Nordic Credit Rating

FINANCIAL INSTITUTIONS

SPAREBANK 1 ØSTFOLD AKERSHUS

Norway
Financial institutions

5 Feb. 2019
Result comment

LONG-TERM RATING

A

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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This commentary does not reflect a rating action.

Our 'A' issuer and issue ratings for SpareBank 1 Østfold Akershus are unchanged following the publication of its 2018 results. The bank reported better profit than expectated in the fourth quarter, partly due to stronger performance in associated companies, which had their strongest quarter of the year despite turbulent financial markets. In addition, the bank booked net reversals of loan losses in the quarter, offsetting a portion of revaluation losses on financial instruments.

TURNAROUND IN NET INTEREST MARGINS

Net lending was up 11.3% YoY, including a modest 0.8% in the quarter. The volume of loans transferred to covered bond companies was nearly unchanged from 2017 levels. The bank expects 8% growth in lending in 2019, which implies somewhat higher growth than the Norwegian market, which experienced 5.4% credit growth in 2018 (6.4% in 2017). Increased lending rates following Norges Bank's rate hike boosted NII by 4% in the fourth quarter and the bank expects a 7% impact in the first quarter of 2019. As a result, interest margins finally turned upward to 1.74% in the fourth quarter (1.70% in the third quarter), even including transferred loans (1.49% from 1.44%).

NET REVERSAL OF LOAN LOSSES

SpareBank 1 Østfold Akershus reported NOK 5m in net loan loss reversals in the quarter. In total, 2018 loan losses were low at 2bps of gross lending (including transferred loans). The bank expects low loan losses also in 2019. Nonperforming and other problem loans were 33bps (28bps) of gross lending (including transferred loans).

The bank reported a return on equity of 11.6% vs. our estimate of 11.1%. The proposed dividend pay-out ratio is 50% of mother company's profit (54% of consolidated profit), which is in line with the bank's dividend policy. The consolidated CET1 ratio was 16.1% vs our 15.9% estimate.

OUTLOOK[1]

Our stable outlook reflects the benign domestic and regional operating environment and Østfold Akershus's low to moderate risk appetite. We expect the bank to deliver stable growth slightly above market, and stable underlying profitability over the next three years. We do not expect the bank to make any major acquisitions or enter new geographical markets during our forecast period.

POTENTIAL POSITIVE RATING DRIVERS:

- An upgrade is unlikely at this time given already very strong earnings and capitalisation, and a benign loss environment.

POTENTIAL NEGATIVE RATING DRIVERS:

- Growth significantly outpacing capital generation.
- Increased competition leading to lower profitability.
- An economic downturn leading to deteriorating credit quality.

[1] The outlook and rating factors have not changed since our latest full report from 28 Nov. 2018, available at nordiccreditrating.com.

NORDIC CREDIT RATING AS

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