

Skue Sparebank

Rating Action Report

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N2

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Skue Sparebank 'A-' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'A-' long-term issuer rating on Norway-based Skue Sparebank. The outlook is stable. At the same time, the 'N2' short-term issuer rating was affirmed, as was the 'A-' issue rating on the bank's senior unsecured debt, the 'BBB+' issue rating on its Tier 2 instruments, and the 'BBB-' issue rating on its additional Tier 1 instruments.

Rating rationale

Our long-term issuer rating reflects Skue Sparebank's solid capital position, low risk appetite and strong profitability. The bank has a cooperation agreement with the Eika alliance, which we view as positive, as it provides product diversity, shared development costs and the opportunity to finance residential retail mortgages through mortgage company Eika Boligkreditt. We believe that the bank will report relatively strong and stable earnings through 2026, which will enable it to bear elevated loan losses due to a slowdown in the overall economy. The recent merger with Hjartrdal og Gransherad Sparebank (HjartrdalBanken) will not, in our opinion, have a material impact on the bank's earnings metrics or credit risk but will enlarge its geographical footprint and improve the overall competitive position.

The rating is constrained by stiff competition and the bank's low market share in the more populous areas of Buskerud County in eastern Norway. Also constraining the rating is the bank's concentrated exposure to commercial real estate and retail mortgages in the region where it operates.

Stable outlook

The outlook is stable, reflecting our view that Skue Sparebank will report satisfactory earnings despite somewhat high loan losses. We expect the bank's already strong capital ratios to be further boosted by earnings, modest on-balance-sheet loan growth and the positive impact of implementing the EU's Capital Requirements Regulation III (CRR3). We also believe that the merger process will marginally improve profit and capital.

We could raise the rating on Skue Sparebank to reflect improved macroeconomic conditions, pushing up projected asset quality; and strengthened capital and earnings, with a Tier 1 capital ratio sustainably above 25%.

We could lower our rating to reflect a material deterioration in the local operating environment that hampers the bank's asset quality, a sustained decrease in the Tier 1 capital ratio to below 20%, or risk-adjusted earnings metrics sustainably below 2.0% of the risk exposure amount (REA).

Rating list

	To	From
Long-term issuer credit rating:	A-	A-
Outlook:	Stable	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. Skue 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	bb+
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		Stable	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 09 Nov. 2023.
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
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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