Nordic Credit Rating

FINANCIAL INSTITUTION

Norway
20 Nov. 2024

Jæren Sparebank

Rating Action Report

LONG-TERM RATING

A-

OUTLOOK

Positive

SHORT-TERM RATING

N2

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Jæren Sparebank outlook revised to positive; 'A-' long-term issuer rating affirmed

Nordic Credit Rating said today that it had revised the outlook on its 'A-' long-term issuer rating on Norway-based Jæren Sparebank to positive from stable. At the same time, the long-term issuer rating was affirmed, as were the 'N2' short-term issuer rating, the 'A-' senior unsecured issue rating, the 'BBB+' Tier 2 issue rating, and the 'BBB-' additional Tier 1 issue rating.

Rating rationale

The outlook revision reflects an improvement in our view of Jæren Sparebank's risk governance, credit risk, and competitive position, as well as the possibility that the bank could improve its regulatory capital position following implementation of the EU's Capital Requirements Regulations III (CRR3) next year. We anticipate an initial 2.5pp increase in the bank's Tier 1 capital ratio on implementation of the new requirements. In addition, we see a possibility that the bank will take a long-term approach to future growth and maintain somewhat higher capital buffers. The bank's strong capitalisation is supported by its long-term ownership by two foundations. The foundations maintain their own liquidity positions, with a view to supporting the bank or participating in future capital injections, if necessary.

The outlook revision also reflects a strengthening of Jæren Sparebank's risk and compliance functions and long track record of conservative underwriting. The bank is a member of the Eika banking alliance and its key credit risk metrics compare favourably with those of other alliance members. As a result, we expect loan losses to remain modest despite the current economic slowdown in Norway. We expect the bank to report net reversals in 2024 and project average losses of 7bps in 2025 and 2026. We also expect the bank to maintain strong earnings metrics and cost efficiency advantages even as Norwegian policy interest rates decline. We note that the bank has continued to increase its market share, which strengthens our view of its competitive position, despite notable consolidation among larger domestic savings banks with a presence in the Jæren region in Rogaland county.

The rating is constrained by Jæren Sparebank's concentrated exposure to real estate and agricultural collateral. Rogaland's key role in Norway's oil and gas production makes the region's economy more volatile than the national average, but has also created strong economic conditions with low unemployment.

Positive outlook

The positive outlook reflects the possibility that we could raise the long-term rating if Jæren Sparebank maintains its strong asset quality and sustains recent improvements in earnings metrics as interest rates decline. A higher rating would depend on the bank's growth plans and commitment to higher capital buffers following implementation of CRR3. While the bank is already well capitalised, we expect its capital ratios to improve further with implementation of the new requirements. We believe the bank's low risk appetite, strong liquidity position, improved earnings, and stable cost position will enable resilience to the currently weak conditions in the wider economy.

We could raise the rating to reflect a commitment to maintaining material regulatory capital buffers and a Tier 1 ratio sustainably above 21%. We could also raise the rating to reflect pre-provision earnings sustainably above 2.5% of risk exposure amount (REA) together with stable asset quality metrics.

We could revise the outlook to stable to reflect a significant downturn in the operating environment that negatively impacts asset quality, a lasting reduction in the Tier 1 ratio to below 20%, or risk-adjusted earnings metrics below 2% of REA.

Rating list	To	From
Long-term issuer credit rating:	A-	A-
Outlook:	Positive	Stable
Short-term issuer credit rating:	N2	N2
Senior unsecured issue rating:	A-	A-
Tier 2 issue rating:	BBB+	BBB+
Additional Tier 1 issue rating:	BBB-	BBB-

Figure 1. Jæren Sparebank rating scorecard

Subfactors	Impact	To	From
National factors	10.0%	a	a
Regional, cross border, sector	10.0%	bbb+	bbb+
Operating environment	20.0%	a-	a-
Risk governance	5.0%	a	a-
Capital	17.5%	a+	a+
Funding and liquidity	15.0%	a	a
Credit risk	10.0%	bbb+	bbb
Market risk	-	-	-
Other risks	2.5%	a	a
Risk appetite	50.0%	a	a
Competitive position	15.0%	bbb	bbb-
Earnings	7.5%	a+	a+
Loss performance	7.5%	a	a
Performance indicators	15.0%	a	a
Indicative credit assessment		**a-**	**a-**
Transitions		Neutral	Neutral
Peer calibration		Neutral	Neutral
Borderline assessments		Neutral	Neutral
Stand-alone credit assessment		**a-**	**a-**
Material credit enhancement		Neutral	Neutral
Rating caps		Neutral	Neutral
Support analysis		Neutral	Neutral
Issuer rating		**A-**	**A-**
Outlook		Positive	Stable
Short-term rating		**N2**	**N2**

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	A-	A-
Tier 2	BBB+	BBB+
Additional Tier 1	BBB-	BBB-

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 Nov. 2022.
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
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test or cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies.
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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