industry represents a substantial share of Norwegian banks' corporate portfolios and, after real estate activities, is the industry to which the banks are most heavily exposed. Some property development companies have already caused significant loan losses for individual banks.

The heightened level of international tension has raised awareness of **digital vulnerabilities and the risk of systemic cyber incidents**. Finanstilsynet assesses that Norway's financial infrastructure is robust, secure and efficient, and that appropriate measures are being implemented to strengthen its resilience. At the same time, the financial infrastructure is complex, international and constantly evolving. Cooperation has been established with relevant national and European authorities and with the industry to prevent and handle incidents in the financial system.

Norwegian banks have delivered strong profitability for several years, driven in particular by higher net interest income. The increase is mainly due to the fact that the banks raised interest rates on loans faster than on deposits. This resulted in a substantial increase in banks' deposit spread, which is significantly higher than in the period prior to the interest rate hike. Finanstilsynet has been commissioned by the Ministry of Finance to assess the market for bank deposits.

The profitability of Norwegian banks is slightly weaker so far in 2025 than in 2024, mainly due to lower net interest income and higher operating expenses. Losses on loans are still low. Compared to banks in the Nordic countries and Europe, Norwegian banks maintain strong profitability and solvency, and their return on equity has surpassed that of Swedish and Danish banks over the past two years.

The banks' proportion of loans with a significant increase in credit risk has decreased somewhat, which may reflect better macroeconomic prospects in Norway. Households and businesses have generally adapted to the higher interest rate level, and there have been relatively limited payment problems. There is, however, considerable uncertainty regarding developments in the Norwegian and international economies, and Finanstilsynet considers it important that the banks take this into account when calculating risk weights and assessing the need for loan loss provisioning.

The banks meet the regulatory capital requirements by a margin. Changes to the **capital adequacy framework** (CRR3) in 2025 have given a reduction in risk-weighted assets for banks using the standardised approach, resulting in an increase in their measured capital adequacy ratios. For banks using internal models for calculating risk weights (IRB approach), the combined effect of changes in CRR3 and the increased risk weight floor for residential mortgages is somewhat stricter capital requirements. The effect on the common equity Tier 1 capital ratio varies by ± one percentage point for the IRB banks.

Banks' ability to bear losses and provide new loans to creditworthy customers during downturns requires that they have sufficient equity. In order to maintain the solvency of the Norwegian banking sector, it is important that banks retain an adequate margin above the regulatory requirements.

Norwegian insurers and pension funds have a satisfactory solvency position and strong profitability, although reduced investment income contributed to weakening the results for the first three quarters of 2025 compared to the same period of the previous year. There was a rise in non-life insurers' operating profits.

Life insurers' proportion of equities in the unit linked portfolio is high and has more than doubled since 2019. Increased geopolitical unrest and concentration in the stock market could expose insurers to

high risk in the short term, but a high proportion of equities could be a sensible option for insurers with a long investment horizon.

During the transition to defined-contribution occupational pension schemes, members have increasingly had to choose allocation and bear the return risk themselves, while individual investment products have shown significant growth during the period. Finanstilsynet would like to emphasise that the undertakings are responsible for helping customers make informed decisions, in addition to safeguarding their interests during the management process.

ECONOMIC DEVELOPMENTS AND RISKS

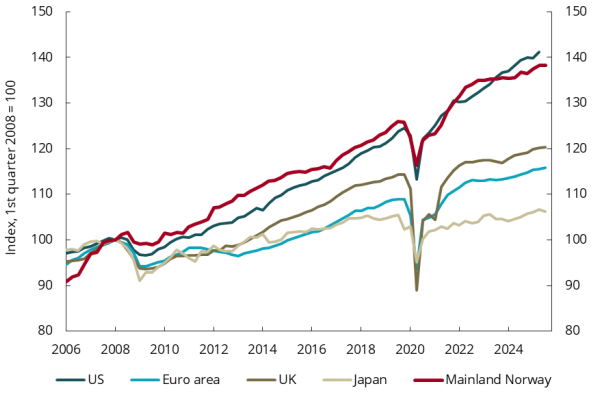
Continued healthy growth in the world economy

Globally, economic growth has held up well so far in 2025 (chart 1.1). As a result of higher tariffs, there is still considerable uncertainty about growth prospects. As more trade agreements have been entered into between the US and the country's trading partners, the uncertainty now appears to have been somewhat reduced compared to the situation in the spring. The International Monetary Fund (IMF), whose growth forecasts were revised down in the summer, has raised its estimates somewhat this autumn. The latest forecasts from the IMF now imply global GDP growth of 3.2 per cent in 2025 and 3.1 per cent in 2026.

Economic activity in Norway has also continued to increase. While growth in GDP for mainland Norway picked up in the first half of 2025, there was only marginal growth in the third quarter.[1] Higher growth in private consumption was the primary factor behind the increase in activity in the mainland economy from the first to the third quarter of 2025, along with increased exports of traditional goods. In addition, housing investment rose somewhat in the first half of the year after a sharp decline in the previous two years, but the increase came to a halt in the third quarter. Registered unemployment has risen from a low level. Norges Bank and Statistics Norway expect more moderate growth in the economy in the period ahead. However, high cost growth in companies could slow the decline in price inflation. Wage growth is expected to be somewhat lower than in 2024 but will probably remain higher than price inflation.

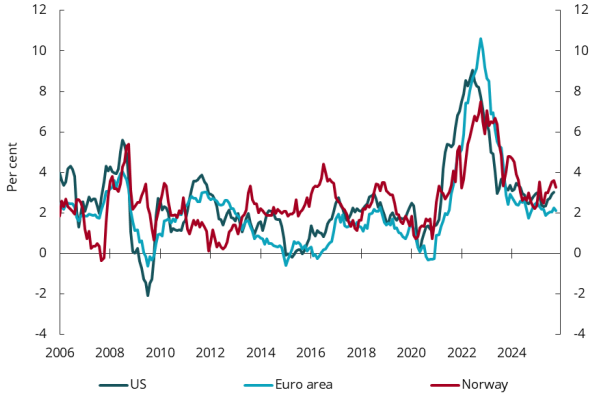
In most countries, inflation rates have declined to levels close to the central banks' inflation targets but have now picked up slightly (chart 1.2). The IMF estimates that global consumer price inflation will decline to 4.2 per cent in 2025 and 3.7 per cent in 2026. In Norway, underlying inflation (CPI-ATE) has been close to 3 per cent since the summer of 2024. Norges Bank expects the overall increase in the CPI-ATE to gradually decline to 2.8 per cent in 2026 and to 2.3 per cent in 2027.

Chart 1.1 Gross domestic product



Last observation: third quarter 2025, second quarter 2025 for the US.
Source: LSEG Datastream

Chart 1.2 Inflation

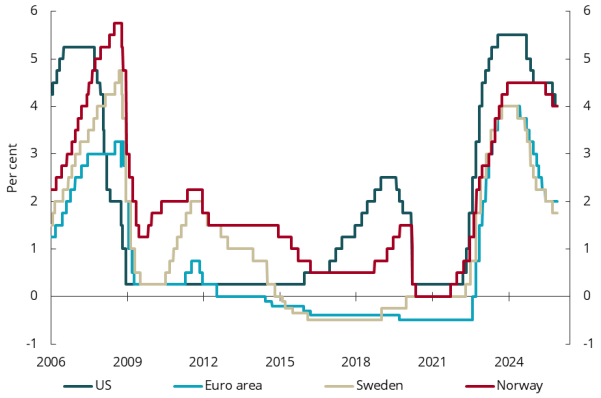


Last observation: October 2025, September 2025 for the US.
Source: LSEG Datastream

Central banks in many countries have reduced their policy rates in recent months (chart 1.3). In the US, the Federal Reserve cut the target interval for its key policy rate in September after the policy rate had remained unchanged since December 2024. Norges Bank surprised the markets by lowering its policy rate from 4.5 per cent to 4.25 per cent in June and further to 4 per cent in September. However, the latest forecasts from Norges Bank indicate that the policy rate will not be reduced as quickly as previously assumed.

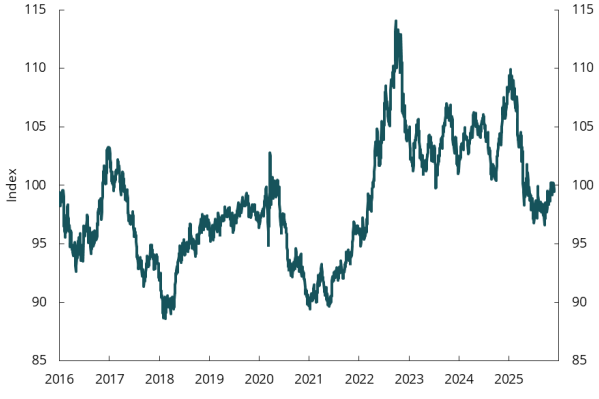
[1] According to Statistics Norway, this is due, among other things, to temporary shutdowns in parts of the manufacturing industry and lower activity within fishing and aquaculture.

Chart 1.3 Policy rates



For the US, the upper limit in the target interval is shown. For the euro area, the deposit rate is shown, which is the lowest of the three official policy rates. Source: LSEG Datastream

Chart 1.4 US dollar index



A lower index level means a weaker dollar exchange rate, measured against six other currencies. Source: LSEG Datastream

Major fluctuations in the prices of gold and crypto assets

Continued uncertainty about US trade policy and developments in the US economy have contributed to a decline in the value of the dollar. The so-called US dollar index, which measures the value of the US dollar against six other currencies, has fallen steeply since the start of the year. However, the index has not weakened further in recent months (chart 1.4). In periods of heightened uncertainty, it is common for investors to be drawn to traditionally safe havens, such as gold. The gold price has risen sharply so far in 2025 measured in US dollars (chart 1.5). Many investors have also turned to alternative investments, such as bitcoin and other crypto assets. The price of bitcoin rose significantly between April and August but has declined in recent months (chart 1.6). The strong growth in stablecoins and other crypto assets introduces new vulnerabilities with potential consequences for financial stability, see box on stablecoins and the implementation of the Markets in Crypto-Assets Regulation (MiCA).

Chart 1.5 Gold price

Source: LSEG Datastream

Chart 1.6 Bitcoin

Source: LSEG Datastream

The market value of shares has continued to rise in most leading countries, but there has been a weak trend thus far in the fourth quarter (chart 1.7). Through 2025, strong technological optimism has led to particularly favourable price performance for shares issued by companies that develop artificial intelligence (AI) or produce electronic components which are important in the development of AI. However, there is considerable uncertainty in the markets as to whether the valuations of these companies are too high and whether we may find ourselves in a so-called AI bubble.

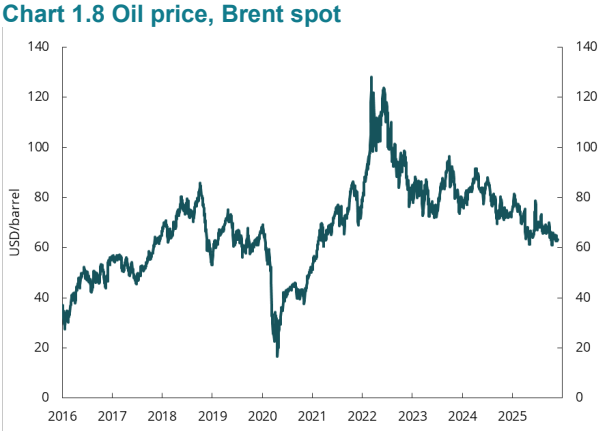
On the other hand, the price of oil has declined somewhat (chart 1.8). The market is characterised by an increased surplus supply, partly due to higher production in the OPEC+ countries and the US. The International Energy Agency (IEA) reports high oil inventory levels and an increase in 'oil at sea', i.e.

oil on ships for transport or temporary storage. Continued moderate growth in the world economy is likely to lead to oil demand rising more slowly than supply.

Chart 1.7 Equities, total return

MSCI indices. Source: LSEG Datastream

Chart 1.8 Oil price, Brent spot



Source: LSEG Datastream

Stablecoins

Stablecoins are a type of crypto asset where the issuer aims to maintain a stable value by pegging it to a reference currency such as the US dollar or the euro, to a currency basket or to other assets such as gold. Almost all stablecoins in the market today are pegged to the US dollar (USD), while most transactions take place outside the US.[2] Over the past year, stablecoins have become increasingly important both in the crypto market and as a means of payment in traditional finance.[3] Their total market capitalisation at the end of November 2025 was around USD 310 billion[4], and various analysts estimate that their market capitalisation will rise to between USD 2 trillion and USD 4 trillion by 2030.

Stablecoins can pose significant risks to investors and financial stability, including credit, liquidity and redemption risk. Hence, there is a need for regulation and monitoring.

The MiCA Regulation, which entered into force in the EU in 2024, sets requirements for issuers and service providers of stablecoins. In October 2025, the European Systemic Risk Board (ESRB) adopted a recommendation that the European Commission should ban stablecoins that are issued by multiple legal entities across jurisdictions, so-called multi-issuance models. This type of model can increase the risk of financial instability and create opportunities for regulatory arbitrage.

In Norway, the Crypto Assets Act entered into force on 1 July 2025. The Norwegian Crypto Assets Act implements MiCA in Norwegian law.

Stablecoins consist of e-money tokens and asset-referenced tokens. E-money tokens are crypto asset with a stable value pegged to one official currency. To be able to issue e-money tokens, the company must have a licence as a credit institution or an electronic money institution. Asset-referenced tokens are crypto assets that can be pegged to multiple currencies, assets or a combination thereof. To be able to issue asset-referenced tokens, the company must be a credit institution or have a separate authorisation under MiCA.

There are currently no authorised Norwegian issuers of stablecoins. Finanstilsynet has so far received two applications related to the issuance of stablecoins, one of which was rejected as incomplete. Norwegian non-financial corporations and households can invest in stablecoins via foreign platforms.

[2] Stablecoins, Tokens, and Global Dominance. IMF, F&D Magazine Sept. 2025
[3] Crypto-assets and decentralised finance. ESRB, October 2025
[4] Market capitalisation taken from Stablecoins by Market Capitalization. DATCo Report 2025

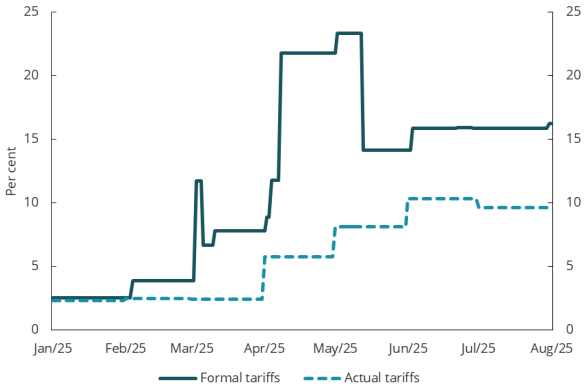
Continued high level of geopolitical tension

Uncertainty surrounding US trade policy was very high in the first half of 2025 and caused major fluctuations in the financial markets. The signing of trade agreements, including the agreement between the EU and the US on 31 July, helped mitigate the risk of a trade conflict that could have had a very negative impact on the European economy. Actual tariffs on US imports increased from around 2 to 10 per cent from January to August this year (chart 1.9).

Experience from the pandemic, extreme weather conditions, digital attacks and the more serious security situation with a war in Europe have highlighted the need to strengthen overall preparedness. In January 2025, the Norwegian government presented a White Paper on Total Preparedness, which emphasises that a well-functioning business sector, trade and financial stability are prerequisites for maintaining the fundamental functionality of society. Changes in the cyberthreat landscape and frequent cyber attacks have helped raise awareness of digital vulnerability and the risk of systemic cyber incidents (see box on cyber threats and vulnerabilities).

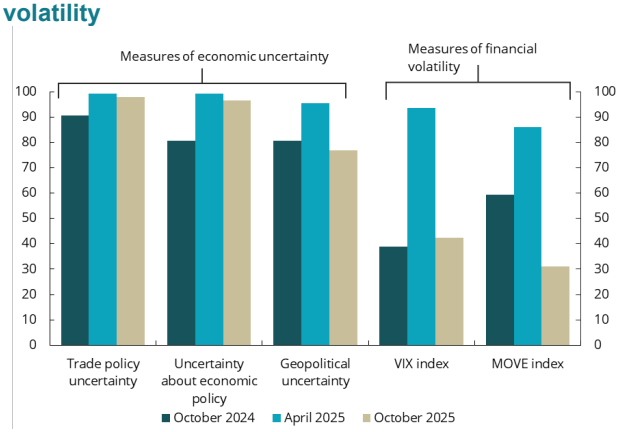
As a small, open economy integrated in the international commodity and capital markets, Norway is strongly affected by international events.

Chart 1.9 US tariffs



The actual tariff is the tariff paid as a share of the value of US imports.
Source: IMF

Chart 1.10 Economic uncertainty and financial volatility



Source: IMF

Risk of significant market corrections

Despite the high level of geopolitical tension, risk appetite in the financial markets has increased and market volatility has been relatively low in recent months. Equity indices have risen to new record highs, risk premiums in the bond markets have been reduced, and property prices are at high levels in many economies. The IMF points out that the financial markets appear to be underestimating the potential negative effects of higher tariffs on growth and inflation (chart 1.10). The strong price growth in the stock markets, in particular for the seven largest US technology companies, largely reflects expectations of high profitability within artificial intelligence. The value of these seven US companies accounts for around a third of the total value of all US listed companies.

High valuations of shares and other capital assets and generally low risk premiums entail a high risk of sudden and significant price corrections. Strong growth in technology companies has previously resulted in sharp falls in share prices. A substantial fall in international stock markets and increased risk premiums will have a negative impact on the Norwegian economy.

Interconnections between banks and non-banks create vulnerabilities

In the international financial markets, non-bank financial institutions (NBFIs) have escalated their activities in the wake of the global financial crisis. Such institutions play an increasingly important role in channelling capital and liquidity to non-financial corporations, including the financing of technology

companies' sizeable investments in infrastructure, data centres and energy capacity. Growth has been particularly strong in the US, where NBFIs account for almost 75 per cent of total financial sector assets.[5] In Europe and Norway, NBFIs have also increased their activity levels in recent years. However, Norwegian banks' exposure to NBFIs is moderate, and credit from NBFIs to Norwegian non-financial corporations constitutes a small part of these corporations' financing.

International organisations and national authorities have long warned about the build-up of vulnerabilities related to liquidity risk, high leverage and strong interdependence between banks and NBFIs. Losses in NBFIs can lead to fire sales of securities and exacerbate market turbulence and falls in securities prices. The inability of NBFIs to fulfil their obligations to banks can have serious consequences for financial stability by affecting banks' solvency, liquidity and ability to provide financial services. In October this year, US regional banks reported losses on exposures to NBFIs related to consumer and commercial property loans. This led to turmoil and falling prices in international stock markets and illustrates the risks associated with the interconnections between banks and NBIFs.

High and increasing sovereign debt

The IMF estimates that global sovereign debt will rise to over 100 per cent of GDP by 2029. This is the highest level since 1948. In several countries, there is pressure to increase government spending, among other things to strengthen defence, carry out repairs after natural disasters and cover rising costs resulting from an ageing population. At the same time, according to the IMF, there seems to be little willingness to reduce public deficits by increasing taxes.

High and rising sovereign debt combined with higher long-term interest rates have significantly increased the cost of servicing the debt. This limits the room for manoeuvre in fiscal policy and the ability to counteract and mitigate the negative consequences of future shocks.

A lot of attention is focused on developments in US sovereign debt but also on debt developments in a number of European countries. The credit quality of US sovereign debt has been downgraded by all three major credit rating agencies, most recently by Moody's in May 2025, from AAA to Aa1. The major markets for government bonds serve as a benchmark for pricing other financial instruments and as collateral for loans and derivative positions. The IMF and the ESRB emphasise the risk that increased concern about sovereign debt could trigger a sudden rise in long-term interest rates and have serious contagion effects in financial markets. This could cause banks and other financial institutions with substantial holdings of government bonds to record sizeable losses.

[5] For a description of the size and structure of NBFIs in different countries, see Banks' interconnections with non-bank financial intermediaries, BIS, July 2025

Cyberthreats and vulnerabilities

Robust payment and settlement systems and confidence among market participants are crucial for the financial system. Changes in the cyberthreat landscape, coupled with escalating cybercrime, are intensifying concerns about digital vulnerabilities and the heightened risk of systemic cyber incidents. Finanstilsynet supervises the financial infrastructure. Finanstilsynet's assessment is that Norway's financial infrastructure is robust, secure and efficient, cf. the Risk and vulnerability analysis. So far, ICT incidents have caused no financial crises in Norway or internationally.

Regulation (EU) 2022/2554 on digital operational resilience (DORA) entered into force on 1 July 2025 and contains pan-European rules to strengthen the digital operational resilience of financial sector entities. The regulation contains provisions that will help strengthen ICT security in the financial system, including requirements for threat-led penetration testing, monitoring and inspection of service providers, information sharing of threat evaluations and intelligence and government coordination.

Co-operation between authorities and the industry is important to prevent and manage incidents in the financial system. Based on recommendations from the European Systemic Risk Board (ESRB), the European Supervisory Authorities (ESAs), the ESRB and national authorities have established the European Systemic Cyber Incident Coordination Framework (EU-SCICF). The aim is to facilitate rapid communication and coordination between supervisors and relevant authorities in the event of major incidents.

Systemic ICT risk is the risk that cyber attacks or operational incidents in ICT systems contribute to financial instability. Neither in Norway nor internationally have recognised methods been developed for assessing systemic ICT risk, but the European Systemic Risk Group (ESCG), a sub-group of the ESRB, is developing methods for assessing resilience to cyber attacks at system level.

To describe the macro-financial consequences of operational and digital risks, their systemic model for cyber risk is divided into four phases.[6] First comes the context, which describes the circumstances in which a cyber incident arises in the form of a crystallised cyber risk. This is followed by the shock, which describes the technical and business impacts experienced at the moment the cyber incident originates. The third phase describes how systemic amplifiers and contagion channels contribute to exacerbating the shock through the system, increasing the magnitude of the impact. Finally, there's the systemic event, which marks the point at which the system is no longer able to absorb the shock.

Finanstilsynet and Norges Bank have, in cooperation with representatives from the industry, developed a framework and process for assessing systemic ICT risk for the Norwegian financial system. The framework was further developed in 2025 and tested through a selection of scenarios.

[6] Occational Paper Series. The making of a cyber crash: a conceptual model for systemic risk in the financial sector (ESRB, 2020)

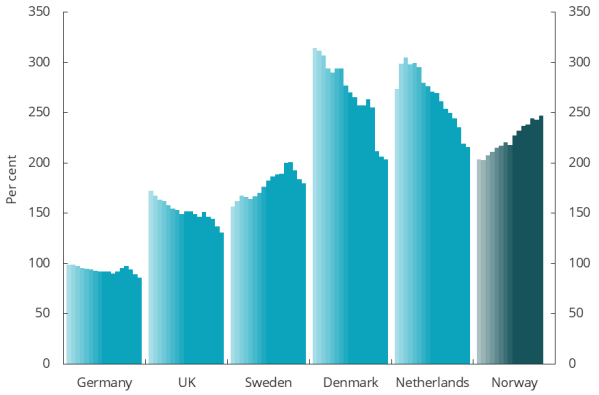
HOUSEHOLDS

Moderate but rising growth in Norwegian household debt

The debt burden[7] of Norwegian households is high, both in historical terms and compared with other OECD countries. While households in some countries reduced their debt burden in the wake of the international financial crisis in 2008–2009, it continued to rise in Norway (chart 2.1). From the fourth quarter of 2021 to the second quarter of 2025, Norwegian households' average debt burden declined from 247 per cent to 226 per cent (chart 2.2). The reduction is due to lower credit growth and an increase in households' total nominal income during a period of high inflation. Growth in households' domestic loan debt (C2) has risen over the past year but is still clearly below income growth.

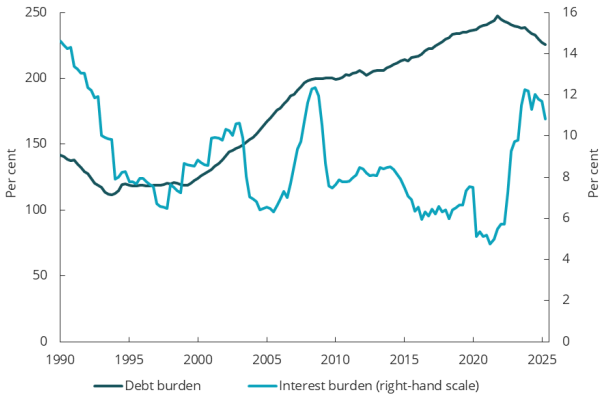
Households' interest burden[8] rose from a historically low level of 4.8 per cent in the second quarter of 2021 to 12.3 per cent in the fourth quarter of 2023. Since then, the interest burden has decreased and was 10.8 per cent in the second quarter of 2025. Only a small proportion of Norwegian household debt carries fixed interest rates.[9] Rising interest rates thus quickly lead to higher interest expenses for households. However, many Norwegian borrowers have annuity loans, which means that the liquidity effect of interest rate increases is partially offset by reduced instalment payments.

Chart 2.1 Household debt burden in selected countries 2008–2024



The last observation for Norway is 2022. Source: OECD

Chart 2.2 Household debt burden and interest burden



Last observation: second quarter 2025. Sources: Statistics Norway and Finanstilsynet

Finanstilsynet's residential mortgage lending survey for 2025 shows an increase in the average loan-to-value (LTV) ratio (residential mortgages in per cent of the property's appraised value including additional collateral) for new residential mortgages. This results in increased vulnerability among households taking out new mortgages. The change in the Lending Regulations' requirement for a maximum LTV ratio for new instalment loans, from 85 to 90 per cent, has contributed to shifting loan volume towards the new limit. For lines of credit, the share of new loans with an LTV ratio close to the 60 per cent limit has also increased. The agreed repayment period increased marginally in this year's survey. Borrowers with high LTV ratios have, on average, agreed to pay more in instalments over the next twelve months than the minimum requirement under the regulations. However, the margin to the regulations' instalment payment requirement has on average been more than halved since 2021.

The flexibility quotas in the regulations allow banks to grant loans to creditworthy customers who gdo not fulfil all the requirements in the regulations. This year's survey shows a clear increase in the

[7] Measured as debt in per cent of disposable income.
[8] Measured as interest expenses in per cent of disposable income before deducting interest expenses.
[9] At the end of the second quarter of 2025, 95.2 per cent of households' loans from banks and mortgage companies had no or short fixed-rate periods (up to three months).

proportion of instalment loans granted to borrowers with a higher debt-to-income ratio (DTI) ratio than required by the regulations.

In 2023, the Lending Regulations were expanded to include loans secured on assets other than residential property. In 2025, Finanstilsynet has carried out inspections at three banks to assess the bank's credit risk and the associated governance and control related to asset financing (car loans, etc.). Particular attention was paid to the bank's assessment of debt-servicing capacity, compliance with the Lending Regulations, follow-up of customers in default, complaints processing and safeguarding of customer interests.[10]

Banks participating in Norges Bank's survey of bank lending reported that demand for residential mortgages increased from the second to the third quarter of 2025. There was a rise in demand for first-home mortgages, while demand for fixed-rate loans was broadly unchanged. Norges Bank writes that the banks expect no change in demand in the fourth quarter. Credit standards for households were approximately unchanged from the second to the third quarter, and the banks expect no change in the fourth quarter.

Developments in households' financial assets and debt – financial sector accounts

Households' financial assets increased by NOK 303 billion (4.1 per cent) in the first half of 2025, according to figures from Statistics Norway's financial sector accounts. If technical reserves and pension rights are excluded, there was an increase of NOK 194 billion (3.9 per cent). During the same period, household debt rose by NOK 97 billion (2.0 per cent). Households' financial assets in per cent of debt were up 1.9 percentage points during the period (excluding technical reserves and pension rights). The largest contributors to the increase in financial assets were bank deposits (up NOK 154 billion or 8.9 per cent), mutual fund units (up NOK 21 billion or 3.3 per cent) and listed shares (up NOK 19 billion or 6.4 per cent).

Since the outbreak of the Covid-19 pandemic in March 2020, the composition of households' financial assets and debt has changed somewhat. The proportion of financial assets in the form of bank deposits and unlisted shares has decreased, while the proportion invested in mutual funds has increased. Technical reserves and pension rights decreased in the period 2020 to 2022 but have since increased to approximately the same level as before the outbreak of the pandemic. On the liabilities side, the proportion of short-term loans has been moderately reduced, while the proportion of long-term loans has increased slightly since the outbreak.

From the fourth quarter of 2019 to the second quarter of 2025, households' financial assets in per cent of debt increased by 15.7 percentage points to 105.8 per cent. During the same period, households' holdings of banknotes and coins, bank deposits, listed shares and mutual fund units in per cent of short-term debt[11] increased by 159.8 percentage points. Figures from the financial sector accounts indicate an overall strengthening of Norwegian household finances since the outbreak of the pandemic.

Loan default and payment problems

In spite of a sharp increase in the interest rate level, there are thus far few signs of serious debt servicing problems for the Norwegian household sector overall. The share of non-performing bank loans in the personal customer market has increased in recent years and roughly matches the level during the pandemic in 2020, although the banks' loan losses remain low.

[10] Inspection reports: DNB Bank ASA, Nordea Finans Norge AS and Nordea Finance Equipment AS and Santander Consumer Bank AS (in Norwegian only).
[11] Here, short-term debt is measured by the items 'short-term loans', 'financial derivatives', 'other debt' and 5 per cent of the item 'long-term loans' (which corresponds to an average linear repayment over 20 years).

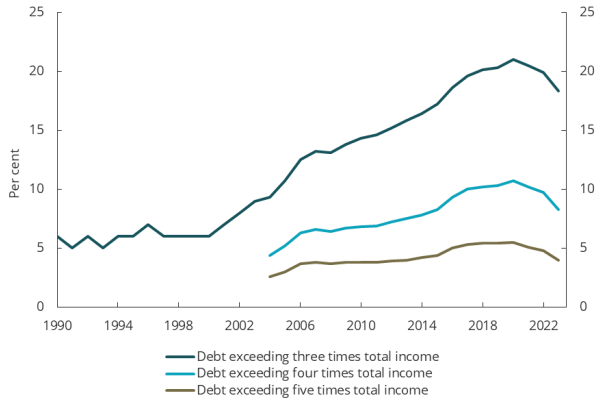
Statistics Norway and Norges Bank estimate that core inflation will fall to a level just above the central bank's target of 2 per cent in 2028, while the interest rate level is expected to decline by approximately 0.5 percentage point in 2026 and by a further 0.5 percentage point up until 2028. Unemployment has risen moderately and is expected to remain low. These developments will probably help keep the number of debt collection cases and loan defaults down. There is considerable uncertainty associated with economic forecasts.

Norwegian households are affected to varying degrees by the higher interest rate level. Their financial resilience also varies. Some households have narrow margins between income and expenses and limited financial buffers to draw on. These households will be particularly vulnerable if faced with a loss of income, higher interest rates or a fall in house prices.

Developments and vulnerabilities for different groups of households

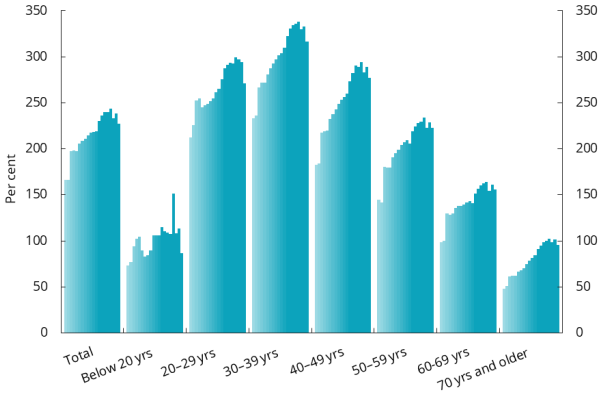
The share of households with high debt relative to income increased markedly from 2000 to 2020. From 2020 to 2023, however, the share of households with debt exceeding three times total income declined from 21 to 18 per cent (chart 2.3). Households' average debt burden increased notably from 2004 to 2020 for all age groups, distributed according to the age of the main income earner (chart 2.4). Households whose main income earner was between 30 and 39 years of age had on average the highest debt-to-income ratio after tax in 2023, at 317 per cent.

Chart 2.3 Share of households with a high DTI ratio



Source: Statistics Norway

Chart 2.4 Debt as a share of after-tax income 2004–2023

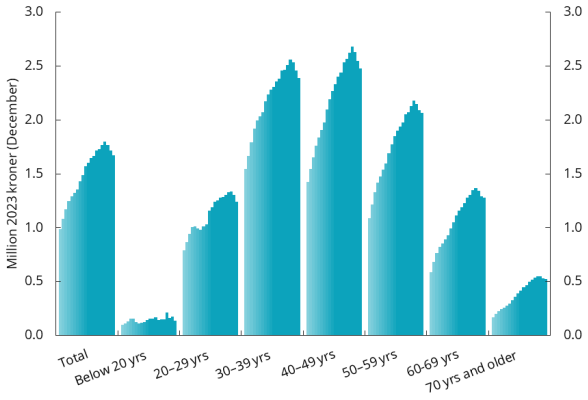


Sources: Statistics Norway and Finanstilsynet

Average debt increases with age until the main income earner is in his/her 40s and thereafter gradually decreases. The real value of household debt[12] rose by 70 per cent from 2004 to 2023 (chart 2.5), with the most pronounced increase in the older age groups. From 2020 to 2023, there was a decline in the real value of household debt in all age groups.

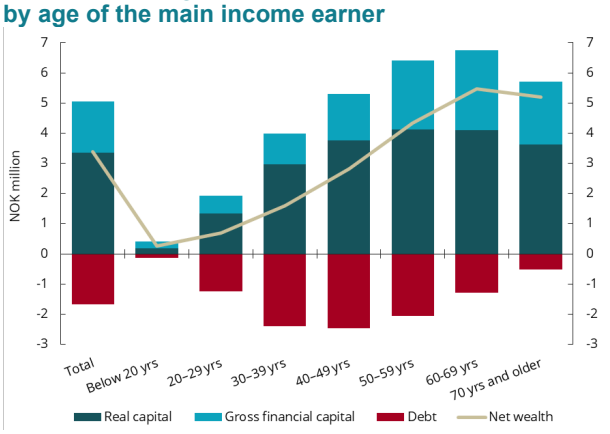
[12] Measured by household debt in nominal terms divided by the consumer price index (CPI).

Chart 2.5 Average debt deflated by the CPI by age of the main income earner 2004–2023



Sources: Statistics Norway and Finanstilsynet

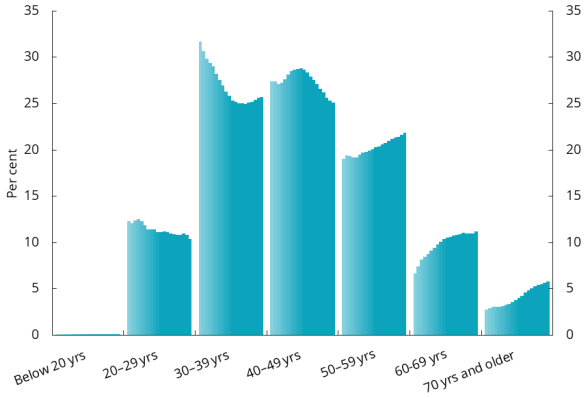
Chart 2.6 Average household wealth and debt in 2023 by age of the main income earner



Sources: Statistics Norway and Finanstilsynet

Household debt and wealth are very unevenly distributed between age groups, but for all age groups average net wealth was positive in 2023 (chart 2.6). While the age groups between 30 and 49 years account for the greatest proportion of the debt, the older age groups have a higher proportion of the wealth. In recent years, however, the older age groups' share of total debt has increased (chart 2.7). Within each age group, there are also major differences in the distribution of debt and gross financial wealth.

Chart 2.7 Different age groups' share of households' overall debt 2004–2023



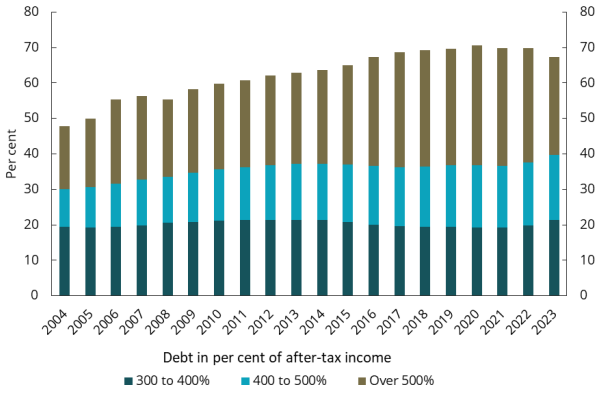
Sources: Statistics Norway and Finanstilsynet

Chart 2.8 Share of households with high debt relative to after-tax income

Sources: Statistics Norway and Finanstilsynet

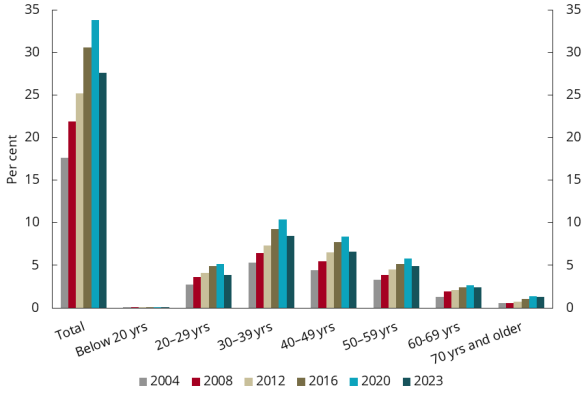
The share of households with a high debt burden rose markedly from 2004 to 2020 (chart 2.8). During the same period, there was also a significant increase in the share of total household debt held by groups with a high debt burden (chart 2.9). From 2020 to 2023, there was a decline from 32 to 29 per cent in the share of households with debt exceeding three times after-tax income. During the same period, this household group's share of Norwegian households' total debt shrank from 71 to 67 per cent. In 2023, 9 per cent of households had debt exceeding five times after-tax income, and the debt of these households accounted for 28 per cent of total household debt.

Chart 2.9 Share of households' overall debt held by households with high debt relative to after-tax income



Sources: Statistics Norway and Finanstilsynet

Chart 2.10 Share of households' total debt held by households with debt exceeding five times after-tax income, by age group

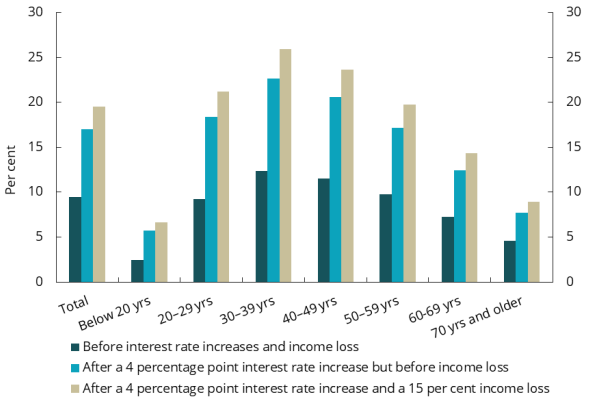


Sources: Statistics Norway and Finanstilsynet

There was increased concentration of debt in heavily indebted households in all age groups from 2004 to 2020. During this period, there was a substantial increase in the share of total household debt held by households with debt exceeding five times after-tax income in all age groups. This share decreased from 2020 to 2023 (chart 2.10). Households with a main income earner aged 30 to 39 years with debt exceeding five times after-tax income accounted for 8 per cent of total household debt in 2023.

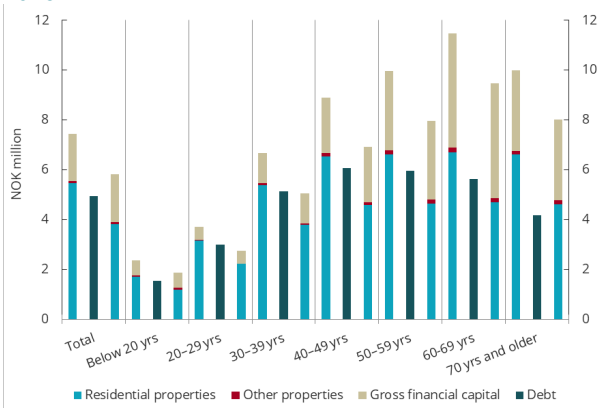
As mentioned above, turmoil in the financial markets poses a risk of interest rate increases. The effect of interest rate hikes and a loss of income on households' interest burden can be illustrated by an example based on average income, wealth and debt for different age groups in 2023.

Chart 2.11 Estimated effect of interest rate increases and income loss on households' interest burden, by age group. 2023



Sources: Statistics Norway and Finanstilsynet

Chart 2.12 Assets and debt of households with debt exceeding five times after-tax income before (left) and after (right) a 30 per cent decline in house prices. 2023



Sources: Statistics Norway and Finanstilsynet

The effect on households' interest burden has been calculated on the assumption that: i) the general interest rate level rises by 4 percentage points[13], and ii) the average household loses 15 per cent of after-tax income. Before the increase in interest rates and loss of income, the estimated interest burden for all households combined is 9 per cent. In other words, 9 per cent of after-tax income[14] plus interest expenses is used to pay interest expenses.

For the average household in the 30–39 age group, the interest burden increases from 12 to 23 per cent if interest rates are up 4 percentage points (chart 2.11). If the household in addition loses 15 per

[13] The calculations are based on the assumption that all debt is serial loans.
[14] 'After-tax income' is used as an approximation to 'disposable income', as defined in the national accounts.

cent of its after-tax income, the interest burden increases to 26 per cent. A corresponding interest rate hike and loss of income will give a 24 per cent increase in the interest burden of the average household in the 40–49 age group. In 2023, households in these two age groups numbered around 934 000, i.e. 35 per cent of all Norwegian households. These households' share of total household debt was 51 per cent at the end of 2023.

Lower collateral values as a result of declining house prices heighten the risk of loan losses among banks. In the event of a 30 per cent decline in house prices, the total value of dwellings, other real estate (excluding cottages and holiday homes) and financial capital will be lower than the debt held by the groups of households whose main income earner is between 20 and 40 years of age and whose debt exceeds five times after-tax income (chart 2.12). In these age groups, there were about 131 000 households with a total debt of NOK 552 billion at the end of 2023.

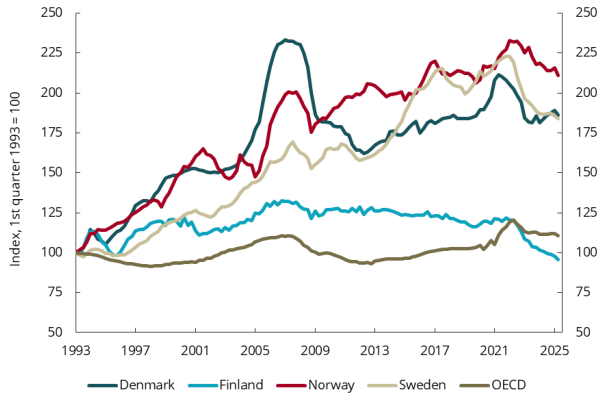
There are wide differences between subgroups of households in terms of the distribution of income, wealth and debt. These differences are not evident from the above calculations. A number of households have far higher debt than the average household. They will find that their collateral values fall below their level of debt at house price reductions of less than 30 per cent and that their interest burden rises significantly more than for the average household if interest rates increase.

Continued growth in house prices

Developments in house prices and household debt are closely interrelated. When house prices rise, many households will have to take out larger loans to finance home purchases. At the same time, the value of the collateral rises, creating scope for increased borrowing against the owned property. There is a mutually reinforcing effect between house price inflation and increasing household debt.

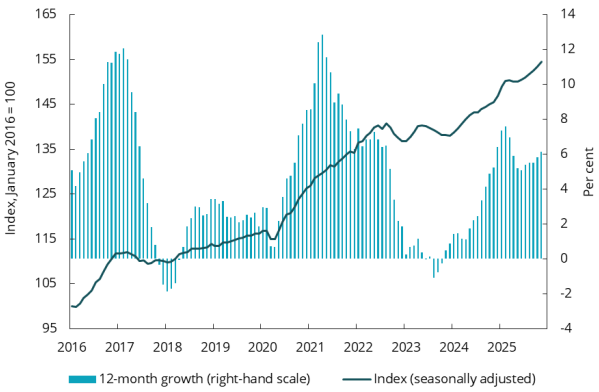
For a long period, house prices have risen at a faster pace than households' disposable income (chart 2.13). The ratio of house prices to disposable income per capita in Norway peaked in 2022 and has since shown a downward trend as household income has increased more than house prices. In the second quarter of 2025, house prices as a share of disposable income per capita were 9.4 per cent lower than the peak in the first quarter of 2022, but still at a historically high level.

Chart 2.13 House prices in per cent of disposable income per capita



Last observation: second quarter 2025. Source: OECD

Chart 2.14 House prices in Norway



Last observation: November 2025. Sources: Real Estate Norway, Eiendomsverdi and Finn.no.

After a moderate rise through 2024, house price growth picked up at the beginning of 2025. The easing of the maximum LTV ratio requirement in the Lending Regulations that came into force on 31 December 2024, as well as expectations of interest rate cuts, may have contributed to this. House prices thereafter flattened out in the second quarter and showed moderate growth in the third quarter, as the postponement of the policy rate cut from March to June and an increase in the number of homes for sale may have dampened the rise in house prices. The policy rate cut at the end of

September had no immediate effect on the housing market in October but may have contributed to a slight increase in house price growth in November, adjusted for seasonal variations, which brought twelve-month growth to 6.2 per cent nationwide (chart 2.14). There have been significant regional differences so far this year, including lower house price growth in Oslo than the national average.

There has been a high level of activity in the market for existing homes so far this year. In the period January to November, 10 per cent more homes were sold than in the same period in 2024, but more homes were also put up for sale. The stock of unsold homes has remained high so far this year but has declined somewhat in recent months. In November, the number of unsold homes was around 8 per cent lower than in November 2024.

The decline in recent years in both the number of privately owned secondary homes and homes owned by limited companies has contributed to an increased supply of pre-owned homes. According to the report Q3 2025 Secondary homes and professionally owned homes (in Norwegian only), the number of secondary homes in Norway fell by 4 900 (-1.2 per cent) from the third quarter of 2024 to the third quarter of 2025. The decline was particularly significant in Oslo, with 3 500 (-6.8 per cent) fewer secondary homes in the same period, largely due to a decrease in the number of homes owned by limited companies (AS). This has helped dampen house price growth in Oslo.

The report points out that the decline in the number of homes owned by limited companies in Oslo may be partly due to homes being sold to housing cooperatives where the previous owner is still renting out, but that these are likely to be sold to private owners over time, which will lead to a reduced supply of rental homes. In the third quarter of 2025, secondary homes made up 13.4 per cent of Oslo's housing stock and 14.1 per cent nationwide. In Oslo, this share was the lowest since 2013, while the share for the country as a whole was the lowest since the statistics were first released in the third quarter of 2019.

The sale of rental properties owned by both private and professional operators has contributed to increasing the supply of smaller homes in demand among first-time homebuyers, according to the First-time homebuyers Q2 2025 report. The report shows that the number of first-time homebuyers has increased since the first quarter of 2024 after declining for two years, and that the growth was particularly strong in the first half of 2025, when first-time homebuyers numbered 30 700.[15] According to the report, this increase can be seen in light of increased purchasing power, the prospect of lower interest rates, expectations of continued house price growth and the easing of the maximum LTV requirement in the Lending Regulations. It is pointed out that the reduction in the maximum LTV requirement from year-end 2024 has probably contributed to higher house price growth, and that higher house prices make it more difficult for first-time homebuyers with limited income to meet the requirements for debt servicing capacity and debt-to-income ratio.

According to the report, the average price of homes bought by first-time homebuyers rose by 110 per cent nationwide and 148 per cent in Oslo from 2008 to 2024, which is significantly higher than consumer price inflation during this period. After-tax income in households where the main income earner is in the 20–39 age group also increased, on average, far less than the price of first-time homes in the period 2008–2023.[16] This has resulted in first-time home buyers purchasing ever smaller homes, and a growing share receiving parental assistance in the form of an advance on inheritance or gifts, particularly in Oslo.[17]

[15] First-time homebuyers in per cent of the population aged between 20 and 39 also increased significantly in 2024, both in the country as a whole and in Oslo. Figures for 2025 are not yet available.
[16] Figures from Statistics Norway show that the average after-tax income for households where the main income earner is in the 20–29 or the 30–39 age group increased by 64 and 52 per cent, respectively, from 2008 to 2023.
[17] In the report, reference is made to the analysis Parental assistance with home purchases (in Norwegian only) based on figures up to and including 2023. The proportion of people aged 20–29 who received parental assistance to buy a home in Oslo increased from 51 per cent in 2015 to 67 per cent in 2023. During the same period, the corresponding proportion in the rest of the country increased from 47 to 49 per cent.

There are various estimates of how many rental homes owned by limited companies may be sold over the next few years. If the sale of rental homes comes to an end while housebuilding activity remains low, this could lead to higher growth in prices of existing homes. A reduced supply of rental homes may also lead to higher rental prices and to tenants speeding up home purchases if they are able to do so, which could contribute to amplifying house price growth and household debt accumulation.

However, many tenants are households with low incomes and/or insufficient down payments, see box on the rental market. Higher rental prices will place an increased financial burden on these households and may exacerbate financial differences. Fewer rental homes and higher rental prices can also reduce mobility in the labour market and have negative consequences for the economy in areas where the rental market becomes too tight. As pointed out by the Tenancy Act Committee[18], 'a well-functioning rental market can have a stabilising effect that strengthens resilience to shocks in the economy. Lower demand for home purchases dampens the pressure on house prices during economic upturns. In times of recession, a lower debt-to-income ratio (DTI) helps mitigate the negative impact of the credit market on the economy'.

The new homes market showed signs of improvement in the first quarter of 2025, with a significant increase in sales of new homes and new housing starts compared with the previous year. However, this trend did not continue in the subsequent months. Sales of new homes from January to October were 5 per cent higher than in the corresponding period in 2024. Housing starts also increased slightly after the first quarter of 2025 but picked up significantly in October. From January to October 2025, a total of 16 per cent more new homes were started than in the corresponding period the previous year. The level is still historically low.

According to the Norwegian Home Builders' Association, the number of new housing starts in the period from November 2024 to October this year was 44 per cent below the estimated future need for housing.[19] Statistics Norway's data also show that housebuilding activity has lagged behind the rise in the number of households for several years. From 2020 to 2024, the annual increase in the number of households exceeded the number of completed homes by an average of 7 600.[20]

The weaker performance in the new homes market than in the market for existing homes can be linked to the rise in construction costs, including material prices, and borrowing costs in recent years. This has contributed to higher price growth for new homes than for existing homes, which may have dampened demand in the new homes market. According to figures from Statistics Norway[21], prices of existing homes increased by 7 per cent from the third quarter of 2022 to the third quarter of 2025, while prices of new homes rose by 13 per cent during the same period (chart 2.15). This implies an average annual increase in prices of existing homes of 2.3 per cent during this period, compared with 4.6 per cent for new homes.

According to the national accounts, there was a total decline in housing investment of close to 30 per cent in 2023 and 2024.[22] Although new housing starts have increased slightly so far this year, Statistics Norway estimates that housing investment in 2025 will be almost 9 per cent lower than in 2024, followed by a slight decline in 2026. Statistics Norway expects housing investment to increase by more than 10 per cent each year in both 2027 and 2028. Norges Bank also predicts a decline in 2025 but expects housing investment to turn around next year and increase by 7.5 per cent. In 2027

[18] NOU 2024:19, p. 33

[19] Prognosesenteret estimates the average annual need for new homes over the next five years (2025-2029) for Norwegian Home Builders. The latest estimate is based on Statistics Norway's population projections at end-June 2024, and the actual decline in the housing stock is included in the calculation. The need for housing includes student homes and care homes, which are not included in the new homes statistics.

[20] Statistics Norway, table 05940 and table 10986.

[21] The figures are taken from Statistics Norway's price index for existing dwellings and the price index for new dwellings. The figures used here are quarterly and not seasonally adjusted.

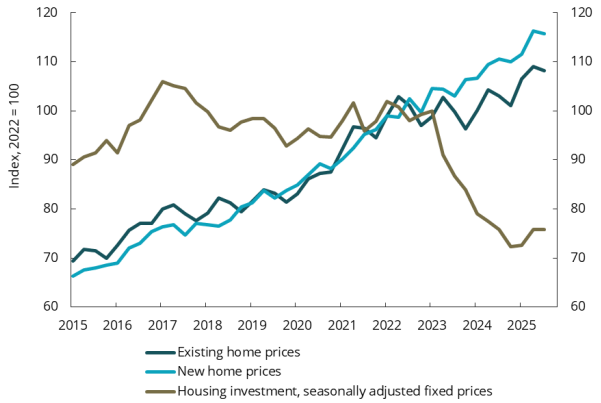
[22] Revised figures from the national accounts were published along with figures for the third quarter of 2025. The overall decline in housing investment in 2023 and 2024 has been adjusted slightly downwards.

and 2028, Norges Bank estimates a somewhat lower rate of growth in housing investment than Statistics Norway, but cumulatively through 2026-2028 both expect an increase of over 20 per cent.

According to both Norges Bank and Statistics Norway, increased purchasing power in households in combination with continued modest housebuilding activity and somewhat lower interest rates will contribute to an annual rise in house prices of between 4 and 6 per cent until 2028.

Future developments in house prices are uncertain. Persistently low housebuilding activity combined with population growth may lead to an increasing housing shortage and stronger price growth. Higher house prices will create a greater need for larger loans. If credit growth exceeds the rise in households' disposable income, the debt burden will rise again.

Chart 2.15 House prices and housing investment



Last observation: third quarter 2025. Source: Statistics Norway

The rental market

In 2024, 76.4 per cent of Norwegian households owned the home they lived in, while 23.6 per cent were tenants, according to figures from Statistics Norway's register-based housing statistics. These percentages have changed little since 2020. Compared with 2015, when these statistics were first published, the proportion of households that rent has increased by one percentage point. The proportion of tenants is highest in Oslo, representing 31.1 per cent of households in 2024. From 2023 to 2024, homeownership rose by 0.1 percentage points nationwide, while the increase in Oslo was 0.4 percentage points.

There are demographic and financial differences between households that own and rent homes. Young people in their 20s and immigrants are overrepresented among tenants. Single-person households and single parents with young children are also more likely to rent than other households. The rental shares for these groups were 37 and 49 per cent, respectively, in 2024. Nevertheless, the proportion of owners in these groups increased from 2023 to 2024. 53.2 per cent of households in the lowest income bracket (bottom 25 per cent of the income distribution) were tenants, compared with 6.5 per cent among those in the highest income bracket. In 2024, 610 000 households rented a home, and more than half of these were households in the lowest income quartile.

Between 2020 and 2024, the average monthly rent for a two-bedroom home in Norway increased by 19 per cent.[23] This is roughly equivalent to the growth in consumer prices and in households' disposable income during the same period. However, there may be major differences between developments in aggregate disposable income for all households and for the households that are most often tenants. According to the rent index[24], rental prices in both Oslo and the rest of the country have continued to rise so far this year. In the third quarter of 2025, the average rental price[25] for one- to four-bedroom homes in Norway was NOK 12 800. This is 3.7 per cent higher than in the third quarter of 2024 and roughly corresponds to consumer price inflation during the same period. In Oslo, both the level of and increase in rental prices in the third quarter of this year were higher than the national average, with an average rental price of NOK 16 400, up 6.4 per cent from the third quarter of 2024.

[23] Statistics Norway, table 09895
[24] The rent index is compiled by Husleie.no and is based on surveys of 110 000 landlords and 160 000 tenants.
[25] Applies to rental contracts that were signed in the third quarter.

NON-FINANCIAL CORPORATIONS

Just like Norwegian households, Norwegian non-financial corporations have a high level of debt. This section analyses non-financial corporations' debt servicing capacity based on key figures derived from their annual financial statements (non-consolidated and consolidated).[26]

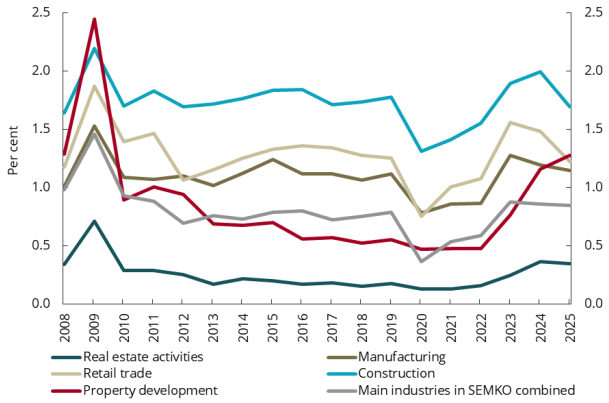
Estimated probabilities of bankruptcy within property development have increased

Finanstilsynet's bankruptcy and probability of default model (SEMKO) is used to estimate the probability of bankruptcy for non-financial public and private limited companies across eleven industry groups[27]. The probability of bankruptcy is estimated per corporation per year, based on key figures from their non-consolidated annual financial statements for the previous year, other corporate information and current macroeconomic indicators.[28]

Chart 3.1 shows developments in the estimated probability of bankruptcy overall and for selected industries, weighted by the corporations' debt from the annual financial statements. The estimated probability of bankruptcy has been fairly stable over time, apart from during the pandemic and the financial crisis. The estimates for 2025 show an overall decrease from 2024, but the level is approximately 0.1 percentage point higher than the average for the period 2012 to 2019 (corresponding to an increase of 13 per cent).

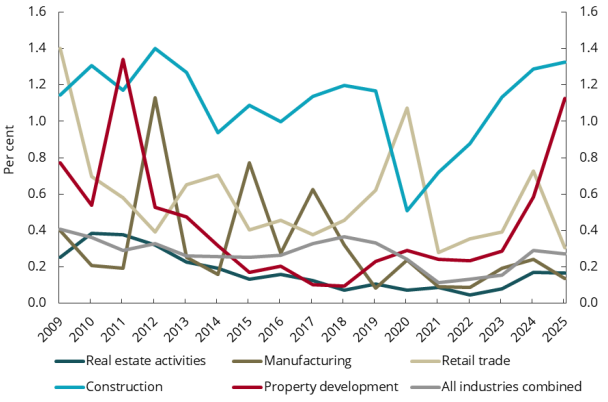
There are differences between industries. The estimated probability of bankruptcy for 'property development' continued to rise in 2025 after increasing substantially in the preceding years. This may suggest a continued upward trend in vulnerability within the industry. For other industries, such as 'construction', 'manufacturing' and 'retail trade', the overall estimated probability of bankruptcy declined from 2024 to 2025 after being on the increase since the pandemic. The debt-weighted probability of bankruptcy for the industry 'real estate activities' is still relatively low.

Chart 3.1 Developments in the debt-weighted probability of bankruptcy



Debt-weighted probability of bankruptcy estimated in SEMKO for the main industries combined, i.e. industry groups 1-9 in footnote 27, and for selected industries. The probability of bankruptcy for year *t* is defined as the probability that a corporation that published financial statements in year *t-1* will go bankrupt during the following year.
Sources: Dun & Bradstreet and Finanstilsynet

Chart 3.2 Debt in bankrupt corporations



Debt in bankruptcies and compulsory liquidations in year *t*, divided by debt in all corporations from the financial statements in year *t-1* by industry.
Sources: Dun & Bradstreet and Finanstilsynet

[26] Both the separate and the consolidated financial statements provide important information about credit risk, but from two different angles. The separate financial statements show the financial position and performance of the individual corporations. However, many corporations are part of a group, and intra-group transactions may contribute to over- or underestimating key financial indicators. In the consolidated financial statements, intra-group transactions are eliminated in order to present a comprehensive view of the overall risk across all entities within the group.

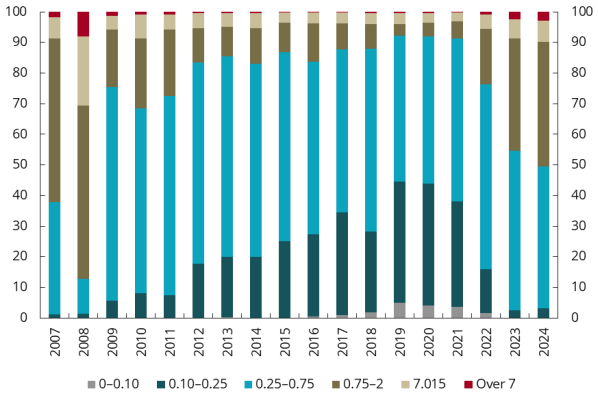
[27] The industry groups are '1 - Agriculture, forestry and fishing', '2 - Manufacturing', '3 - Construction', '4 - Retail trade, accommodation and food services and business services', '5 - Information and communication, professional, scientific and technical services', '6 - Transport and storage', '7 - Commercial real estate', '8 - Oil-related', '9 - Property development', '10 - Electricity and water supply, health and social work' and '0 - Unclassified'. The industry classification is based on SN07.

[28] The bankruptcy indicator used in the model estimation as well as bankruptcies referred to elsewhere in the analysis include both initiated bankruptcies and compulsory liquidations.

Chart 3.2 shows the debt of corporations that have gone bankrupt in a given year as a share of the industry's total debt in the previous financial year[29]. For the 'construction' and 'real estate activities' industries, respectively, this share has increased slightly and has remained more or less unchanged from 2024 to 2025. For both industries, the share is higher than in the period prior to the pandemic. The share for both 'manufacturing' and 'retail trade' declined to fairly low levels compared with previous years. For 'property development', the share of debt in corporations that have gone bankrupt has increased significantly from 2024 to 2025. In this industry, the number of bankruptcies up to and including October this year was higher than the number of bankruptcies during the whole of 2024, and more large companies have gone bankrupt than in previous years.

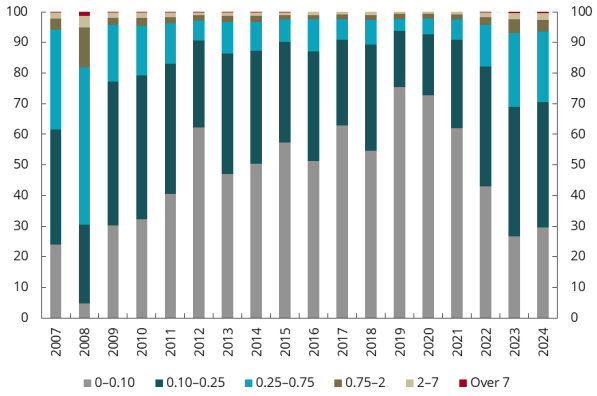
Charts 3.3 and 3.4 show the proportion of debt held by corporations in different intervals for probability of bankruptcy for the two industries 'property development' and 'real estate activities'. Norwegian banks have a large share of lending to non-financial corporations in these two industries.

Chart 3.3 Debt by estimated probability of bankruptcy, property development



Proportion of debt in different intervals of estimated probability of bankruptcy. The x-axis shows the financial year, and the probability of bankruptcy applies to the subsequent year.
Sources: Dun & Bradstreet and Finanstilsynet

Chart 3.4 Debt by estimated probability of bankruptcy, real estate activities



Proportion of debt in different intervals of estimated probability of bankruptcy. The x-axis shows the financial year, and the probability of bankruptcy applies to the subsequent year.
Sources: Dun & Bradstreet and Finanstilsynet

Chart 3.3 illustrates a shift within 'property development' towards a greater proportion of total debt being concentrated in corporations with relatively high probabilities of bankruptcy. For the 2024 financial year, half of the industry's debt was in corporations whose estimated probability of bankruptcy for 2025 was 0.75 per cent or higher. Approximately 10 per cent of the debt was in corporations that had an estimated probability of bankruptcy above 2 per cent. This is very high compared to the financial years 2011 to 2021. Developments indicate that the risk of losses on loans to 'property development' companies has increased.

For 'real estate activities', the share of debt in companies with a high estimated probability of bankruptcy is relatively low compared to other industries but relatively high compared to pre-pandemic levels.

Weakened debt servicing capacity in several industries

This paragraph discusses non-financial *groups'* earnings from ordinary activities ('operating earnings') and the extent to which they cover interest expenses and estimated necessary annual investments

[29] Here, too, non-consolidated financial statements are used for private and public limited companies for the financial years up to and including 2024, with bankruptcies up to and including October 2025. The industry classification is based on SN07.

and instalments.[30] This ratio is referred to as the 'debt coverage ratio' (DCR).[31] Developments in the DCR provide information about the corporations' viability. The DCR is divided into the following intervals:[32]

Table 3.1 Intervals for the DCR

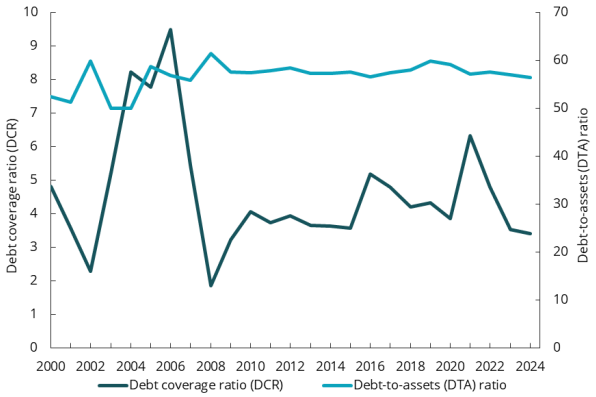
DCR >= 1.6	Satisfactory or better	Operating earnings after net interest expenses and estimated necessary annual investments and instalments provide a good margin for tax, dividends and possible expansion of the business.
DCR >= 1.3 & DCR < 1.6	Borderline	Operating earnings after net interest expenses and estimated necessary annual investments and instalments provide a limited margin for tax, dividends and expansion of the business.
DCR >= 1.0 & DCR < 1.3	Weak	Operating earnings after net interest expenses and estimated necessary annual investments and instalments provide a slight or no margin for tax, dividends and expansion of the business.
DCR < 1.0	Unsatisfactory	Operating earnings must be improved in the long term.

Source: Finanstilsynet

When analysing credit risk, it is important to map and monitor the performance of corporations with *weak* debt servicing capacity, as most of the creditors' losses on loans and receivables stem from these corporations. It is also important to monitor migration between corporations with strong and moderate debt servicing capacity, but this is not analysed further here.

The *aggregate* DCR for Norwegian non-financial groups continued to weaken in 2024, falling to its lowest level since the financial crisis in 2008-2009 (chart 3.5). The debt-to-assets (DTA) ratio, which shows total debt in per cent of total book assets, has been relatively stable at between 55 and 60 per cent in the years following the financial crisis.

Chart 3.5 DCR and DTA ratio. Non-financial groups 2000–2024



Sources: Dun & Bradstreet and Finanstilsynet
Note: Excluding 'oil and gas extraction'.

[30] Norwegian non-financial corporations excluding oil and gas extraction.
[31] Operating earnings represent total income from ordinary operations minus operating expenses related to operations (cost of inputs, wage costs and other operating expenses, but not depreciation and write-downs of assets). The DCR is defined as income from ordinary operations minus operating expenses from ordinary operations divided by net interest expenses and recorded ordinary depreciation. Ordinary depreciation is used as an estimate of necessary annual investments. Investments can be financed through operating earnings, borrowing or injections of new equity, or a combination thereof. Regardless of the financing option, the requirement for operating earnings will be roughly the same. If debt financing is chosen, the loan must be repaid, either by instalments or by setting aside parts of operating earnings over time to repay the loan when it falls due. If equity financing is chosen, the investor will usually expect a return on equity that is at least as high as when investing in risk-free bonds, high-interest bank deposits, etc. Finanstilsynet has developed risk matrices for the groups that include equity ratio and liquidity indicators in addition to the DCR. Due to space constraints, the risk matrices are not discussed in detail here.
[32] Here, a 'satisfactory' DCR means that operating earnings are assumed to be satisfactory in relation to the estimated necessary annual investments and instalments associated with existing assets and operations. If the group or any group entities have weak liquidity, plan to expand the business or need to make additional upgrades, improvements, etc. the limit for 'satisfactory' will be raised.

Debt in groups with an unsatisfactory DCR accounted for 31 per cent of total debt in non-financial groups in 2024 (not shown in the chart). This is a slight increase from 2023 and significantly higher than in the year prior to the interest rate hike (2021), when this share was 19 per cent.[33] In the weakest year of the financial crisis (2008), the share was 44 per cent but fell to 26 per cent the following year (2009). Important reasons for this were that the general economic conditions in Norway improved relatively quickly and that interest rates fell back to pre-financial crisis levels already in 2009.

There are major differences in the DCR, both between industries and within industries (charts 3.6a to 3.6h). Apart from commercial real estate (discussed in more detail below), 'services'[34] and 'fishing and fish farming' experienced the largest increase in the share of debt held by groups with unsatisfactory debt servicing capacity, measured as a share of the industry's total debt in 2024. In 'retail trade excl. food and consumer staples', the share was marginally reduced in 2024 but remained high.

Within 'construction', the share was reduced in 2024. This is partly because this industry has been hit hard by bankruptcies and compulsory liquidations in recent years (chart 3.2), which means that many corporations with unsatisfactory DCRs that were included in the sample in 2022 and 2023 were no longer included in 2024. Many of the groups within 'construction' that had a weak DCR in 2023 and were still in the sample in 2024 experienced a further weakening in the DCR in 2024.

Chart 3.6 Debt in different intervals for the DCR in per cent of the industry's total debt. 2016–2024. The industry's share of total debt in non-financial groups in brackets

Chart 3.6a 'Manufacturing' (15%)

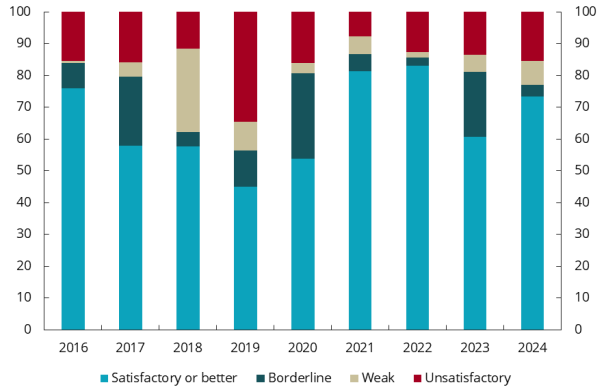


Chart 3.6b 'Retail trade excl. food and consumer staples' (8%)

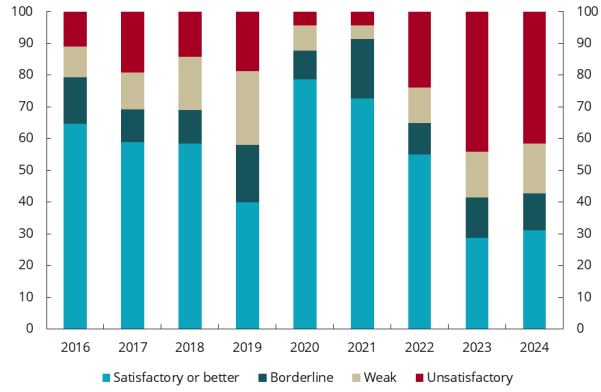


Chart 3.6c 'Fishing and fish farming' (7%)

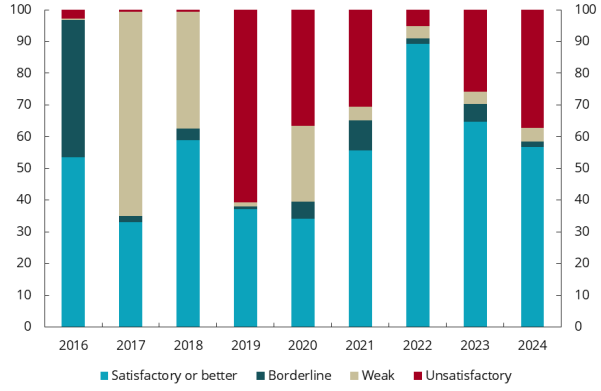
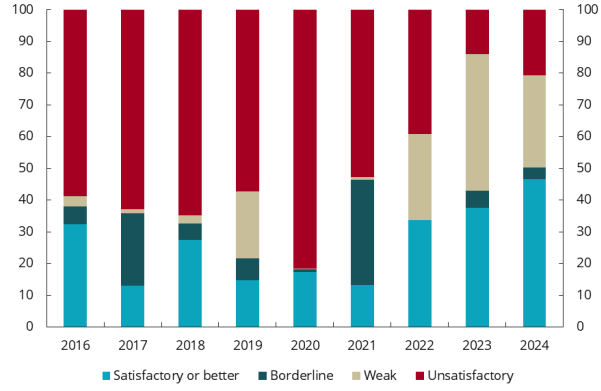


Chart 3.6d 'Oil services' (3%)



[33] It is logical that some corporations or groups have weak debt servicing capacity, even in good economic times. There will always be some that are struggling financially and are start-ups that need a few years to become profitable.
[34] Includes 'professional, scientific and technical services' and 'business services'.

Chart 3.6e 'Transport' (4%)[35]

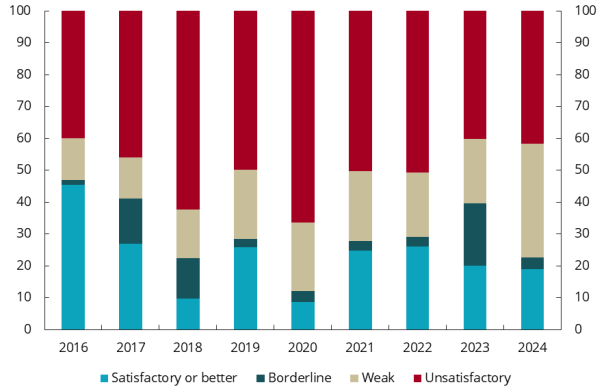


Chart 3.6f 'Services' (6%)

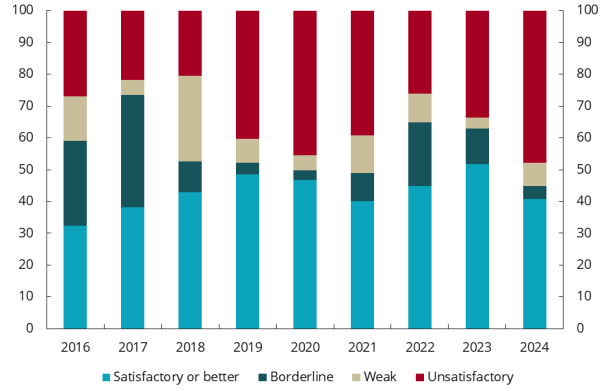


Chart 3.6g 'Construction' (3%)

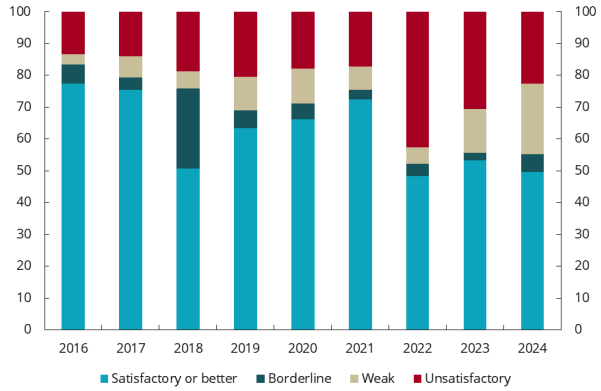
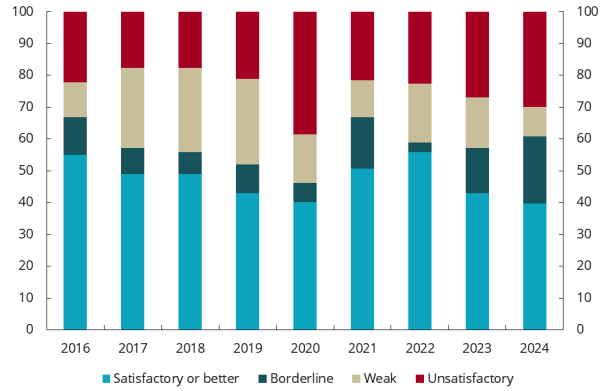


Chart 3.6h 'Other non-financial industries' (28%)[36]



Sources: Dun & Bradstreet and Finanstilsynet

Commercial real estate is the largest industry in terms of total debt. This industry can be divided into 'real estate activities' and 'property development'.[37] 'Real estate activities' is by far the largest sub-industry measured by debt.[38] Within 'real estate activities', there was an increase in debt in groups with unsatisfactory DCRs, measured as a share of the industry's total debt in 2024 (chart 3.7a). At the end of 2024, this share was almost twice as high as in the years before the interest rate hike. The main reasons for this are that the increase in interest expenses has only partly been compensated for by the annual consumer price adjustment of rental prices, and that the vacancy rate has increased in some cases.

[35] Excluding 'international shipping' and 'air-based transport'.
[36] Excluding 'real estate activities' and 'property development' (charts 3.7a and 3.7b).
[37] Here, 'property development' includes 'house building cooperatives' (SN07: 41.101) and 'other development and sale of real estate' (SN07: 41.109).
[38] Historically, a large share of banks' loan losses has stemmed from 'property development'. These have typically been heavily leveraged property projects that were initiated during periods of strong economic growth and value increases in the property markets, with little pre-sale or pre-letting, or where buyers or future tenants were unable to honour the contracts entered into. Property rental companies may also experience problems servicing their debt if existing tenants are unable or unwilling to renew their leases. This can be particularly relevant in less central areas, where there are often few or no alternative tenants or alternative uses for the properties. Norwegian banks have significant loan exposure in such areas.

Chart 3.7 Debt in different intervals for the DCR in per cent of the industry's total debt. 2016–2024. The industry's share of total debt in non-financial groups in brackets

Chart 3.7a 'Real estate activities' (18%)

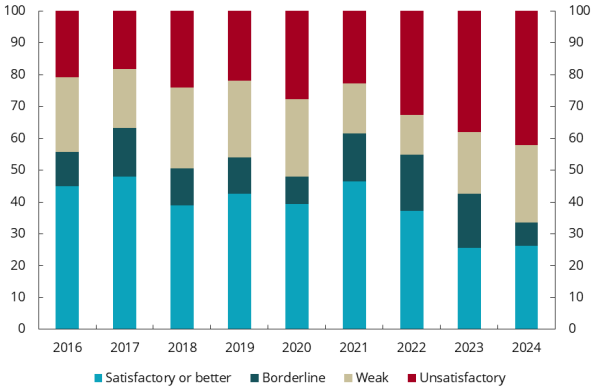
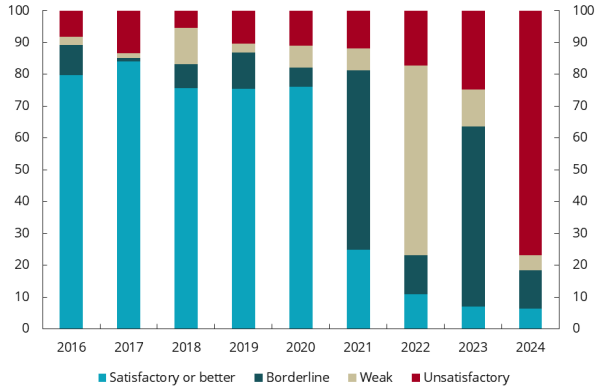


Chart 3.7b 'Property development' (6%)



Sources: Dun & Bradstreet and Finanstilsynet

Debt in groups with an unsatisfactory DCR, measured as a share of the industry's total debt, rose sharply within 'property management' in 2024 (chart 3.7b). The increase was largely driven by 'house building cooperatives'. Many groups and corporations in the leisure property segment have also experienced, and continue to face, very challenging times.[39] The weakening of the DCR is mainly due to a combination of increased construction and interest expenses and reduced demand.

Uncertain developments within 'real estate activities'[40]

Most commercial real estate (CRE) companies have high debt levels relative to operating earnings and are therefore sensitive to interest rate increases. Annual consumer price adjustments of rental income will partly offset increased and relatively high interest expenses in the coming period. However, this offsetting effect may be limited, especially for groups and companies with the weakest debt servicing capacity.[41]

It is not given that all leases expiring in the coming years will be renegotiated at the same or at a higher price, or that tenants will demand the same amount of office space as before.[42] Tenants have generally become more demanding when it comes to customising office premises, meeting climate requirements, etc.[43] Furthermore, many tenants are under pressure to reduce costs, and office space optimisation may be a relevant measure in this context.

In the office market, there are indications of flat or falling market rents. The exception is attractive and centrally located buildings that have undergone or will undergo upgrades. Norges Bank's policy rate path, developments in the interest rate markets, as well as forecasts and expectations from key macroeconomic players indicate that there will no marked decline in interest rate levels over the next few years. If the debt servicing and payment capacity of current and potential tenants weakens, a number of groups and corporations within 'real estate activities' may face challenges serving their debt in the coming years. Many have already experienced several years of constrained capacity for debt repayment and investment (chart 3.7a). Necessary investments and instalments may be postponed for several years, but the investments must eventually be made and the instalments paid.

[39] See also 'property development' in charts 3.1, 3.2 and 3.3. These charts also include corporations that are not part of a group.
[40] The information used as a background for these considerations is largely taken from analyses published by key commercial real estate companies and research companies such as Malling, UNION, Akershus Eiendom, CBRE and Newsec.
[41] For example, a group within 'real estate activities' that has a DCR of 0.8 will only achieve a minor improvement over the next few years, given the expected inflation and interest rate developments. Approximately one-fourth of the groups within 'property rentals and management' had a DCR below 0.8 in 2024. Here, *expected* refers to developments in Norges Bank's policy rate path and in the interest rate markets, as well as forecasts and expectations from key macroeconomic players.
[42] For example, figures from Malling show that leases accounting for more than half of leased office space in greater Oslo will expire by the end of 2027. Source: Malling, Market Report Winter 2025/2026.
[43] See, for example, the UNION M2 research portal: Mixed signals and increasing polarisation in the rental market

Loans reaching maturity over the next few years must be renewed. If the borrower has weak debt servicing capacity, renewal will entail significant credit risk for the lender. A higher risk premium will further weaken the borrower's debt servicing capacity (all else equal).

Commercial property values in central or relatively central areas of the largest Norwegian cities have declined by between 10 and 20 per cent since their peak in early 2022.[44] In less central areas, with few or no property transactions in recent years, property values may have fallen more. Future developments are uncertain.

The difference between the yield on investments in commercial property and the risk-free return (the yield gap) has declined further for the most attractive segment of the office market in Oslo (Oslo prime office) and is now only about one-fourth of the level before the interest rate hike (not shown in the chart).[45] One reason for the low yield gap is that many transactions are carried out by life insurers and pension funds. These investors may have a longer time perspective and/or different return requirements than other investors.

Despite the recent increase in office vacancy in several areas, vacancy in the largest Norwegian cities remains relatively low. Few new projects have been initiated and constructed in recent years. Interest rate developments and tenants' and investors' ability and willingness to pay will be decisive for the debt servicing capacity of the groups and corporations within 'real estate activities' as well as for property valuations.

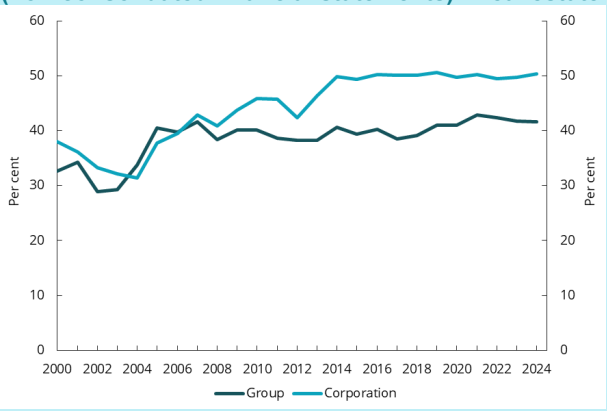
Equity ratio and loan-to-value ratio within commercial property

A high equity ratio (or low debt-to-assets (DTA) ratio)[46] can make a corporation better able to meet debt servicing and liquidity problems. The equity ratio also provides information about the group's or corporation's 'net worth' in the event of default, bankruptcy, liquidation, etc. and thus about potential losses for creditors.

There are several factors that must be taken into account when analysing the book equity ratio. An important factor is whether the figures are based on non-consolidated/separate financial statements or consolidated financial statements.[47] The aggregated *non-consolidated* equity ratio of subsidiaries within 'real estate activities' has been significantly higher than *the groups*' equity ratio over the past ten years (chart 3.8). The non-consolidated equity ratio has increased marginally in recent years, while the groups' equity ratio has declined marginally. There may be several reasons for the differences in level and development. One possible explanation is that cross-ownership among corporations within a group is eliminated in the parent company's consolidated financial statements, but not when the separate, unconsolidated financial statements of group entities are aggregated.[48]

[44] See, for example, Newsec: The property market in Norway in autumn 2025, item 6. 2., October 2025
[45] See box on page 21 in Risk Outlook June 2025 for further details on the yield gap.
[46] *Equity ratio* is defined here as book equity in per cent of total book assets. The debt-to-assets (DTA) ratio is total debt in per cent of total book assets.
[47] All parent companies that are required to prepare consolidated financial statements are subject to statutory audit. The vast majority of the corporations (i.e. non-consolidated financial statements) included in the sample are *not* subject to statutory audit. This may result in greater uncertainty regarding figures in the separate financial statements than in the consolidated financial statements.
[48] As an example, a business consisting of two rental properties, each valued at NOK 100 million and debt financed by NOK 60 million, can be structured as (a) *a limited liability company* where the book value of assets equals NOK 200 million while total debt is NOK 120 million and equity (the residual) is NOK 80 million. This gives a book equity ratio of 40 per cent. Alternatively, the business can be organised as (b): a *group* consisting of a parent company that owns 100 per cent of two subsidiaries that each owns one property. A simple aggregation of the assets of the three group entities equals the book value of the two properties, totalling NOK 200 million, plus the parent company's ownership interest in the two subsidiaries of NOK 200 million, while total debt is still NOK 120 million. Since equity is only the difference between total assets and liabilities, i.e. NOK 280 million in this case, this gives a *non-consolidated* book equity ratio of 70 per cent. In the consolidated financial statements, which must show the financial situation of all group entities as a single entity, the book equity ratio is 40 per cent.

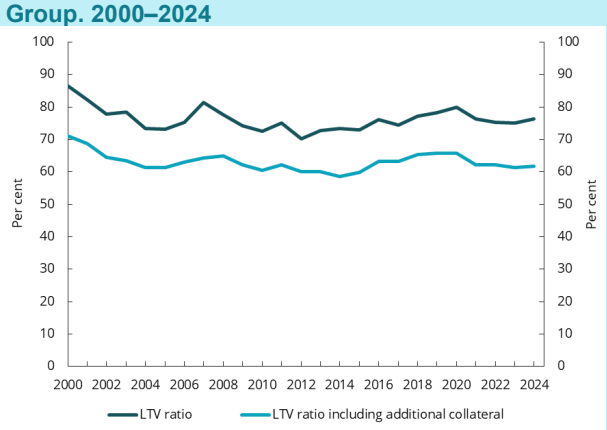
Chart 3.8 Book equity ratio in groups (consolidated financial statements) and individual corporations (non-consolidated financial statements). 'Real estate activities'. 2000–2024



Sources: Dun & Bradstreet and Finanstilsynet
Note: Listed companies and companies with a significant share of bond financing are excluded. The debt of these companies accounts for around 20 per cent of the debt of all the groups within 'real estate activities'. The figures in the chart must be interpreted with caution, as the samples are not the same.

Within commercial real estate, banks commonly secure collateral in *fixed assets* (land, buildings, furnishings, etc.). Long-term interest-bearing debt in per cent of the book value of fixed assets provides an estimate of the *loan-to-value (LTV) ratio.* The estimated LTV ratio for 'real estate activities' increased marginally in 2024 and was around 76 per cent at the end of 2024 (chart 3.9).

Chart 3.9 Estimated LTV ratio. 'Real estate activities'. Group. 2000–2024



Sources: Dun & Bradstreet and Finanstilsynet
Note: Listed companies and companies with a significant share of bond financing are excluded. The debt of these companies accounts for around 20 per cent of the debt of all the groups within 'real estate activities'. The figures in the chart must be interpreted with caution, as the samples are not the same.

Banks frequently set requirements for a maximum LTV ratio. An average LTV ratio of 76 per cent initially seems high. For example, UNION's survey of the largest banks in Norway shows that no bank is currently willing to grant loans with a 65 per cent LTV ratio.[49] A possible explanation for the discrepancy between the estimated LTV ratio and the banks' equity/maximum LTV ratio requirements could be that the banks in some cases use *non-consolidated* financial statements when calculating the LTV ratio. If so, this could mean that cross-ownership effects may have contributed to the non-consolidated LTV ratios being lower, on average, than the LTV ratio derived from the consolidated financial statements.

Another explanation could be that the banks do not use book values as a basis for calculating the LTV ratio but rather use *adjusted* property values in order to better capture the 'real' value of the collateral. As commercial property values have generally declined in recent years, it would be reasonable to

[49] UNION M2 research portal. UNION Bank survey Q3 2025, 24 September 2025 (in Norwegian only)

assume that banks on average have adjusted down their collateral values and thus that the *adjusted* LTV value ratio has increased.

It is also possible that, in some cases, banks include collateral other than fixed assets when calculating the LTV ratio, such as shares, bonds and ownership interests in associated companies. If these assets are added to fixed assets, the estimated LTV ratio will be lower (chart 3.9). Of the additional collateral, shares and ownership interests in associated companies account for around 85 per cent and bonds for around 15 per cent. In a situation where the bank must realise its collateral, it is realistic to assume that collateral in fixed assets (physical assets with proprietary rights) generally has a higher and less uncertain value than collateral in shares and ownership interests in associated companies. If a corporation in which the bank has a security interest goes bankrupt or is liquidated, the value of the shares will be zero. Although the value of collateral in the form of real estate may also fall considerably in a realisation situation, it can still have a significant positive value.

The book value of accounting items, including equity, is affected by the accounting standard used. Listed companies must prepare consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). IFRS allows, and in many cases requires, that assets are carried at fair value to a far greater extent than Norwegian accounting regulations. For example, IFRS allows the use of fair value for investment properties and revaluation models for property, plant and equipment. Norwegian accounting regulations are based on historical cost, and only market-based current financial assets can and must be carried at fair value. Corporations with unrealised gains in, for example, investment properties can thus, to a greater extent, present these values in their financial statements under IFRS.

NORWEGIAN BANKS

Norwegian banks are profitable and meet the capital requirements by a margin

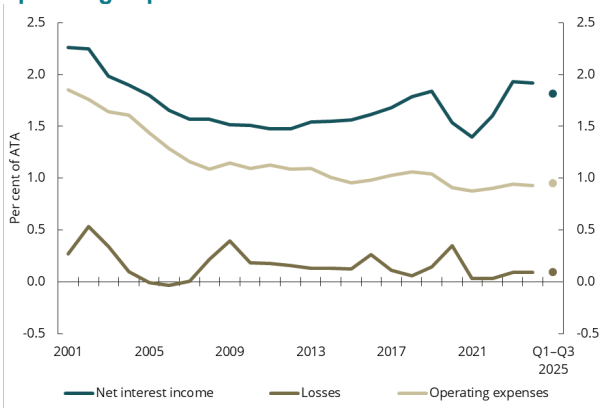
Norwegian banks have enjoyed strong profitability in recent years, largely driven by the increase in interest rates, which resulted in significant growth in net interest income from 2022. Higher lending rates did not lead to increased loan losses, which have remained low during the period. Net interest income levelled off in 2024 and has decreased somewhat in 2025. The banks' overall profits so far in 2025 are therefore also somewhat lower than a year earlier. Good results and moderate growth in lending have contributed to maintaining the banks' solvency. Changes in the capital adequacy framework, which came into effect in the spring of 2025 (CRR3), helped increase the estimated capital adequacy ratios of banks using the standardised approach. This led to significantly wider margins to the capital requirements for many of the banks, without any real changes in the underlying risk in the portfolios.

Strong profitability despite a slight year-on-year decrease

The substantial rise in interest rates from 2022 led to a significant increase in net interest income (chart 4.1). The increase is mainly due to the fact that the banks raised interest rates on loans faster than on deposits. The deposit spread (the difference between the money market rate and the average deposit rate) increased sharply during this period (chart 4.2). Partly as a result of the wide deposit spread in recent years, the Ministry of Finance has asked Finanstilsynet to prepare an overview of the situation in the deposit market. Finanstilsynet will also assess whether there is a need for measures to strengthen consumers' position in the market. Finanstilsynet's assessments must be completed no later than 19 February 2026.

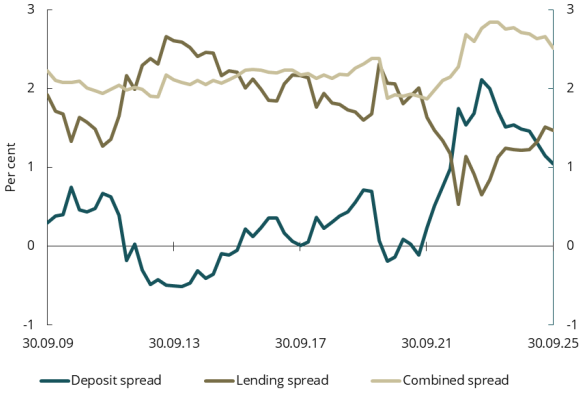
The banks' net interest income has declined somewhat so far in 2025, partly in reflection of the policy rate cuts implemented by Norges Bank. Declining operating expenses over a prolonged period have helped boost profitability in the Norwegian banking industry. Over the past year, the decline in expenses has levelled off, partly due to higher wage and personnel expenses. Overall, losses on loans have remained low for Norwegian banks over time, although some small banks have recorded significant losses.

Chart 4.1 Net interest income, loan losses, operating expenses



Source: Finanstilsynet

Chart 4.2 Interest spreads

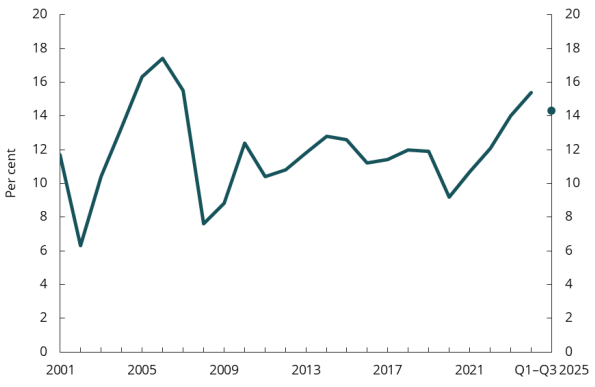


Source: Statistics Norway

As shown in chart 4.3, the favourable development in recent years in several key profit items has led to a historically high overall level of profitability for the banks. There are nevertheless significant differences in measured profitability between banks. Chart 4.4 shows that DNB Bank and the group of

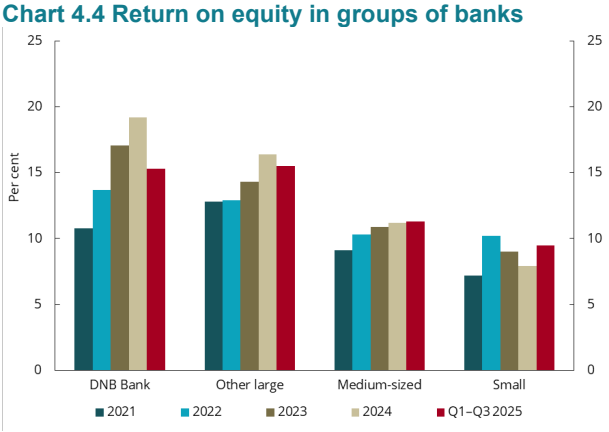
large regional savings banks have achieved a significantly higher return on equity than the groups of medium-sized and small banks.[50]

Chart 4.3 Return on equity



Source: Finanstilsynet

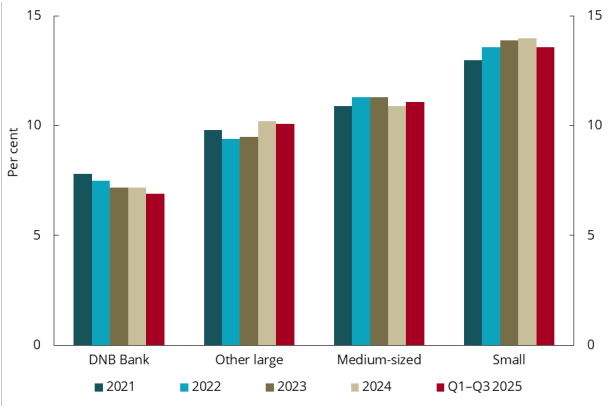
Chart 4.4 Return on equity in groups of banks



Source: Finanstilsynet

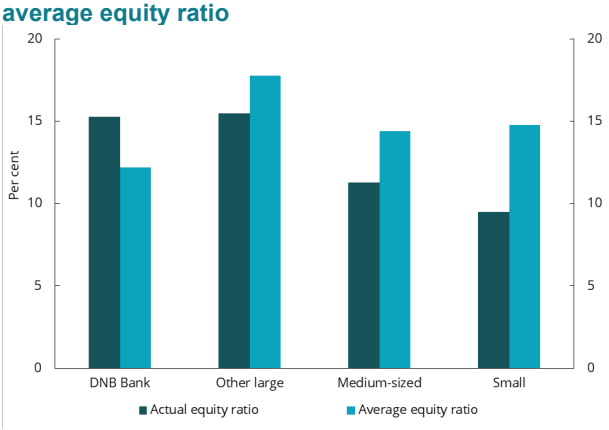
A drawback of using return on equity as a measure of profitability is that it is sensitive to variations in equity levels between banks or across groups of banks. As can be seen from chart 4.5, the equity ratio (equity in relation to total assets) is very different for the four units of analysis. DNB Bank's equity ratio is significantly lower than the ratios of the other three groups and has also decreased in recent years. Chart 4.6 shows the return on equity achieved so far in 2025, calculated both using the bank's/group's formal equity ratio and under the assumption of an equity ratio equivalent to that of Norwegian banks combined. The large differences in return on equity, calculated using the two capital levels, illustrate that this key figure is strongly affected by the level of equity.

Chart 4.5 Equity ratio



Equity excluding additional Tier 1 capital. Source: Finanstilsynet

Chart 4.6 Return on equity Q1–Q3 2025 given the average equity ratio

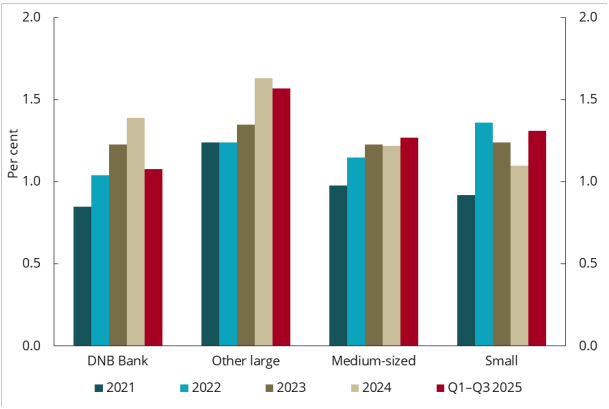


Source: Finanstilsynet

The return on equity is particularly interesting for the owners of the bank's equity. For society at large, the total return on capital is a more relevant profitability measure, since it indicates how effectively the bank uses its total assets to generate profits. Chart 4.7 shows the total return on capital (total profit after tax in per cent of average total assets) for the four banking groups over the last five years. Calculating profitability using total assets eliminates the effect of different equity ratios.

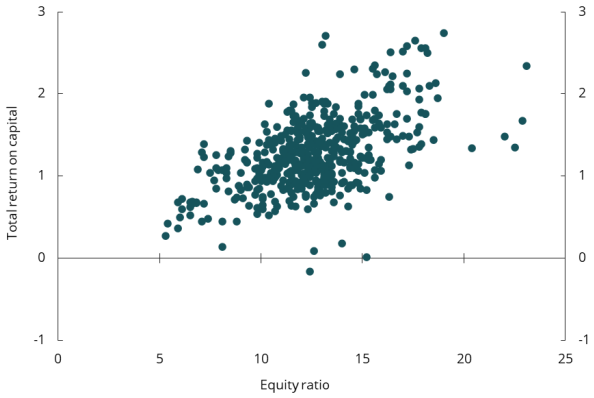
[50] Other large banks: the five largest regional savings banks; medium-sized banks: other banks with total assets in excess of NOK 10 billion (38 banks); small banks: banks with total assets below NOK 10 billion (51 banks).

Chart 4.7 Total return on capital



Source: Finanstilsynet

Chart 4.8 Equity ratio and total return on capital, Norwegian banks 2021–2025



Figures at year-end 2021–2024 and as at 30 September 2025.
Source: Finanstilsynet

Another way to illustrate how profitability and equity levels vary between banks is to examine the relationship between total return on capital and equity levels at individual bank level. Chart 4.8 shows Norwegian banks' total return on capital and equity ratio for the years 2021 to 2025. The chart suggests that there is a positive correlation between the two variables. It is nevertheless important to point out that the chart only shows a positive correlation, not that higher equity levels lead to improved profitability.

On the one hand, higher equity will reduce the bank's need for debt financing, which in isolation results in higher net interest income. The terms and conditions for debt financing could also become more favourable if the bank's creditors consider the risk to be lower due to strong capital adequacy. On the other hand, a bank that has operated profitably over time will have better opportunities to increase its equity ratio by retaining profits.

Interest rate adjustment clause for variable mortgage rates

In an advisory opinion on variable interest rate mortgages in Iceland in spring 2024, the EFTA Court found that the Mortgage Credit Directive and the Unfair Contract Terms Directive require that contractual terms on interest rate adjustments must be intelligible and enable consumers to understand the method used for calculating such adjustments. The Supreme Court of Iceland has delivered a judgment in one of the cases affected by the EFTA Court's advisory opinion, concluding that several of the terms in the relevant interest rate adjustment clause were unclear and therefore unreasonable. Norwegian banks' standard agreements have similarities to the agreements used by Icelandic banks. Several complaints regarding the Norwegian terms and conditions for interest rate adjustments are currently under consideration by the Norwegian Financial Services Complaints Board.

Norwegian banks remain robust and have seen a recent increase in margins to the capital requirements

The common equity Tier 1 capital ratio of Norwegian banks has increased significantly since the global financial crisis in 2008–2009 (chart 4.9). Much of the increase since 2018 is due to regulatory easing, which has improved measured capital adequacy without strengthening the banks' actual solvency levels. The final stage of the financial crisis reforms in the European capital adequacy framework (CRR3) came into force in Norway on 1 April 2025. The regulatory changes resulted in an increase in the common equity Tier 1 (CET1) capital ratio in banks using the standardised approach due to

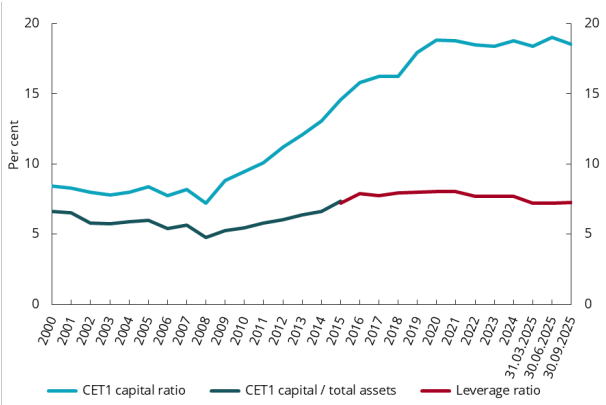
a reduction in risk-weighted assets, see a further account below. Among banks using the internal ratings-based approach (IRB banks), the net impact of the regulatory changes on capital adequacy varied.

Norwegian banks' CET1 capital ratios were reduced in the third quarter of 2025. This was mainly due to an increase in risk-weighted assets in IRB banks as the risk weight floor for residential mortgages was raised from 20 to 25 per cent from 1 July 2025. Measured as a share of unweighted exposure, the solvency of Norwegian banks has weakened somewhat over the past five years.

The banks meet the regulatory capital requirements (including the Pillar 2 requirement) by a margin. The gap to the requirements varies between banks and is normally lower for large banks than for small and medium-sized banks. Norwegian banks' median margin to the CET1 capital requirement has increased significantly from year-end 2019 (chart 4.10). The incorporation of the European solvency framework into the EEA Agreement on 31 December 2019 entailed the removal of the Basel 1 floor for IRB banks and the introduction of the SME supporting factor for the calculation of capital requirements for exposures to small and medium-sized enterprises. The outbreak of the Covid-19 pandemic led to lower countercyclical capital buffer requirements. In addition, the Ministry of Finance stated that it expected the banks to apply caution in making dividend payments.

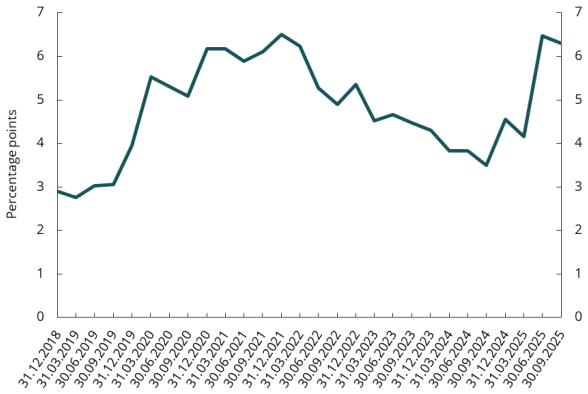
In the years after the pandemic, the median margin to the CET1 capital requirement decreased[51], before increasing significantly again. The increase in the second quarter of 2025 must be seen in the context of the reduction in risk-weighted assets for banks using the standardised approach after the introduction of CRR3.

Chart 4.9 Capital adequacy of Norwegian banks



Figures up to and including 30 September 2025. The chart shows CET1 capital / total assets up to and including 31 December 2015 and the leverage ratio as from 31 December 2015. Both are measures of non-risk-weighted capital adequacy. Source: Finanstilsynet

Chart 4.10 Median margin to the CET1 capital requirement



Figures up to and including 30 September 2025. Source: Finanstilsynet

Effects of CRR3 and changes in risk weights for banks using the standardised approach

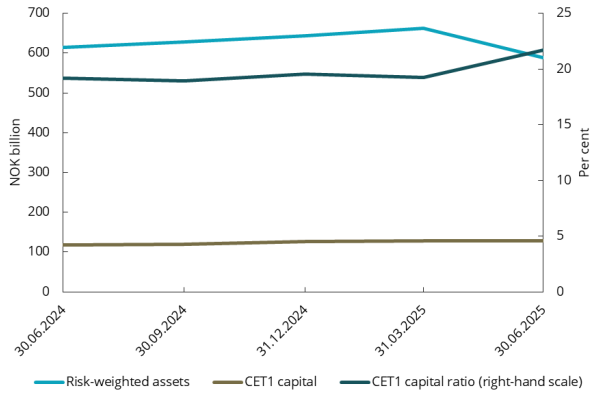
The banks' CET1 capital ratio is calculated as the ratio of CET1 capital to risk-weighted assets. Total risk-weighted assets are the sum of risk-weighted assets for credit risk, market risk, operational risk,

[51] The decline in the median margin to the CET1 capital requirement in the years following the outbreak of the Covid-19 pandemic is partly due to revised buffer requirements and higher Pillar 2 requirements for a number of banks. In consequence of the virus outbreak, the counter-cyclical capital buffer rate was reduced from 2.5 to 1.0 per cent with effect from March 2020. In the period from June 2022 to March 2023, the buffer was gradually increased back to 2.5 per cent. Furthermore, the systemic risk buffer was raised from 3.0 to 4.5 per cent for exposures in Norway with effect from 31 December 2020 for entities using the advanced IRB approach to calculate credit risk, and from 31 December 2023 for entities using the standardised approach or foundation IRB approach. New requirements for the composition of the Pillar 2 requirement, introduced in June 2022, have helped moderate the overall decline for the banks.

CVA risk[52] and other risks. For the banks using the standardised approach, risk weights are determined per exposure, with fixed rates for various types of loans.

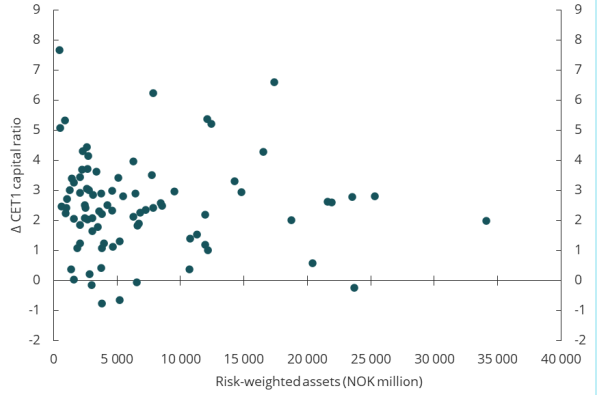
For these banks, the changes in the capital requirements framework (CRR3) entail significantly lower risk weights for residential mortgages. For loans within 55 per cent of collateral value, the risk weight has been reduced from 35 to 20 per cent, while the risk weight for loans with a higher loan-to-value (LTV) ratio gradually increases to 75 per cent. In the previous regulations, the risk weight was 35 per cent for loans within 80 per cent of collateral value. The average risk weight for residential mortgages before support factors[53] was just over 40 per cent for banks using the standardised approach at end-March 2025. In addition, changes in the capital adequacy framework led to risk weights for loans to income-generating commercial property becoming more sensitive to LTV ratios.

Chart 4.11 CET1 capital ratios for banks using the standardised approach



Source: Finanstilsynet

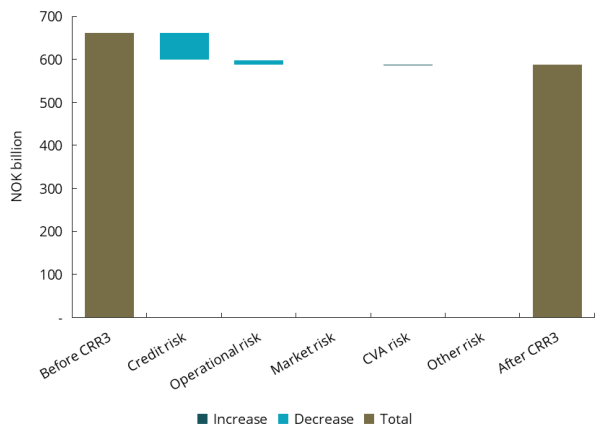
Chart 4.12 Change in CET1 capital ratio from 31 March to 30 June 2025 per bank



Source: Finanstilsynet

Risk-weighted assets for Norwegian banks using the standardised approach declined by approximately 12 per cent from the first to the second quarter of 2025 (chart 4.11). During the same period, there were minimal changes in CET1 capital, and overall, there was an average increase in the CET1 capital ratios of these banks of 2.5 percentage points. Changes in CET1 ratios vary considerably between banks (chart 4.12), reflecting differences in business models and lending exposures. There is no clear correlation between the magnitude of risk-weighted assets and changes in the CET1 capital ratio.

Chart 4.13 Changes in risk-weighted assets for banks using the standardised approach



Source: Finanstilsynet

[52] CVA risk is an adjustment to the market value to take into account the impaired creditworthiness of a derivative counterparty, cf. (EU) 525/2013 (CRR Article 381).
[53] Support factors are used to stimulate lending for various purposes (e.g. lending to small and medium-sized enterprises and infrastructure projects). The factors are not risk-based.

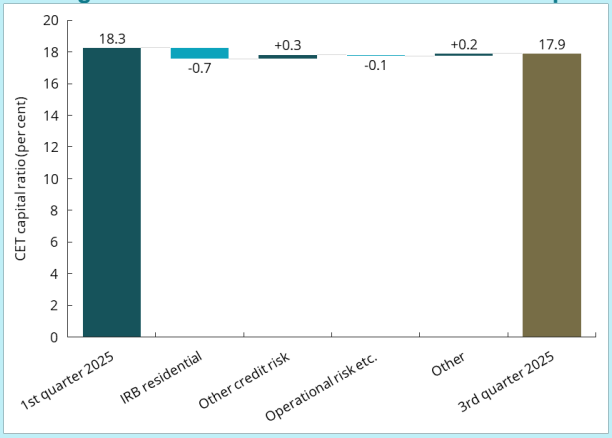
Chart 4.13 shows that a reduction in the estimated credit risk was the main reason why the CET1 capital ratio increased for the banks using the standardised approach after the introduction of CRR3. On average, credit risk accounts for over 90 per cent of risk-weighted assets. Much of the decrease in credit risk is due to the average risk weight for residential mortgages being reduced from around 40 to 30 per cent. In addition, the average risk weight for lending to income-generating commercial property was reduced from 100 to approximately 85 per cent. Operational risk was reduced by an average of 28 per cent as a result of changes in the calculation method, but since this constitutes a smaller part of total risk-weighted assets, the effect on the CET1 capital ratio was not as significant as for credit risk. The same applies to market risk, which represented 20 per cent less of risk-weighted assets. Most banks using the standardised approach experienced an increase in CVA risk.

Effects of CRR3 and increased risk weight floor for residential mortgages for banks using the internal ratings-based approach

CRR3 entails somewhat stricter requirements for IRB banks' estimates of probability of default (PD) and loss given default (LGD), which are included in the calculation of capital requirements, and limits banks' ability to use their own LGD estimates for lending to large enterprises. CRR3 also entails a slightly more flexible capital requirement calculation[54], reduced LGD values for banks that do not use their own LGD estimates, and changes in the conversion factors used to calculate capital requirements for off-balance sheet items. The net effect varies significantly among banks but generally involves somewhat reduced capital requirements.

The risk weight floor for residential mortgages was raised from 20 to 25 per cent from 1 July 2025 and is now effective for most banks. The overall effect of CRR3 and the raised risk weight floor is somewhat stricter capital requirements for IRB banks. Chart 4.14 shows the change in the CET1 capital ratio for the Norwegian IRB banks from the first to the third quarter of 2025, which mainly reflects CRR3 and higher risk weight floors. At bank level, the effect varies between a 1 percentage point increase and a 1 percentage point reduction in the CET1 capital ratio.

Chart 4.14 Change in the CET1 capital ratio for Norwegian IRB banks from the first to the third quarter of 2025



The change in the CET1 capital ratio related to IRB residential mortgages is mainly due to the elevated risk weight floor, while changes related to other credit risk and operational risk are mainly attributable to CRR3. 'Other' includes changes in CET1 capital resulting from the inclusion of interim profits. Source: Finanstilsynet

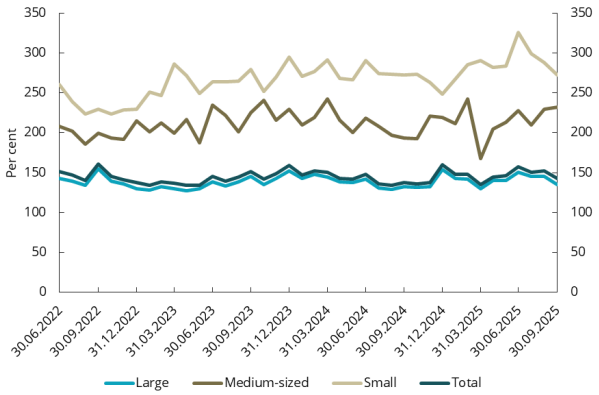
[54] An adjustment factor in the capital requirement calculation was removed, so that, all else equal, the capital requirement was reduced by 6 per cent for each loan.

Norwegian banks have a strong liquidity position and stable funding

Norwegian banks meet the minimum liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements by an ample margin (charts 4.15 and 4.16). Norwegian banks also have good and stable access to funding.

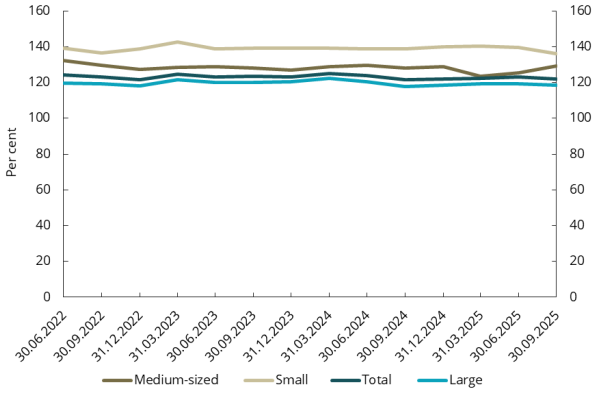
Compared with banks in the EU, the average LCR and NSFR of the largest Norwegian banks are both lower. However, the LCR for small and medium-sized Norwegian banks is well above the average LCR for European banks, while the average NSFR is somewhat lower than the European average. The latter is due, among other things, to the fact that Norwegian banks have a larger share of wholesale funding than European banks, which to a greater extent finance their lending with deposits. This results in a higher NSFR as deposits are weighted higher than wholesale funding when calculating the NSFR.

Chart 4.15 Total LCR for Norwegian banks, weighted average



Source: Finanstilsynet

Chart 4.16 Total NSFR for Norwegian banks, weighted average



Source: Finanstilsynet

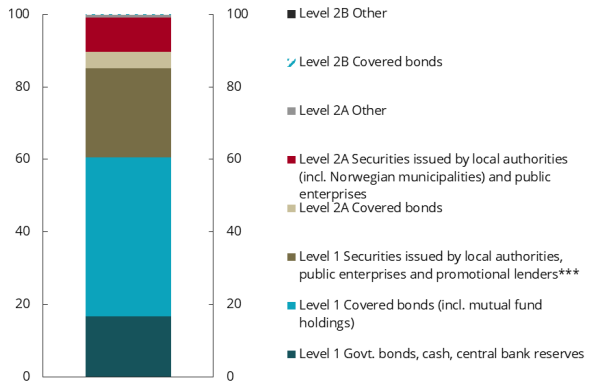
Continued high level of cross-ownership in the Norwegian covered bond market

Regulatory requirements determine which types of assets banks may include in their liquidity reserve. The assets are divided into different levels according to the liquidity of the securities. Level 1 assets are the most liquid, but there are also varying degrees of liquidity within each level. For example, government bonds, cash and central bank reserves are the most liquid and are included in the liquidity reserve without any haircut. Norwegian banks' liquidity reserves consist mainly of level 1 assets, which together account for about 85 per cent of Norwegian banks' and mortgage companies' reserves, excluding DNB Bank ASA and DNB Boligkreditt AS (chart 4.17). The size of the DNB Group means that the composition of both liquidity reserves and wholesale funding would not be representative of other Norwegian banks and mortgage companies if the group had been included in the figures. Other Norwegian banks and mortgage companies have a greater exposure to covered bonds, both as liquidity reserves and as stable funding, than the DNB Group.

Covered bonds are generally backed by residential mortgages, primarily held by Norwegian customers. Covered bonds constitute a significant portion of Norwegian banks' and mortgage companies' liquidity reserves. Level 1 covered bonds constitute approximately 44 per cent of the liquidity reserve for all institutions combined. For some of the small and medium-sized banks, this share is significantly higher.[55] Covered bonds are also a very important source of funding for Norwegian banks and mortgage companies and account for over 54 per cent of total wholesale funding (chart 4.18).

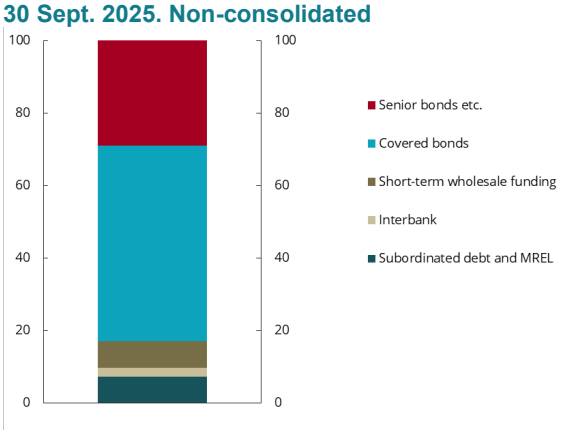
[55] See Risk Outlook – June 2023.

Chart 4.17 Composition of Norwegian banks' and mortgage companies'* liquidity reserves as at 30 Sept. 2025. Non-consolidated**



*Excl. DNB Bank ASA and DNB Boligkreditt AS. **Before cap and before adjustment of secured financing. ***Promotional lenders are institutions with a public mandate that determines which types of actors or projects to be financed, e.g. European Investment Bank (EIB) and Nordic Investment Bank (NIB). Source: Finanstilsynet

Chart 4.18 Composition of Norwegian banks' and mortgage companies'* wholesale funding as at 30 Sept. 2025. Non-consolidated



*Excl. DNB Bank ASA and DNB Boligkreditt AS. Source: Finanstilsynet

The high proportion of covered bonds, both as a source of funding and as part of the liquidity reserve, results in heightened systemic risk in the Norwegian financial market. The institutions are heavily exposed to the Norwegian housing market on both sides of the balance sheet and are dependent on both the market for the issuance of new covered bonds and the secondary market for covered bonds functioning well, even in times of market turmoil.

The regulations require that the liquidity reserve be sufficiently diversified. As covered bonds in the Norwegian financial system both finance the banks' activities and are part of the banks' liquidity reserves, Finanstilsynet has recommended that covered bonds secured by Norwegian residential mortgages should not constitute more than 50 per cent of the liquidity reserve for Norwegian banks and mortgage companies. To mitigate liquidity risk, institutions may increase their holdings of Norwegian government bonds or other level 1 securities in Norwegian kroner, which have a zero risk weight. This will reduce both the systemic risk associated with cross-ownership and liquidity risk. The expected yield on government bonds and other zero risk weight securities is lower than the expected yield on covered bonds. This may be one of the reasons why institutions do not have more government bonds in their liquidity reserves.

Norges Bank has decided to introduce central bank certificates as a new liquidity management instrument. These certificates will qualify as level 1 assets in the LCR without any haircut, on a par with government bonds and treasury bills. A wider range of securities with a zero risk weight in Norwegian kroner could contribute positively to the diversification of Norwegian banks' and mortgage companies' liquidity reserves if they replace covered bonds.[56]

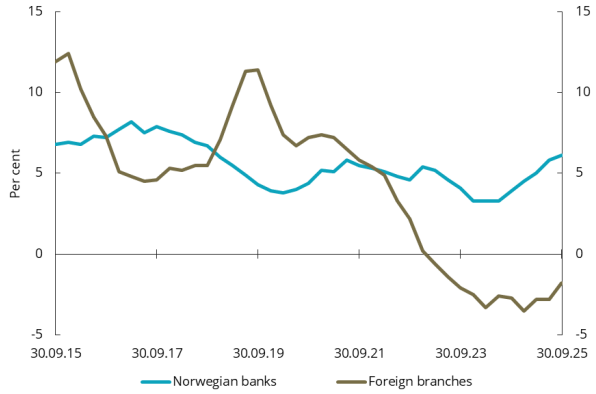
Growth in lending to personal customers picks up while growth in corporate lending slows

There has been stronger growth in Norwegian banks' lending to personal customers over the past year (chart 4.19). Part of the reason for the increase over the past couple of years is Danske Bank's exit from the personal customer market in Norway. Norwegian banks experienced brisk growth in lending to corporate customers from the end of 2021 until 2024 (chart 4.20), which was also significantly higher than for foreign banks' branches in Norway.

[56] Norges Bank has requested comments on the design of the certificate programme, see Finanstilsynet's response (in Norwegian only).

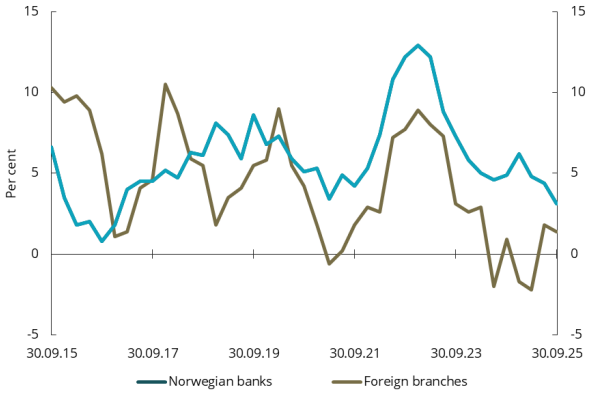
Chart 4.21 shows Norwegian banks' lending to domestic corporate customers broken down on individual industries. 'Real estate activities' is the largest industry for the banks overall. This is also the case for the vast majority of Norwegian banks. At end-June 2025, lending to this industry accounted for 44 per cent of banks' total corporate loans. The growth in lending to 'real estate activities' has roughly corresponded to the total growth in corporate lending over the past year. Lending growth has been particularly high in the 'fishing and fish farming' industry over the past year (chart 4.22). Lending to construction activity, including property development and planning, represents 12 per cent of Norwegian banks' corporate portfolio. The banks have seen a decline in lending to this industry over the past couple of years. There have also been many bankruptcies in the industry, resulting in significant loan losses for some banks.

Chart 4.19 Growth in lending to personal customers (12 mos.)



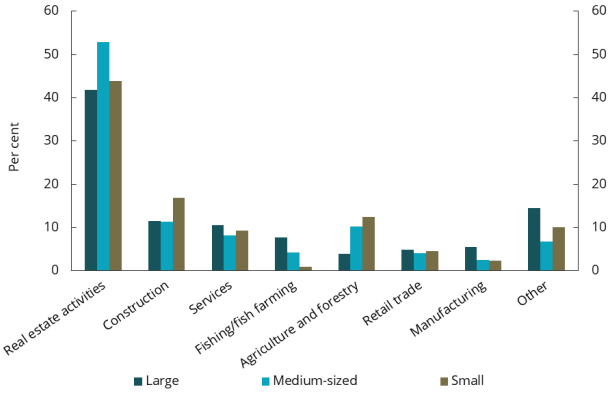
Source: Finanstilsynet

Chart 4.20 Growth in lending to corporate customers (12 mos.)



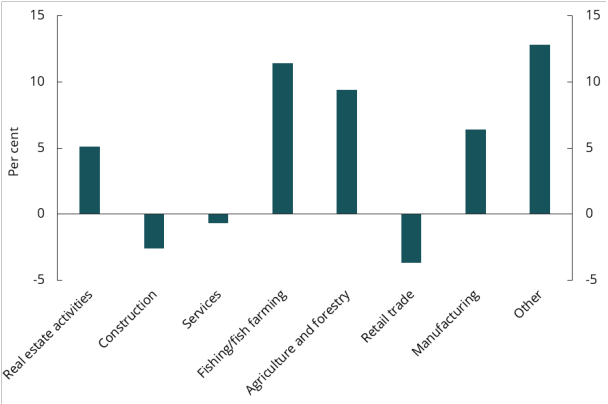
Source: Finanstilsynet

Chart 4.21 Share of lending to corporate customers, 30 June 2025



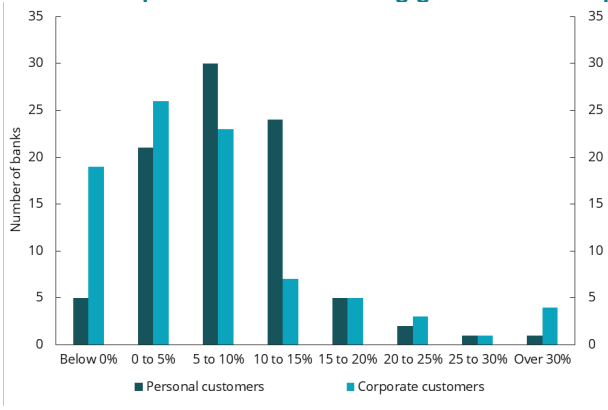
Source: Finanstilsynet

Chart 4.22 Lending growth to individual industries, 30 June 2025



Source: Finanstilsynet

Chart 4.23 Spread in banks' lending growth over the past year



Banks with marginal volume are excluded. Source: Finanstilsynet

There are significant variations in banks' lending growth in both the corporate and personal customer markets (chart 4.23). More than one in three banks recorded a growth rate above 10 per cent for personal customers over the past year, while there was an overall increase for the banks of 5.8 per cent. In the corporate market, just under one in four banks experienced an increase in lending of more than 10 per cent over the past year, while the overall growth rate for Norwegian banks was 4.4 per cent. Many small, local savings banks were among those experiencing particularly high growth during the past year, often driven by expansion outside their traditional core area. This may have a positive effect on competition in the affected markets, but the expansion may also entail heightened risk for banks that focus on markets and customers they are less familiar with.

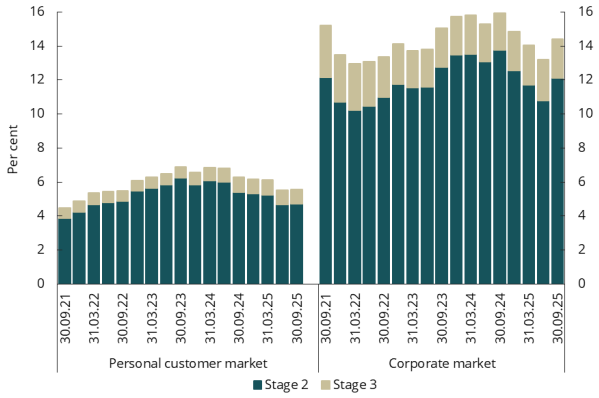
Slight reduction in banks' internally assessed credit risk

Over the past two years, the proportion of banks' lending with a significant increase in credit risk (stage 2 and stage 3 according to IFRS 9[57]) has decreased in both the personal and corporate customer markets (chart 4.24). The decline mainly refers to stage 2 loans, i.e. loans with a significant increase in credit risk that are not credit-impaired. This may reflect more favourable macroeconomic prospects.

Small banks have a higher share of loans in both stage 2 and stage 3 than the large and medium-sized banks (chart 4.25). The loan portfolio of small banks is usually less diversified than in large banks, not least as a result of greater geographical concentration. A lower degree of diversification may result in higher credit risk. In the small banks, there has been a clear increase in the share of stage 3 loans in recent years, driven by a higher level of default among corporate customers.

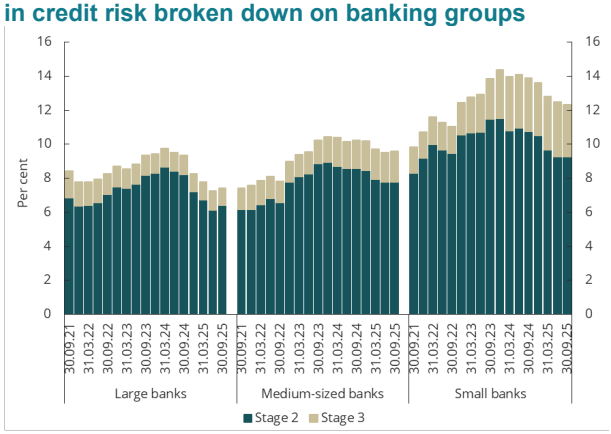
[57] In the calculation of expected losses according to the accounting standard IFRS 9, the banks must sort each loan into one of three stages. Stage 1 includes loans that have not seen a significant increase in credit risk. Loans that have seen a significant increase in credit risk since initial recognition must be sorted in stage 2. When the credit risk has increased so much that the loan is considered to be credit impaired, the loan must be classified in stage 3.

Chart 4.24 Share of loans with a significant increase in credit risk broken down on customer groups



Source: Finanstilsynet

Chart 4.25 Share of loans with a significant increase in credit risk broken down on banking groups



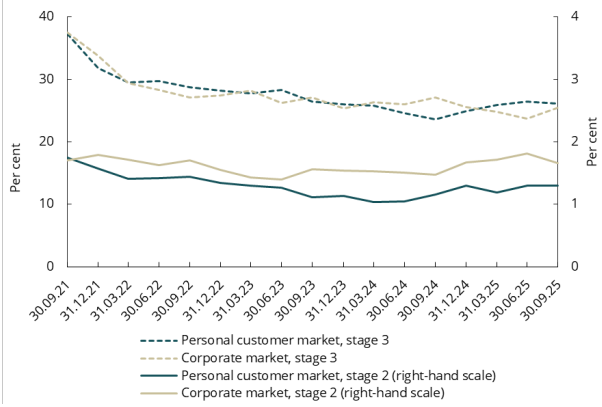
Source: Finanstilsynet

Decrease in provision rate in both stage 2 and stage 3

The banks' impairment losses must be forward-looking, unbiased and based on scenarios that reflect estimated future macroeconomic developments. The banks' total impairment losses as a share of lending volume (provision rate) have been relatively stable in recent years but have decreased somewhat overall since 2021.

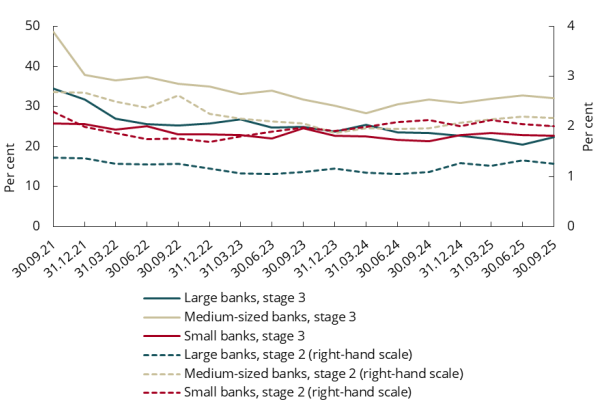
For stage 3 loans, the provision rate has gradually decreased since 2021. The decline is evident across both banks and customer groups (charts 4.26 and 4.27). This trend must be viewed in light of banks' sale of portfolios of non-performing consumer loans as well as identified losses and reversals of previous impairment losses on corporate loans, particularly to the oil sector. The provision rate for stage 2 loans has declined slightly during the same period.

Chart 4.26 Provision rate for loans in IFRS 9 stages broken down on customer groups



Source: Finanstilsynet

Chart 4.27 Provision rate for loans in IFRS 9 stages broken down on banking groups



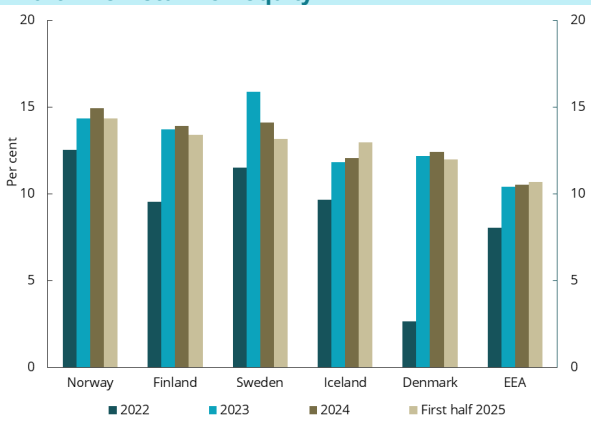
Source: Finanstilsynet

Norwegian banks are profitable and well capitalised, also compared to banks in other European countries

Over time, Norwegian banks have enjoyed strong profitability and solvency compared to banks in the rest of the Nordic region and in most other European countries. Figures from the European Banking Authority (EBA) for the largest banks in various countries confirm that this has also been the case in recent years. As shown in chart 4.28, the largest Norwegian banks have recorded the highest return on

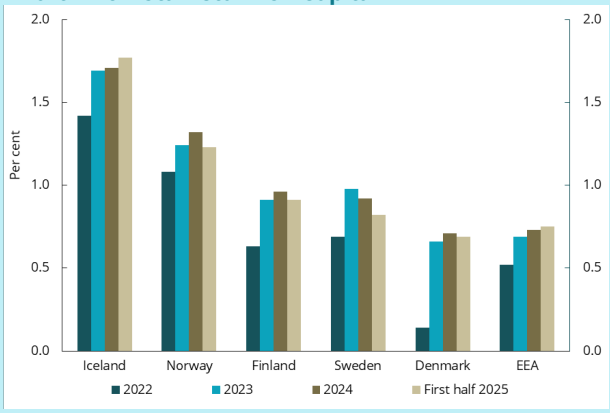
equity in the Nordics over the past two years – and well above the average for all the largest banks in the EEA area. One reason is that interest rates in Norway have not declined to the same extent as in neighbouring countries, which has helped maintain a high level of net interest income. Lending and deposits constitute a large part of Norwegian banks' operations, especially compared to the largest European banks. A strong Norwegian economy in recent years has contributed to the low level of non-performing loans and loan losses.

Chart 4.28 Return on equity



Sources: EBA Risk Dashboard and Finanstilsynet

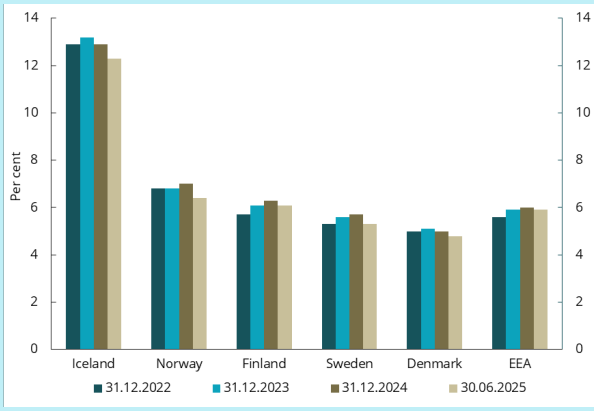
Chart 4.29 Total return on capital



Sources: EBA Risk Dashboard and Finanstilsynet

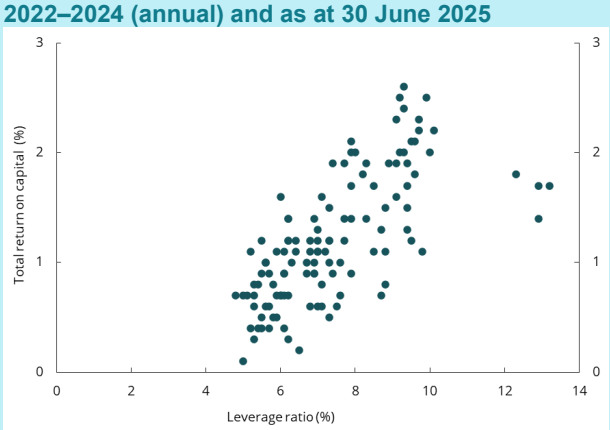
There are significant differences in total return on capital among banks in the Nordic countries, and only the largest Icelandic banks can present better results than the largest Norwegian banks (chart 4.29). The reason why Icelandic banks have achieved a better total return on capital, relative to return on equity, is that they have a significantly higher equity ratio than banks in the other Nordic countries (chart 4.30). The large Norwegian banks have a higher leverage ratio than the Danish and Swedish banks. The level is also somewhat higher than the average for the large European banks in the EBA's sample, at 6.4 per cent and 5.9 per cent, respectively.

Chart 4.30 Leverage ratio



Sources: EBA Risk Dashboard and Finanstilsynet

Chart 4.31 Leverage ratio and total return on capital, 2022–2024 (annual) and as at 30 June 2025



Sources: EBA Risk Dashboard and Finanstilsynet

There seems to be no contradiction between a strong equity ratio and high profitability, including in cross-country comparisons. The EBA's figures for the largest banks in each country for the last four years (observations at year-end and as at 30 June 2025) indicate a positive correlation between the leverage ratio and total return on capital (chart 4.31). For further analyses in this area, see Finanstilsynet's report 'Regulatory framework for Norwegian banks – comparison of key figures' (in Norwegian only)g.

INSURERS AND PENSION FUNDS

Reduced investment income weighs on profits

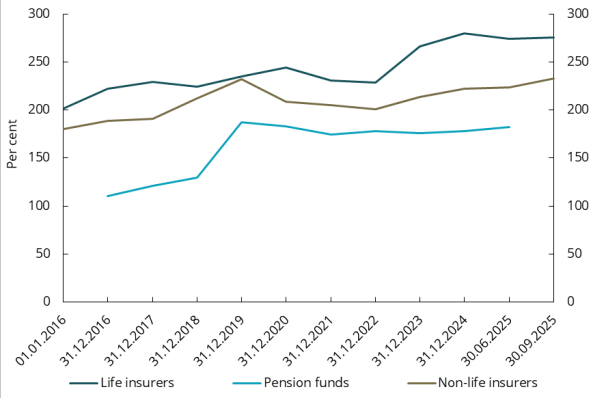
Overall, Norwegian insurers and pension funds enjoy a satisfactory solvency position. Life insurers had a total solvency ratio of 275 per cent at end-September 2025, which is 5 percentage points lower than at year-end 2024 (chart 5.1). The decrease is due to a higher percentage increase in the solvency capital requirement than in solvency capital.

Non-life insurers' total solvency ratio was 233 per cent at end-September 2025, which is 11 percentage points higher than at year-end 2024. Pension funds' total solvency ratio was 182 per cent at end-June 2025, an increase from 178 per cent at the end of 2024.

The annualised return on life insurers' collective portfolio was 6.7 per cent in the first three quarters of 2025, compared with 7.8 per cent in the corresponding period in 2024 (chart 5.2). The return on the unit linked portfolio was down from 17.5 to 11.0 per cent. The decline mainly reflected falling share prices, which contributed to reducing investment income. Life insurers' profit before tax came to 0.5 per cent of average total assets for the first three quarters of 2025, compared with 0.4 per cent in the corresponding period of 2024.

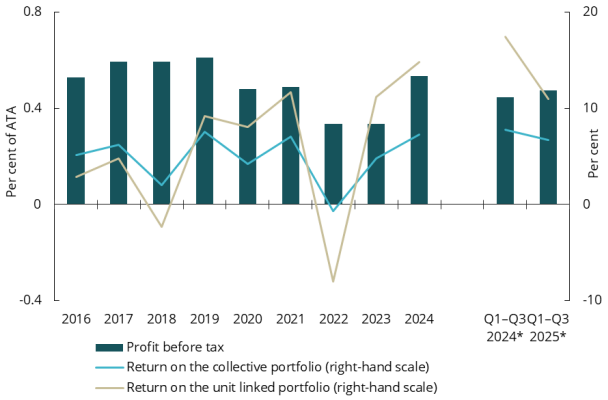
Pension funds' return showed a similar development. The annualised return on the collective portfolio was 7.6 per cent in the first half of 2025, down from 11.2 per cent in the corresponding period the previous year. Private pension funds saw a decrease in their return from 12.3 to 7.4 per cent, while municipal pension funds' return was down from 10.0 to 7.7 per cent.

Chart 5.1 Solvency ratios of insurers and pension funds*



The requirement for a solvency ratio above 100 for pension funds was introduced on 1 January 2019. The basis of the calculations was also changed. Source: Finanstilsynet

Chart 5.2 Life insurers' profits and returns[58]



*Annualised return
Source: Finanstilsynet

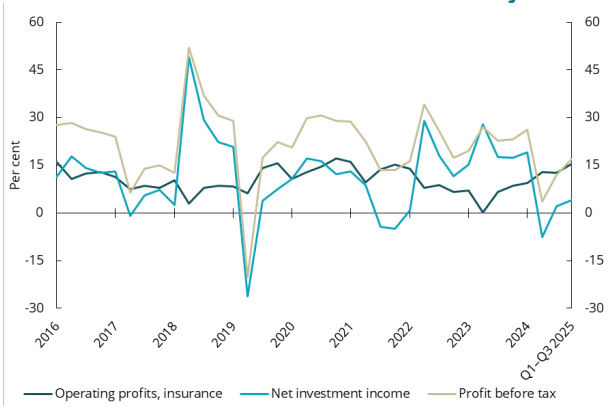
Non-life insurers combined generated lower profit before tax in the first three quarters of 2025 than in the corresponding period of 2024 (chart 5.3). The decline was mainly due to lower investment income. However, there was a rise in operating profits from insurance business in per cent of insurance-related income from 8.5 to 15.4 per cent during this period. The net combined ratio declined from 92 to 85 per cent (chart 5.4). The decrease is solely due to a lower claims ratio, primarily reflecting higher premium income, a lower claims frequency and fewer large claims so far in 2025.

Periods of significant financial market volatility were driven by trade policy uncertainty following the increase in US tariffs. For non-life insurers, higher tariffs mean more expensive repairs and claims

[58] The references to book and adjusted returns have been removed from the regulations on the calculation of return on capital in life insurers as a result of the introduction of regulations on the implementation of rules on buffer funds for private guaranteed pension products. Consequently, as from of 1 January 2024, only one return shall be calculated for the collective portfolio, corresponding to the previous adjusted return.

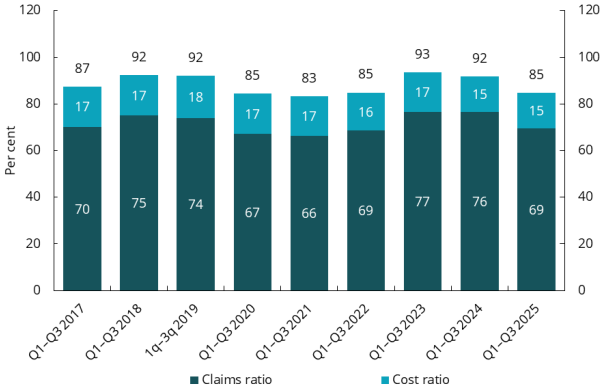
payments. This, in addition to major price corrections in international stock markets, could have a dampening effect on earnings in the short term. Over time, increased costs will be reflected in higher premiums.

Chart 5.3 Overall profits of non-life insurers. Per cent of insurance-related income so far this year



Source: Finanstilsynet

Chart 5.4 Non-life insurers' total claims ratio and cost ratio (net combined ratio)



Source: Finanstilsynet

Bonds represent the largest share of life insurers' investments

At end-September 2025, insurers' investments totalled NOK 2 792 billion, with life insurers accounting for NOK 2 562 billion (91.8 per cent) and life insurers for NOK 230 billion (8.2 per cent). Pension funds' total investments came to NOK 536 billion at end-June 2025.

The assets of life insurers primarily comprise long-term investments. These are distributed between unit linked portfolios and portfolios without investment choice (the collective and corporate portfolios). There are considerable variations in the types of investments in these portfolios. Investments in the collective and corporate portfolios amounted to NOK 1 633 billion as at 30 September 2025, of which bonds accounted for the largest proportion at 44 per cent (chart 5.5). Life insurers normally have long-term obligations and mitigate interest rate risk by investing in assets with long maturities.

A large share of the investments is in corporate bonds, partly due to the limited access to long-term Norwegian government bonds. The proportion of bonds has been reduced by 10 percentage points since year-end 2019. The proportion of bonds was high in 2019, partly because life insurers at the time had a lower risk-bearing capacity than today. Bonds were regarded as safe and stable investments, well aligned with life insurers' long-term obligations, despite the low interest rate level. After 2019, this proportion has been reduced due to improved risk-bearing capacity and high returns in the stock market. During the same period, investments in other asset classes have increased. Municipal life insurers account for most of the decrease in bond holdings.

Undertakings with portfolios of paid-up policies have consistently taken advantage of the increased interest rate level to expand their share of fixed-income securities carried at amortised cost. This means that the yield on the bonds is locked at the time of purchase as a fixed annual yield up until maturity.[59] This reduces the undertakings' risk associated with the annual guaranteed rate of return. Since these are low-risk investments, the prospects of pension customers' receiving excess returns on their pension funds have weakened significantly. This was pointed out in a letter from Finanstilsynet to all life insurers in December 2023. Finanstilsynet notes that since year-end 2023, the proportion of bonds has been reduced while the proportion of equities has been increased in these undertakings, although this proportion remains relatively low.

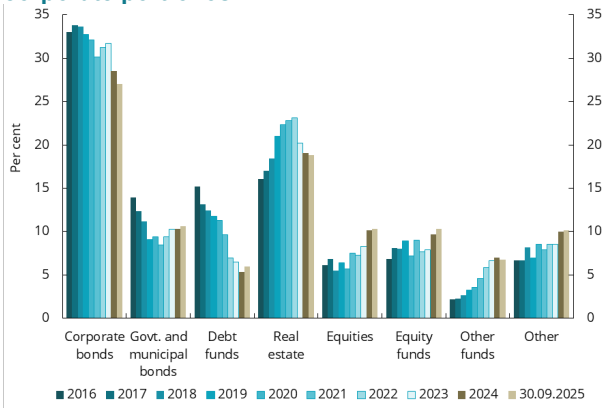
[59] Part of the bond portfolio is not regularly measured at fair value but carried at amortised cost.

While equities and equity funds represented the second largest asset class in the collective and corporate portfolios, the proportion of equities is markedly higher in the unit linked portfolio at 65 per cent (chart 5.6) The value of the unit linked portfolio has more than doubled since 2019. The increase is partly due to high returns and a rise in investments in unit linked products during this period. Defined-contribution occupational pension schemes provided by employers have contributed most to the increase.

Following the stock market decline in April 2025, triggered by uncertainty about US trade policy, the stock market has been in recovery so far this year. At the same time, there is increased geopolitical unrest and higher concentration risk as the strong price growth in the US stock market largely reflects expectations of high profitability in a limited number of companies. A sudden price correction could result in a substantial decline in the value of the undertakings' equity investments and impaired profitability.

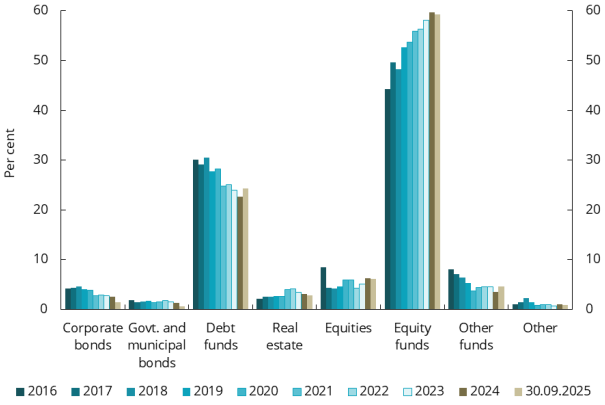
In consequence of the transition from defined-benefit to defined-contribution occupational pension schemes, members of the pension schemes increasingly choose the allocation and bear the return risk themselves. There has also been strong growth in individual investment products during this period, with a particularly steep increase in individual endowment insurance.

Chart 5.5 Investments in life insurers' collective and corporate portfolios



Source: Finanstilsynet

Chart 5.6 Life insurers' investments in the unit linked portfolio



Source: Finanstilsynet

Stable investment mix in pension funds

As at 30 September 2025, the 25 largest pension funds had total investments of NOK 459 billion. Bonds accounted for 50 per cent of assets, followed by equities at 32 per cent and real estate at 13 per cent (chart 5.7). The composition of pension fund assets has not changed as much as in life insurers in recent years. This is because pension funds generally have higher risk-bearing capacity compared with life insurers, as well as different incentives for assuming return risk[60], which supports maintaining a stable portfolio over time.

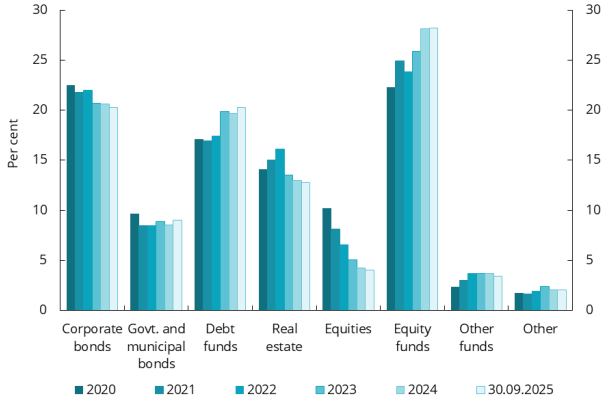
Non-life insurers also hold mainly bonds

As at 30 September 2025, the total investments of 16 of the largest non-life insurers amounted to NOK 201 billion. Bonds were the largest asset class, representing 69 per cent. This is a 4 percentage point increase since year-end 2019. Investments in government and municipal bonds have increased the most (chart 5.8). The proportion of equities remained stable at 15 per cent, while real estate accounted for 10 per cent of the total portfolio. Non-life insurers must always be able to make claims payments when damage occurs and therefore need stable and liquid investments. Bonds, especially

[60] Returns on the customer portfolio shall mainly be assigned to customers. In pension funds, the sponsoring company and the customers will, in many situations, have aligned interests.

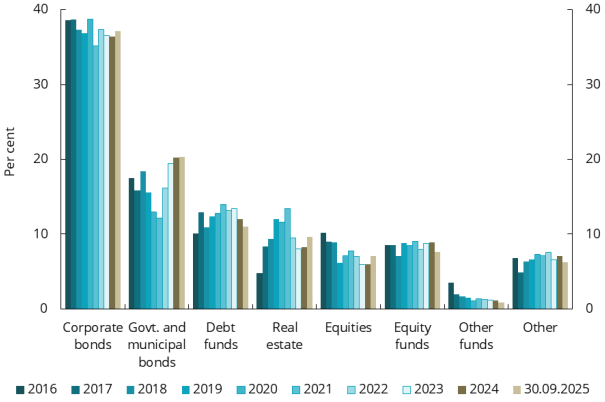
those backed by high-quality collateral, are well suited for this purpose. They provide steady yields and can normally be easily sold when needed.

Chart 5.7 Pension funds' investments



Source: Finanstilsynet

Chart 5.8 Non-life insurers' investments



Source: Finanstilsynet

Growth in alternative investments in Europe

EIOPA[61] has registered an increase in alternative investments, including private credit, among European insurers and pension funds in recent years. Private credit includes secured and unsecured loans and unlisted debt instruments, such as unlisted bonds. Private credit comprises loans to households and municipalities.

Private credit often provides higher expected returns and risks than traditional bonds, partly due to higher liquidity premiums. The increase has largely been driven by low interest rates and a desire for higher returns. Insurers with a long investment horizon and high volumes of assets under management have therefore progressively allocated capital to private credit. For Norwegian life insurers, this share has declined in recent years and stood at 14 per cent of total investments in the collective and corporate portfolios as at 30 September 2025. Compared to other countries in Europe, a larger number of Norwegian insurers have a high exposure to private credit, resulting in increased liquidity, valuation and credit risks.

The risk may vary greatly between the different types of investments classified as private credit. Finanstilsynet is closely monitoring developments in insurers' investments in private credit. Loans to municipalities and municipal enterprises accounted for 4 per cent of investments in the collective and corporate portfolios at end-September 2025.

Increase in insurance obligations and changing margins

The total obligations of Norwegian life insurers and pension funds increased from NOK 1 863 billion at year-end 2019 to NOK 2 709 billion at the end of 2024. The obligations of municipal pension schemes and defined-contribution pension schemes, including pension capital certificates, showed the most pronounced increase during this period. Savings in the form of individual endowment insurance have also risen significantly. The increase in these products is due to both high premiums and strong returns on funds associated with them.

The results of life insurers offering products to the private sector are strongly driven by individual endowment insurance, defined-benefit pension, including paid-up policies, and defined-contribution pension, including pension capital certificates.

For individual endowment insurance, products offering a lump-sum payout upon death represent the main contributor, generating a total risk result of NOK 1.2 billion in 2024. This is an increase of

[61] European Insurance and Occupational Pensions Authority.

approximately 50 per cent since 2019. The undertakings' margin for this risk has been high. The disability risk from individual products has shown a negative trend, and the risk result has declined by NOK 0.5 billion since 2019. The overall risk result for these products was negative in 2024.

Both defined-benefit schemes and paid-up policies contribute significantly to life insurers' results. Total profits for these products were approximately NOK 1.2 billion in both 2024 and 2019. Due to the higher interest rate level and changes in the regulatory framework, including the introduction of buffer funds as from 2024, Finanstilsynet estimates that paid-up policies will provide a higher future earnings potential for the undertakings.

Defined-contribution pension products have undergone significant changes in recent years, including the introduction of individual pension accounts and pension accrual from the first krone. Undertakings' earnings margins have been far higher for pension capital certificates than for defined-contribution pension schemes. The overall administrative result for defined-contribution pension schemes and pension capital certificates totalled approximately NOK 1.1 billion before the introduction of the own pension account in 2020, whereafter it was reduced to NOK 0.7 billion in 2022. In 2024, the administrative result rose to about NOK 1.2 billion as a result of wider margins and increased pension capital in the schemes. The profits linked to defined-contribution pensions and pension capital certificates are likely to improve in the coming years as the capital in the schemes grows.

Flood risk may be included in capital requirements from 2027

Given that changes resulting from the Solvency II review will be implemented in Norwegian law from 2027, flood risk, in addition to windstorm risk, will be included in the calculation of the solvency capital requirement for Norwegian insurers. This means that the capital requirement for natural disasters will increase. The calculation method under the Solvency II framework includes sums insured for fire and comprehensive motor insurance as well as marine, aviation and transport insurance for onshore vessels for each of Norway's 19 former counties (Cresta zones).

The standard formula does not distinguish between river flooding covered by the Norwegian Natural Perils Pool and other flood types, such as surface water, and flood damage to vehicles and other types of onshore vessels. This may present challenges in calculating the solvency capital requirement for flood risk. Finanstilsynet is examining how the differences in the coverage of flood events in the Norwegian Natural Perils Pool and among insurers should be taken into account when calculating the solvency capital requirement.

With effect from 2026, Finanstilsynet shall supervise the Norwegian Natural Perils Pool and be responsible for controlling that it operates in accordance with the law and good insurance practices.[62]

[62] Recommendation 323 L (2024–2025) (in Norwegian only)

Commissioned studies – changes to the Solvency II Directive, implementation of the Insurance Recovery and Resolution Directive (IRRD) and individual pension account for 'hybrid schemes'

The Ministry of Finance has commissioned Finanstilsynet to conduct two studies related to the Norwegian insurance and pension system.

The first study concerns the implementation of the EU's changes to the Solvency II Directive and the implementation of a new recovery and resolution framework for insurers, known as IRRD. The aim is to adapt Norwegian legislation to the new EU regulations, which are scheduled to enter into force in 2027. The changes to Solvency II focus on enhanced proportionality, reinforced supervision, revised capital requirements and better integration of sustainability risks into insurers' governance and reporting.

According to the IRRD, a framework for the recovery and resolution of insurers shall be established, including requirements for a resolution authority, recovery plans and funding of measures in the event of crises. Finanstilsynet shall also assess how remuneration rules in financial institutions should be formulated. The deadline is 27 February 2027.

The second study concerns the possibility of an individual pension account scheme for people with hybrid occupational pensions. The aim is to assess how such a solution can be designed based on the model for the defined-contribution pension scheme, whereby pension funds can be combined and managed in one place. Hybrid schemes differ from defined-contribution schemes in that they include mortality cross-subsidy benefits and guaranteed benefits, and in that the costs are covered by an administration reserve financed by the employer.

Finanstilsynet shall assess how an individual pension account for hybrid products can be introduced to ensure continuity in the accumulation of pension entitlements and facilitate competition. An assessment will also be made as to whether paid-up policies can be converted into a product that can be included in an individual pension account. The deadline is 1 March 2026.

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