

## Flekkefjord Sparebank

## Full Rating Report

## LONG-TERM RATING

BBB+

## OUTLOOK

Stable

## SHORT-TERM RATING

N3

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## RATING RATIONALE

Our 'BBB+' long-term issuer rating on Norway-based Flekkefjord Sparebank reflects the bank's strong earnings and capital position, and moderate risk appetite. We take a positive view of the bank's membership in the Lokalbanksamarbeidet banking cooperative, 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. The bank has a strong market position in its traditional core markets and faces less competition from similarly sized savings banks than its domestic peers. We expect Flekkefjord Sparebank to maintain strong earnings and improve its cost efficiency over our forecast period through 2026. We also expect the bank's credit losses and its proportion of non-performing loans 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 south-west Norway and a high proportion of real-estate collateral in the bank's core markets. It is also constrained by the bank's strong growth prospects.

## STABLE OUTLOOK

The outlook is stable, reflecting our view that Flekkefjord Sparebank's strong earnings will compensate for slightly elevated credit provisions over the next few years. We forecast that the bank's cost efficiency will improve to levels better than those of its peers and expect it to maintain robust capital ratios despite strong loan growth, after recent issues of equity capital certificates and hybrid instruments. In addition, we expect the bank's capital ratios to be positively impacted by the prospective implementation of the EU's Capital Requirements Regulations III (CRR3).

## POTENTIAL POSITIVE RATING DRIVERS

- Commitment to reduced loan growth, improving risk appetite.
- Consolidated Tier 1 ratio above 22% for a protracted period.
- Improved asset quality metrics, with net Stage 3 loans as a share of net loans below 1% for a protracted period.

## POTENTIAL NEGATIVE RATING DRIVERS

- Growth significantly outpacing capital generation, resulting in a Tier 1 ratio below 18% over a protracted period.
- A material deterioration in the local operating environment that negatively affects the bank's asset quality and profitability.
- Increased competition leading to lower profitability and a weaker market position.

Figure 1. Key credit metrics, 2020–2026e

| %                         | 2020 | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e |
|---------------------------|------|------|------|------|-------|-------|-------|
| Net interest margin       | 1.3  | 1.4  | 1.9  | 2.3  | 2.2   | 2.2   | 2.1   |
| Loan losses/net loans     | 0.22 | 0.04 | 0.27 | 0.10 | 0.18  | 0.18  | 0.16  |
| Pre-provision income/REA* | 1.5  | 1.6  | 1.9  | 2.4  | 2.2   | 2.3   | 2.4   |
| Cost-to-income            | 54.7 | 54.1 | 52.4 | 47.4 | 46.4  | 44.8  | 42.7  |
| Return on ordinary equity | 4.2  | 5.9  | 6.1  | 9.4  | 8.6   | 8.4   | 8.9   |
| Loan growth               | 2.0  | 6.9  | 5.8  | 16.1 | 10.4  | 10.5  | 11.0  |
| CET1 ratio*               | 23.5 | 21.8 | 19.1 | 17.6 | 19.4  | 20.5  | 19.7  |
| Tier 1 ratio*             | 23.7 | 22.1 | 19.5 | 20.0 | 21.4  | 22.5  | 21.5  |

Source: company and NCR. e—estimate. REA—risk exposure amount. CET1—common equity Tier 1. All metrics adjusted in line with NCR methodology.

\*Consolidated capital adequacy metrics, including the estimated effect of CRR3 from 2025.

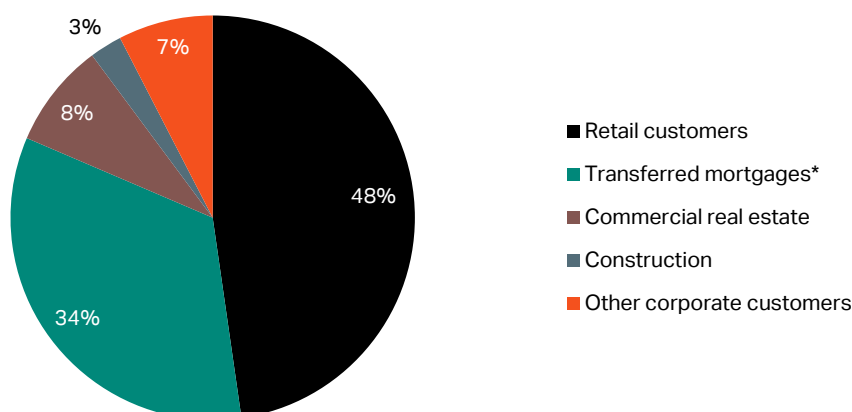
## ISSUER PROFILE

Flekkefjord Sparebank is a mid-sized Norwegian savings bank operating on the south-west coast of Norway, between Stavanger and Kristiansand. The bank dates back to 1837, operating continuously under the same name. Today, the bank has NOK 14bn in total business volumes and about 67 employees. Its main office is located in Flekkefjord, with branch offices in Farsund, Lyngdal, Lindesnes, and Egersund. Retail customers and SMEs account for its core customer base. The bank operates as an independent savings bank and in May 2024 issued initial equity capital certificates (ECCs) that are traded on the Oslo Stock Exchange.

Flekkefjord Sparebank is one of 16 savings banks in the Lokalbanksamarbeidet banking cooperative, which consist of small and medium-sized local savings banks with total gross lending of NOK 100bn as of end-2023. The alliance is the result of a recent merger of the Lokalbank and DSS alliances. The merged alliance provides product diversity, builds customer loyalty 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 mortgage loans through Verd Boligkreditt, a mid-size domestic issuer of covered bonds.

The member banks of the Lokalbanksamarbeidet have also joined Frendegruppen, a cooperative alliance of financial services providers that includes the regional savings banks Sparebanken Vest, Sparebanken Sør and Sparebanken Øst. The banks in Frendegruppen have ownership stakes in and distribute products for insurance company Frende Forsikring, finance company Brage Finans AS and securities company Norne Securities. They also cooperate in developing new products for the member banks.

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



Source: company. \*net loans transferred to Verd Boligkreditt.

## OPERATING ENVIRONMENT

### Operating environment

We consider a balance of national and regional factors in our assessment of the operating environment. Flekkefjord Sparebank operates in a broad region with unemployment levels similar to the national average, albeit with somewhat 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

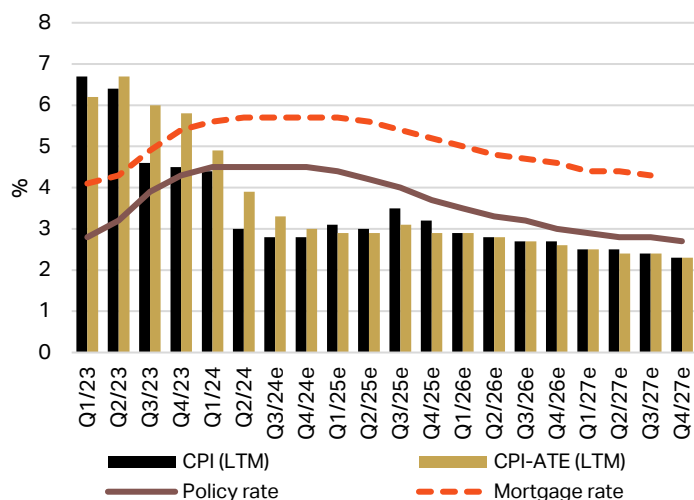
### National factors

High interest rates have significantly increased net interest margins for Norwegian savings 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 profits in 2024 but anticipate that normalisation of non-core

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.

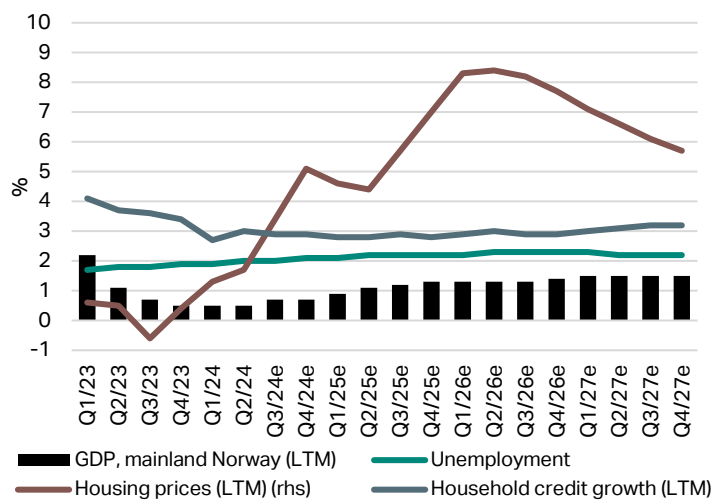
As intended, high interest rates are helping to slow the economy. We believe that high interest rates and weak economic conditions could lead to a rise in loan-loss provisions among domestic savings banks over the next 12 months, but that levels will vary significantly between individual banks. Norway's savings 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.

### Semi-rural market on the south-western coast

Flekkefjord Sparebank's traditional core market is centred on the Lister region, in the western part of Agder county. This is roughly halfway between Kristiansand and Stavanger, the latter being Norway's third largest metropolitan area. Some 69,000 people live in the five municipalities in which the bank has offices, which we consider its core market. The local population has increased by 4.2% over the past decade, but growth is projected to level off at around 0.8% change towards 2050, with depopulation in some municipalities. This compares with the projected national average change of 9.9%. Unemployment remains low and equivalent to the national average as of Aug. 2024, at 2.1%. Beyond its traditional core market, the bank's lending covers the wider area between Kristiansand and Stavanger, comprising the Lindesnes region in Agder county and the Dalane district in southern Rogaland county.

Figure 5. Core markets

| Municipality | Population, 2024 | Expected population change, 2024–2050 (%) | Unemployment, Aug. 2024 (%) | Unemployment, Aug. 2023 (%) |
|--------------|------------------|-------------------------------------------|-----------------------------|-----------------------------|
| Flekkefjord  | 9,290            | -2.3                                      | 1.9                         | 3.9                         |
| Farsund      | 9,890            | -2.9                                      | 1.5                         | 2.0                         |
| Lyngdal      | 10,854           | 5.4                                       | 2.1                         | 2.2                         |
| Lindesnes    | 23,730           | 3.7                                       | 2.7                         | 1.7                         |
| Eigersund    | 15,262           | -2.7                                      | 1.7                         | 1.3                         |
| Core markets | 69,026           | 0.8                                       | 2.1                         | 2.0                         |
| Norway       | 5,562,363        | 9.9                                       | 2.1                         | 1.9                         |

Source: Statistics Norway, Norwegian Labour and Welfare Administration.

The bank's region of operation has a less diverse employment base in comparison with that in larger metropolitan areas. The public sector is a major employer, particularly in the fields of human health and social work. Manufacturing, construction and retail are other key areas of employment, accounting for well above one-third of total employment.

Regional, sectoral, and cross-border factors

## RISK APPETITE

### Risk appetite assessment

Our assessment of Flekkefjord Sparebank's risk profile reflects the bank's good access to funding, strong capital, large proportion of residential mortgage lending, and its ability to transfer loans to Verd Boligkreditt. The bank has some regional concentrations in its core markets and a significant proportion of property lending. It also has strong growth prospects relative to other savings banks, which negatively affects our view of risk governance, capital generation, funding and credit risk.

### Investments in personnel and risk governance

### Risk governance

In our view, Flekkefjord Sparebank's risk governance framework, risk appetite, limit monitoring and risk reporting are in proportion to 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 capital adequacy assessment processes are proportional to its risk profile.

In recent years, Flekkefjord Sparebank has significantly increased its workforce, especially in risk governance, anti-money laundering, and environmental, social and governance (ESG) issues. The bank has also increased its focus on credit risk management, and we believe that the strong loan growth we expect in our forecast creates a significant challenge in terms of risk governance, especially in corporate lending. Positively, we believe that membership in Lokalbanksamarbeidet supports the bank's ability to handle increasing risk governance requirements.

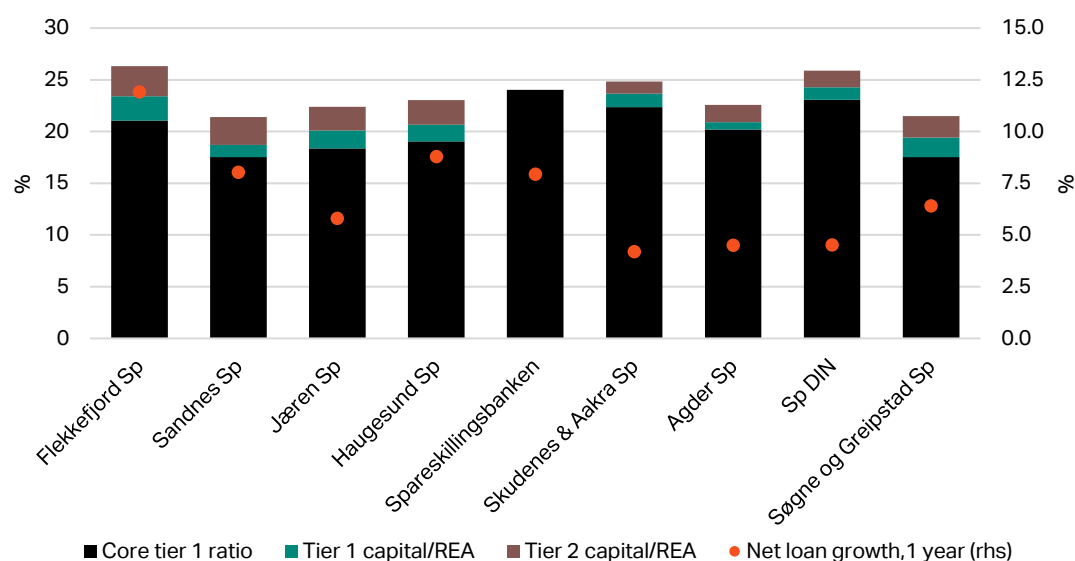
Flekkefjord Sparebank assesses ESG risk for all corporate customers and carries out more comprehensive ESG analyses on its larger corporate exposures. We believe this contributes to good risk awareness at the bank and improves sustainable behaviour among its customers. The bank has established a green bond framework and has obtained certification from the Miljøfyrtårn/Eco-Lighthouse environmental certification scheme, which provides criteria and structures for products and solutions to minimise banks' environmental footprint. A substantial portion of the bank's mortgage portfolio is financed through Verd Boligkreditt, which has also established a framework for the issuance of green bonds.

### ECCs issued in 2024

### Capital

Our capital assessment takes into consideration Flekkefjord Sparebank's consolidated position, including its proportional holdings in Verd Boligkreditt and Brage Finans. As of 30 Sep. 2024, the bank's consolidated CET1 ratio was 17.8% and its Tier 1 ratio 20.1%. We note that the reported capital ratios would have been 0.6pp higher if 50% current year's profit had been included. These levels compare with its respective minimum targets of 17.1% and 19.2% (including a 1.5pp management buffer). The consolidated leverage ratio is at 8.9%, compared with a requirement of 3%.

Figure 6. Norwegian savings banks' capital ratios\* and loan growth, 30 Jun. 2024



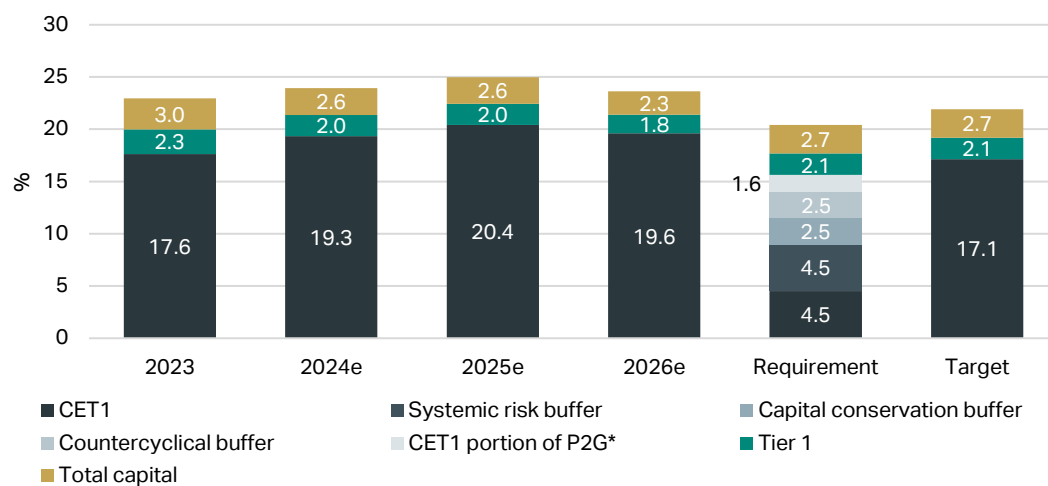
Source: bank reports. \*Unconsolidated capital ratios of parent banks.

Flekkefjord Sparebank had robust capital ratios above 23% prior to 2022, followed by a period of decline due to strong lending growth and investments in employees. In 2023, the bank initiated measures to improve its capital and position itself for future growth. In the same year, the bank issued NOK 120m and NOK 150m in additional Tier 1 and Tier 2 instruments, respectively. In addition, in May 2024, it issued NOK 150m in ECCs, representing 12.5% of its equity. We expect the resulting strong capital ratios will maintain the bank's ability to pursue high medium-term lending growth.

In the two years to 30 Sep. 2024, Flekkefjord Sparebank had annual net loan growth of 10-14%. We expect the bank's on-balance-sheet loan book to grow by 10-11% annually through 2026. We expect return on equity to remain above 8% through the forecast period with dividends at 16-18% of net profits, including gifts and donations. This should result in a consolidated Tier 1 ratio of 21.4% at end-2024. Our estimates for 2025 assume a positive regulatory impact of 2.9pp on consolidated Tier 1 as a result of CRR3 and we estimate a consolidated Tier 1 ratio of 22.4% by end-2025. This includes a positive effect from Verd Boligkreditt, due to the covered bond company's use of the standard approach to credit risk and its portfolio of low loan-to-value mortgages.

CRR3 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. The Norwegian regulator estimates that an average standard-method bank will improve its capital ratios by several percentage points. However, we remain cautious about the actual outcome. We also believe Flekkefjord Sparebank will adjust its capital strategy and lending growth if the actual outcome differs significantly from its expectations. Our cautious stance also reflects Verd Boligkreditt's capital strategy.

**Figure 7. Consolidated capital ratios 2023–2026e, capital requirement and targets\* as of Q3 2024**

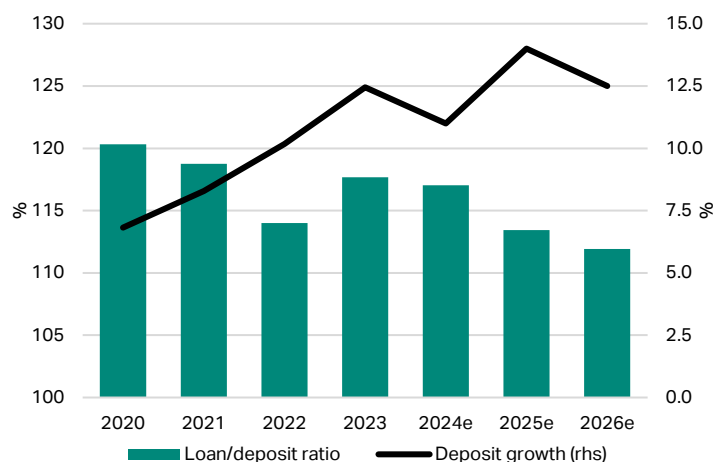


### Verd Boligkreditt an important funding source

Flekkefjord Sparebank's funding profile is diverse, with a relatively solid retail deposit base. The bank has also demonstrated access to capital market funding. Deposit growth outpaced loan growth prior to 2023, a trend which has been reversed by high loan growth. However, deposit growth remains strong and has averaged 10% in the past five years. We expect deposit growth to increase slightly more than loan growth, resulting in a falling loan-to-deposit ratio through 2026. The bank has few single-name concentrations in its customer deposits and strong liquidity buffers (26% of customer deposits as of 30 Sep. 2024). As of 30 Sep. 2024, the liquidity coverage ratio was 182% and the net stable funding ratio 144%, well above the bank's internal limits of 110% for both.

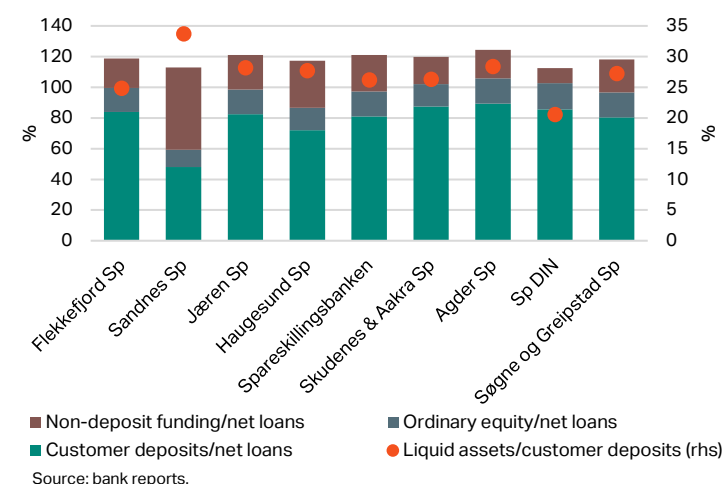
Flekkefjord Sparebank's two most recent bonds have been issued under its green bond framework. As of 30 Sep. 2024, the bank had 1.8bn in five outstanding senior bonds with an average time to maturity of 2.4 years. The maturity profile extends through 2028. In our forecast, we expect the bank to increase its bond funding to about NOK 2.1bn by 2026 to finance loan growth.

Figure 8. Deposit metrics, 2020-2026e



Source: company, e-estimate.

Figure 9. Norwegian savings banks' funding, 30 Jun. 2024



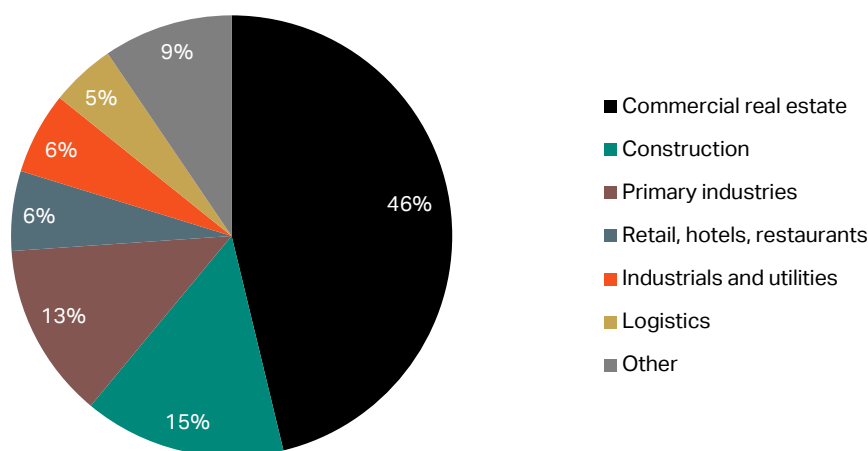
Source: bank reports.

Verd Boligkreditt is a stable and important source of funding for Flekkefjord Sparebank. It provides access to more affordable funding for retail mortgages, with access to green financing and longer terms to maturity, than the bank could source by itself. In the 12 months to 30 Sep. 2024, the bank increased its loans transferred to Verd Boligkreditt by 35% to NOK 4.4bn, accounting for 41% of residential mortgage lending on- and off-balance-sheet. We expect the bank to continue to transfer a high proportion of its residential mortgage loans to Verd Boligkreditt. In addition, the bank maintains a strong portfolio of readily transferrable loans as a liquidity buffer. This stood at about NOK 1.6bn as of 30 Jun. 2024.

#### Strong growth on- and off-balance sheet

Flekkefjord Sparebank's loan portfolio has a strong regional focus, with about 80% of total lending, including transferred loans, located in its primary market. The bank does not promote lending to borrowers in other regions and customers outside its core markets are mostly domestic migrants. Some 84% 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 10. Corporate gross loans by sector, 30 Sep. 2024



Source: company.

#### Credit risk

In the 12 months to 30 Sep. 2024, Flekkefjord Sparebank had gross loan growth of 10% on own books. This included 8% loan growth of on-balance-sheet mortgages and 14% among corporate customers, compared with national average levels of about 3% and 2%, respectively. Including transferred loans with strong growth of 35%, total lending volumes increased by 17% in the period. Our forecast envisages similar patterns of customer borrowing by segment, albeit with somewhat lower growth towards 2026. This implies stronger corporate lending growth relative to on-balance-sheet retail mortgage loans, and growth in transferred loans of more than 20% through 2025 before moderating in 2026. We expect the loan book to increase by 10-11% annually through 2026. This results in NOK 10.8bn in net loans and above NOK 16bn including transferred loans, by end-2026, compared with NOK 8.7bn and NOK13.1bn currently.

Flekkefjord Sparebank's main corporate exposure is to commercial real estate, followed by construction. In the 12 months to 30 Sep. 2024, the bank saw loans to these industries grow by 26% and 32%, respectively. We remain concerned about corporate and commercial real-estate lending, due to high interest costs and lower property prices.

Transferred loans generate commission income and accounted for 5% of Flekkefjord Sparebank's pre-provision income in 2023. However, the bank does not offload the associated risk on transferred loans, and we expect it to take back all non-performing loans to enable Verd Boligkreditt to maintain a clean cover pool. The covered bond company maintains the right to offset credit losses against commission income due to the bank. Due to the high credit quality of transferred loans and repatriation agreements, the mortgage company have never incurred actual credit losses.

#### **Other risks aligned with risk appetite**

#### **Other risks**

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

The bank has strategic ownership positions in Lokalbanksamarbeidet and Frendegruppen. These alliances have provided scale, contributed to lower operational costs and efficiency gains, and acted as platforms for development of the bank's capabilities. The bank has strategic ownership stakes in several product companies within insurance, leasing banking and asset management, as well as in the covered bond company. The bank also has a 33% stake in a local real estate agency.

#### **COMPETITIVE POSITION**

#### **Competitive position**

Flekkefjord Sparebank has a market share about 50% in its traditional core market of Flekkefjord. In the broader operating region, the bank has a lower market share of below 20%. Relative to other savings banks in Norway, the bank faces less competition from other mid-size savings banks in its core markets. Kvinesdal Sparebank has a smaller market share in Lyngdal. However, further geographic expansion would result in greater competition from banks such as Jæren Sparebank (towards Stavanger), and Søgne & Greipstad Sparebank and Spareskillingsbanken (towards Kristiansand). Moreover, the bank faces greater competition from larger savings banks, of which Sparebanken Sør is the most active. In August 2024, Sparebanken Sør announced a merger with Sparebanken Vest, with the merged entity set to become the largest savings bank in Norway. We believe Flekkefjord Sparebank's local presence and its contributions to the local community support its competitive position. The upcoming implementation of CRR3 should also strengthen its competitiveness against savings banks using the internal ratings-based approach to credit risk. In our view, the bank has a strong market position in its traditional core market, and significant potential to exploit its future growth prospects in other areas.

Membership in Lokalbanksamarbeidet diversifies revenues and enables Flekkefjord Sparebank to provide a wider range of customer services than it could with its own resources. The bank distributes insurance products from Frende Forsikring, savings products and brokerage services from Norne Securities, and collateralised consumer lending and leasing products from Brage Finans. Membership of the larger Frendegruppen alliance will, we believe, strengthen Flekkefjord Sparebank's long-term competitive position through improved economies of scale and efficiency gains.

We regard Flekkefjord Sparebank's contributions to its core markets as a positive rating factor. The bank's primary environmental, social and governance (ESG) attribute is its strong sense of social responsibility to its local communities. The bank also funds social and cultural activities to support these communities.

## PERFORMANCE INDICATORS

### Performance indicators

Flekkefjord Sparebank has strong net interest margins, but only modest cost efficiency compared with its peer group average. Positively, we expect cost efficiency to improve in our forecast after personnel investments and the opening of two additional branches in recent years. The bank has booked higher-than-average loan losses for the past 12 months, and we project slightly elevated loan losses of 16–18bps in 2024–2026. However, net Stage 3 loans are about average among its domestic peers at 1.3% of net lending.

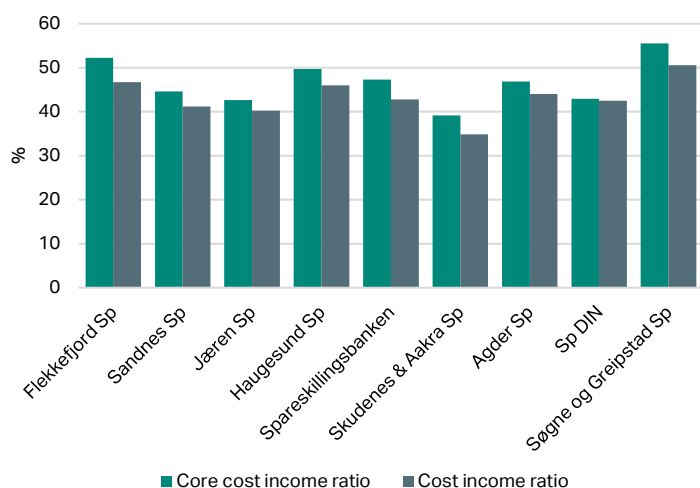
### Positioned for earnings growth

### Earnings

Improved net interest margins due to high interest rates have, together with strong loan growth, led to increased profitability in recent years. However, we expect increased competition and lower interest rates to affect margins negatively from 2025 onwards. An increasing proportion of corporate customers in the loan book should alleviate some of the pressure on margins. We also see potential for increased fee income from the sale of products from Frendeguppen.

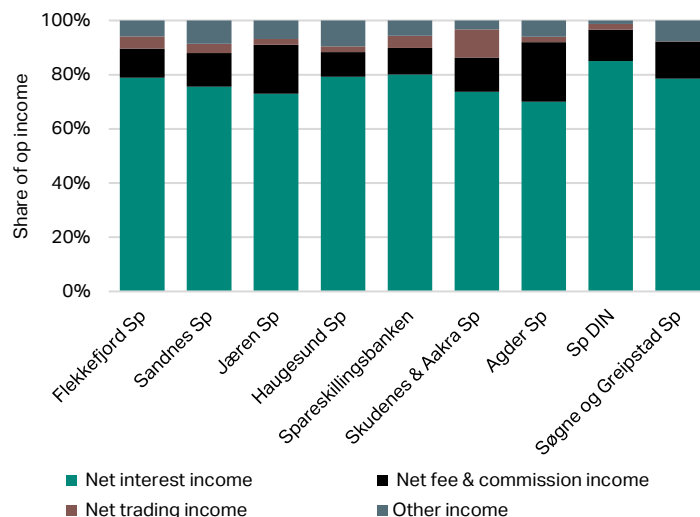
Stronger operating income has improved Flekkefjord Sparebank's cost efficiency in recent years, despite the opening of two new branches in 2022–2023 and significant personnel investments in relation to growth prospects. Current staffing levels should be sufficient for the bank's growth and improve the cost-income ratio towards 43% in 2026, compared with 47% in the 12 months to 30 Sep. 2024. This would result in slightly improved risk-adjusted pre-provision income (PPI) to REA of 2.4% in 2026.

Figure 11. Norwegian savings banks' cost efficiency metrics, LTM to 30 Jun. 2024



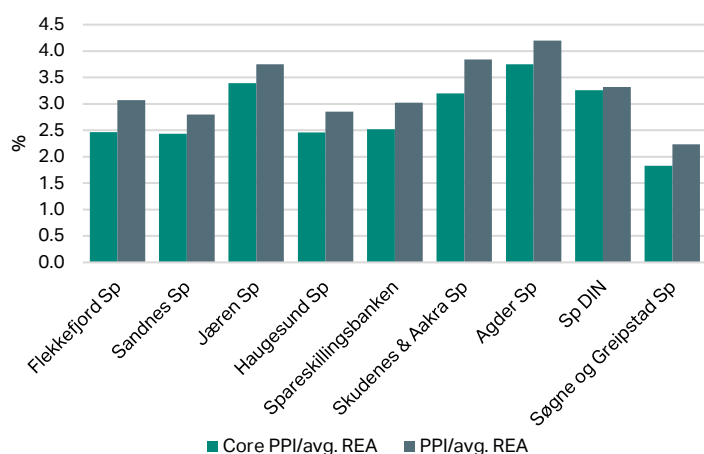
Source: bank reports. LTM-last 12 months. Core represents net interest income and net fee & commission income.

Figure 12. Norwegian savings banks' split between income groups, LTM to 30 Jun. 2024



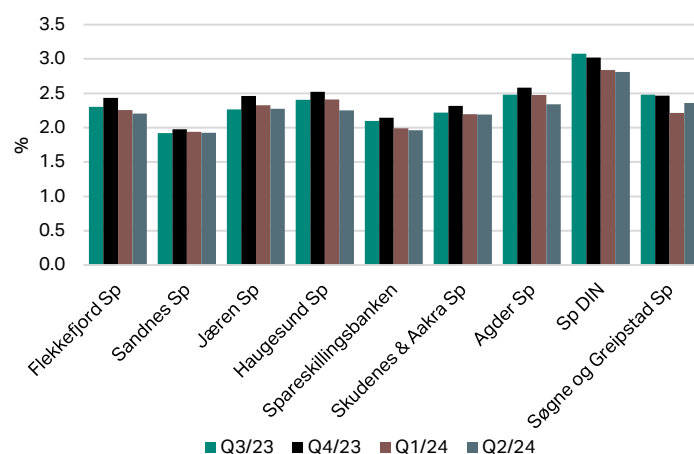
Source: bank reports.

Figure 13. Norwegian savings banks' PPI to REA\*, LTM to 30 Jun. 2024



Source: bank reports. \*Unconsolidated REA of parent banks.

Figure 14. Norwegian savings banks' annualised net interest margins, Q3 2023–Q2 2024



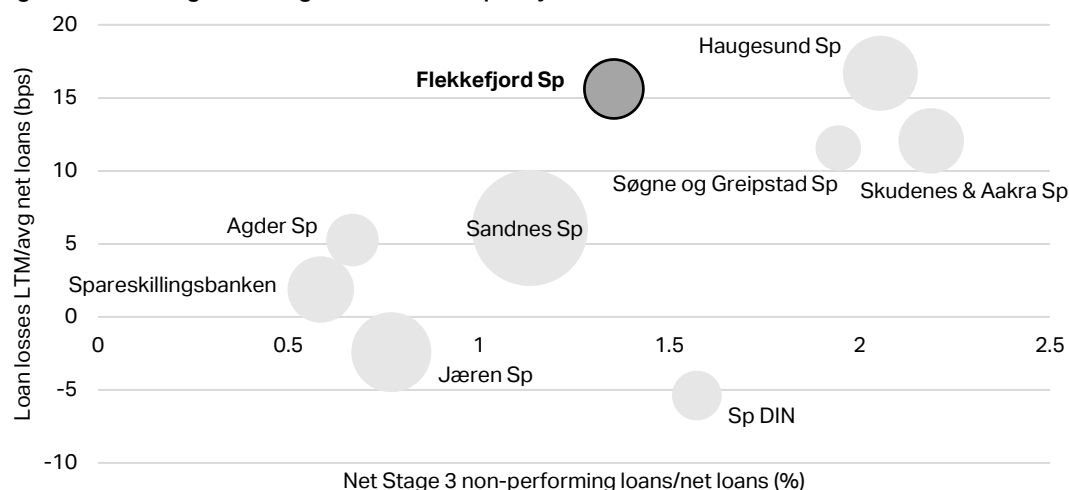
Source: bank reports.

### Loss performance

#### Loss performance

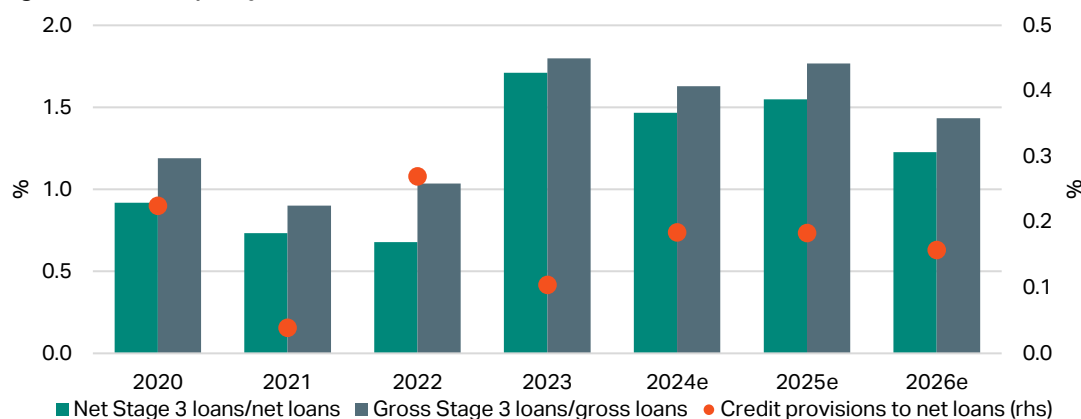
Flekkefjord Sparebank's credit losses for have averaged a moderate 10bps of net lending in the past 10 years. As of 30 Sep. 2024, the bank had booked loan losses of NOK 4.5m, compared with NOK 7.7m in full-year 2023. We project somewhat elevated loan losses of 16–18bps in 2024–2026. The bank's net Stage 3 loans are about average relative to its domestic peers at 1.4%. We anticipate that the proportion of net Stage 3 lending will remain at similar levels over our forecast period, peaking at 1.6% in 2025.

Figure 15. Norwegian savings banks' asset quality metrics, 30 Jun. 2024



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

Figure 16. 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 Flekkefjord Sparebank ESG profile as having a moderately positive impact on its creditworthiness.

**Figure 17. 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 (-)<br>Loss performance (0)                             |
| Social engagement in local community | Close connection to narrow regional markets provides a benefit.                                                                                          | Competitive position (+)<br>Earnings (+)<br>Funding & liquidity (+) |
| Sustainable/green-bond framework     | Diversity of funding sources, access to additional markets/investors.                                                                                    | Funding & liquidity (+)                                             |
| 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)<br>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

Our support analysis is neutral. Flekkefjord Sparebank issued ECCs in May 2024. These are listed on the Oslo Stock Exchange and account for 12.5% of ownership. The remaining majority is self-owned. The ECCs are widely held, and the largest single ECC owner, neighbouring savings bank Spareskillingsbanken, controls less than 4% of the certificates. The bank has access to the equity market through issuance of additional ECCs, if needed.

**Figure 18. Ownership structure, 30 Sep. 2024**

| Owner                                   | Share of ECCs (%) |
|-----------------------------------------|-------------------|
| Spareskillingsbanken                    | 3.5               |
| Kommunale Landspensjonskasse Gjensidige | 3.5               |
| Kilsholmen AS                           | 3.3               |
| VPF Eika Egenkapitalbevis               | 3.1               |
| Haslelund Holding AS                    | 1.6               |
| Other                                   | 85.0              |
| <b>Total</b>                            | <b>100.0</b>      |

Source: company.

## ISSUE RATINGS

Our rating on Flekkefjord Sparebank's unsecured senior debt is in line with the 'BBB+' issuer rating. The bank has an outstanding Tier 2 instrument and Additional Tier 1 instruments, which we rate one and three notches below the issuer rating, respectively, at 'BBB' and 'BB+'.

## SHORT-TERM RATING

The 'N3' short-term rating is the lower of two alternatives given the 'BBB+' long-term issuer rating, despite direct access to emergency liquidity assistance from the central bank. This reflects our assessment that the bank's liquidity is not sufficiently strong for the higher alternative on the basis of an average liquidity coverage ratio of 178% 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) [Nordic consumer banks' earnings continue to offset elevated provisions](#), 10 Sep. 2024
- (ii) [Norwegian savings banks' capitalization boosted by CRR3](#), 26 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

**Figure 19. Flekkefjord Sparebank key financial data, 2020–Q3 2024 YTD**

| Key credit metrics (%)                        | FY 2020 | FY 2021 | FY 2022 | FY 2023 | Q3 2024 YTD |
|-----------------------------------------------|---------|---------|---------|---------|-------------|
| <b>INCOME COMPOSITION</b>                     |         |         |         |         |             |
| Net interest income to op. revenue            | 73.6    | 70.6    | 79.0    | 80.7    | 78.3        |
| Net fee income to op. revenue                 | 8.6     | 9.6     | 9.4     | 9.9     | 11.2        |
| Net trading income to op. revenue             | 14.4    | 10.8    | 4.9     | 4.0     | 6.7         |
| Net other income to op. revenue               | 3.4     | 9.0     | 6.8     | 5.5     | 3.8         |
| <b>EARNINGS</b>                               |         |         |         |         |             |
| Net interest income to financial assets       | 1.3     | 1.4     | 1.9     | 2.3     | 2.2         |
| Net interest income to net loans              | 1.5     | 1.6     | 2.3     | 2.8     | 2.7         |
| Pre-provision income to REA                   | 1.7     | 1.9     | 2.3     | 3.1     | 3.0         |
| Core pre-provision income to REA (NII & NF&C) | 1.0     | 1.1     | 1.8     | 2.5     | 2.4         |
| Return on ordinary equity                     | 4.2     | 5.9     | 6.1     | 9.4     | 9.9         |
| Return on assets                              | 0.5     | 0.8     | 0.8     | 1.1     | 1.1         |
| Cost-to-income ratio                          | 54.7    | 54.1    | 52.4    | 47.4    | 47.2        |
| Core cost-to-income ratio (NII & NF&C)        | 66.5    | 67.5    | 59.3    | 52.4    | 52.8        |
| <b>CAPITAL</b>                                |         |         |         |         |             |
| CET1 ratio                                    | 25.3    | 24.3    | 21.5    | 20.0    | 20.8        |
| Tier 1 ratio                                  | 25.3    | 24.3    | 21.5    | 22.6    | 23.1        |
| Capital ratio                                 | 25.3    | 24.3    | 21.5    | 25.7    | 25.9        |
| REA to assets                                 | 47.8    | 48.4    | 48.5    | 48.8    | 49.3        |
| Dividend payout ratio                         |         |         |         |         |             |
| Leverage ratio                                | 11.9    | 11.6    | 10.6    | 10.9    | 11.3        |
| Consolidated CET1 ratio                       | 23.5    | 21.8    | 19.1    | 17.6    | 17.8        |
| Consolidated Tier 1 ratio                     | 23.7    | 22.1    | 19.5    | 20.0    | 20.1        |
| Consolidated Capital ratio                    | 23.7    | 22.3    | 20.3    | 22.9    | 23.1        |
| Consolidated Leverage ratio                   | 10.8    | 10.2    | 8.6     | 8.7     | 8.4         |
| <b>GROWTH</b>                                 |         |         |         |         |             |
| Asset growth                                  | 3.1     | 8.8     | 9.3     | 14.9    | 9.5         |
| Loan growth                                   | 2.0     | 6.9     | 5.8     | 16.1    | 9.2         |
| Deposit growth                                | 6.8     | 8.3     | 10.2    | 12.4    | 6.1         |
| <b>LOSS PERFORMANCE</b>                       |         |         |         |         |             |
| Credit provisions to net loans                | 0.22    | 0.04    | 0.27    | 0.10    | 0.13        |
| Stage 3 coverage ratio                        | 23.08   | 18.97   | 34.82   | 5.09    | 9.69        |
| Stage 3 loans to gross loans                  | 1.19    | 0.90    | 1.04    | 1.80    | 1.38        |
| Net stage 3 loans to net loans                | 0.92    | 0.73    | 0.68    | 1.71    | 1.25        |
| Net stage 3 loans/ordinary equity             | 5.99    | 4.84    | 4.49    | 12.12   | 9.03        |
| <b>FUNDING &amp; LIQUIDITY</b>                |         |         |         |         |             |
| Loan to deposit ratio                         | 120.3   | 118.8   | 114.0   | 117.7   | 121.2       |
| Liquid assets to deposit ratio                | 20.7    | 22.6    | 25.3    | 24.4    | 25.6        |
| Net stable funding ratio                      | 153.0   | 153.0   | 146.0   | 141.0   | 144.0       |
| Liquidity coverage ratio                      | 183.0   | 199.0   | 209.0   | 194.0   | 182.0       |

| Key financials (NOKm)               | FY 2020 | FY 2021 | FY 2022 | FY 2023 | Q3 2024 YTD |
|-------------------------------------|---------|---------|---------|---------|-------------|
| <b>BALANCE SHEET</b>                |         |         |         |         |             |
| Total assets                        | 7,131   | 7,755   | 8,475   | 9,736   | 10,663      |
| Total tangible assets               | 7,127   | 7,750   | 8,468   | 9,730   | 10,655      |
| Total financial assets              | 7,106   | 7,712   | 8,376   | 9,606   | 10,526      |
| Net loans and advances to customers | 6,063   | 6,480   | 6,853   | 7,954   | 8,689       |
| Total securities                    | 828     | 890     | 981     | 1,132   | 1,273       |
| Customer deposits                   | 5,039   | 5,457   | 6,011   | 6,760   | 7,171       |
| Issued securities                   | 1,127   | 1,276   | 1,380   | 1,662   | 1,964       |
| of which other senior debt          | 1,127   | 1,276   | 1,380   | 1,511   | 1,813       |
| of which subordinated debt          | –       | –       | –       | 151     | 151         |
| Total equity                        | 930     | 980     | 1,034   | 1,244   | 1,465       |
| of which ordinary equity            | 930     | 980     | 1,034   | 1,123   | 1,203       |
| <b>CAPITAL</b>                      |         |         |         |         |             |
| Common equity tier 1                | 861     | 911     | 884     | 953     | 1,094       |
| Tier 1                              | 861     | 911     | 884     | 1,073   | 1,214       |
| Total capital                       | 861     | 911     | 884     | 1,223   | 1,364       |
| REA                                 | 3,408   | 3,754   | 4,112   | 4,755   | 5,258       |
| <b>INCOME STATEMENT</b>             |         |         |         |         |             |
| Operating revenues                  | 123     | 146     | 193     | 259     | 216         |
| Pre-provision operating profit      | 56      | 67      | 92      | 136     | 114         |
| Impairments                         | 13      | 2       | 18      | 8       | 8           |
| Net Income                          | 37      | 56      | 61      | 102     | 86          |

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

Figure 20. Flekkefjord 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%  | bbb         |
| Earnings                             | 7.5%   | a           |
| Loss performance                     | 7.5%   | a-          |
| Performance indicators               | 15.0%  | a-          |
| <b>Indicative credit assessment</b>  |        | <b>bbb+</b> |
| Transitions                          |        | Neutral     |
| Peer calibration                     |        | Neutral     |
| Borderline assessments               |        | Neutral     |
| <b>Stand-alone credit assessment</b> |        | <b>bbb+</b> |
| Material credit enhancement          |        | Neutral     |
| Rating caps                          |        | Neutral     |
| Support analysis                     |        | Neutral     |
| <b>Issuer rating</b>                 |        | <b>BBB+</b> |
| Outlook                              |        | Stable      |
| <b>Short-term rating</b>             |        | <b>N3</b>   |

Figure 21. Capital structure ratings

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

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