

Skudenes & Aakra Sparebank

Rating Action Report

Skudenes & Aakra Sparebank assigned 'A-' long-term issuer rating; Outlook stable

Nordic Credit Rating (NCR) said today that it had assigned an 'A-' long-term issuer rating to Norway-based savings bank [Skudenes & Aakra Sparebank](#). The outlook is stable. An 'N2' short-term issuer rating was also assigned, together with an 'A-' senior unsecured issue rating, a 'BBB+' Tier 2 issue rating and a 'BBB-' Additional Tier 1 issue rating.

Rating rationale

Our long-term issuer rating reflects Skudenes & Aakra Sparebank'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.

We are unlikely to upgrade Skudenes & Aakra Sparebank at this time, given its already strong capital position and earnings, as well as its regional concentrations.

We could lower our rating on the bank if its loan growth exceeds our expectations, resulting in a Tier 1 capital ratio below 20%; or pre-provision income to the risk exposure amount moves below 2% or cost-to-income increases to above 50% over a protracted period. We could also downgrade Skudenes & Aakra Sparebank if we observe a material deterioration in the local operating environment that negatively affects asset quality.

Rating list

Long-term issuer credit rating:
Outlook:
Short-term issuer credit rating:
Senior unsecured issue rating:
Tier 2 issue rating:
Additional Tier 1 issue rating:

Rating

A-
Stable
N2
A-
BBB+
BBB-

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N2**PRIMARY ANALYST**

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Figure 1. 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 2. Capital structure ratings

Seniority	Rating
Senior unsecured	A-
Tier 2	BBB+
Additional Tier 1	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 19 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
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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