SpareBank 1 Østfold Akershus

Norway
Financial institutions

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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 Q1/19 results. The bank reported lower volumes and net interest margins than expected while total revenues were boosted by one-off gains from associated companies. The bank booked net reversals of loan losses in the quarter.

LOWER CORE INCOME

Net interest income was negatively affected by lower volumes; gross lending was down 2% QoQ (down 0.7% included transferred loans) due to increased competition and seasonal effects. YoY growth in lending was 5.4% inclusive and 7.4% exclusive transferred loans. Higher funding costs, mainly due to higher NIBOR, lead to lower net interest margin (NIM) at 1.63% vs 1.74% in Q4/18. These factors also affected net fees from Boligkreditt negatively. Operating costs came in about as expected; cost/ncome was 56.7% excl. net financials.

REVERSAL OF LOAN LOSSES CONTINUES

The bank reported net reversal of loan losses (NOK 3.5m) for the second quarter in row. Non-performing loans and other problem loans are 0.30% of lending vs 0.33% per Q4/18 and 0.29% per 1Q/18.

ONE-OFF GAINS WILL BOOST CET1 RATIO IN Q2/19

Reported CET1 ratio was 15.8%, including 50% of profit YTD, vs 16.1% per year-end 2018. In Q2/18, the mother bank will report NOK 52m as dividend from the SpareBank 1 Group related to the merger between SpareBank 1 and DNB's P&C insurance businesses, which is already reflected in the consolidated accounts. This will affect the CET 1 ratio positively by 0.3%-points.

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:

- Sustained strong credit metrics and low loan losses over time.
- Significantly higher capital targets.
- Note, however, that an upgrade is unlikely at this time given already very strong earnings and capital, 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 Oct. 2019, available at nordiccreditrating.com.

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