

Voss Veksel- og Landmandsbank ASA

Full Rating Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

PRIMARY ANALYST

Christian Yssen
+4740019900
christian.yssen@nordiccreditrating.com

SECONDARY CONTACTS

Geir Kristiansen
+4790784593
geir.kristiansen@nordiccreditrating.comSean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

RATING RATIONALE

Our 'BBB+' long-term issuer rating on Norway-based Voss Veksel- og Landmandsbank ASA (Vekselbanken) reflects the bank's strong earnings and capital position, and low risk appetite. The bank has proven access to capital market financing and few single-name concentrations. Vekselbanken has an ownership and cooperation arrangement with the Eika Alliance banking association which enables product diversity, shared development costs, and the opportunity to finance residential retail mortgage loans through jointly owned covered-bond company Eika Boligkreditt AS.

We expect Vekselbanken to maintain strong earnings over our forecast period through 2026. We also expect credit losses to remain slightly elevated, given the continued effects of recent cost inflation and high interest rates.

The rating is constrained by geographic concentration in the relatively rural local economy of the Voss region and a high proportion of real-estate collateral in the bank's core markets. The rating is also constrained by strong competition from the bank's main owner, Voss Sparebank, and the two banks' largely shared customer base.

STABLE OUTLOOK

The outlook is stable, reflecting our view that Vekselbanken's strong earnings will compensate for a weakened domestic economy and the bank's slightly elevated credit provisions. We forecast that the bank's cost efficiency will remain stronger than that of its peers and expect it to maintain strong capital ratios, further boosted by the prospective positive impact of implementing the EU's Capital Requirements Regulations III (CRR3). However, we remain uncertain about the bank's long-term capital strategy.

POTENTIAL POSITIVE RATING DRIVERS

- Commitment to consolidated Tier 1 ratio above 22% and 6pp above required level.
- Lower commuting time between Voss and Bergen leading to stronger regional economic growth.
- Improved economic outlook and asset quality.

POTENTIAL NEGATIVE RATING DRIVERS

- A material deterioration in the local operating environment that negatively affects asset quality.
- Consolidated Tier 1 ratio below 18% over a protracted period.
- Pre-provision income/consolidated risk exposure amount below 2% for a protracted period.

Figure 1. Key credit metrics, 2020–2026e

%	2020	2021	2022	2023	2024e	2025e	2026e
Net interest margin	1.6	1.6	1.9	2.2	2.1	2.0	1.9
Loan losses/net loans	0.16	0.00	0.03	0.09	0.10	0.12	0.09
Pre-provision income/consolidated REA*	1.7	1.9	2.5	3.5	3.4	3.4	3.4
Cost-to-income	52.6	45.3	43.4	37.0	36.7	36.3	37.2
Return on ordinary equity	6.1	7.8	9.0	12.0	12.2	11.4	10.8
Loan growth	0.8	2.7	1.2	5.1	7.0	5.0	4.0
Consolidated CET1 ratio*	17.1	18.0	19.4	18.7	19.0	21.5	22.0
Consolidated Tier 1 ratio*	18.4	19.4	21.2	20.3	20.5	23.1	23.6

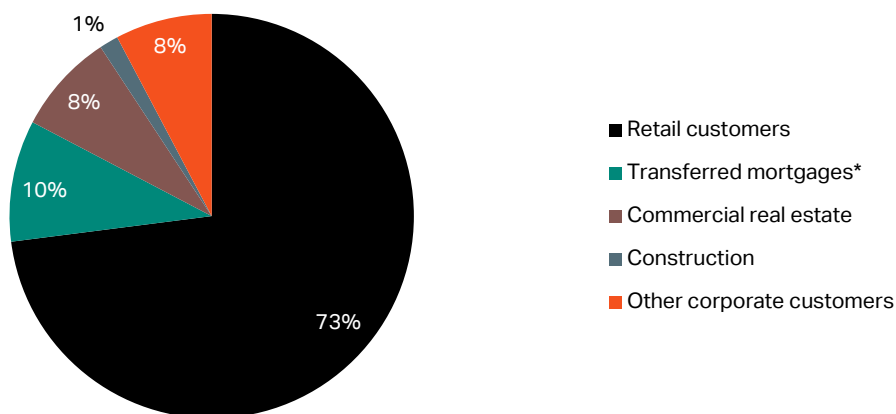
Source: company and NCR. e-estimate. REA=risk exposure amount. CET1=common equity Tier 1. All metrics adjusted in line with NCR methodology.
*REA and capital ratios are estimated in accordance with the currently proposed CRR3 from 2025.

ISSUER PROFILE

Vekselbanken is the last remaining Norwegian local commercial bank, with roots dating back to 1899. Its business model is, however, similar to those of domestic savings banks. The bank has 24 employees and provides core banking services through its headquarters in Voss municipality in Vestland county and a branch in the smaller municipality of Eidfjord. Vekselbanken has a total business volume of NOK 6.8 billion, including loans transferred to Eika Boligkreditt. The bank's primary market encompasses the Voss region and surrounding areas, with emphasis on retail customers and SMEs. In addition, the bank owns 51% of Aktiv Voss AS, a local real estate agency. The bank has been listed on the Oslo Stock Exchange since 1992.

Vekselbanken is a member of the Eika Alliance, an association of over 50 small and medium sized Norwegian savings banks. The association enables 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, one of Norway's largest issuers of covered bonds.

Figure 2. Gross loans by sector/type (including transferred loans), 30 Jun. 2024



Source: company. *net loans transferred to Eika Boligkreditt.

OPERATING ENVIRONMENT

Operating environment

We consider a balance of national and regional factors in our assessment of the operating environment. Vekselbanken operates in a small region with low unemployment and diverse growth prospects, albeit with weaker-than-national-average possibilities for expansion. We believe that the national economy could weaken 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.

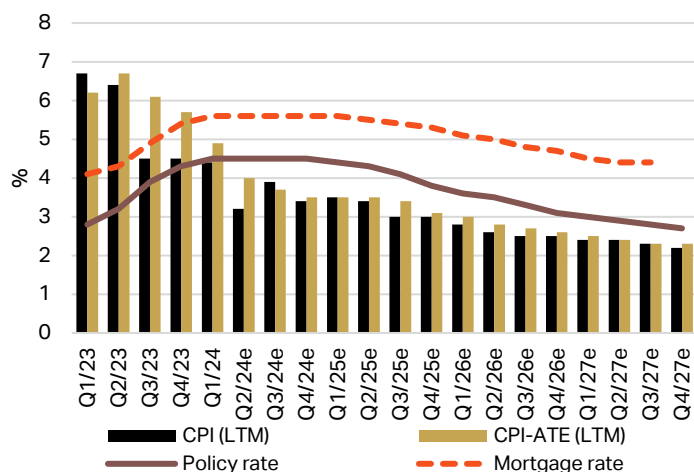
Norwegian savings banks resilient to reduced economic activity

National factors

High interest rates have significantly increased net interest margins for Norwegian 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 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 normalisation of noncore 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.

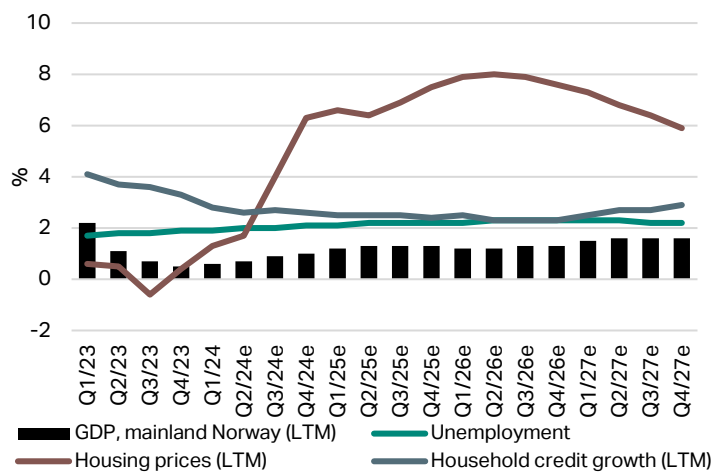
As intended, high interest rates are leading to a slowing of the economy. We believe that elevated interest rates and weak economic conditions will result in higher loan-loss provisions among domestic banks over the next 12 months, but that levels will vary significantly between individual banks. Norway's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

Figure 3. 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 4. Norwegian economic indicators, 2023–2027e



Source: central bank. e-estimate.

Rural mountain area attracts tourists

Vekselbanken's core market is centred on Voss municipality, about 90 minutes' journey inland from Bergen, Norway's second-largest city. Some 34,000 people live in the bank's core municipalities, a region known as a popular holiday destination. The Norwegian government has allocated NOK 38.6bn for the priority development of the existing land route between Bergen and Voss as part of a new National Transport Plan. Construction is estimated to start in 2025 and could be finalised by 2034. The project aims to reduce travel time between Voss and Bergen to as little as 30 minutes.

According to Statistics Norway, the population in Vekselbanken's markets is projected to grow by 1.2% annually through 2050, a rate significantly lower than the national average (9.2%). However, projected population growth and unemployment varies significantly among municipalities in the area.

Figure 3. Core markets

Municipality	Population, 2024	Expected population change, 2024–2050	Unemployment, May. 2024 (%)	Unemployment, May. 2023 (%)
Voss	16,471	6.5%	1.1%	1.2%
Eidfjord	968	2.0%	0.9%	1.2%
Ullensvang	11,017	-8.6%	0.9%	0.8%
Vaksdal	3,852	-6.2%	2.1%	0.9%
Modalen	384	7.3%	*	*
Aurland	1,800	25.7%	1.2%	1.2%
Core markets	34,492	1.2%	1.1%	1.1%
Norway	5,550,203	9.2%	1.94%	1.71%

Source: Statistics Norway, Norwegian Labour and Welfare Administration. *Fewer than four unemployed.

The bank's region of operation has a constrained employment base in comparison with that in larger metropolitan areas. The public sector is a major employer, particularly in the fields of education, health and social work. Tourism is another source of employment as the region offers cruise destinations and skiing. In addition, the city of Voss hosts Ekstremsportveko, the world's biggest extreme sport and music festival of its kind.

RISK APPETITE

Our assessment of Vekselbanken's risk profile reflects the bank's strong capital, diverse funding access, large proportion of residential mortgage lending, and ability to transfer loans to Eika Boligkreditt. The bank's risk governance and internal risk reporting are adequate, in view of its risk profile and complexity. Vekselbanken has some regional concentrations in its core markets and a significant proportion of property lending.

Regional, sectoral, and cross-border factors

Risk appetite

Risk governance

Risk governance proportional to complexity

In our view, Vekselbanken's risk governance framework, risk appetite, limit monitoring, and risk reporting are proportionate with its balance sheet and risk profile. The bank has well-defined guidelines for risk governance and relevant risk areas. It has also established anti-money laundering practices and policies, reducing the risk of related regulatory fines and associated losses. The bank's internal risk reporting and internal capital adequacy assessment processes are proportional to its risk profile.

Vekselbanken has made significant efforts to support sustainability and contributes to the local region as a sustainable travel destination through social contributions. The bank assesses environmental, social and governance (ESG) risk for all new and recurring corporate customers, contributing to better risk awareness at the bank and sustainable behaviour among its customers. In addition, the bank has obtained Miljøfyrtårn/Eco-Lighthouse environmental certification for its head office.

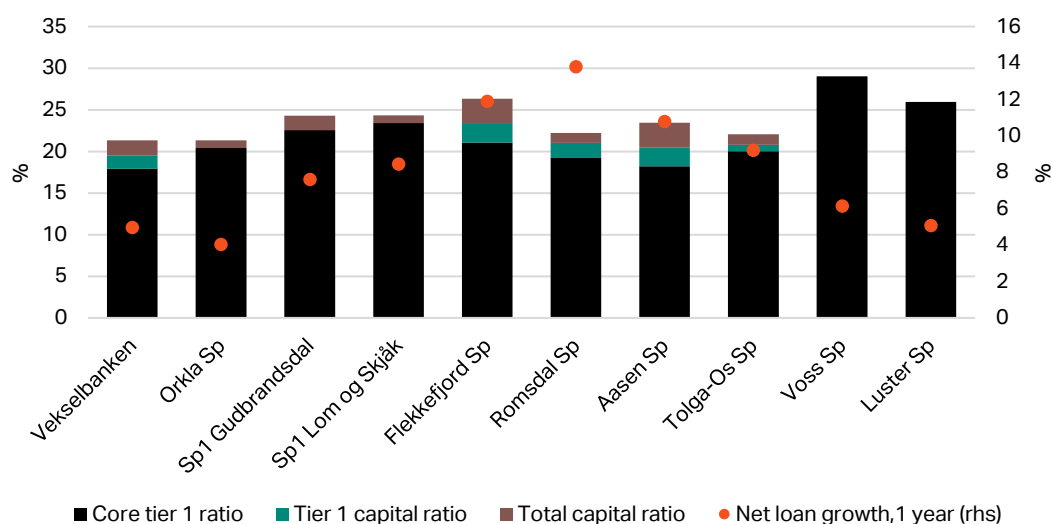
Vekselbanken's cooperation with the Eika Alliance provides additional resources for future risk governance and sustainability development, and 12% of the bank's mortgage portfolio is financed through Eika Boligkreditt, which has also established a framework for the issuance of green bonds.

Capital

New standard method likely to improve already solid capital ratios

Our capital assessment takes into consideration Vekselbanken's consolidated capital position, including its proportionate holdings in Eika Gruppen and Eika Boligkreditt. As of 30 Jun. 2024, the bank's consolidated CET1 ratio was 17.7% and its Tier 1 ratio 19.3% (excluding 0.6pp in current year profits). These compare with its respective minimum targets of 16.6% and 18.5% (including a 1.5pp management buffer). The consolidated leverage ratio is strong at 9.2%, compared with a requirement of 3%. We expect Vekselbanken's on-balance-sheet loan book to grow by a record 7% in 2024, declining to 4% annual growth in 2026. In addition, we expect a return on equity of around 11% through 2026 due to strong earnings, stable operating costs, implementation of a new IT platform, and moderate loan losses. We also expect the bank's capital ratios to increase slightly over our forecast period, even without the expected positive regulatory effects of CRR3. The bank targets a 40-50% dividend payout ratio but retains flexibility to reduce payouts to maintain strong capital ratios, which we regard as positive.

Figure 4. Norwegian savings banks' capital ratios* and loan growth, 30 Jun. 2024

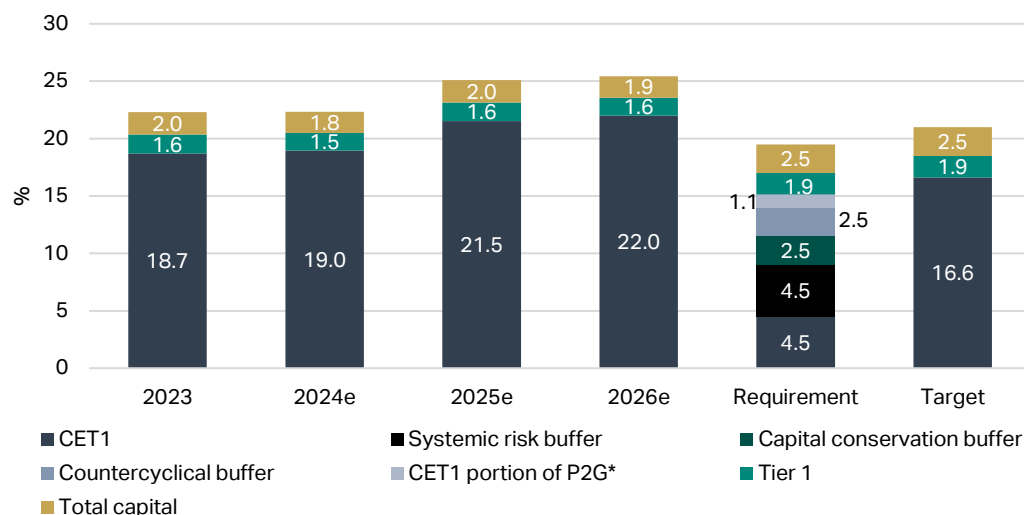


Source: bank reports. *Unconsolidated capital ratios of parent banks.

CRR3, a new standard method for calculating capital requirements for credit risk, is scheduled to come into force in Norway from 1 Jan. 2025 (see relevant research). The new method is more risk-sensitive than previously and likely to reduce capital requirements significantly for small to medium-sized retail and savings banks. We expect CRR3 to improve the competitiveness of banks that use the standard approach to credit risk by mitigating the current disparity with larger banks that use the internal ratings-based approach. In June 2024, the Norwegian regulator confirmed it will not require greater

weights for loans secured by residential mortgages (retail or corporate), but will opt for a slightly greater risk weighting for commercial real estate and second homes. The regulator estimates that an average standard-method bank will improve its capital ratios by several percentage points and our forecast for Vekselbanken assumes a positive impact of 2.5pp from 2025. However, we remain cautious about the actual outcome. Including the positive regulatory effect, we estimate a Tier 1 ratio of 23.1% at end-2025.

Figure 5. Consolidated capital ratios 2023–2026e, capital requirement and targets* as of Q2 2024



Source: company, e-estimate. *total pillar 2 guidance (P2G) of 2.0%.

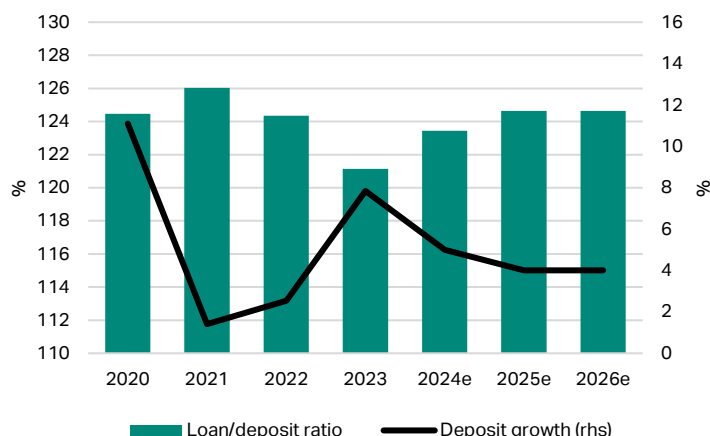
Funding profile diverse

Funding and liquidity

Vekselbanken's funding and liquidity profile is diverse, given the bank's size. The bank has a stable retail deposit base and demonstrable access to capital market funding. Its loan to deposit ratio has been relatively stable in recent years and stood at 123% as of 30 Jun. 2024. For 2024 and 2025, we expect the bank to expand its on-balance-sheet loan book at a slightly faster pace. The bank has few single-name concentrations in its customer deposits, moderate liquidity buffers (18.4% of customer deposits as of 30 Jun. 2024), and access to a NOK 75m credit line from DNB. As of 30 Jun. 2024, the liquidity coverage ratio was 273% and the net stable funding ratio 137%, well above the bank's internal limits of 130% and 110%.

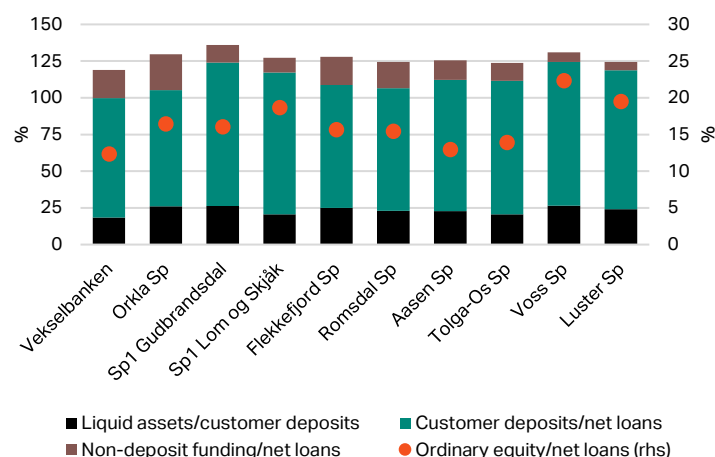
As of 30 Jun. 2024, Vekselbanken had seven outstanding senior bonds totalling NOK 1.1bn with evenly distributed maturities through 2029. In our forecast, we expect the bank to increase bond funding to about NOK 1.2bn by 2026. The bank has internal limits for annual and quarterly maturities to reduce refinancing risk.

Figure 6. Deposit metrics, 2020-2026e



Source: company, e-estimate.

Figure 7. Norwegian savings banks' funding, 30 Jun. 2024



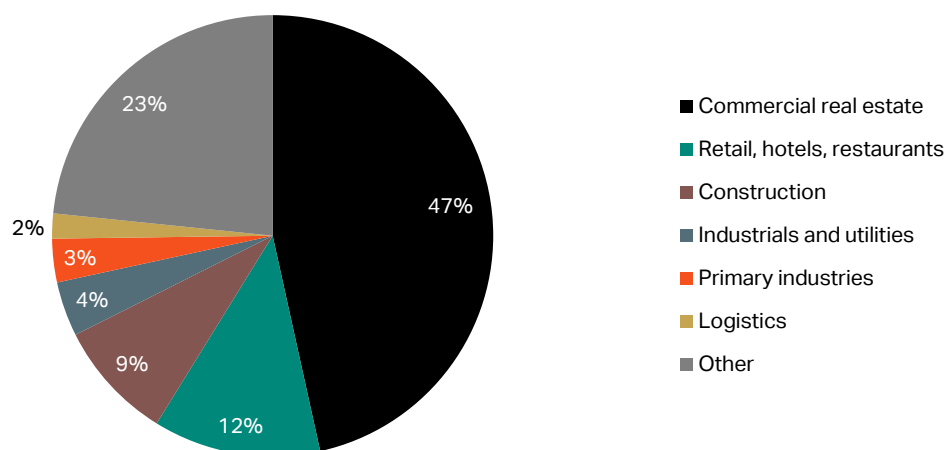
Source: bank reports.

Eika Boligkreditt is a stable and important source of funding for Vekselbanken. It provides access to more affordable funding for retail mortgages, with longer terms to maturity, than the bank could source by itself. As of 30 Jun. 2024, the bank had transferred NOK 597m in mortgage loans, or 12% of total retail mortgage lending, including NOK 4.4bn on its own loan book. This is well within its internal limits, and the bank maintains a steady volume of readily transferrable loans as a liquidity buffer.

Loan book contains geographic and real-estate concentrations

Vekselbanken's loan portfolio has a strong regional focus, with about two-thirds of retail customers located in its core markets. The bank does not promote lending to borrowers in other regions and customers outside its core markets are mostly domestic migrants. Some 83% 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 been falling in line with the wider Norwegian market as interest rates have risen. However, housing prices in the bank's operating region are lower than in metropolitan areas, resulting in lower debt burdens for the bank's customers and a relatively low impact from interest rate increases in recent years. Housing price growth over the past decade has strengthened the bank's collateral.

Figure 8. Corporate gross loans by sector, excluding transferred loans, 30 Jun. 2024



Source: company.

In the 12 months to 30 Jun. 2024, Vekselbanken had gross loan growth of 4.2% (including transferred loans). On- and off-balance sheet mortgages increased by 6.5%, while corporate lending declined by 5.3%. Our forecast includes loan growth of 7% for 2024, both on and off the bank's balance sheet, before declining to a more modest 4% in 2026. Vekselbanken's main corporate exposure is to commercial real estate, followed by retail, hotels and restaurants, and construction. We remain concerned about corporate and commercial real-estate lending, due to high interest costs and falling property prices.

As at 30 Jun. 2024, Vekselbanken had transferred loans amounting to NOK 598m, which generates a minor share of operating income (1.6% in 2023). This accounts for 10% of net loans including transferred loans and is low in comparison with its peers. However, the bank does not offload the associated risk, and we expect it to take back all non-performing loans to enable Eika Boligkreditt to maintain a clean cover pool. Vekselbanken has always accepted repatriated loans, but in the event that repatriation should not prove possible, the bank guarantees 1% of transferred loans and covers 80% of any net loss incurred by Eika Boligkreditt through a loss guarantee. The bank is jointly liable with existing Eika Alliance banks for losses not covered by the guarantee. Due to the high credit quality of transferred loans and repatriation agreements, the mortgage company has never incurred actual credit losses.

Other risks in line with risk governance assessment

Other risks

Other risks are in line with our risk governance assessment. We do not believe market risk is a material factor for Vekselbanken, given the lack of a trading portfolio and the bank's low limits on interest rate risk and currency risk.

Vekselbanken has strategic ownership positions in Eika Gruppen (2.13%) and Eika Boligkreditt (3.58%), which provide it with access to the Norwegian covered-bond market, insurance, asset management, real-estate agency and credit products, and ensure a strong voice alongside other owners. This ownership also contributes to the bank's earnings through dividend payments, as well as commission paid on transferred loans and savings. The bank also owns 51% of regional real-estate agent Aktiv Voss AS, established in 2022. The agency has been consolidated since the fourth quarter of 2022 and contributed about NOK 5m to other income in 2023.

COMPETITIVE POSITION

Competitive position

Vekselbanken has a strong position in its core region of operation with a leading market share of 32%. Its closest competitor is Voss Sparebank. Other competitors include Sparebanken Vest and Sogn Sparebank, while Sparebank 1 SR-bank competes for corporate customers without a physical presence. Vekselbanken has been notably successful in capturing market share from its larger rival Sparebanken Vest in recent years. We expect the real estate agency to support lending growth in the bank's core markets.

We regard Vekselbanken's strong local presence and its contributions to the local region as a sustainable travel destination as positive rating factors, despite the lack of an ownership foundation. Vekselbanken has a strong focus on customer relationships and personal services, thereby strengthening customer loyalty. Customer satisfaction and loyalty surveys by Kantar has consistently ranked the bank first among all Eika banks over the past six years.

Vekselbanken's membership in the Eika Alliance diversifies revenues and enables the bank to provide a wider range of customer services than it could with its own resources. The alliance enables the bank to provide insurance, debit and credit products, asset management and real-estate agency services. The bank's direct ownership in a real-estate agency also increases diversity and provides opportunities for cross-selling.

PERFORMANCE INDICATORS

Performance indicators

Vekselbanken has reported strong cost efficiency and risk-adjusted earnings relative to those of its peers in recent years. We believe earnings performance will remain solid, despite pressure on margins and a slight rise in loan losses, and that cost efficiency will remain strong over our forecast period.

Improved interest margins and strong cost efficiency support earnings

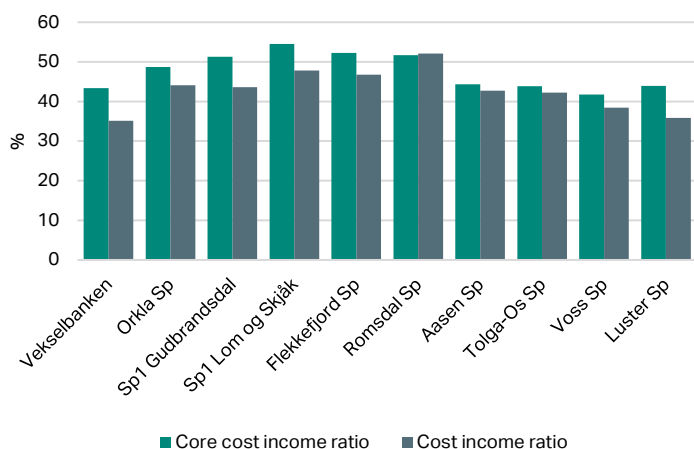
Earnings

As with most Norwegian banks, Vekselbanken has seen an improvement in earnings following interest rate increases in recent years. In the first six months of 2024, the bank had a net interest margin of 2.1%. Since 2021, Vekselbanken has transferred its liquidity portfolio out of bonds and into fixed-income funds and now reports accrued interest from the portfolio as net trading income as opposed to interest income (as is common with Norwegian savings banks). Adjusting for this effect, the bank had a net interest margin of 2.5% in the first half of 2024, slightly above its peer group average. Indications are that the central bank will keep policy rates high for longer than its Swedish counterpart and the European Central Bank, effectively supporting Vekselbanken's net interest margin, at least for the remainder of the year. However, we believe that margins will gradually decrease if interest rate are cut, as we expect, in early 2025, combined with increased competition and slowing loan demand. We also expect lower dividend income from Eika Gruppen (and Eika Boligkreditt) due to weaker earnings and lower mortgage margins. We expect net trading income to exceed 10% of the bank's income over our forecast period due to the impact of continuing high interest rates on the liquidity portfolio.

Vekselbanken's cost efficiency has improved as growth in operating revenue has outstripped growth in costs. In the six months to 30 Jun. 2024, the bank's cost-to-income ratio was 35.1%, significantly lower than its peer group average. Vekselbanken's costs were negatively impacted in 2023 by the launch of

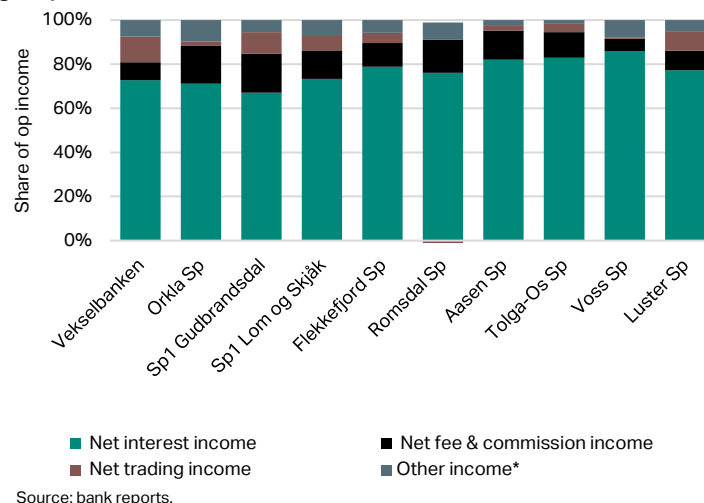
a new IT system, but we expect this to be offset by lower IT-related costs from 2025 onwards. As a result, we expect the cost-to-income ratio to remain stable at around 37% over our forecast period. This would result in a risk-adjusted ratio of pre-provision income to REA well above 3% through 2026.

Figure 9. Norwegian savings banks' cost efficiency metrics, LTM to 30 Jun. 2024



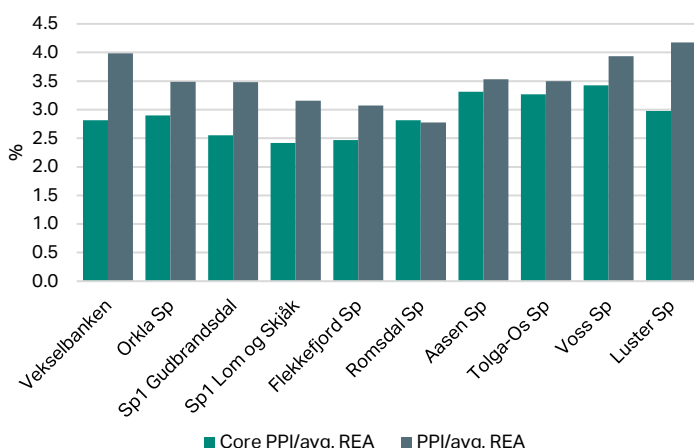
Source: bank reports. Core represents net interest income and net fee & commission income.

Figure 10. Norwegian savings banks' split between income groups, LTM to 30 Jun. 2024



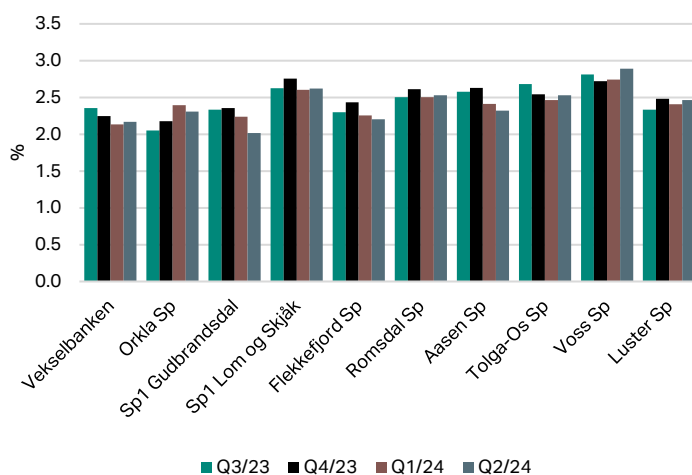
Source: bank reports.

Figure 11. Norwegian savings banks' PPI to REA*, LTM to 30 Jun. 2024



Source: bank reports. PPI-pre-provision income. REA-risk exposure amount.
*Unconsolidated REA of parent banks.

Figure 12. Norwegian savings banks' annualised net interest margins, Q3 2023-Q2 2024



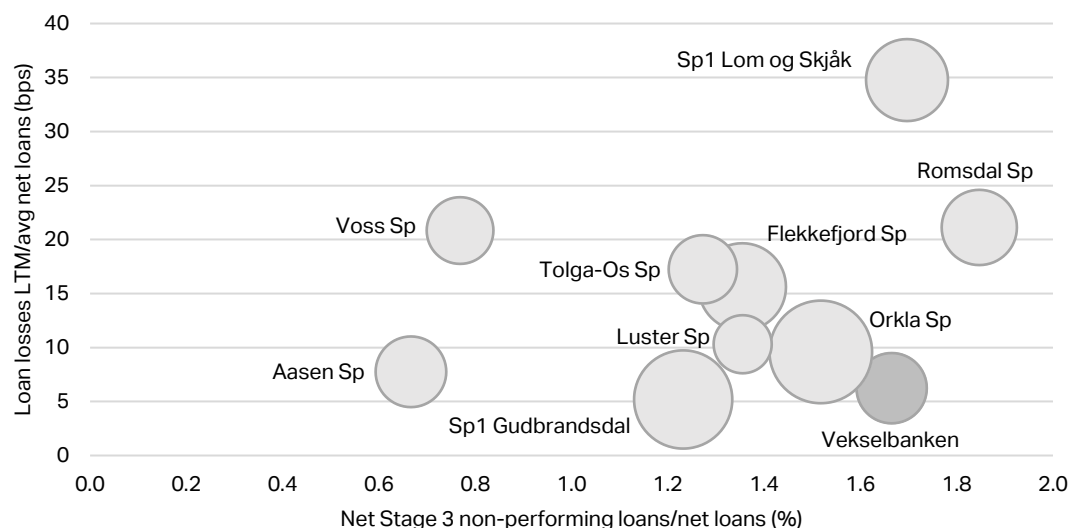
Source: bank reports.

Loan losses likely to remain moderate

Loss performance

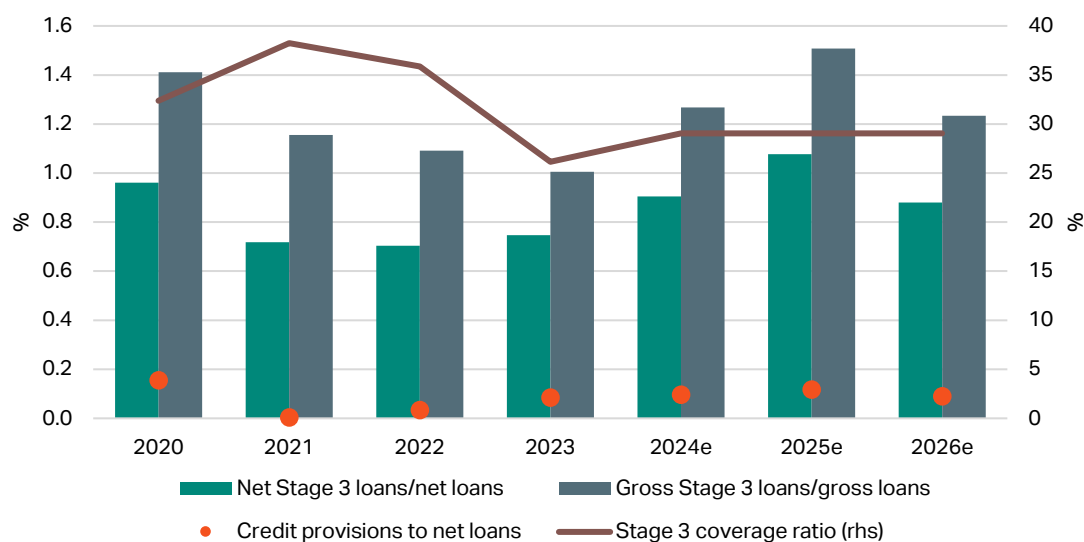
Vekselbanken's credit losses have averaged a low 7bps over the past five years. The bank booked loan losses of NOK 1m in the first six months of 2024, compared with NOK 4m in full year 2023. We project more moderate late-cycle loan losses of 9–12bps in 2024–2026, but lower than the 16bps recorded in 2020. The bank's Stage 3 loans have remained relatively low and less volatile than those of its domestic peers. However, they increased in the second quarter of 2024 to 1.7%, from 0.9% in the first. We anticipate the proportion of net Stage 3 lending will decrease from current levels by the end of the year, but remain somewhat elevated over our forecast period, peaking at 1.1% in 2025. We note that Vekselbanken's gross Stage 3 lending with no payments for more than 90 days, had declined gradually to NOK 6m (11bps of gross lending) as at 30 Jun. 2024 from NOK 24m at end-2020.

Figure 13. Norwegian savings banks' asset quality metrics, 30 Jun. 2024



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

Figure 14. Asset quality metrics, 2020–2026e



Source: company, e-estimate.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

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 15. 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)
Engagement in sustainable local development	Close connection to regional markets as a sustainable travel destination provides a benefit.	Competitive position (+)
Anti-money laundering capacity	Risk of sanctions and fraud due to insufficient reviews of customers.	Risk governance (0)
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

We view Vekselbanken's ownership structure as a neutral factor in our standalone credit assessment. We consider it positive that the bank has access to the equity market through its listed common shares. Voss Sparebank, the bank's largest owner, is its closest competitor. We note that the bank has stipulated that the maximum permitted ownership stake is limited to 10%. This reduces the risk of hostile takeovers but could also limit the ability to raise new equity, if necessary.

Figure 16. Ownership structure, 30 Jun. 2024

Owner	Share of capital
Voss Sparebank	10.0%
MP Pensjon PK	3.9%
VPF Eika Egenkapitalbevis	3.2%
August Ringvold Agentur AS	2.6%
Wergeland Holding AS	1.7%
Other	78.6%
Total	100.0%

Source: company.

ISSUE RATINGS

Our rating on Vekselbanken's unsecured senior debt is in line with the 'BBB+' long-term issuer rating. The bank has an outstanding Tier 2 instrument and an additional Tier 1 instrument, which we rate one and three notches below the issuer rating, respectively. Consequently, the Tier 2 instrument is rated 'BBB', while the additional Tier 1 instrument is rated 'BB+'.

SHORT-TERM RATING

The 'N2' short-term rating is the higher of two alternatives, given the 'BBB+' long-term issuer rating, which reflects Vekselbanken's access to central bank funding and our assessment that the bank's liquidity is adequate, based on an average liquidity coverage ratio of 584% over the past 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 17. Vekselbanken key financial data, 2020–Q2 2024 YTD

Key credit metrics (%)	FY 2020	FY 2021	FY 2022	FY 2023	Q2 2024 YTD
INCOME COMPOSITION					
Net interest income to op. revenue	85.9	84.0	82.9	75.7	72.7
Net fee income to op. revenue	11.6	12.1	11.3	8.3	8.2
Net trading income to op. revenue	-0.4	2.1	2.0	11.2	11.6
Net other income to op. revenue	3.0	1.9	3.8	4.8	7.5
EARNINGS					
Net interest income to financial assets	1.6	1.6	1.9	2.2	2.1
Net interest income to net loans	1.9	1.9	2.2	2.6	2.5
Pre-provision income to REA	1.7	2.0	2.6	3.8	3.8
Core pre-provision income to REA (NII & NF&C)	1.6	1.9	2.3	2.8	2.7
Return on ordinary equity	6.1	7.8	9.0	12.0	13.0
Return on assets	0.6	0.8	0.9	1.3	1.4
Cost-to-income ratio	52.6	45.3	43.4	37.0	35.1
Core cost-to-income ratio (NII & NF&C)	53.9	47.1	46.1	44.0	43.3
CAPITAL					
CET1 ratio	17.9	18.8	19.7	19.1	17.9
Tier 1 ratio	19.2	20.1	21.5	20.7	19.5
Capital ratio	21.3	22.2	23.7	22.7	21.3
REA to assets	50.9	50.9	47.3	48.8	50.7
Dividend payout ratio	3.9	68.3	49.7	42.7	40.0
Leverage ratio	9.3	10.0	10.1	10.0	9.6
Consolidated CET1 ratio	17.1	18.0	19.4	18.7	17.7
Consolidated Tier 1 ratio	18.4	19.4	21.2	20.3	19.3
Consolidated Capital ratio	20.5	21.4	23.3	22.3	21.2
Consolidated Leverage ratio	8.9	9.3	9.6	9.5	9.2
GROWTH					
Asset growth	5.4	-1.0	2.0	6.9	1.8
Loan growth	0.8	2.7	1.2	5.1	4.0
Deposit growth	11.1	1.4	2.5	7.9	2.4
LOSS PERFORMANCE					
Credit provisions to net loans	0.16	0.00	0.03	0.09	0.04
Stage 3 coverage ratio	32.37	38.24	35.88	26.15	16.11
Stage 3 loans to gross loans	1.41	1.16	1.09	1.01	1.97
Net stage 3 loans to net loans	0.96	0.72	0.70	0.75	1.66
Net stage 3 loans/ordinary equity	8.36	6.18	5.77	5.89	13.51
FUNDING & LIQUIDITY					
Loan to deposit ratio	124.5	126.0	124.4	121.1	123.0
Liquid assets to deposit ratio	23.2	18.1	19.0	21.1	18.4
Net stable funding ratio	130.0	131.0	139.0	138.0	137.0
Liquidity coverage ratio	560.0	235.0	352.0	642.0	273.0

Key financials (NOKm)	FY 2020	FY 2021	FY 2022	FY 2023	Q2 2024 YTD
BALANCE SHEET					
Total assets	5,806	5,747	5,861	6,268	6,383
Total tangible assets	5,806	5,747	5,861	6,268	6,383
Total financial assets	5,783	5,724	5,837	6,247	6,360
Net loans and advances to customers	4,873	5,004	5,062	5,318	5,531
Total securities	560	507	549	585	594
Customer deposits	3,915	3,970	4,071	4,390	4,496
Issued securities	1,211	1,116	1,050	1,110	1,125
of which other senior debt	1,151	1,056	990	1,049	1,064
of which subordinated debt	60	60	60	60	60
Total equity	600	621	694	725	732
of which ordinary equity	559	581	617	674	682
CAPITAL					
Common equity tier 1	528	549	547	584	580
Tier 1	568	589	597	634	630
Total capital	628	649	657	694	690
REA	2,954	2,926	2,773	3,058	3,234
INCOME STATEMENT					
Operating revenues	107	110	132	176	93
Pre-provision operating profit	51	60	75	111	60
Impairments	8	0	2	4	1
Net Income	33	45	54	78	44

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

Figure 18. Vekselbanken rating scorecard

Subfactors	Impact	Score
National factors	5.0%	a
Regional, cross border, sector	15.0%	bbb
Operating environment	20.0%	bbb+
Risk governance	5.0%	a-
Capital	17.5%	a+
Funding and liquidity	15.0%	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%	aa-
Loss performance	7.5%	a-
Performance indicators	15.0%	a
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 19. Capital structure ratings

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

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