

Grue Sparebank

Rating Action Report

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

Rating rationale

The long-term issuer rating reflects Grue Sparebank's low risk appetite and strong capital position. Despite total assets of only NOK 4.6bn, 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 AS.

We expect Grue Sparebank to maintain some of its recently improved earnings over our forecast period through 2026, despite margin pressure as it pursues growth outside its historical core markets. We expect credit losses to remain modest, given the bank's high proportion of retail lending despite the continued effects of recent cost inflation and high interest rates.

The rating is constrained by geographic concentration of the loan book in the south-eastern municipalities of Innlandet county, and a high level of real-estate and agricultural collateral in the region. The bank has a strong market share in its core markets, but faces strong competition from regional and local peers as it targets growth in the southern Østerdal and Hedmark regions near Hamar and invests to expand its branch in Elverum.

Stable outlook

The stable outlook reflects our view that the bank's low risk appetite will limit credit losses and compensate for a weakened regional economy. Our forecast suggests Grue Sparebank's cost efficiency will weaken over the next few years as the bank invests in personnel to support its growth objectives. We expect to see improvements in capital ratios, partly due to the positive impact of implementing the EU's Capital Requirements Regulations III. This should enable higher loan growth, allowing the bank to meet its goal of doubling its currently modest level of corporate lending.

We could raise the rating to reflect pre-provision income to risk exposure amount sustainably above 3% and cost to income below 45%, increased scale and improved market position in growth markets without a material increase in risk appetite, or a consolidated Tier 1 capital ratio above 25% over a protracted period.

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 or increased risk appetite, or risk-adjusted earnings metrics below 1.5% over a protracted period.

Rating list

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
Additional Tier 1 issue rating:	BB+

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

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Figure 1. Grue 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%	a-
Risk appetite	50.0%	a-
Competitive position	15.0%	bb-
Earnings	7.5%	bbb+
Loss performance	7.5%	a-
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 24 Oct. 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.
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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