

Haugesund Sparebank

Full Rating Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

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RATING RATIONALE

Our rating on Haugesund Sparebank reflects the bank's modest risk appetite, strong capitalisation and earnings, and ready access to funding. The bank is in the process of switching from the DSS Alliance to the Eika Alliance, publicly listing its shares and merging with the smaller savings bank Tysnes Sparebank. We consider these events as both positive and as elevating uncertainty in the near to medium term. The bank benefits from diversification of business through its current cooperation with the DSS Alliance, which we believe it will maintain after switching to the Eika Alliance. This includes the opportunity to transfer mortgages to jointly owned covered-bond companies.

The rating is constrained by the bank's history of elevated loan losses and non-performing loans compared with Norwegian savings banks peers, and its concentrated exposure to real estate and the relatively rural local economy, both factors that also apply to Tysnes Sparebank. Both banks have a strong market position in their core markets, but Haugesund Sparebank faces competition in its larger markets with stronger growth prospects.

Our rating on Haugesund Sparebank is based on the current legal entity, prior to the merger with Tysnes Sparebank, and considers only public information on Tysnes Sparebank. The rating reflects what we consider the most likely scenario, which is that the legal merger will be approved by the Norwegian FSA and be completed by the end of 2024.

STABLE OUTLOOK

The stable outlook reflects our expectation that the merger with Tysnes Sparebank will go through without any complications. It also reflects our view that a weakened domestic economy will be offset by strong earnings. While loan losses are expected to remain higher than those of peers, we do not expect a significant impact on capital generation.

POTENTIAL POSITIVE RATING DRIVERS

- Improved asset quality metrics, with net Stage 3 loans as a share of net loans at around 1% over a sustained period.
- Cost-to-income ratio below 45% and pre-provision income/risk exposure amount above 2.5% for a protracted period.
- Strengthened market position in the merged bank's markets.

POTENTIAL NEGATIVE RATING DRIVERS

- Significant increases in loan losses or non-performing loans beyond our expectations.
- Tier 1 ratio below 18% over a protracted period.
- A material deterioration in the local operating environment that negatively affects the bank's growth or profitability.

Figure 1. Haugesund Sparebank key credit metrics, 2020–2026e

%	2020	2021	2022	2023	2024e	2025e	2026e
Net interest margin	1.9	1.9	2.0	2.4	2.4	2.3	2.2
Loan losses/net loans	0.37	0.13	0.27	0.19	0.34	0.23	0.18
Pre-provision income/REA	2.6	2.2	2.2	2.6	2.2	2.3	2.3
Cost-to-income	38.4	42.3	44.4	42.6	48.7	43.5	42.0
Return on ordinary equity	8.7	8.5	7.2	9.0	6.9	7.7	7.9
Loan growth	5.0	7.8	7.2	7.5	28.0	8.0	8.0
CET1 ratio	18.5	20.0	19.5	20.0	19.9	19.8	19.6
Tier 1 ratio	20.3	21.7	21.4	21.8	21.3	21.0	20.8

Source: company and NCR. e=estimate. REA=risk exposure amount. CET1=common equity Tier 1. All metrics adjusted in line with NCR methodology. Metrics for 2020–2023 reflect the stand-alone Haugesund Sparebank. Estimates for 2024 are on a pro forma basis. Estimates for 2025 and 2026 reflect the merged entity.

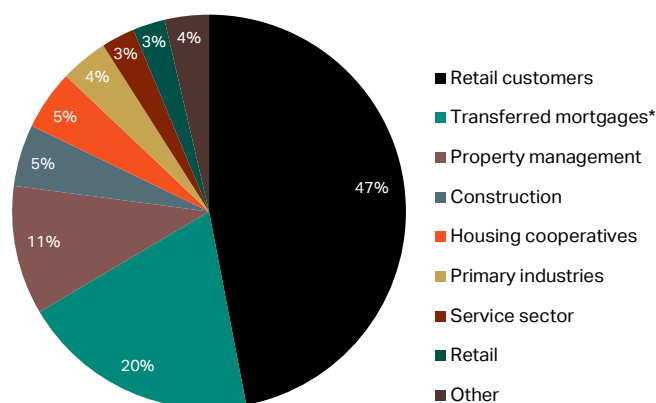
ISSUER PROFILE

Haugesund Sparebank is a mid-sized Norwegian savings bank operating on the Norwegian west coast in the Rogaland and Vestland regions. The bank dates back to 1928 and has merged with several local savings banks through the years. Haugesund Sparebank is currently part of the 'De samarbeidende sparebankene' (DSS) alliance, a partnership between eight savings banks. In November 2023, Haugesund Sparebank announced its intention to merge with Tysnes Sparebank, a smaller savings bank located just north of Haugesund Sparebank's markets. In conjunction with the merger, Haugesund Sparebank, as the remaining bank from a legal standpoint, will switch to the Eika Alliance and apply to list on the Oslo Stock Exchange.

The Eika Alliance is Norway's largest savings bank coalition, with over 50 small and medium-sized savings bank members. The association provides product diversity and helps to improve cost efficiency through the sharing of IT costs and joint efforts in risk management and compliance. It also provides the opportunity to finance residential mortgages via Eika Boligkreditt, Norway's fourth-largest issuer of covered bonds.

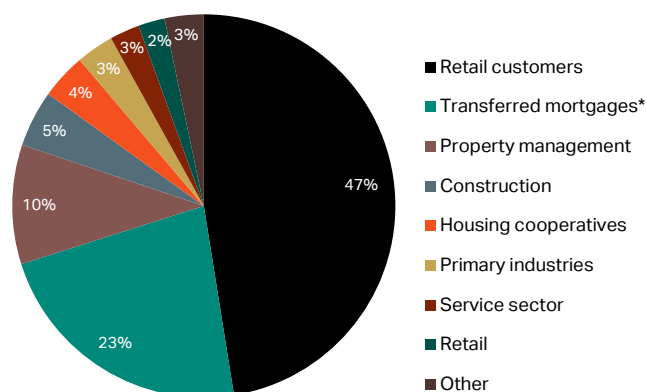
Both Haugesund Sparebank and Tysnes Sparebank are primarily focused on core banking activities, with net on-balance loans of NOK 12.2bn and NOK 2.7bn respectively as of 31 Mar. 2024. Both banks transfer a share of their retail mortgages, with Haugesund Sparebank having transferred NOK 3bn to Verd Boligkreditt AS, and Tysnes Sparebank having made NOK 1.4bn in transfers to Eika Boligkreditt AS.

Figure 2. Gross loans by sector/type, including transferred loans, 31 Mar. 2024



Source: company. *to Verd Boligkreditt.

Figure 3. Pro forma merged bank gross loans by sector/type, including transferred loans, 31 Mar. 2024



Source: company and NCR. *To Verd Boligkreditt and Eika Boligkreditt.

OPERATING ENVIRONMENT

Operating environment
assessment 'bbb+'

We consider a balance of national and regional factors in our assessment of the operating environment. Haugesund Sparebank operates in a large region with low unemployment and diverse growth prospects, albeit weaker than national average growth prospects. We believe that the national economy could weaken somewhat over the next few years due to reduced economic activity and the ongoing impact of high inflation, but consider the Norwegian banking sector well positioned to cope.

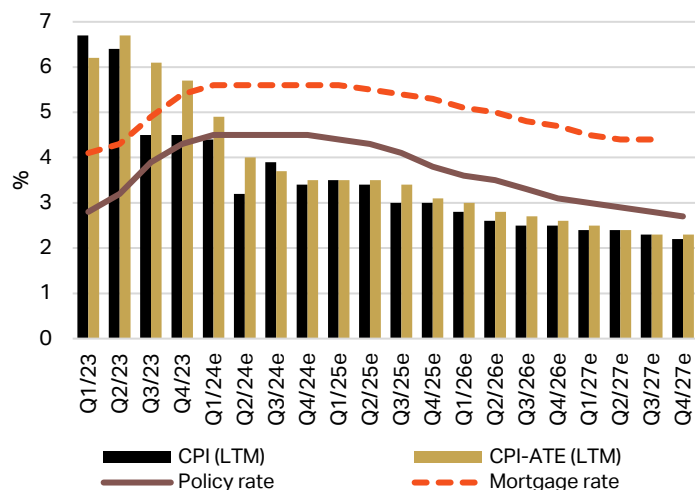
Norwegian savings banks resilient to reduced economic activity

National factors 'a'

Rising interest rates have significantly increased net interest margins for Norwegian savings banks over the past two years. Together with strong lending growth, this has boosted earnings across the sector. However, we believe that core earnings growth in the sector will slow down this year due to greater competition and increased, albeit moderate, loan losses. Among NCR-rated Norwegian savings banks, we expect a marginal decline in core profit in 2024 but anticipate that the normalisation of non-core revenues will contribute to an 8% increase in pre-tax profit. We also believe that interest margins could prove more resilient than we previously anticipated, due to continuing high interest rates.

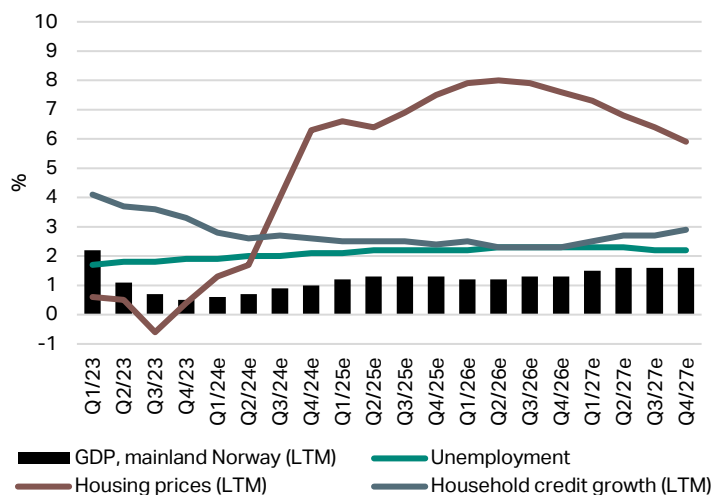
As intended, higher interest rates are leading to a slowing of the economy. We believe that high interest rates and weak economic conditions will result in higher loan-loss provisions among domestic savings banks over the next 12 months, but that levels will vary significantly between individual banks. Norway's savings banks are well capitalised and have strong pre-provision profitability, which makes them relatively resilient to increased credit losses.

Figure 4. Norwegian inflation and interest rates, 2023–2027e



Source: central bank. e–estimate. CPI–consumer price index. LTM–last 12 months. ATE–adjusted for tax changes and excluding energy products.

Figure 5. Norwegian economic indicators, 2023–2027e



Source: central bank. e–estimate.

Semi-rural market in between two of Norway's larger cities

Haugesund Sparebank's core market is in the area traditionally known as Haugalandet, on the Norwegian west coast between the two large cities of Bergen and Stavanger. Around 125,000 people live in the bank's core municipalities. An additional 35,000 people live in Tysnes Sparebank's markets, excluding its office in the outskirts of Bergen, where the bank has a limited presence. We expect the ferry-free road projects of Hordfast and Rogfast to reduce travel time between Stavanger and Bergen significantly and contribute to economic growth in the region, although they have been postponed so far.

The population in Haugesund Sparebank's markets is expected to grow by an average of 4% between 2022 and 2050, according to Statistics Norway, while the population of Tysnes Sparebank's markets is expected to shrink by 2.4%, compared with projected national average growth of 11.2%. Both banks' markets have unemployment levels significantly below the Norwegian average. However, we note there is significant variation in both population growth and unemployment among municipalities in the area.

The region has a relatively diverse employment base, with the public sector a major employer. The maritime sector has a strong presence in the region and there are several clusters of maritime industries. Other important industries include offshore, energy and processing. The broader region has high level of tourism activity, with an increasing number of cruise tourists contributing to economic growth and development.

Regional, sectoral, and cross-border factors
'bbb'

Figure 6. Haugesund Sparebank markets, incl. Tysnes Sparebank's markets below dotted line

Municipality	Population, 2024	Expected population change, 2022–2050 (%)	Unemployment, Apr. 2024 (%)	Unemployment, Apr. 2023 (%)
Haugesund	38,292	7.6	2.0	1.7
Karmøy	43,306	1.3	1.3	1.3
Tysvær	11,570	11.6	0.9	0.8
Bømlo	12,268	-2.4	1.9	1.8
Vindafjord	8,938	1.3	1.4	1.1
Sveio	5,742	9.4	1.0	1.8
Etne	4,072	-6.2	1.6	2.0
Bokn	883	0.6	<1	<1
Tysnes	2,922	-0.9	1.2	1.9
Kvinnherad	13,089	-10.1	1.0	1.0
Stord	19,287	2.7	0.7	1.0
Markets	160,369	2.6	1.4	1.4
Norway	5,550,203	11.2	1.8	2.0

Source: Statistics Norway, Norwegian Labour and Welfare Administration.

RISK APPETITE

Risk appetite assessment
'a-'

Our assessment of Haugesund Sparebank's risk profile reflects the bank's strong capital and liquidity buffers, diverse funding access and its ability to transfer loans to Verd Boligkreditt. The bank has some regional concentrations in its core markets and a significant proportion of property lending. It has a meaningful share of high-risk lending, including to the construction industry. The bank faces both opportunities and challenges related to the change of alliance and the merger with Tysnes Sparebank.

Public listing, merger and alliance shift put additional strain on governance framework

Risk governance 'bbb+'

In our view, Haugesund Sparebank's risk governance framework, risk appetite, limit monitoring and risk reporting are largely in line with those of its mid-sized savings banks peers. We consider that the bank has made significant improvements in recent years to monitoring and reporting frameworks on anti-money laundering and know-your-customer processes, reducing the risk of related regulatory fines and associated losses.

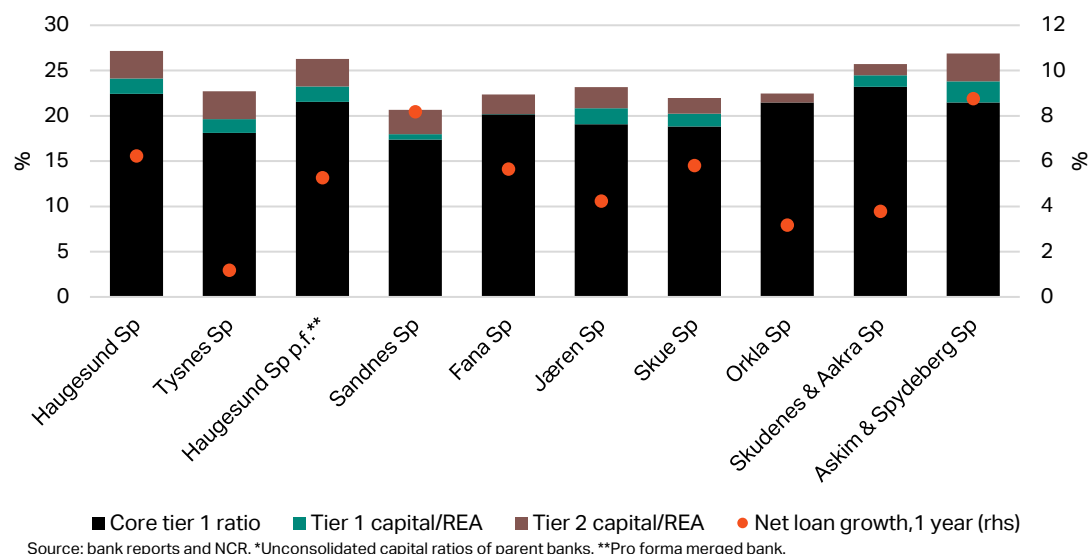
The processes involved in the change of banking alliance and merger require significant resources to ensure a steady transition, with thorough reviews of compliance and risk governance ability, as well as general adaptation to new operational activities and procedures. We believe the support from the Eika Alliance and accumulated experience from Tysnes Sparebank's use of the Eika Alliance's services will ease the transition and could strengthen Haugesund Sparebank's compliance and risk governance ability in the longer term. However, we also note that the listing on the Oslo stock exchange will likely bring additional scrutiny.

Stable capital position set to benefit from new regulation

Capital 'a+'

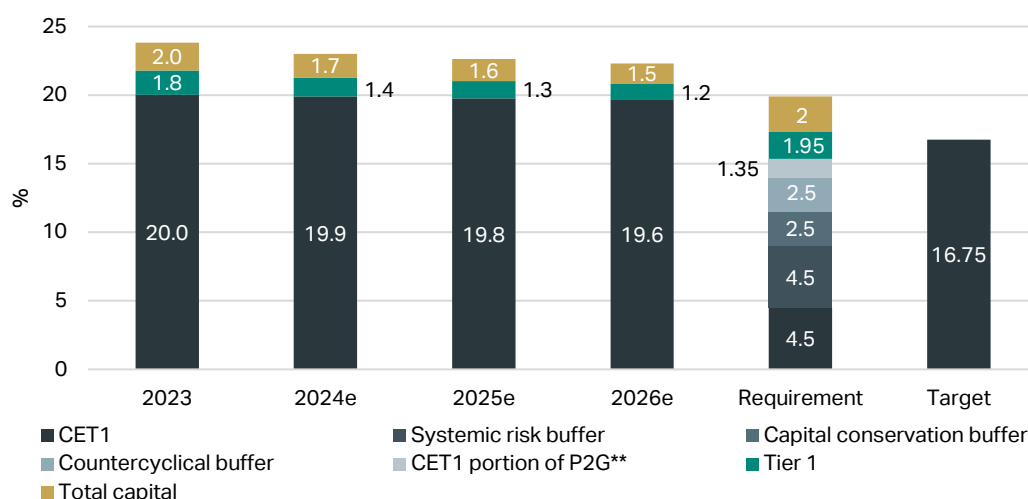
Our capital assessment takes into account Haugesund Sparebank's consolidated capital position, including its strategic holdings in Verd Boligkreditt and Brage Finans (leasing company). As of 31 Mar. 2024, the consolidated common equity Tier 1 (CET1) ratio was 20.7%, and the Tier 1 ratio 22.6%. The bank has a CET1 requirement of 15.4%, and a Tier 1 requirement of 17.3%, excluding a management buffer of 1.4%. We expect the merged bank to have a slightly lower capital ratio on a pro forma basis at 31 Dec. 2024, with a forecast CET1 ratio of 19.9% and Tier 1 ratio of 21.2%. We note that the Norwegian FSA could apply an additional interim P2G due to the merger but consider the bank's capital position sufficient to cope with this.

Figure 7. Norwegian savings banks' capital ratios* and loan growth, 31 Mar. 2024



A new standard method for calculating capital requirements for credit risk (CRR3) is scheduled to come into force in Norway from 1 Jan. 2025. The new method is more risk-sensitive and is likely to reduce capital requirements significantly for small to medium-sized savings banks. We expect CRR3 will improve Haugesund Sparebank's capital ratios by a few percentage points and believe it will improve savings banks' competitiveness by mitigating the current disparity with larger banks that use the internal ratings-based approach. In June 2024, the Norwegian FSA issued a statement confirming it will not require higher weights for loans secured to residential mortgages (retail or corporate), but will opt for a slightly higher risk weighing for commercial real estate and secondary homes compared with the main rule in the new regulation. We have not taken the possible impact of the new standard method into account in our forecasts, but the FSA estimates that an average standard method bank will improve capital ratios by several percentage points. We expect that the changed risk weights for loans to agriculture to 50% from 100% will have a limited impact on the bank's capital ratios.

Figure 8. Consolidated capital ratios 2023–2026e, capital requirement and targets* as of Q1 2024



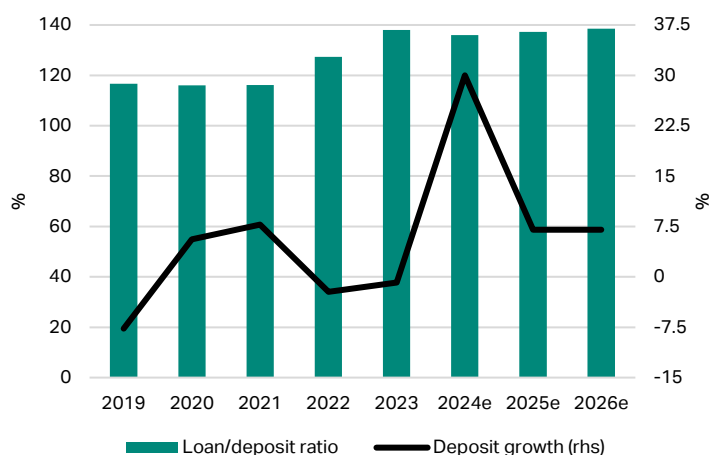
Funding consists of stable retail deposits and regular bond issuance

Haugesund Sparebank's funding profile is diverse, with a relatively stable retail deposit base and demonstrated access to capital markets. Strong loan growth and a flat deposit development since 2022 has led to the loan-to-deposit ratio climbing to 138% as of 31 Mar. 2024. Tysnes Sparebank has a slightly lower loan-to-deposit ratio, lowering the ratio in our pro forma forecast for 2024, after which higher growth in loans than deposits is expected to see the ratio rise slightly in 2025–2026. The bank has a few

single-name concentrations in its customer deposits, maintains strong liquidity buffers (28% of customer deposits as of 31 Mar. 2024) and has access to a NOK 400m credit line from DNB. As of 31 Mar. 2024, the liquidity coverage ratio was 240 and the net stable funding ratio 148, well above the bank's internal limits of 120 and 110, respectively.

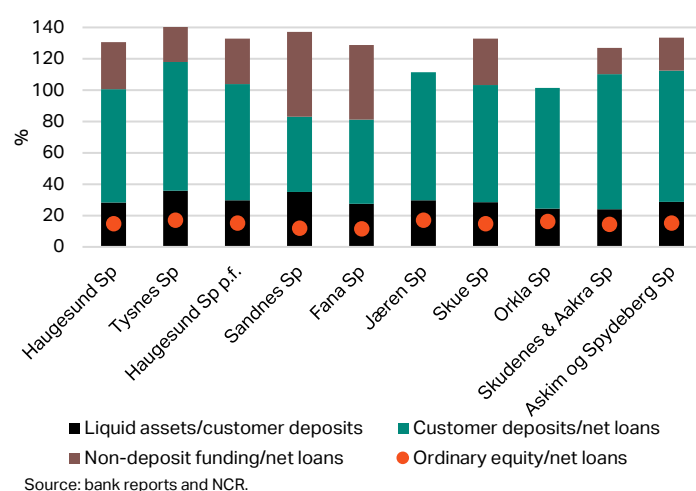
As of 31 Mar. 2024, Haugesund Sparebank had NOK 3.7bn in outstanding senior bonds with maturities evenly spread through 2029. In our forecast, we expect the bank to refinance debt through new issuance on maturity. We also project a modest increase in funding through senior unsecured debt to offset the slightly increasing loan-to-deposit ratio in 2025-2026.

Figure 9. Deposit metrics, 2019–2026e



Source: company and NCR. e-estimate.

Figure 10. Norwegian savings banks' funding profile, 31 Mar. 2024



Source: bank reports and NCR.

Verd Boligkreditt is a stable and important source of funding for the bank. It provides access to more affordable funding for retail mortgages, with longer terms to maturity, than it could source by itself. In the last year to 31 Mar. 2024, the bank has increased its transferred loans to Verd Boligkreditt by 21% to NOK 3.0bn, or 29% of total retail mortgage lending. This is within its 40% internal limit, and the bank maintains a steady portfolio of minimum NOK 300m of readily transferrable loans as a liquidity buffer. Tysnes Sparebank has a moderately higher transfer ratio to Eika Boligkreditt, resulting in a transfer ratio of 32% for the merged bank, pro forma.

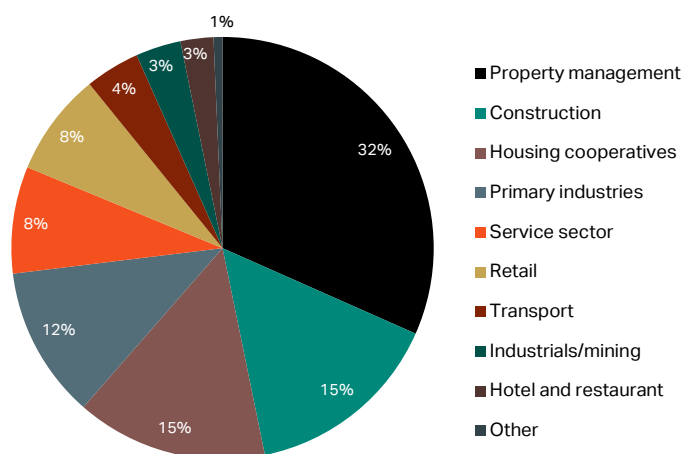
Loan book considered somewhat higher-risk than peers'

Haugesund Sparebank's loan portfolio has a strong regional focus, with 97% of lending extended to borrowers in Haugalandet. Some 70% of the bank's exposures (including transferred loans) are to private and agricultural customers and secured by housing and agricultural properties. While we regard this as low-risk credit, it nonetheless increases concentration on local borrowers and exposes the bank's collateral to any decline in property values. Housing prices and real-estate values in the region have increased, in contrast to falling housing prices in the wider Norwegian market as interest rates have risen. However, housing prices in the bank's operating region are somewhat lower than in larger metropolitan areas, resulting in lower debt burdens for the bank's customers. Housing price growth over the past decade has strengthened the bank's collateral.

In the 12 months to 31 Mar. 2024, Haugesund Sparebank had gross loan growth of 8.8% (including transferred loans). Our forecast for Haugesund Sparebank on a stand-alone basis includes loan growth of 5% in 2024. For 2025–2026, we consider the merged bank, and expect joint loan growth of around 6% each year on the balance sheet. We expect strong competition for corporate lending to continue and the loan book to grow with a similar breakdown to current levels. Both Haugesund Sparebank and Tysnes Sparebank have a relatively high share of construction exposure on their loan books, in addition to their property management exposures.

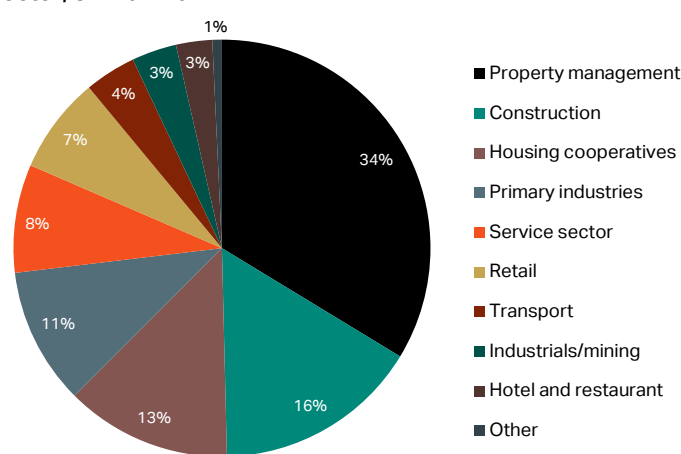
Credit risk 'bbb-'

Figure 11. Corporate gross loans by sector, 31 Mar. 2024



Source: company.

Figure 12. Pro forma merged bank corporate gross loans per sector, 31 Mar. 2024



Source: company and NCR.

We remain concerned about corporate real-estate lending, due to high interest costs and lower property values. In particular, the already higher risk for development projects remains elevated following steep cost increases in recent years. Both Haugesund Sparebank and, to a greater extent, Tysnes Sparebank, have a higher share of net Stage 3 loans on their loan books than other small and mid-sized Norwegian savings banks (see Figure 12).

On 31 Mar. 2024, Haugesund Sparebank had transferred loans amounting to NOK 3.0bn. These loans generated NOK 7.7m in commission income (about 2% of operating revenues) during 2023. However, the bank does not offload the associated risk, and we expect it to take back all non-performing loans to enable Verd Boligkreditt to maintain a clean cover pool. Haugesund Sparebank has always accepted repatriated loans, but in the event that repatriation should not prove possible, the covered bond company has the right to offset credit losses against commission income due to the bank. Due to the high credit quality of transferred loans and repatriation agreements, Verd Boligkreditt has never incurred actual credit losses. Tysnes Sparebank had around NOK 1.4bn in transferred mortgages to Eika Boligkreditt as of 31 Mar. 2024. Following the switch to the Eika Alliance for Haugesund Sparebank, we expect the bank to keep its current loans at Verd Boligkreditt until maturity or refinancing. New loans will be transferred to Eika Boligkreditt, which has a similar compensation and risk transfer system to Verd Boligkreditt.

Other risks aligned with risk governance

Other risks 'bbb+'

We align this risk factor with our risk governance assessment. We believe there is an increased operational risk related to the merger with Tysnes Sparebank, including the change of alliance and the listing of ECCs on the Oslo Stock Exchange. In our view, we also believe such significant events contribute to key personnel risk for the transitional period.

Haugesund Sparebank has strategic ownership positions in its current alliance of DSS, Verd Boligkreditt, and Eiendomsmeidler A, which provide it with access to the Norwegian covered-bond market and a real-estate agency. The cooperation with the DSS alliance has provided scale, contributing to lower operational costs and efficiency gains, as well as being a platform for knowledge development. The bank has strategic ownership in several product companies within insurance, leasing and asset management. The change to the Eika Alliance entails strategic ownership investments in Eika Boligkreditt and Eika Gruppen as a replacement for new mortgage loan transfers and product companies.

Figure 13. Pro forma merged key credit metrics, as of Q1 2024

	Haugesund Sparebank	Tysnes Sparebank	Pro-forma merged bank
Gross loans	12,289	2,781	15,069
Net loans	12,240	2,745	14,985
Total assets	14,845	3,570	18,415
Deposits from customers	8,854	2,308	11,106
Senior debt	3,680	603	4,334
Net interest margin** (%)	2.4	3.0	2.5
Operating income	104	29	133
Pre-provision income	61	17	77
CET1 capital*	1,760	436	2,196
Tier 1 capital*	1,921	474	2,395
REA*	8,498	2,483	10,981
CET1 ratio* (%)	20.7	17.6	20.0
Tier 1 ratio* (%)	22.6	19.1	21.8
PPI/REA** (%)	3.1	2.7	2.8
Cost/income ratio (%)	41.9	42.5	42.0
Credit provisions to net loans** (%)	0.04	-0.11	0.01
Net Stage 3/net loans (%)	2.48	6.51	3.22
Net Stage 3 coverage ratio (%)	5.81	13.3	8.73

Source: bank reports and NCR. *Consolidated. **Annualised. In million NOK. Metrics not adjusted for calculation changes in merged entity.

COMPETITIVE POSITION

Competitive position
assessment 'bbb-'

Haugesund Sparebank has a strong market position in its core markets in Haugalandet, but competition is steep and the bank has less than 15% of lending in the region. The bank has been growing its loan book at a similar level to, or slightly higher level than, peers over the past year. Main competitors include DNB and SB1 SR-Bank, in particular for large corporate loans. Sandnes Sparebank and Skudenes & Aakra Sparebank are also active in some parts of the region. Tysnes Sparebank has a strong presence in its core markets, in the relatively small towns of Tysnes, Husnes (part of Kvinnherad) and Stord. The bank also has a small presence in Bergen, Norway's second-largest city. While the two banks' market areas meet, both banks have a stronger presence in areas further away from one another. We expect the merged bank to focus on growth in the middle area, slightly north of Haugesund Sparebank's main markets and south of Tysnes Sparebank's, where there is the potential to gain additional market share.

The bank is currently the largest of eight banks in the DSS Alliance, whereas Tysnes is a smaller bank within the Eika Alliance, and the merged bank will become one of the largest banks in the Eika Alliance. Membership of both alliances diversifies revenues and enables the banks to provide a wider range of customer services than it could with its own resources. Via these alliances, the banks provide customers with insurance, debit and credit products, asset management and payment solutions.

We regard Haugesund Sparebank's contributions to its core markets as positive rating factors. The bank's primary environmental, social and governance (ESG) attribute is its strong sense of social responsibility to its local communities. The bank also funds social and cultural activities to support these communities.

PERFORMANCE INDICATORS

Performance indicators
assessment 'bbb+'

We expect Haugesund Sparebank to maintain most of its strengthened net interest margin, supporting strong risk-adjusted earnings through our forecast period. We do not view the elevated expected cost-to-income ratio in 2024 as indicative for the coming years, but believe positive synergy effects will emerge gradually, lowering the ratio below 45% in 2026.

High interest margins support earnings despite higher cost level

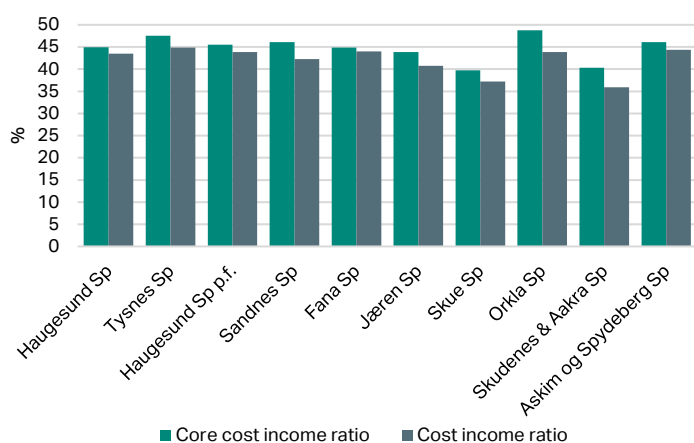
Earnings 'a'

As with most Norwegian savings banks, Haugesund Sparebank has seen an improvement in earnings following interest rate increases. The bank did, however, have a fairly high net interest margin to begin

with, given its relatively large share of lending to the corporate sector. Nevertheless, the bank's cost-to-income ratio is in line with peers', likely partially due to the larger number of branches.

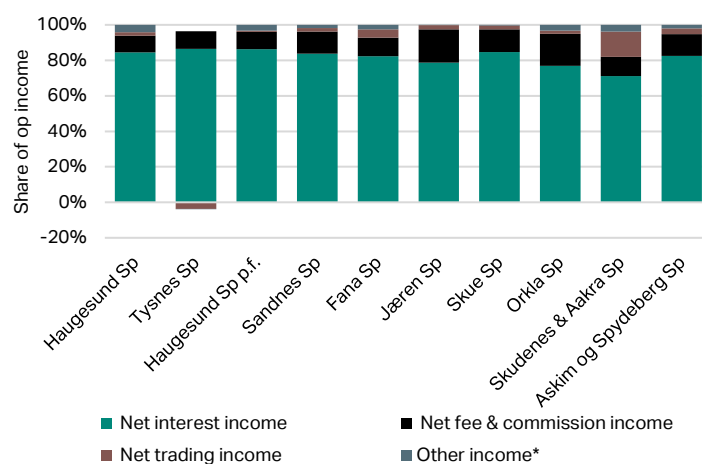
We expect a slight positive effect on the net interest margin from the merger with Tysnes Sparebank, given the smaller bank's exceptional margins. We also believe the level of costs will be elevated in 2024, given Haugesund Sparebank's switch to the Eika Alliance, its listing on the Oslo Stock Exchange and the merger. We are expecting some early synergy gains from joining the Eika Alliance in 2025, but anticipate that most of this effect will be seen in 2026 and beyond.

Figure 14. Norwegian savings banks' cost efficiency metrics, LTM to 31 Mar. 2024



Source: bank reports and NCR. LTM-last 12 months. Core represents net interest income and net fee & commission income.

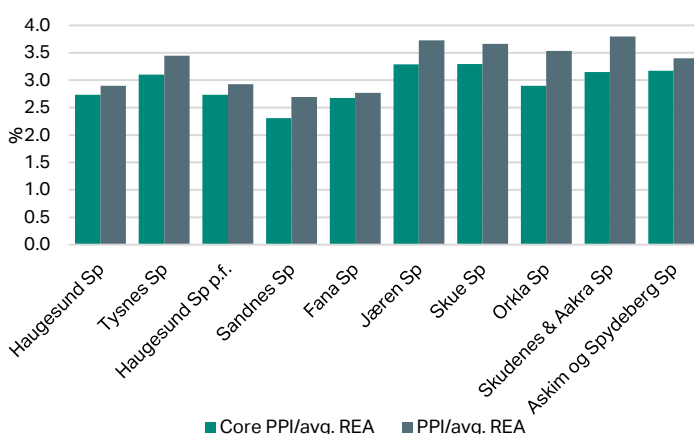
Figure 15. Norwegian savings banks' split between income groups, LTM to 31 Mar. 2024



Source: bank reports and NCR.

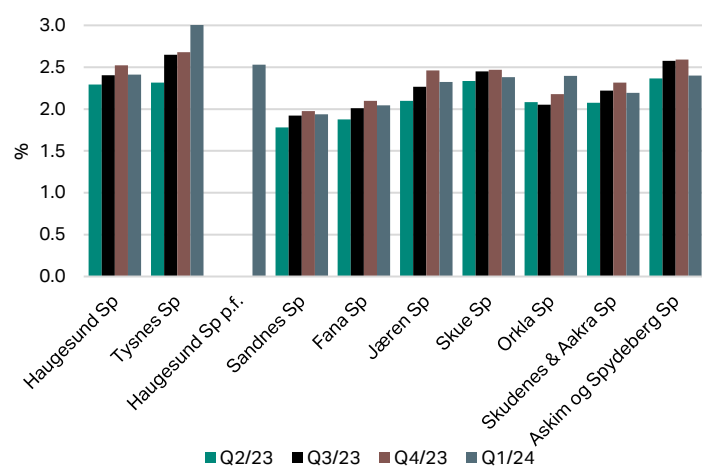
We expect a gradual decrease in net interest margins throughout our forecast period, as we believe that interest rates have peaked and the central bank will likely lower the policy rate later in 2024. Indications are that the Norwegian central bank will keep the rate higher for longer compared with Sweden and the European Central Bank, supporting Haugesund Sparebank's interest margin.

Figure 16. Norwegian savings banks' PPI to REA, LTM to 31 Mar. 2024



Source: bank reports and NCR. PPI-pre-provision income. REA-risk exposure amount.

Figure 17. Norwegian savings banks' annualised net interest margins, Q2 2023-Q1 2024



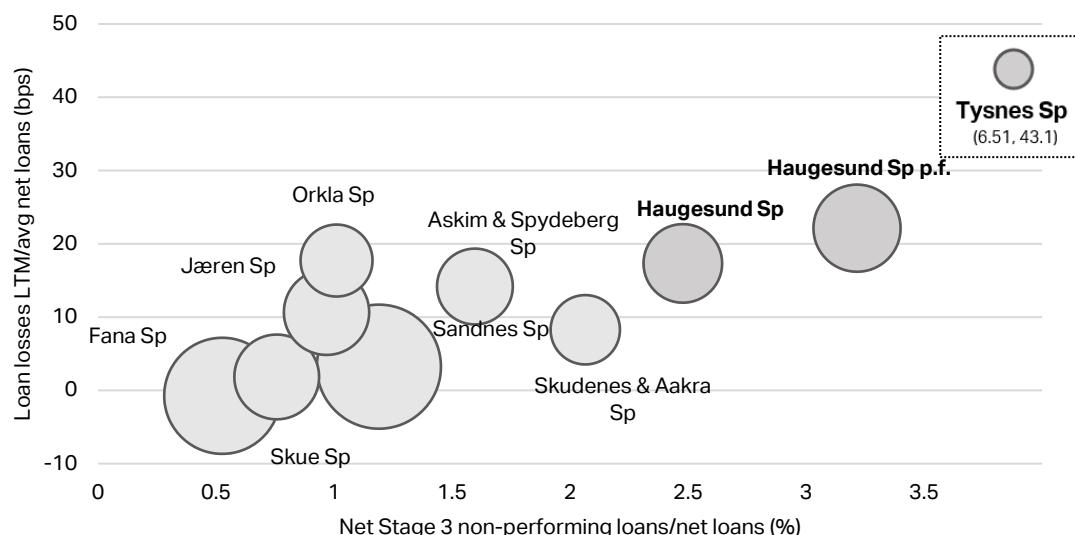
Source: bank reports and NCR.

Both banks have a history of higher non-performing loans and loan losses

Haugesund Sparebank booked 13–51 bps of net loans in loan loss provisions between 2017 and 2023, which is much higher than most mid-sized Norwegian savings banks. We believe the bank has made significant headway in reducing risk in its loan book in the past years, but issues in significant individual exposures continue to impact asset quality metrics. Since 2020, the share of net Stage 3 loans has been consistently higher than for most peers. While strong collateral has helped prevent actual losses, the bank's relatively low Stage 3 coverage ratio increases the risk of additional losses.

Loss performance 'bbb'

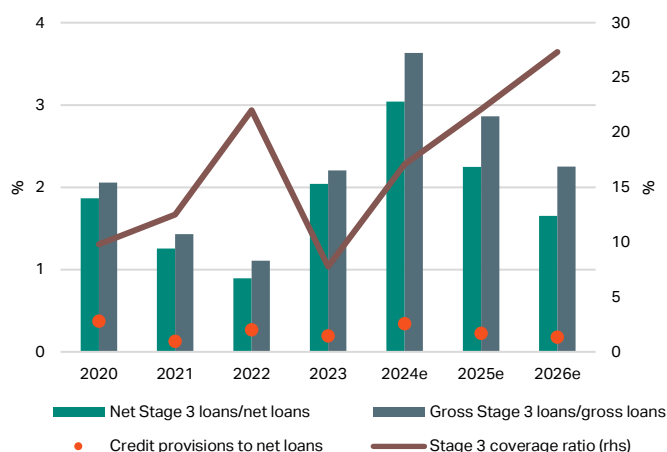
Figure 18. Norwegian savings bank's asset quality metrics, 31 Mar. 2024



Source: bank reports and NCR. Bubble sizes reflect net loan volumes.

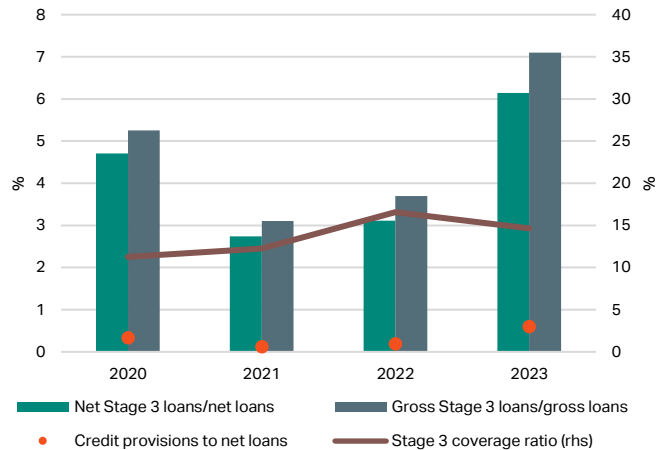
Tysnes Sparebank is a small bank, and consequently individual exposures can have a significant impact on loan losses. Since it started reporting according to IFRS 9 in 2020, nearly half of its corporate exposures have been in Stage 2 or 3 (net loans). Net Stage 3 loans constituted 2.7–6.5% of on-balance-sheet loans from 2020 to 31 Mar. 2024. Corporate Stage 3 coverage ratios are also relatively low, which is a cause for concern, even on the assumption that a large share of corporate Stage 3 loans are secured with physical collateral. We do not have detailed insight into Tysnes Sparebank's loan book, and have consequently taken a conservative stance on the loan book performance over our forecast period, particularly with regard to expected losses in the corporate portfolio.

Figure 19. Haugesund Sp asset quality metrics, 2020–2026e



Source: company and NCR. e=estimate.

Figure 20. Tysnes Sp asset quality metrics, 2020–2023



Source: company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

Neutral aggregate ESG impact

ESG factors are considered throughout our analysis, where material to the credit assessment. In aggregate, we view the bank's ESG profile as having a neutral impact on its creditworthiness.

Figure 21. Haugesund Sparebank priority ESG factors

Issue/area	Risk/opportunity	Impacted subsections (impact on credit assessment*)
Physical climate risk to collateral	Climate-related damage to real-estate collateral (closely linked to supervision of insurance). Longer-term effects on market values in flood risk areas.	Credit risk (-) Loss performance (0)
Social engagement in local community	Close connection to narrow regional markets provides a benefit.	Competitive position (+) Earnings (+) Funding & liquidity (+)
Sustainable/green-bond framework	Diversity of funding sources, access to additional markets/investors.	Funding & liquidity (+)
Anti-money laundering capacity	Risk of sanctions and fraud due to insufficient reviews of customers.	Risk governance (-)
Control of sustainability issues	Risk of overlooking sustainability impacts in the bank's underwriting, operations, and customer base.	Risk governance (0) Credit risk (0)

*Defined on a 5-step scale ranging from double minus (--) to double plus (++), with (--) representing the most negative impact and (++) the most positive. See [ESG factors in financial institution ratings](#).

ADJUSTMENT FACTORS

Support analysis

Support analysis neutral

We do not adjust the rating on Haugesund Sparebank to reflect expectations of additional support. The bank is currently not publicly listed, but has plans to list in preparation for the merger with Tysnes Sparebank later in 2024. We view the listing as positive, as it provides easier access to funding through equity markets to finance growth, if necessary. However, we do not expect the bank to raise new capital in the IPO. Around 16% of the bank's equity was owned by ECC holders as of 31 Mar. 2024, with the remaining equity owned by the bank's savings bank foundation.

Figure 22. Haugesund Sparebank ownership structure, 31 Mar. 2024

Owner	Share of ECCs
Helgevold Holding AS	4.1%
Bømmelfjord AS	3.0%
Hovedgt. 52 AS	2.9%
KPB Holding AS	2.9%
Hegerland Holding AS	2.7%
Other ECC	64.3%
Total	100.0%

Source: company.

ISSUE RATINGS

Our rating on Haugesund Sparebank's unsecured senior debt is in line with the 'BBB+' issuer rating. The bank has an outstanding Tier 2 instrument and additional Tier 1 instruments, which we rate one and three notches below the issuer rating, respectively, at 'BBB' and 'BB+'.

SHORT-TERM RATING

The 'N2' short-term rating is the higher of the two alternatives available under NCR's methodology, given the long-term issuer rating of 'BBB+'. This reflects that the bank has direct access to emergency liquidity assistance from the central bank, and an average liquidity coverage ratio of 229.6% over the last four quarters.

METHODOLOGIES USED

- (i) [Financial Institutions Rating Methodology](#), 14 Feb. 2024.
- (ii) [Rating Principles](#), 14 Feb. 2024.
- (iii) [Group and Government Support Rating Methodology](#), 14 Feb. 2024.

RELEVANT RESEARCH

- (i) [Norwegian savings banks' capitalization boosted by CRR3](#), 26 Jun. 2024
- (ii) [Credit loss uncertainty rises for Nordic consumer banks](#), 11 Jun. 2024
- (iii) [Swedish savings banks face weaker earnings and low loan growth in 2024](#), 6 Feb. 2024
- (iv) [Norwegian savings banks face margin squeeze in 2024](#), 11 Dec. 2023
- (v) [Mid-sized Norwegian savings banks navigate economic challenges](#), 28 Aug. 2023.

Figure 23. Haugesund Sparebank key financial data, 2020–Q1 2024 YTD

Key credit metrics (%)	FY 2020	FY 2021	FY 2022	FY 2023	Q1 2024 YTD
INCOME COMPOSITION					
Net interest income to op. revenue	74.8	77.9	82.3	84.1	84.4
Net fee income to op. revenue	13.7	14.9	14.3	10.2	9.5
Net trading income to op. revenue	10.0	1.3	-2.1	1.7	1.9
Net other income to op. revenue	1.6	5.9	5.4	3.9	4.2
EARNINGS					
Net interest income to financial assets	1.9	1.9	2.0	2.4	2.4
Net interest income to net loans	2.3	2.3	2.4	2.8	2.9
Pre-provision income to REA	2.6	2.2	2.2	2.6	2.8
Core pre-provision income to REA (NII & NF&C)	2.1	1.9	2.1	2.4	2.5
Return on ordinary equity	8.7	8.5	7.2	9.0	9.9
Return on assets	1.0	1.0	0.9	1.1	1.2
Cost-to-income ratio	38.4	42.3	44.4	42.6	41.9
Core cost-to-income ratio (NII & NF&C)	43.4	45.6	45.9	45.1	44.6
CAPITAL					
CET1 ratio	18.5	20.0	19.5	20.0	20.7
Tier 1 ratio	20.3	21.7	21.4	21.8	22.6
Capital ratio	22.5	23.9	23.6	23.8	25.9
REA to assets	62.8	60.4	60.2	61.6	57.2
Dividend payout ratio	7.7	11.4	11.7	12.8	
Leverage ratio	10.4	10.5	10.5	10.4	10.6
GROWTH					
Asset growth	9.9	6.1	7.2	5.3	2.2
Loan growth	5.0	7.8	7.2	7.5	1.1
Deposit growth	5.6	7.8	-2.2	-0.9	1.0
LOSS PERFORMANCE					
Credit provisions to net loans	0.37	0.13	0.27	0.19	0.04
Stage 3 coverage ratio	9.79	12.52	19.44	7.78	5.81
Stage 3 loans to gross loans	2.06	1.43	1.11	2.21	2.62
Net stage 3 loans to net loans	1.87	1.26	0.90	2.04	2.48
Net stage 3 loans/ordinary equity	12.71	8.60	6.11	13.77	16.63
FUNDING & LIQUIDITY					
Loan to deposit ratio	116.1	116.2	127.3	138.1	138.2
Liquid assets to deposit ratio	27.2	24.8	27.3	26.4	28.3
Net stable funding ratio	0.0	145.9	125.2	0.0	147.8
Liquidity coverage ratio	175.0	126.0	195.0	231.1	240.0

Key financials (NOKm)	FY 2020	FY 2021	FY 2022	FY 2023	Q1 2024 YTD
BALANCE SHEET					
Total assets	12,125	12,862	13,790	14,520	14,845
Total tangible assets	12,118	12,856	13,784	14,517	14,843
Total financial assets	12,027	12,752	13,679	14,422	14,741
Net loans and advances to customers	9,744	10,508	11,260	12,107	12,240
Total securities	1,531	1,530	1,637	1,546	1,407
Customer deposits	8,393	9,046	8,846	8,769	8,854
Issued securities	1,908	2,064	3,060	3,712	3,918
of which other senior debt	1,758	1,914	2,910	3,562	3,680
of which subordinated debt	150	150	150	150	239
Total equity	1,545	1,651	1,784	1,931	1,959
of which ordinary equity	1,430	1,536	1,649	1,796	1,824
CAPITAL					
Common equity tier 1	1,412	1,555	1,622	1,789	1,760
Tier 1	1,543	1,686	1,778	1,948	1,921
Total capital	1,713	1,857	1,961	2,130	2,198
REA	7,618	7,764	8,298	8,941	8,498
INCOME STATEMENT					
Operating revenues	297	295	315	395	104
Pre-provision operating profit	183	170	175	227	61
Impairments	36	13	29	23	1
Net Income	118	125	114	155	45

Source: company. FY–full year. YTD–year to date.

Figure 24. Haugesund Sparebank rating scorecard

Subfactors	Impact	Score
National factors	10.0%	a
Regional, cross border, sector	10.0%	bbb
Operating environment	20.0%	bbb+
Capital	17.5%	a+
Funding and liquidity	15.0%	a
Risk governance	5.0%	bbb+
Credit risk	10.0%	bbb-
Market risk	-	-
Other risks	2.5%	bbb+
Risk appetite	50.0%	a-
Competitive position	15.0%	bbb-
Earnings	7.5%	a
Loss performance	7.5%	bbb
Performance indicators	15.0%	bbb+
Indicative credit assessment		bbb+
Transitions		Neutral
Peer calibration		Neutral
Borderline assessments		Neutral
Stand-alone credit assessment		bbb+
Material credit enhancement		Neutral
Rating caps		Neutral
Support analysis		Neutral
Issuer rating		BBB+
Outlook		Stable
Short-term rating		N2

Figure 25. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB+
Tier 2	BBB
Additional Tier 1	BB+

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