Nordic Credit Rating

FINANCIAL INSTITUTION

Norway
27 Jun. 2024

Odal Sparebank

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

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Odal Sparebank assigned 'BBB+' long-term issuer rating; Outlook stable

Nordic Credit Rating said today that it had assigned a 'BBB+' long-term issuer credit rating to Norway-based Odal Sparebank. The outlook is stable. An 'N2' short-term issuer rating was also assigned, together with a 'BBB+' senior unsecured issue rating and a 'BBB' Tier 2 issue rating.

Rating rationale

The long-term issuer rating reflects Odal Sparebank's low risk appetite, and strong earnings and capital position. Despite total assets of only NOK 7bn, the bank has proven access to capital market financing and few concentrations in its mostly retail deposit base. The bank's ownership and cooperation with the Eika Alliance banking association ensures product diversity, shared development costs and the opportunity to finance residential retail mortgage loans through jointly owned covered-bond company Eika Boligkreditt.

We expect Odal Sparebank to maintain strong earnings over our forecast period through 2026, despite margin pressure as it pursues growth in the Kongsvinger and Romerike regions. We expect credit losses to remain modest but elevated, given the continued effects of recent cost inflation and higher interest rates.

The rating is constrained by geographical concentration in Odal Sparebank's loan book and a high share of real-estate and agriculture collateral in the bank's core markets. Although the bank has a very strong market share in the Odal region of south-east Norway, it faces stiffer competition in its other core markets.

Stable outlook

The stable outlook reflects our view that the bank's strong earnings will compensate for a weakened domestic economy and somewhat elevated credit provisions. Our forecast sees Odal Sparebank's cost efficiency remaining weaker than peers' due to investments in personnel in growth areas, risk governance and compliance. We expect the bank to maintain stable capital ratios, even excluding the potential positive impacts of implementing Capital Requirements Regulations III (CRR3), as it grows its corporate loan book in Kongsvinger and Romerike.

We could raise the rating to reflect pre-provision income to risk exposure amount (REA) sustainably above 3% and cost to income below 45%, a material reduction in Stage 3 non-performing loans, or an improved market position in the growth markets of Kongsvinger and Romerike.

We could lower the rating to reflect a consolidated Tier 1 capital ratio below 18% over a protracted period, a material deterioration in the local operating environment that negatively affects asset quality, or risk-adjusted earnings metrics below 1.5% for REA over a protracted period.

Rating list	Rating
Long-term issuer credit rating:	BBB+
Outlook:	Stable
Short-term issuer credit rating:	N2
Senior unsecured issue rating:	BBB+
Tier 2 issue rating:	BBB

Figure 1. Odal Sparebank rating scorecard

Subfactors	Impact	Score
National factors	10.0%	a
Regional, cross border, sector	10.0%	bbb+
Operating environment	20.0%	a-
Capital	17.5%	a+
Funding and liquidity	15.0%	a-
Risk governance	5.0%	a-
Credit risk	10.0%	bbb
Market risk	-	-
Other risks	2.5%	a-
Risk appetite	50.0%	a-
Competitive position	15.0%	bb
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 2. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB+
Tier 2	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 27 Jun. 2024.
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 Feb. 2024 NCR's Rating Principles published on 14 Feb. 2024 NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024 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, Bond prospectuses, 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.
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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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