

Haugesund Sparebank

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

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Haugesund 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 [Haugesund Sparebank](#). The outlook is stable. An 'N2' short-term issuer rating was also assigned, together with a 'BBB+' senior unsecured issue rating, a 'BBB' Tier 2 issue rating and a 'BB+' Tier 1 issue rating.

Rating rationale

The long-term rating reflects Haugesund Sparebank'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 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.

We could raise the rating to reflect improved asset quality metrics, with net Stage 3 loans as a share of net loans at around 1% over a sustained period; a cost-to-income ratio below 45% and pre-provision income/risk exposure amount above 2.5% for a protracted period; or in response to a strengthened market position in the merged bank's markets.

We could lower the rating to reflect significant increases in loan losses or non-performing loans beyond our expectations; a Tier 1 ratio below 18% over a protracted period; or in response to a material deterioration in the local operating environment that negatively affects the bank's growth or profitability.

Rating list

Long-term issuer credit rating:
Outlook:
Short-term issuer credit rating:
Senior unsecured issue rating:
Tier 2 issue rating:
Additional Tier 1 issue rating:

Rating

BBB+
Stable
N2
BBB+
BBB
BB+

Figure 1. 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 2. Capital structure ratings

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

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 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 Group and Government Support Rating Methodology published on 14 Feb. 2024 NCR's Financial Institutions Rating Methodology published on 14 Feb. 2024 NCR's Rating Principles 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.
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.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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