SpareBank 1 Østfold Akershus

Rating Action Report

LONG-TERM RATING

A

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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SpareBank 1 Østfold Akershus 'A' long-term issuer credit rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'A' long-term issuer rating on Norway-based SpareBank 1 Østfold Akershus (SB1 Østfold Akershus). The outlook is stable. At the same time NCR affirmed the 'N-1+' short-term rating. At the same time NCR affirmed its 'A' issue ratings on SB1 Østfold Akershus's senior unsecured bonds, affirmed its 'A-' issue ratings to its tier 2 bonds and affirmed its 'BBB' issue ratings to its additional tier 1 bonds.

Rationale

The rating reflects the bank's strong profitability and capitalisation, as well as its exposure to a growth region of Norway which has been less affected by the COVID-19 pandemic than most of the rest of the country. The bank is part of the SpareBank 1 Alliance, which we view as supportive of business diversity, operating efficiency, and liquidity. The bank has very strong pre-provision profitability, driven by higher net interest margins and a higher share of fee income in revenues than its peers, as well as strong cost efficiency. SB1 Østfold Akershus is predominantly a mortgage retail bank but also has exposure to commercial real estate lending. The rating is constrained by the competitive environment in the region and geographic concentration in the loan book.

Unlike most Norwegian savings banks, SB1 Østfold Akershus' equity belongs almost entirely to the owners of the bank's equity capital certificates. Consequently, the bank relies on the equity market to finance growth. Two foundations control about two-thirds of the certificates. We view the ownership structure as supportive of our standalone credit assessment, but do not notch explicitly to reflect any potential for support.

We have improved our assessment of SB1 Østfold Akershus's operating environment due to a lower risk of COVID-19 related loan losses. We have also revised our view of the bank's risk-adjusted earnings to consider the consolidated risk exposure amount.

Stable outlook

The stable outlook reflects our view that the ongoing pandemic will have only a modest impact on the Norwegian economy. It also reflects our view that SB1 Østfold Akershus is well positioned to benefit from likely future interest rate increases. We believe that the bank will prove resilient to risk factors, including a possible slowdown of the domestic housing market and margin pressure from price-competitive peers, thanks to strong capitalisation and earnings. An upgrade is unlikely at this time given the bank's already strong earnings and capitalisation and a benign loss environment. We could lower the rating to reflect an economic downturn leading to deteriorating credit quality, growth significantly outpacing capital generation, or increased competition leading to lower profitability.

Rating list	To	From
Long-term issuer credit rating:	A	A
Outlook:	Stable	Stable
Short-term issuer credit rating:	N-1+	N-1+
Senior unsecured issue rating:	A	A
Tier 2 issue rating:	A-	A-
Additional Tier 1 issue rating:	BBB	BBB

Figure 1. SB1 Østfold Akershus rating scorecard

Subfactors	Impact	To	From
National factors	10.0%	a	a-
Regional, cross border, sector	10.0%	a	a-
Operating environment	20.0%	a	a-
Capital	17.5%	a+	a+
Funding and liquidity	15.0%	a	a
Risk governance	5.0%	a-	a-
Credit risk	10.0%	bbb+	bbb+
Market risk	-	-	n/a
Other risks	2.5%	a	a
Risk appetite	50.0%	a	a
Market position	15.0%	bbb+	bbb+
Earnings	7.5%	aa-	aa
Loss performance	7.5%	a	a
Performance indicators	15.0%	a+	a+
Indicative credit assessment		**a**	**a**
Transitions		Neutral	Neutral
Peer comparisons		Neutral	Neutral
Borderline assessments		Neutral	Neutral
Stand-alone credit assessment		**a**	**a**
Material credit enhancement		Neutral	Neutral
Rating caps		Neutral	Neutral
Support analysis		Neutral	Neutral
Issuer rating		**A**	**A**
Outlook		Stable	Stable
Short-term rating		**N-1+**	**N-1+**

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	A	A
Tier 2	A-	A-
Additional Tier 1	BBB	BBB

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 28 Nov. 2018.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Financial Institutions Rating Methodology published on 14 Aug. 2018 NCR's Rating Principles published on 16 Sep. 2019 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies. The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA).
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test or cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies.
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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