# SpareBank 1 Østfold Akershus



LONG-TERM RATING

**A**

OUTLOOK

**Stable**

SHORT-TERM RATING

**N2**

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## SpareBank 1 Østfold Akershus 'A' long-term issuer 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 (SB1) Østfold Akershus. The outlook is stable. At the same time, the 'N2' short-term issuer rating was affirmed. Furthermore, the 'A' senior unsecured issue rating, 'A-' Tier 2 instrument rating and 'BBB' additional Tier 1 instrument rating were also affirmed.

**Rating rationale**

The affirmation reflects continued performance in line with our expectations and the bank's strong position in the face of a weaker economic climate.

The 'A' long-term issuer rating on SB1 Østfold Akershus reflects the bank's strong profitability and capitalisation, as well as its exposure to a growth region of Norway. 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 retail bank providing residential mortgages, but also has exposure to commercial real-estate lending. The rating is constrained by the competitive environment in the bank's operating region and geographic concentration in the loan book.

We have lowered our assessment of SB1 Østfold Akershus' credit risk to reflect the increased risk in the commercial real-estate sector, in particular for development projects. Although the bank generally has high securitisation on these exposures, and has decreased its exposure to development as projects are completed, the sector is facing significant uncertainty, with expectations of falling property values and rising costs.

**Stable outlook**

The outlook is stable, reflecting our view that SB1 Østfold Akershus has been able to benefit from interest rate increases and that the weakening economic climate will therefore not have a material impact on the bank's stability or profitability. We believe the bank will prove resilient to risk factors, including the slowdown of the domestic housing market and margin pressure from price-competitive peers, thanks to strong capitalisation and earnings.

We believe an upgrade is unlikely at this time, given that earnings and capitalisation are already strong. We could lower the rating to reflect a material deterioration in the regional operating environment that negatively affects the bank's asset quality. We could also lower the rating to reflect growth significantly outpacing capital generation, resulting in a CET1 ratio below 18% over a protracted period, or increased competition leading to lower profitability and a weaker market position.

| **Rating list** | **To** | **From** |
|---|---|---|
| Long-term issuer credit rating: | A | A |
| Outlook: | Stable | Stable |
| Short-term issuer credit rating: | N2 | N2 |
| 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 | - | - | - |
| 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** | | **N2** | **N2** |

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<br>Short-term issuer credit rating<br>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 18 Feb. 2022<br>NCR's Rating Principles published on 24 May 2022<br>NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022<br>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.<br>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 |
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| Ancillary services provided: | No ancillary services were provided. |
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