

Skudenes & Aakra Sparebank

Full Rating Report

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N2

PRIMARY ANALYST

Christian Yssen
+4740019900
christian.yssen@nordiccreditrating.com

SECONDARY CONTACTS

Ylva Forsberg
+46768806742
ylva.forsberg@nordiccreditrating.comGeir Kristiansen
+4790784593
geir.kristiansen@nordiccreditrating.com

RATING RATIONALE

Our 'A-' long-term issuer rating on Norway-based Skudenes & Aakra Sparebank reflects the bank's low risk appetite, solid capital position, strong earnings, and diverse access to funding. The bank is in the process of switching from the Lokalbanksamarbeidet banking cooperative to the Eika Alliance. Through its current membership in Lokalbanksamarbeidet, the bank benefits from diversification of business and cost advantages that it will maintain after transitioning to the Eika Alliance. These include the opportunity to transfer mortgages to jointly owned covered bond companies.

We expect the bank to maintain strong earnings metrics and cost efficiency advantages even as Norwegian policy interest rates decline. We also expect loan losses to remain moderate despite the current economic slowdown in Norway. Together with modest lending growth and significant gift contributions to the local community, we project capital adequacy metrics will remain solid.

The rating is constrained by the bank's concentrated exposure to real-estate collateral in the municipality of Karmøy and the Haugalandet region on the west coast of Norway. It is also constrained by barriers to growth and stiff competition beyond Karmøy and its core markets.

STABLE OUTLOOK

The stable outlook reflects our view that a weak economic climate and likely credit losses will be offset by Skudenes & Aakra Sparebank's solid earnings and capital position. We believe the bank's low risk appetite, strong real-estate collateral, improved earnings, and solid cost efficiency will enable resilience to a modest economic slowdown. We expect the positive impact of implementing the EU's Capital Requirements Regulation III (CRR3) will further improve the bank's capital ratios.

POTENTIAL POSITIVE RATING DRIVERS

- An upgrade is unlikely at this time, given the bank's already strong capital position and earnings, as well as its regional concentrations.

POTENTIAL NEGATIVE RATING DRIVERS

- Loan growth beyond our expectations, resulting in a Tier 1 capital ratio below 20%.
- Pre-provision income to the risk exposure amount (REA) below 2% or cost-to-income above 50% over a protracted period.
- A material deterioration in the local operating environment that negatively affects asset quality.

Figure 1. Key credit metrics, 2020–2026e

%	2020	2021	2022	2023	2024e	2025e	2026e
Net interest margin	1.7	1.6	1.8	2.2	2.2	2.2	2.1
Loan losses/net loans	0.12	0.06	0.11	0.10	0.09	0.12	0.12
Pre-provision income/REA*	2.8	2.5	2.6	3.3	3.1	3.0	3.1
Cost-to-income	40.3	42.0	41.6	36.2	38.0	39.1	38.3
Return on average equity	9.3	8.6	8.7	10.8	10.3	9.2	8.8
Loan growth	3.6	7.4	0.6	2.9	6.4	5.0	5.0
CET1 ratio*	20.7	19.2	20.3	21.0	20.6	23.3	24.2
Tier 1 ratio*	21.9	20.8	21.8	22.5	22.2	24.9	25.7

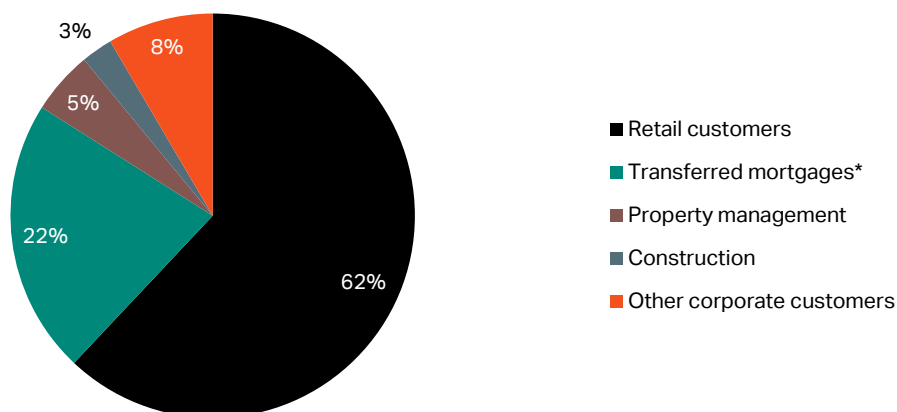
Source: company and NCR. e=estimate. REA=risk exposure amount. CET1=common equity Tier 1. All metrics adjusted in line with NCR methodology.
*Consolidated capital adequacy metrics, including the estimated effect of CRR3 from 2025.

ISSUER PROFILE

Skudenes & Aakra Sparebank is a mid-size Norwegian savings bank dating back to 1876. The bank operates through its headquarters in Åkrehamn and four additional offices in Haugalandet, a region in Rogaland county. Karmøy and some neighbouring municipalities make up the bank's core markets, while retail customers and SMEs account for its core customer base. Today, the bank has about NOK 13bn in net loans, including transferred loans, and close to 60 employees. The bank is currently part of the Lokalbanksamarbeidet banking cooperative, but it is switching to the Eika Alliance, Norway's largest savings bank coalition. This move should be completed in fall 2025. The bank operates as an independent savings bank and has unlisted Equity Capital Certificates (ECCs).

Skudenes & Aakra Sparebank is one of 16 savings banks in Lokalsamarbeidet, which consists of small and medium-sized local savings banks with total gross lending of NOK 100bn as of end-2023. Lokalbanksamarbeidet has also joined Frendegruppen, a cooperative alliance of financial services providers and three larger savings banks. Membership in the Eika Alliance, which comprises close to 50 savings banks, will provide collaboration advantages like those of Lokalbanksamarbeidet, improving members' service offerings, technology, and product development while maintaining their local independence.

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. Skudenes & Aakra Sparebank's operations are concentrated in Karmøy, with some activity in the neighbouring municipalities of Haugesund, Tysvær and Bokn. These municipalities, especially Karmøy, have low unemployment, but weaker population growth than the national average.

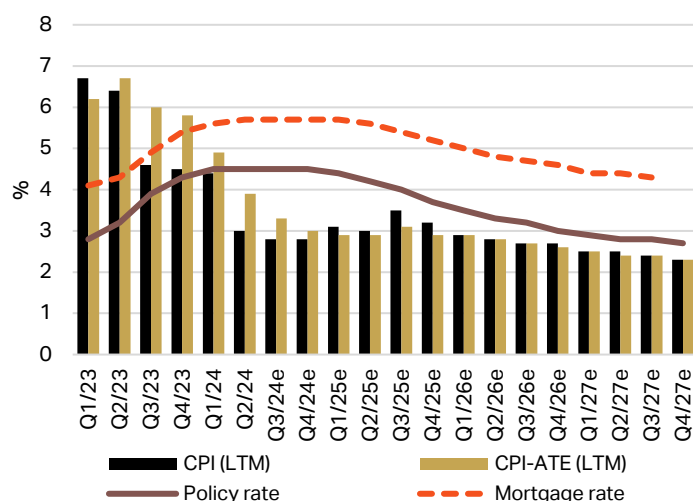
Peaking net interest margins

National factors

Net interest margins for Norwegian savings banks have widened significantly on the back of rising interest rates over the past two years. This, together with strong lending growth, has boosted earnings across the sector. However, we believe that core earnings growth in the sector will slow this year due to heightened competition and increased, albeit moderate, loan losses. At NCR-rated Norwegian savings banks, we expect a marginal decline in core profit 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 continued high interest rates.

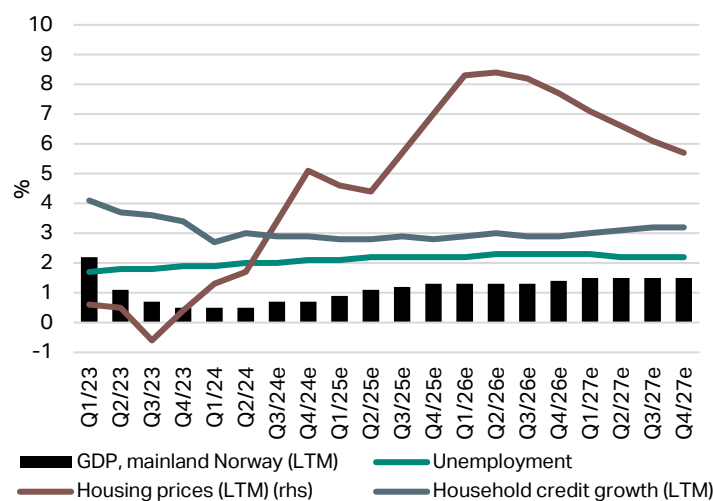
As intended, high interest rates are helping to slow the economy. We believe that high interest rates and weak economic conditions could lead to a rise in loan-loss provisions among domestic savings banks over the next 12 months, but that these increases will vary markedly between individual banks. Norway's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

Low unemployment and flat population growth prospects in Karmøy

Skudenenes & Aakra Sparebank's core market is in the area traditionally known as Haugalandet, on the Norwegian west coast between the cities of Bergen and Stavanger. More than 70% of lending is in Karmøy, a municipality adjacent to the city of Haugesund. Around 94,000 people live in the municipalities that constitute the bank's core markets, where the population is poised to grow by 4% by 2050. Karmøy's population will likely remain flat, despite an increase exceeding 3% over the past 10 years. We expect the ferry-free road projects of Hordfast and Rogfast to reduce travel time between Stavanger and Bergen significantly and contribute to regional economic growth in the longer term. Rogfast is set to finish by 2033, while the Hordfast project has been postponed to beyond 2036. Karmøy's unemployment rate of 1.2% is significantly lower than 1.5% in the bank's broader core markets and 2.0% nationally, based on data from October 2024.

Figure 5. Core markets

Municipality	Population, 2024	Expected population change, 2024–2050 (%)	Unemployment, Oct. 2024 (%)	Unemployment, Oct. 2023 (%)
Karmøy	43,404	-0.1	1.2	1.2
Haugesund	38,362	7.2	2	1.7
Tysvær	11,628	9.4	1.2	1.5
Bokn	890	3.4	*	*
Core markets	94,284	4.1	1.5	1.4
Norway	5,562,363	9.9	2.0	1.8

Source: Statistics Norway, Norwegian Labour & Welfare Administration. *Fewer than four unemployed.

The region has a relatively diverse employment base, with the public sector as a major employer. The maritime sector has a strong presence, and there are several clusters of maritime industries. Other important industries include offshore, energy and processing. The broader region has high tourism activity, with an increasing number of cruise tourists contributing to economic growth and development.

RISK APPETITE

Our assessment of Skudenenes & Aakra Sparebank's risk profile reflects the bank's strong capital position, diverse funding profile, large proportion of residential mortgage lending, and ability to transfer loans to jointly owned covered-bond companies. Risk governance and internal risk reporting are adequate, in view of the bank's risk profile and complexity. The bank has some regional concentrations in its core markets and a significant proportion of property lending.

Regional, sectoral, and cross-border factors

Risk appetite assessment

Risk governance

Implementation of internal audit function as third line of defence

As a mid-size local bank, Skudenenes & Aakra Sparebank's operations are less complex than those of larger banks. In our opinion, it has an adequate risk appetite framework and internal risk and compliance tools. Furthermore, the bank has well-defined guidelines to support anti-money laundering in its daily operations and has implemented an internal audit function as a third line of defence. This reduces the risk of related losses and fines, which the Norwegian regulator has levied on some banks. The bank's internal risk reporting and capital adequacy assessment processes are proportional to its risk profile.

We believe that membership in a savings bank alliance supports the bank's ability to handle increasing risk governance requirements. However, Skudenenes & Aakra Sparebank is subject to the mergers of the Lokalbanksamarbeidet and Frendegruppen alliances, and the ensuing transition to the Eika Alliance during 2024 and 2025. We note that the multiple changes in alliances over such a short time frame entail increased operational risk, additional resource needs and extraordinary costs. Still, we believe the bank will handle the transition to the Eika Alliance and that it recognizes the potential higher risk.

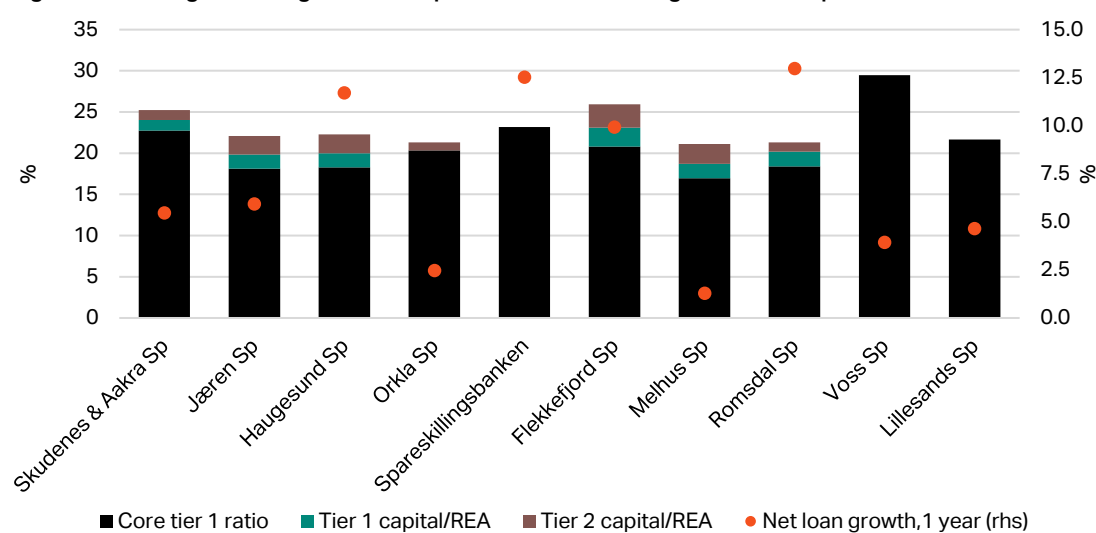
Skudenenes & Aakra Sparebank assesses environmental, social and governance (ESG) risk for all large corporate customers and is actively working with customers on environmental initiatives. We believe this contributes to good risk awareness at the bank and improves sustainable behaviour among its customers. The bank finances a substantial portion of its mortgage portfolio through Verd Boligkreditt, a mid-size domestic issuer of covered bonds that has also established a framework for the issuance of green bonds. Access to green financing will also apply for new mortgages transferred to covered bond issuer Eika Boligkreditt AS after the transition to the Eika Alliance.

Capital

Strong capital ratios to be further boosted by CRR3

Our capital assessment takes into consideration Skudenenes & Aakra 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 20.2% and its Tier 1 capital ratio 21.8%. We note that the reported capital ratios would have been 0.9pp higher including 50% of the current year's profit. These levels are among the highest in our peer group and compare with the bank's respective minimum targets of 17.1% and 19.2% (including a 1.5pp management buffer). The consolidated leverage ratio stands at 9.6%, compared with a requirement of 3%.

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

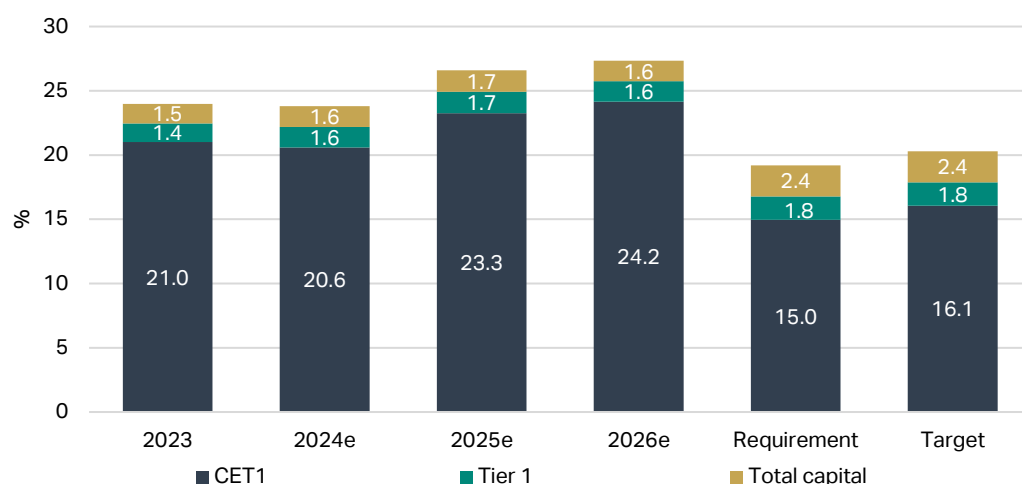


In the 12 months to 30 Sep. 2024, Skudenenes & Aakra Sparebank increased net loans by 5.5%. We project the bank's loan growth will remain at similar levels in our forecast period through 2026. We expect return on equity to remain strong at 9-10% through the forecast period with dividends at 14-15% of net profits, including gifts and donations. This should result in a consolidated Tier 1 ratio of 22.2% at end-2024. In our estimates for 2025, we assume a positive regulatory impact of 2pp on the consolidated

Tier 1 ratio including CRR3, resulting in an estimated consolidated Tier 1 ratio of 24.9% by end-2025. Our estimate also encompasses a positive effect from the covered bond companies, due to their use of the standard approach to credit risk and portfolios of low loan-to-value mortgages.

CRR3 is scheduled 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. We believe Skudenes & Aakra Sparebank could adjust its capital strategy and lending growth depending on its actual outcome.

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



Source: company, e-estimate. *Total pillar 2 guidance (P2G) of 1.7%.

Diverse funding profile

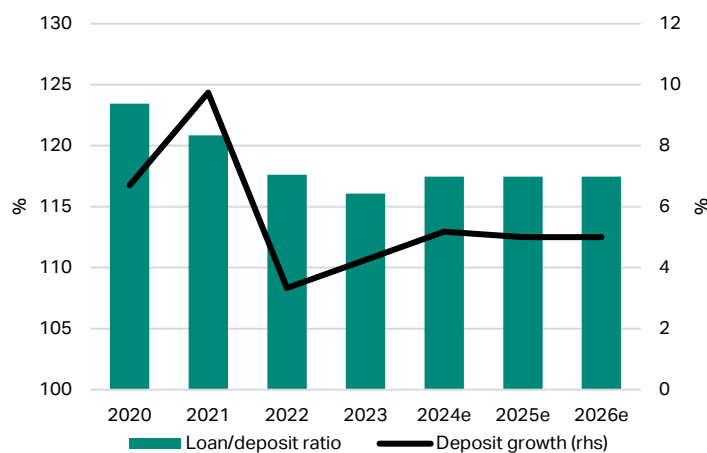
Skudenes & Aakra Sparebank's funding profile is diverse, with a relatively solid retail deposit base. The bank has also demonstrated access to capital market funding. Deposit growth has exceeded loan growth in recent years, resulting in a lower loan-to-deposit ratio of 117% as of 30 Sep. 2024, compared with 124% at end-2020. Looking ahead, we expect the loan growth to follow lending growth at 5% for a stable loan-to-deposit ratio. The bank has few single-name concentrations in its customer deposits and strong liquidity buffers (25% of customer deposits as of 30 Sep. 2024). As of 30 Sep. 2024, the liquidity coverage ratio was 510% and the net stable funding ratio 144%, well above the bank's internal limits of 110% for both.

Skudenes & Aakra Sparebank had NOK1.9bn in outstanding senior bonds as of 30 Sep. 2024. The bank's debt maturity profile is evenly distributed, with senior unsecured maturities spread out through 2029 and a weighted average time to maturity of 3.2 years. We forecast the bank will refinance through new issuance at maturity and increase bond financing modestly as the loan book grows.

Another important source of funding is Verd Boligkreditt, which provides access to more affordable funding with longer terms to maturity than the bank could achieve by itself. The bank has transferred NOK 2.8bn to Verd Boligkreditt as of 30 Sep. 2024, which accounts for 26.2% of residential mortgages on- and off-balance-sheet. In addition, the bank maintains a strong portfolio of readily transferrable loans as a liquidity buffer, also at about NOK 2.8bn as of 30 Sep. 2024. We expect the bank transfer mortgages to match the pace of lending growth on the bank's own books. After transitioning to the Eika Alliance, all new transferred mortgages will move to Eika Boligkreditt, reducing the portfolio transferred to Verd Boligkreditt over a run-off-period of several years.

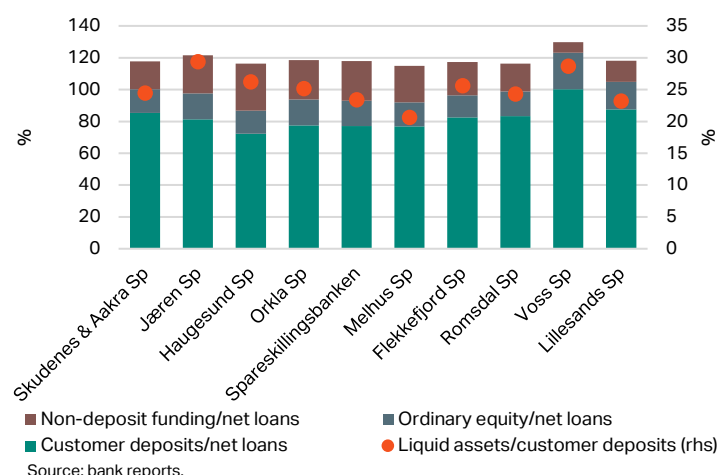
Funding and liquidity

Figure 8. Deposit metrics, 2020-2026e



Source: company, e-estimate.

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



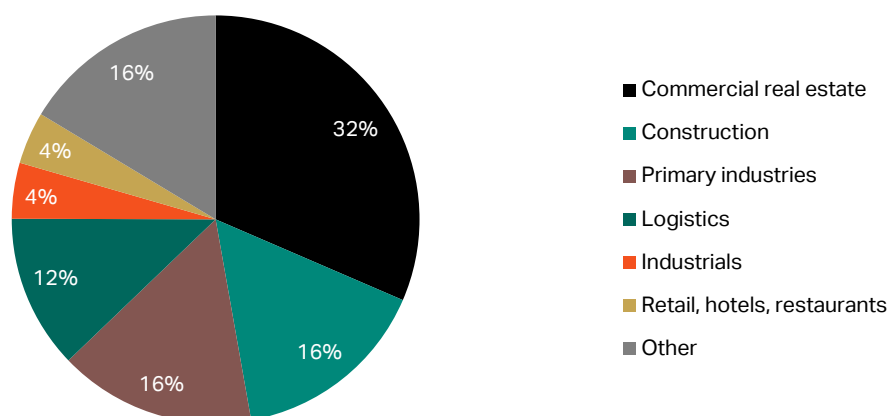
Source: bank reports.

Strong regional focus

Skudenes & Aakra Sparebank's loan portfolio has a strong regional focus, encompassing 70% of net loans in Karmøy and 90% in the broader, yet local, Haugalandet. Of the bank's exposures (including transferred loans), 87% 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 real-estate collateral to declines in property values. Housing prices have remained solid despite rising interest rates. However, housing prices in the bank's operating region are somewhat lower than in larger metropolitan areas, resulting in lower debt burdens for the bank's customers. Housing price increases over the past decade have strengthened the bank's collateral.

Corporate lending accounts for 21% of the loan book, and 16% when including transferred loans. Skudenes & Aakra Sparebank's main corporate exposure is to commercial real estate, followed by construction. We remain concerned about corporate and commercial real-estate lending, due to high interest costs and lower property prices. In addition, the bank has some single-name concentrations related to the marine industry, which we believe have a higher risk profile.

Figure 10. Corporate gross loans by sector, 30 Sep. 2024



Source: company.

In the 12 months to 30 Sep. 2024, the bank had moderate loan growth of 5.5%, nevertheless outpacing less than 1% and 3%, respectively, in 2022 and 2023. We expect the bank will maintain annual loan growth of 5% through 2026, exceeding likely national averages and somewhat improving its market share.

On 30 Sep. 2024, Skudenes & Aakra Sparebank had transferred loans amounting to NOK 2.8bn. Transferred loans generate commission income and accounted for 5% of the bank'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. Because of the high credit quality of transferred loans and repatriation agreements, the mortgage company has not incurred actual credit losses. Following the switch to the Eika Alliance, we expect the bank to keep its current loans at Verd Boligkreditt until maturity or refinancing. New loans will be transferred to Eika Boligkreditt, which has a similar compensation and risk transfer system to Verd Boligkreditt.

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 Skudenes & Aakra Sparebank, given its lack of a trading portfolio and low limits on interest rate risk and currency risk.

The bank currently 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 Verd Boligkreditt. The change to the Eika Alliance will entail strategic ownership investments in Eika Boligkreditt and Eika Gruppen as a replacement for new mortgage loan transfers and product companies.

COMPETITIVE POSITION

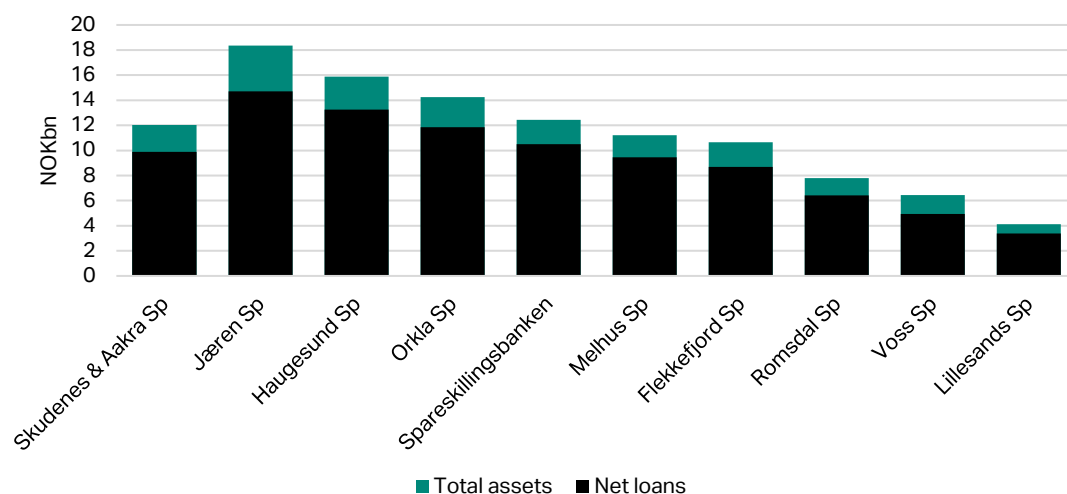
Competitive position

Skudenes & Aakra Sparebank has a local focus and a strong position in its core markets. Among private customers in Karmøy, the bank has a market share of about 30%. The bank's offices are all located in this municipality, of which the majority is island based. The bank faces increased competition on the mainland, including in nearby Haugesund, where the bank has smaller market shares. Haugesund Sparebank is the closest competitor of similar size, while Sparebank 1 Sør-Norge, DNB and Sparebanken Vest are the most active players of larger size with significant market shares in the area. We note that Sparebanken Vest is in the process of merging with Sparebanken Sør, which may have a positive short-term effect on Skudenes & Aakra Sparebank's competitive position. The bank has been growing its loan book at a similar level to, or slightly higher levels than, peers over recent years. We expect the bank to slowly increase its market share in core markets in the upcoming years while targeting additional growth in adjacent markets.

The bank is currently one of the largest of 16 savings banks in Lokalbanksamarbeidet and is set to become a mid-size bank compared with the nearly 50 banks in the Eika Alliance after its transition. Both alliances enable member banks to diversify revenues and provide a wider range of customer services than with their own resources. Via these alliances, the bank can provide customers with insurance, debit and credit products, asset management and payment solutions.

We regard Skudenes & Aakra Sparebank's contributions to its core markets as positive rating factors. The bank's primary 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.

Figure 11. Norwegian savings banks' total assets and net lending, 30 Sep. 2024



Source: bank reports.

PERFORMANCE INDICATORS

Performance indicators

Skudenes & Aakra Sparebank has reported solid risk-adjusted earnings and exceptional cost efficiency relative to levels at peers in recent years. We believe earnings will remain solid, despite pressure on margins. The bank has an average proportion of non-performing loans and reported moderate loan losses in recent years.

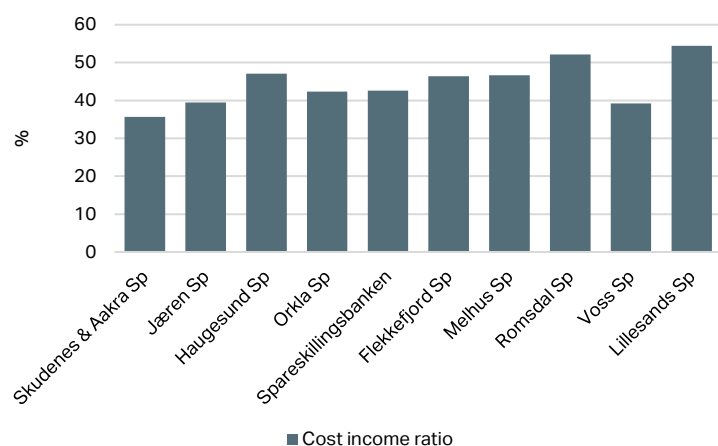
Strong cost efficiency

Earnings

High interest rates have improved Skudenes & Aakra Sparebank's net interest margin since 2022, reversing years of margin pressure stemming from low interest rates and competition for mortgage loans. We believe margins will remain robust through our forecast period, despite a gradual decrease due to interest rate cuts from 2025, increased competition, and slowing loan demand.

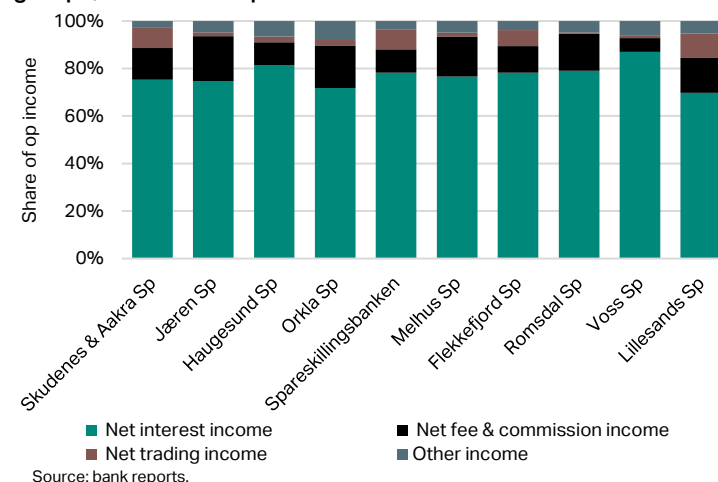
Skudenes & Aakra Sparebank's cost efficiency has improved as growth in operating revenue has outstripped growth in costs. The cost-to-income ratio has improved to 36% in the 12 months to 30 Sep. 2024 compared with 42% in full-year 2022, making it the most efficient in our peer group. We expect the cost-to-income ratio to remain strong at 38-39% in our forecast period through 2026, taking into account extraordinary costs related to completing the transition to the Eika Alliance in 2025. We estimate the bank's pre-provision income to REA to remain above 3% in our forecast period.

Figure 12. Norwegian savings banks' cost efficiency metrics, LTM to 30 Sep. 2024



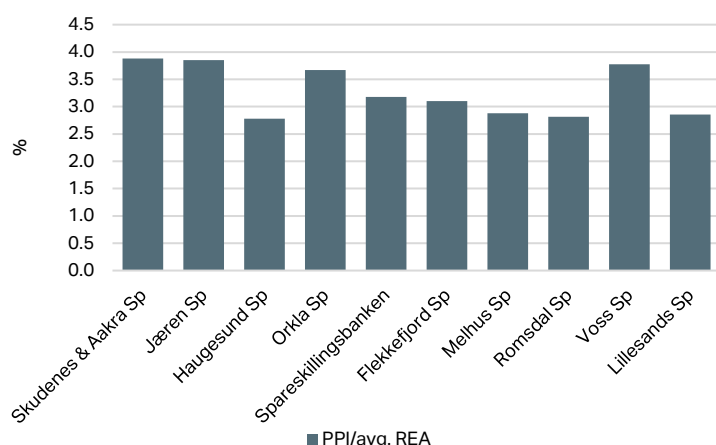
Source: bank reports.

Figure 13. Norwegian savings banks' split between income groups, LTM to 30 Sep. 2024



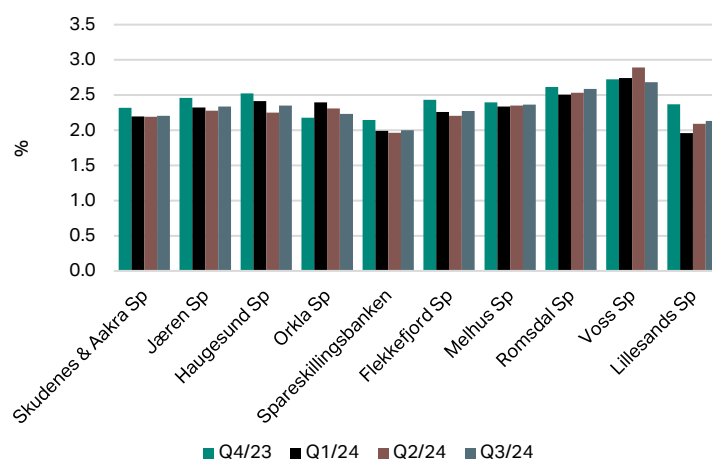
Source: bank reports.

Figure 14. Norwegian savings banks' PPI to REA*, LTM to 30 Sep. 2024



Source: bank reports. PPI-pre-provision income. *Unconsolidated REA of parent banks.

Figure 15. Norwegian savings banks' annualised net interest margins, Q4 2023–Q3 2024



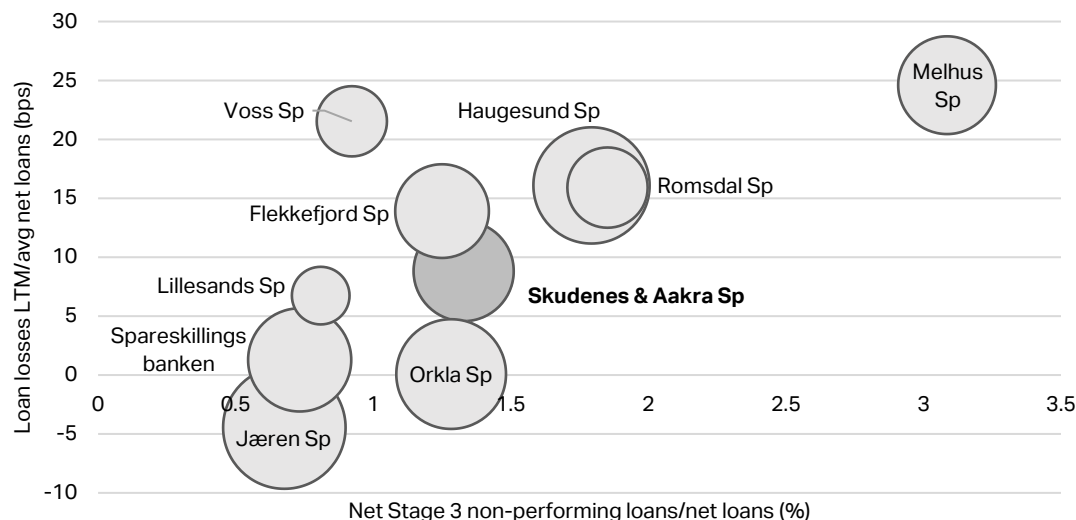
Source: bank reports.

Non-performing loans close to peer group average

Loss performance

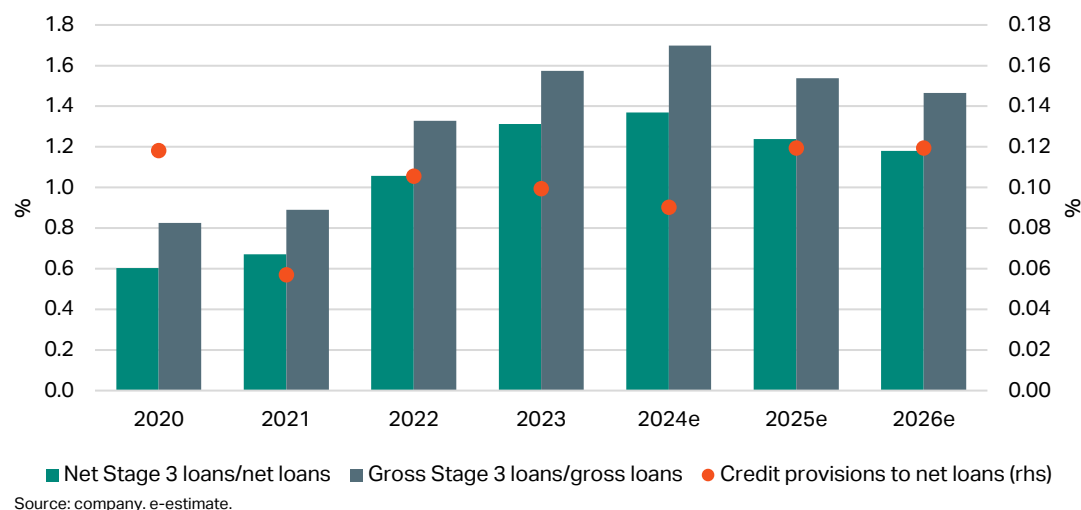
Skudenes & Aakra Sparebank's credit losses to net loans have averaged a stable 10bps over the past five years. The bank booked losses of NOK 5m in the first nine months of 2024, against NOK 9m in 2023. We project similar loan losses through 2026, at 9bps in full-year 2024 and 12bps annually in 2025 and 2026. The bank's net Stage 3 non-performing loans have increased to 1.3%, which is average within our peer group. We expect the proportion of Stage 3 loans to decrease somewhat towards end-2026, from a peak of 1.4% at end-2024.

Figure 16. Norwegian savings banks' asset quality metrics, 30 Sep. 2024



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

Figure 17. Asset quality metrics, 2020–2026e



ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

We consider ESG factors throughout our analysis, where material to our credit assessment. In aggregate, we view Skudenæs & Aakra Sparebank's ESG profile as having a neutral impact on its creditworthiness.

Figure 18. 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 (-) Loss performance (0)
Social engagement in local community	Close connection to narrow regional markets provides a benefit.	Competitive position (+) Earnings (+) 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 impact in the bank's underwriting, operations, and customer base.	Risk governance (0) 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

We do not adjust our rating on Skudenes & Aakra Sparebank to reflect the likelihood of additional support as we see limited potential for extraordinary support from the owners. The bank has ECCs which are not publicly listed. As of end-2023, around 15% of the bank's equity was owned by ECC holders, while the remainder was ownerless capital.

Figure 19. Ownership structure, 30 Sep. 2024

Owner	Share of capital
Sohl AS	10.9%
Ska Invest AS	4.4%
Kjell Olav Munkejord	2.4%
Kåre Johan Langåker	2.3%
X Invest AS	2.3%
Other	77.7%
Total	100.0%

Source: company.

ISSUE RATINGS

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

SHORT-TERM RATING

The 'N2' short-term rating is the higher of two possible alternatives given the 'A-' long-term issuer rating. It reflects Skudenes & Aakra Sparebank's access to central bank funding and our assessment that the bank's liquidity is adequate, based on an average liquidity coverage ratio of 495% 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) [NCR Comments: Norway moves to adopt new standardised approach to capital requirements](#), 6 Dec. 2024.
- (ii) [Nordic consumer banks' earnings continue to offset elevated provisions](#), 10 Sep. 2024.
- (iii) [Norwegian savings banks' capitalization boosted by CRR3](#), 26 Jun. 2024.
- (iv) [Swedish savings banks face weaker earnings and low loan growth in 2024](#), 6 Feb. 2024.

Figure 20. key financial data, 2020–Q3 2024 YTD

Key credit metrics (%)	FY 2020	FY 2021	FY 2022	FY 2023	Q3 2024 YTD
INCOME COMPOSITION					
Net interest income to op. revenue	73.7	72.4	74.1	77.5	75.4
Net fee income to op. revenue	16.4	18.3	16.2	12.7	13.3
Net trading income to op. revenue	7.3	1.3	2.1	2.8	8.5
Net other income to op. revenue	2.6	7.9	7.5	6.9	2.8
EARNINGS					
Net interest income to financial assets	1.7	1.6	1.8	2.2	2.2
Net interest income to net loans	2.0	1.9	2.1	2.6	2.7
Pre-provision income to REA	2.8	2.6	2.9	3.7	3.9
Core pre-provision income to REA (NII & NF&C)	2.3	2.2	2.4	3.1	3.2
Return on ordinary equity	9.9	9.2	9.3	11.5	11.9
Return on assets	1.0	0.9	1.0	1.3	1.4
Cost-to-income ratio	40.3	42.0	41.6	36.2	36.0
Core cost-to-income ratio (NII & NF&C)	44.7	46.3	46.0	40.2	40.7
CAPITAL					
CET1 ratio	20.7	21.6	22.8	24.1	22.7
Tier 1 ratio	21.9	22.9	24.2	25.4	24.0
Capital ratio	23.4	24.4	25.5	26.6	25.2
REA to assets	49.1	47.6	48.0	48.1	48.4
Dividend payout ratio	11.8	9.9	9.8	10.3	
Leverage ratio	0.0	10.8	11.5	12.1	11.6
Consolidated CET1 ratio	20.7	19.2	20.3	21.0	20.2
Consolidated Tier 1 ratio	21.9	20.8	21.8	22.5	21.8
Consolidated Capital ratio	23.4	22.2	23.5	24.0	23.4
Consolidated Leverage ratio	0.0	9.2	9.5	9.7	9.6
GROWTH					
Asset growth	7.1	6.7	1.3	4.3	4.6
Loan growth	3.6	7.4	0.6	2.9	4.8
Deposit growth	6.7	9.7	3.3	4.3	3.9
LOSS PERFORMANCE					
Credit provisions to net loans	0.12	0.06	0.11	0.10	0.07
Stage 3 coverage ratio	27.18	24.80	20.69	16.88	19.60
Stage 3 loans to gross loans	0.83	0.89	1.33	1.57	1.65
Net stage 3 loans to net loans	0.60	0.67	1.06	1.31	1.33
Net stage 3 loans/ordinary equity	4.90	5.43	7.96	9.23	8.99
FUNDING & LIQUIDITY					
Loan to deposit ratio	123.5	120.9	117.6	116.1	117.1
Liquid assets to deposit ratio	24.1	22.4	22.8	24.5	24.5
Net stable funding ratio	146.0	147.0	125.0	125.0	144.0
Liquidity coverage ratio	479.0	472.0	533.0	472.0	510.0

Key financials (NOKm)	FY 2020	FY 2021	FY 2022	FY 2023	Q3 2024 YTD
BALANCE SHEET					
Total assets	10,203	10,882	11,019	11,497	12,030
Total tangible assets	10,200	10,879	11,015	11,492	12,025
Total financial assets	10,158	10,824	10,962	11,438	11,969
Net loans and advances to customers	8,497	9,129	9,182	9,445	9,901
Total securities	1,046	1,091	1,171	1,269	1,370
Customer deposits	6,883	7,554	7,805	8,138	8,454
Issued securities	1,740	1,859	1,695	1,698	1,807
of which other senior debt	1,665	1,784	1,620	1,622	1,732
of which subordinated debt	75	75	76	75	75
Total equity	1,118	1,210	1,300	1,424	1,540
of which ordinary equity	1,048	1,129	1,220	1,343	1,464
CAPITAL					
Common equity tier 1	1,038	1,118	1,207	1,330	1,324
Tier 1	1,098	1,188	1,278	1,403	1,399
Total capital	1,173	1,263	1,348	1,473	1,470
REA	5,004	5,184	5,290	5,529	5,821
INCOME STATEMENT					
Operating revenues	227	229	261	315	257
Pre-provision operating profit	135	133	153	201	164
Impairments	10	5	10	9	5
Net Income	99	100	109	147	125

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

Figure 21. 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%	a-
Capital	17.5%	aa-
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%	aa-
Loss performance	7.5%	bbb+
Performance indicators	15.0%	a
Indicative credit assessment		a-
Transitions		Neutral
Peer calibration		Neutral
Borderline assessments		Neutral
Stand-alone credit assessment		a-
Material credit enhancement		Neutral
Rating caps		Neutral
Support analysis		Neutral
Issuer rating		A-
Outlook		Stable
Short-term rating		N2

Figure 22. Capital structure ratings

Seniority	Rating
Senior unsecured	A-
Tier 2	BBB+
Additional Tier 1	BBB-

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