

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

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

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

Rating rationale

The long-term issuer rating reflects the bank's moderate risk appetite, stable earnings and improving capital position. The bank has proven access to capital market financing and few single-name deposit concentrations. 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 market of Lillesand.

We expect Lillesands Sparebank to maintain stable earnings over our forecast period throughout 2026. We also expect credit losses will remain slightly elevated given the continued effects of recent cost inflation and high interest rates, although we believe they will remain below the average of peers.

The rating is constrained by geographic and single name concentrations in Lillesand and a high proportion of real-estate collateral in the bank's core market. The rating is also constrained by a weak market position outside Lillesand municipality and relatively weaker earnings metrics compared to peers.

Stable outlook

The stable outlook reflects our view that a weak economic climate and projected credit losses will be offset by improvements in capital and stable earnings metrics. We believe the bank's moderate risk appetite, strong real-estate collateral and stable cost position will enable resilience to a moderate slowdown in the economy. We expect Lillesands Sparebank's capital ratios will be further boosted by the prospective positive impact of implementing the EU's Capital Requirements Regulations III (CRR3).

An upgrade is unlikely at this time, given the bank's restricted competitive position with regional and sectoral concentrations.

We could lower the rating to reflect a deterioration in the local operating environment or weaker asset quality, increased reliance on bond market financing. We could also lower the rating to reflect pre-provision income to risk exposure amount below 1.5% or cost/income above 60% for a protracted period.

Rating list

	Rating
Long-term issuer credit rating:	BBB+
Outlook:	Stable
Short-term issuer credit rating:	N2
Senior unsecured issue rating:	BBB+

Figure 1. Lillesands 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%	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+

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 17 Dec. 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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