

Tolga-Os Sparebank

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

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

Nordic Credit Rating said today that it had assigned a 'BBB+' long-term issuer rating to Norway-based [Tolga-Os Sparebank](#). The outlook is stable. An 'N2' short-term rating was also assigned, together with a 'BBB+' senior unsecured issue rating, 'BBB' Tier 2 issue rating, and 'BB+' additional Tier 1 issue rating.

Rating rationale

The long-term issuer rating reflects Tolga-Os Sparebank's strong earnings and capital position, and low risk appetite. We take a positive view of the bank's membership in the Lokalbanksamarbeidet banking cooperation, which enables product diversity, shared development costs and the opportunity to finance residential retail mortgage loans through jointly owned covered-bond company Verd Boligkreditt AS.

We expect Tolga-Os Sparebank 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 Østerdalen in eastern Norway and a high proportion of real-estate collateral in the bank's core markets. It is also constrained by stronger competition in the bank's new growth markets of Elverum and Hamar than in its historical core markets further north.

Stable outlook

The stable outlook reflects our view that Tolga-Os Sparebank's strong earnings will compensate for a potentially weaker domestic economy and slightly elevated credit provisions over the next few years. We forecast that the bank's cost efficiency will remain better than that of its peers and expect it to maintain robust capital ratios despite strong loan growth, boosted by the prospective positive impact of implementing the EU's Capital Requirements Regulations III.

We could raise the rating to reflect a consolidated Tier 1 ratio sustainably above 25%. We could also raise the rating to reflect pre-provision income to risk exposure amount (REA) sustainably above 3% together with improved scale and reduced uncertainty about credit risk.

We could lower the rating to reflect a material deterioration in the local operating environment that negatively affects asset quality, or a lasting reduction in the Tier 1 capital ratio to below 18% as well as risk-adjusted earnings metrics below 2% of REA over a protracted period.

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. Tolga-Os Sparebank 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%	bbb+
Capital	17.5%	a+
Funding and liquidity	15.0%	a
Credit risk	10.0%	bbb
Market risk	-	-
Other risks	2.5%	bbb+
Risk appetite	50.0%	a-
Competitive position	15.0%	bb
Earnings	7.5%	a+
Loss performance	7.5%	bbb+
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 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 30 Sep. 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, 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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