Lillesands Sparebank

Full Rating Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

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EDITOR'S NOTE (23 Jan. 2025): Corrected typos in performance indicators section.

RATING RATIONALE

Our 'BBB+' long-term issuer rating on Norway-based Lillesands Sparebank 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 outlook is stable, reflecting 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).

POTENTIAL POSITIVE RATING DRIVERS

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

POTENTIAL NEGATIVE RATING DRIVERS

- A deterioration in the local operating environment or weaker asset quality.
- Increased reliance on bond market financing.
- Pre-provision income to risk exposure amount (REA) below 1.5% or cost/income above 60% for a protracted period.

Figure 1. Key credit metrics, 2020–2026e

%	2020	2021	2022	2023	2024e	2025e	2026e
Net interest margin	1.5	1.5	1.8	2.2	2.1	2.0	1.9
Loan losses/net loans	0.13	-0.06	0.02	0.04	0.05	0.09	0.08
Pre-provision income/REA*	1.9	1.4	1.7	2.1	2.1	1.8	1.9
Cost-to-income	50.7	58.7	57.5	54.1	54.2	58.7	57.0
Return on average equity	7.0	5.5	6.9	8.1	7.1	5.6	6.0
Loan growth	3.3	-0.3	2.0	4.1	2.5	7.5	7.5
CET1 ratio*	20.3	21.5	21.8	20.8	21.9	23.6	23.5
Tier 1 ratio*	20.6	21.8	22.1	21.2	22.6	24.3	24.2

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.

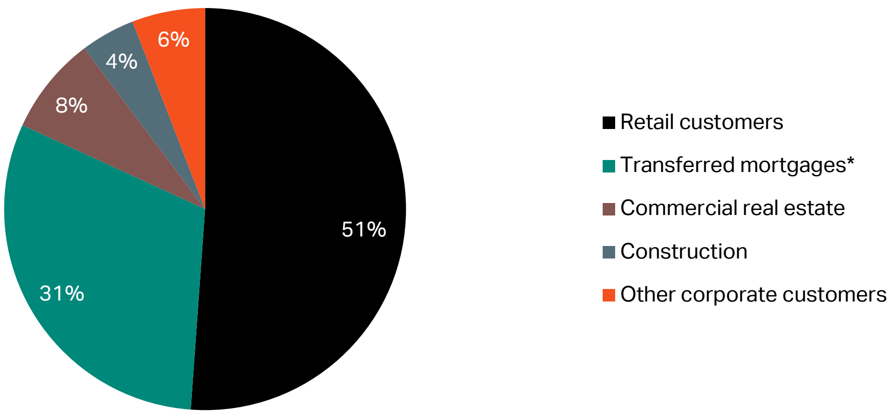
ISSUER PROFILE

Lillesands Sparebank is a small-sized savings bank headquartered in Lillesand, Norway. The bank dates back to 1852 and merged with Vestre Moland Sparebank in 1968. Today, the bank has about NOK 5bn in total net loans, including transferred loans, and close to 30 employees. It primarily serves the retail customers of Lillesand municipality and neighbouring municipalities. In 2021, the bank opened a second office in Grimstad to support further growth in the area. Lillesands Sparebank offers several financial services to household and corporate borrowers. These services include savings accounts, loans, mortgages, insurance, leasing and investment services.

Lillesands 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. The cooperative is the result of a recent merger of the Lokalbank and DSS alliances. The cooperative provides product diversity, builds customer loyalty and helps to improve cost efficiency through the sharing of IT costs and joint efforts in risk management and compliance. It also provides the opportunity to finance residential mortgage loans through Verd Boligkreditt, a mid-size domestic issuer of covered bonds.

The member banks of Lokalbanksamarbeidet have also joined Frendegruppen, a cooperative of financial services providers that include the regional savings banks Sparebanken Vest, Sparebanken Sør and Sparebanken Øst. The banks in Frendegruppen have ownership stakes in, and distribute products for, insurance company Frende Forsikring, finance company Brage Finans AS and securities company Norne Securities. They also cooperate in developing new products for the member banks.

Figure 2. Gross loans by sector/type (including transferred loans), 30 Sept. 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. Lillesands Sparebank's operations are concentrated in Lillesand municipality, with some activity in the neighbouring municipalities of Grimstad and Birkenes. The region has high population growth prospects, although somewhat higher unemployment compared to the national average.

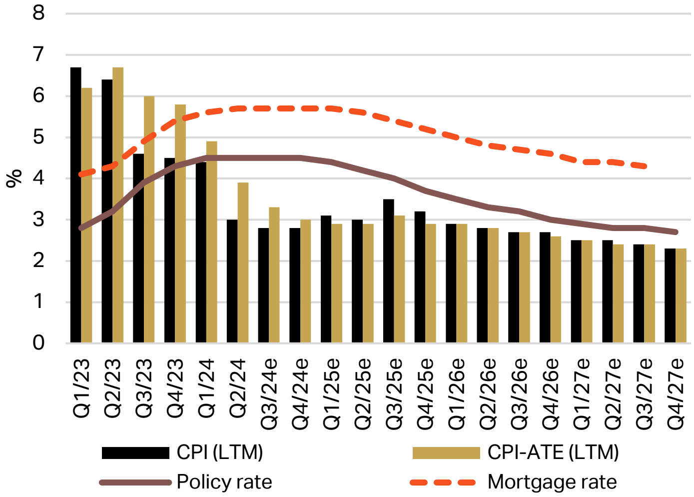
Peaking net interest margins

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. Among 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.

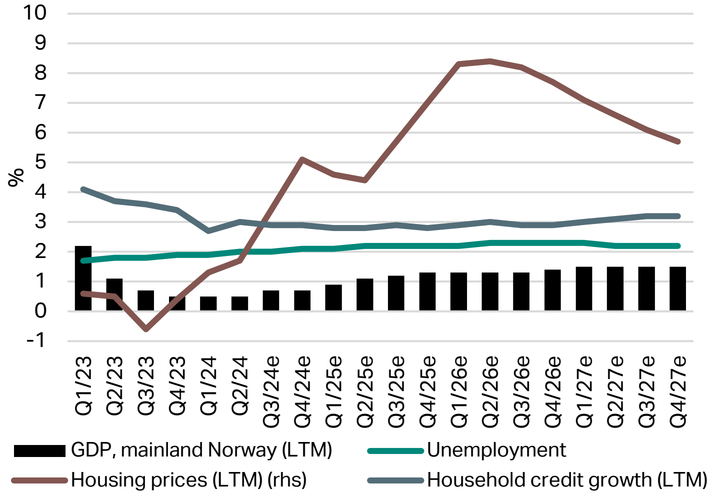
As intended, high interest rates are helping to slow the economy. We believe that high interest rates and weak economic conditions could lead to a rise in loan-loss provisions among domestic savings banks over the next 12 months, but that these increases will vary markedly between individual banks. Norway's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

Strong population growth prospects

Regional, sectoral, and cross-border factors

Lillesands Sparebank's core market is Lillesand and the neighbouring municipalities of Grimstad and Birkenes. About two-thirds of its gross loans are located in the municipality of Lillesand. The core market borders Kristiansand, the largest city in Agder and eighth largest urban area in Noway. About 42,000 people live in the three municipalities considered to be Lillesands Sparebank's core market, but the bank only has offices in Lillesand and Grimstad. The local population has increased by 12% over the past decade, and Statistics Norway projects that population growth will continue, increasing by a further 16% by 2050. This aligns with Agder County being one of the fastest-growing regions in Norway. Unemployment remains low at 2.2% as of Oct. 2024, despite being somewhat higher than the Norwegian average.

Figure 5. Core markets

Municipality	Population, 2024	Expected population change, 2024–2050 (%)	Unemployment, Oct. 2024 (%)	Unemployment, Oct. 2023 (%)
Lillesand	11,549	15.8	2.5	2.1
Grimstad	25,093	17.1	2.0	2.1
Birkenes	5,465	14.4	2.8	1.2
Core markets	42,107	16.4	2.2	2.0
Norway	5,562,363	9.9	2.0	1.8

Source: Statistics Norway, Norwegian Labour & Welfare Administration.

Lillesand and its archipelago are an attractive leisure destination during the summer, stimulating the local service sector. Close proximity to Kristiansand provides diverse job opportunities, with a significant share of residents commuting to Kristiansand from Lillesand. As with many other Norwegian regions, the public sector is a major employer, particularly in healthcare, social welfare and education.

RISK APPETITE

Risk appetite assessment

Our assessment of Lillesands Sparebank's risk profile reflects the bank's large proportion of low-risk residential mortgages, strong liquidity buffers and forecast capital ratios, and the ability to transfer loans to Verd Boligkreditt. Risk governance and internal risk reporting are generally adequate for the bank's size and complexity. The bank has regional and single name concentrations in its core market and a significant proportion of property lending.

Strengthened resources for anti-money laundering

Risk governance

In our view, Lillesands Sparebank's risk governance framework, risk appetite, limited monitoring and risk reporting are in proportion to its balance sheet and risk profile. The bank has well-defined guidelines for risk governance and relevant risk areas. The bank's internal risk reporting and capital adequacy assessment processes are proportional to its risk profile. However, we believe there are heightened compliance and monitoring risks, as well as key-personnel risks and single name concentrations given the bank's size and limited resources, compared to larger peers. The bank has strengthened its available anti-money laundering resources, and it is taking measures to improve processes in this area. Positively, we believe that membership in Lokalbanksamarbeidet supports the bank's ability to handle increasing risk governance requirements.

Lillesands Sparebank assesses environmental, social and governance (ESG) risks for all new and recurring corporate customers, as well as its largest exposures. The bank has an imminent target of performing ESG risk assessment for all its corporate customers in the short term. We believe this shows good risk awareness by the bank and improves sustainable behaviour among its customers. The bank has obtained certification from the Miljøfyrtårn/Eco-Lighthouse environmental certification scheme, which provides criteria and structures for products and solutions to minimise banks' environmental footprint. A substantial portion of the bank's mortgage portfolio is financed through Verd Boligkreditt, which has also established a framework for the issuance of green bonds.

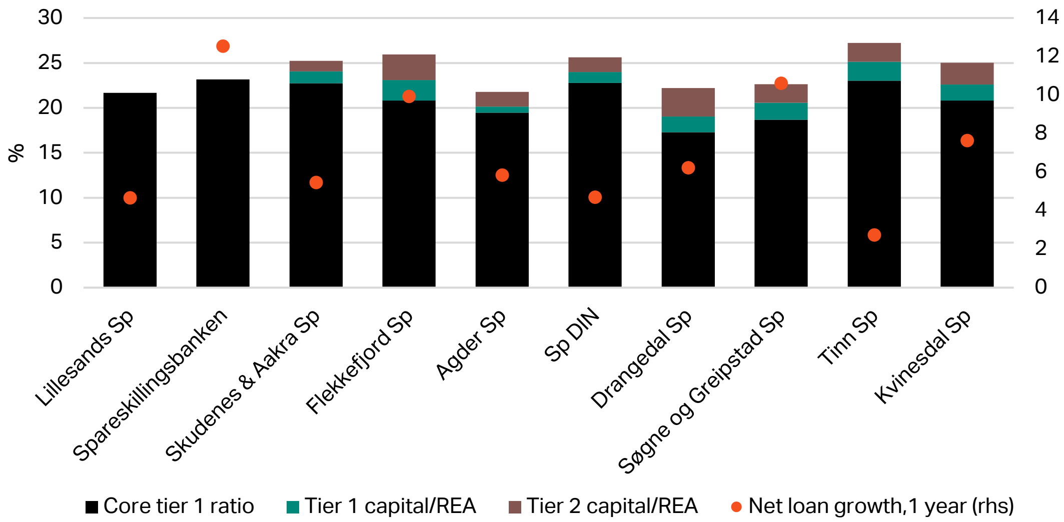
Capital ratios set to improve

Capital

Our capital assessment takes into consideration Lillesands Sparebank's consolidated position, including its proportional holdings in Verd Boligkreditt and Brage Finans. As of 30 Sep. 2024, the bank's consolidated common equity Tier 1 (CET1) ratio was 19.9% and its Tier 1 ratio 20.5%. These levels compare with its respective minimum targets of 18.6% and 19.8% (including a 1.5pp management buffer). We note that these capital ratios include 50% of the current year's profits due to a one-time revision of the quarterly report. Revision of quarterly results is unusual for a bank of its size, but has been performed to comply with its internal minimum target of total capital ratio of 21.3%, pending positive capital ratio effects through the implementation of CRR3 and a partial sale of Brage Finans. The revision resulted in avoiding an internal target breach by 3bps on consolidated total capital ratio in the third quarter. We anticipate the sale of shares in Brage Finans will improve the bank's consolidated Tier 1 ratio by 1.9pp by end-2024. The consolidated leverage ratio is at 8.9%, compared with a minimum regulatory requirement of 3%.

Lillesands Sparebank's CET1 ratio is at a similar level to that of other banks of similar size, and slightly below the average of its peers. As opposed to most Norwegian savings banks, the bank has so far chosen not to issue hybrid instruments to strengthen its Tier 1 and total capital, resulting in lower Tier 1- and total capital ratios than most peers and a lower distance to minimum regulatory requirement threshold. The bank could issue such instruments to improve capital ratios and we anticipate the bank will consider issuance over the next year, depending on the effects of CRR3.

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

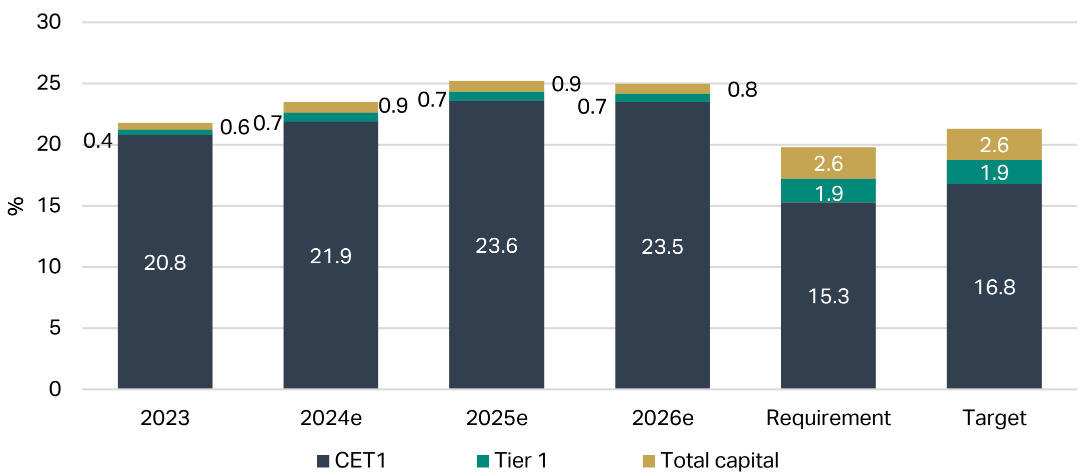


Source: bank reports. *Unconsolidated capital ratios of parent banks.

We expect Lillesands Sparebank will increase its loan book by 7.5% in 2025-2026. In addition, we expect return on equity to gradually decrease to about 6% for 2025-2026, from 8.1% in 2023. We assume payouts of 30% of net profits as gifts, donations and customer dividends. Our estimates for 2025 assume a positive regulatory impact of 2pp on consolidated Tier 1 as a result of CRR3, and we estimate a consolidated Tier 1 ratio slightly above 24% at end-2025 and end-2026. This includes a positive effect from Verd Boligkreditt due to the covered bond company's use of the standard approach to credit risk and its portfolio of low loan-to-value mortgages.

CRR3 is scheduled to come into force in Norway from 1 Jan. 2025 (see Relevant Research). The new method is more risk-sensitive than previously and is likely to reduce capital requirements significantly for small to medium-sized retail and savings banks. We expect CRR3 will 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. However, we remain cautious about the actual outcome. We believe Lillesands Sparebank will adjust its capital strategy and lending growth in line with its positive implementation effects.

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



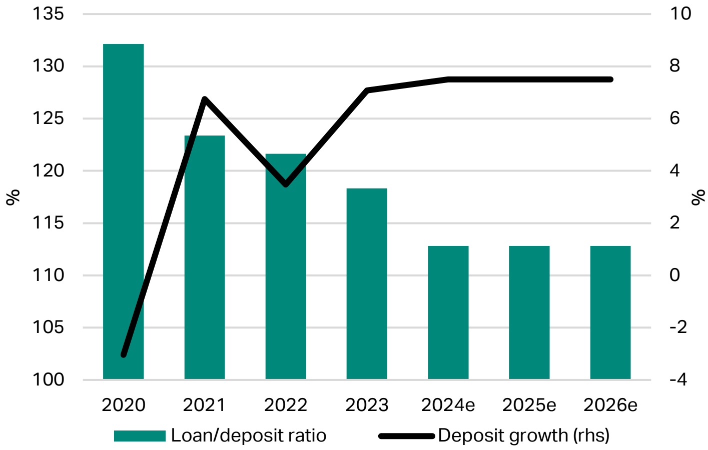
Source: company. e-estimate. *total pillar 2 guidance (P2G) of 2.3%

Increased its use of Verd Boligkreditt while reducing senior debt

Funding and liquidity

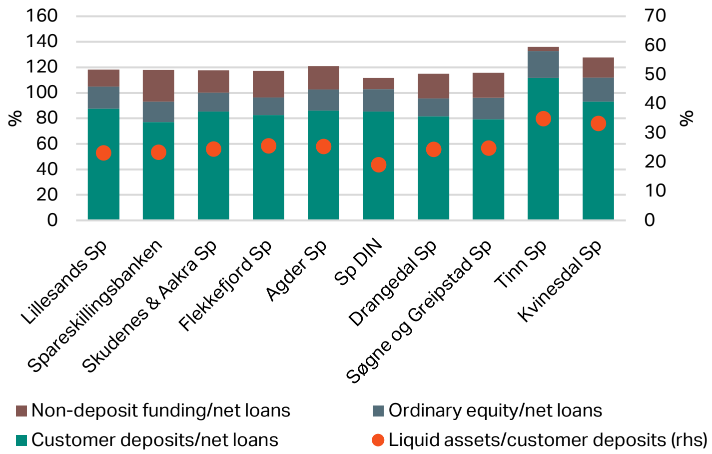
Lillesands Sparebank's funding profile is diverse given its size, with a relatively solid retail deposit base. Deposit growth has outpaced loan growth in recent years and decreased its loan-to-deposit ratio to 114% as of 30 Sep. 2023, compared to 132% at end-2020. Our estimates assume an annual deposit growth of 7.5% for 2025-2026, equivalent to the bank's loan growth, resulting in a stable loan-to-deposit ratio from 2025. The bank has few single-name concentrations in its customer deposits and stable liquidity buffers (23% of customer deposits as of 30 Sep. 2024). As of 30 Sep. 2024, the liquidity coverage ratio was 201% and the net stable funding ratio 123%, well above the bank's internal limits of 120% and 110%, respectively.

Figure 8. Deposit metrics, 2020-2026e



Source: company. e-estimate.

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



Source: bank reports.

Verd Boligkreditt is a stable and important source of funding for Lillesands Sparebank. It provides access to more affordable funding for retail mortgages, with access to green financing and longer terms to maturity than the bank could source by itself. In the 12 months to 30 Sep. 2024, the bank increased its loans transferred to Verd Boligkreditt by 22% to NOK 1.5bn, accounting for 38% of residential mortgage lending on and off the balance-sheet. Moreover, transferred loans accounted for all lending growth for on- and off-balance-sheet residential mortgage loans of 8% in the first nine months of 2024. We expect the bank to continue to transfer residential mortgage loans to Verd Boligkreditt during our forecast period, although at a more moderate pace. In addition, the bank maintains a strong portfolio of eligible transferrable loans as a liquidity buffer. This stood at about NOK 1.0bn as of mid-September 2024.

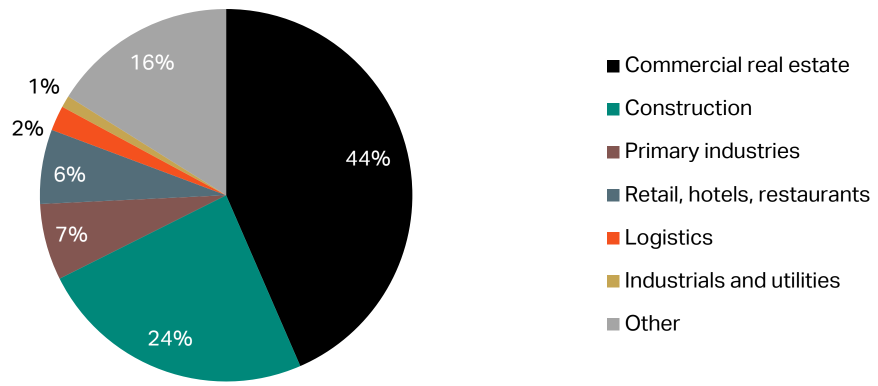
Access to Verd Boligkreditt and strong deposit growth has enabled Lillesands Sparebank to reduce its outstanding amount of senior unsecured debt in recent years to NOK 450m as of 30 Sep. 2024, compared to NOK 651m at end-2020. The current outstanding amount is split in five senior bonds with a weighted average time to maturity of 1.8 years. The maturity profile extends through 2028. We expect the bank will increase its bond funding by NOK 50m during 2025.

Narrow regional property lending

Credit risk

Lillesands Sparebank's loan portfolio has a strong regional focus, with more than two-thirds of total lending located in Lillesand municipality. About 20% is located outside its core market. The bank does not promote lending to borrowers in other regions and customers outside its core market are mostly domestic migrants. Some 83% of the bank's exposures (including transferred loans) 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 collateral to any decline in property values. Housing prices and real-estate values in the region have been impacted by higher interest rates in line with the wider Norwegian market. However, housing prices in the bank's operating region are lower than in metropolitan areas, resulting in lower debt burdens for the bank's customers and a relatively low impact from interest rate increases in recent years. Housing price growth over the past decade has strengthened the bank's collateral.

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



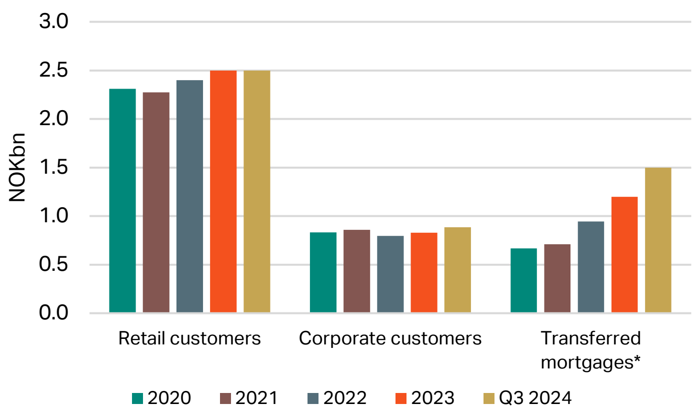
Source: company.

In the 12 months to 30 Sep. 2024, Lillesands Sparebank had gross loan growth of 4.6% on its own books. This included 3.7% loan growth of on-balance-sheet mortgages and 7.2% among corporate customers. Including transferred loans with strong growth of 22.5%, total lending volumes increased by 9.5% during the same period. The corresponding pattern of higher off-balance-sheet growth has also been the case for the full-years of 2022 and 2023. Our forecast envisages a 2.5% increase in on-balance-sheet lending for the full-year 2024, since all mortgage residential growth in the first nine months of 2024 has been placed off the balance-sheet. For 2025-2026, we project annual lending growth of 7.5%, and a slightly higher 8% by including transferred loans.

Lillesands Sparebank has maintained its exposure to corporate customers at around 25% in recent years, yet this share is reduced when transferred loans are included. In our view, the bank has some single names concentrations to local SMEs. Main corporate exposure is to commercial real estate, followed by construction. We remain concerned about these industries due to high interest costs and lower property prices.

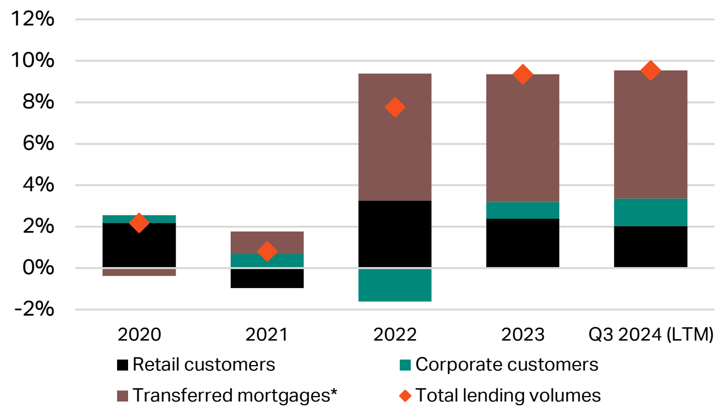
Transferred loans generate commission income and accounted for 5% of Lillesands Sparebank's pre-provision income in 2023. However, the bank does not offload all associated risk on transferred loans, and we expect it will take back all non-performing loans to enable Verd Boligkreditt to maintain a clean cover pool. The covered bond company maintains the right to offset credit losses against commission income owed to the bank. Due to the high credit quality of transferred loans and repatriation agreements, the mortgage company has never incurred actual credit losses.

Figure 11. Gross lending by sector/type, 2020-Q3 2024



Source: bank reports. *Net loans transferred to Verd Boligkreditt.

Figure 12. Weighted annual loan growth by sector/type, 2020-Q3 2024



Source: bank reports. *Net loans transferred to Verd Boligkreditt.

Other risks in line with risk governance

Other risks

Other risks are in line with our risk governance assessment. We do not believe market risk is a material factor for Lillesands Sparebank, given the lack of a trading portfolio and the bank's low limits on interest rate risk and currency risk. Key personnel risk, however, is a factor for a small bank with fewer than 30 employees.

The bank has strategic ownership positions in Lokalbanksamarbeidet and Frendegruppen. These cooperatives 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 the covered bond company. The bank also has a 33% stake in a local real estate agency.

COMPETITIVE POSITION

Competitive position

Lillesands Sparebank has a local focus and about 30% market share in its traditional core market of Lillesand municipality. In the neighbouring and larger municipality of Grimstad, the bank has a relatively modest market share of about 3%, and greater opportunities for growth. Several small- to mid-size savings banks exist in close proximity, especially in Kristiansand, but none of which have active branches in the cities of Lillesand or Grimstad. However, the larger banks DNB, Sparebank 1 Sør-Norge and Sparebanken Sør are also active in these markets. Sparebanken Sør has announced a merger with Sparebanken Vest, with the merged entity set to become the largest savings bank in Norway from May 2025. We believe Lillesands Sparebank's local presence and its contributions to the local community support its competitive position. The upcoming implementation of CRR3 should also strengthen its competitiveness against larger savings banks using the internal ratings-based approach to credit risk. In our view, the bank has a strong market position in its traditional core market, with the potential for growth prospects above average national credit growth.

Membership in Lokalbanksamarbeidet diversifies revenues and enables Lillesands Sparebank to provide a wider range of customer services than it could with its own resources. The bank distributes insurance products from Frende Forsikring, savings products and brokerage services from Norne Securities and collateralised consumer lending and leasing products from Brage Finans. Membership of the larger Frendegruppen will, we believe, strengthen Lillesands Sparebank's long-term competitive position through improved economies of scale and efficiency gains.

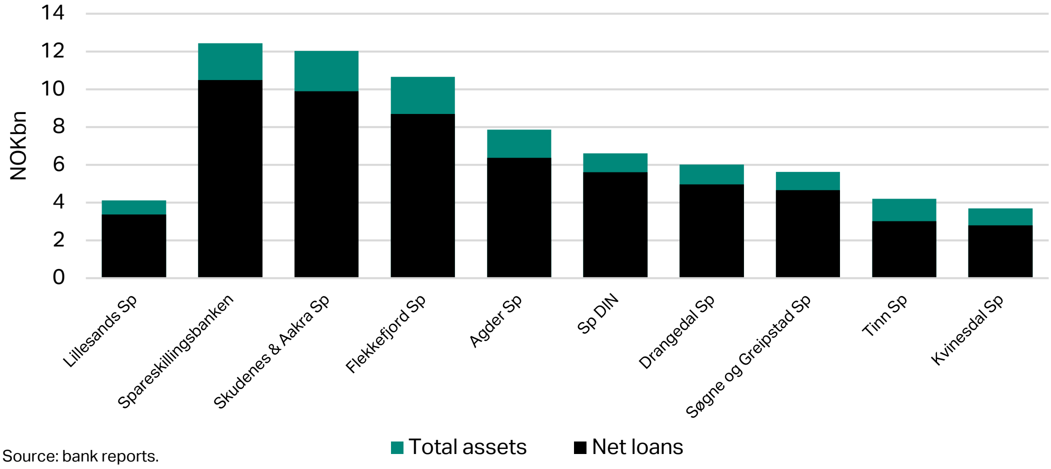
We consider Lillesands Sparebank's role in, and financial contributions to, its core market as a positive rating factor. The bank's primary ESG attribute is its strong sense of social responsibility to its local communities. The bank funds social and cultural activities to support these communities, as well as customer dividend payouts. We note that the Norwegian savings banks commission has proposed to remove the right to distribute profits as dividends to customers, with primary capital preferably maintained in the bank or distributed as gifts to the local community. We remain uncertain regarding the outcome of this proposal, but do not believe enforcement will weaken the bank's competitive position to a significant extent.

PERFORMANCE INDICATORS

Performance indicators

Lillesands Sparebank has moderately weaker earnings metrics relative to those of its peers. We expect cost efficiency to weaken somewhat, but remain well below 60%. The bank has booked lower-than-average loan losses for the last four quarters and only 1.5bps average in the last five years. We believe loan losses and share of Stage 3 loans will remain at low levels for our forecast period, below the average of its peers.

Figure 13. Norwegian savings banks' total assets and net lending, 30 Sep. 2024



Source: bank reports.

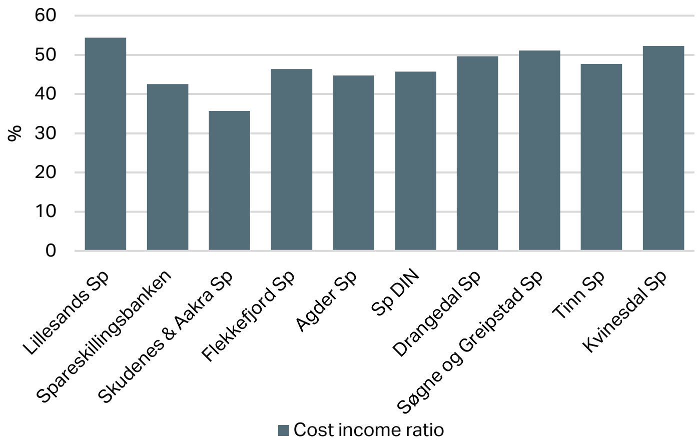
Earnings metrics below the average of peers

Earnings

Improved net interest margins due to high interest rates have, together with strong loan growth, led to increased profitability in recent years. In the twelve months to 30 Sep. 2024, the bank had a net interest margin of 2.1%, moderately below the peer group average of 2.4%. We believe margins peaked at end-2023 and expect interest margins to decline but remain above recent historical levels over the course of our forecast period. We anticipate the decline in interest margins will stem both from increased competition for lending and deposits and from declining interest rates, from 2025. In addition, we expect lower dividend income from Verd Boligkreditt, offset by potential increased fee income from the sale of products from Frendegruppen.

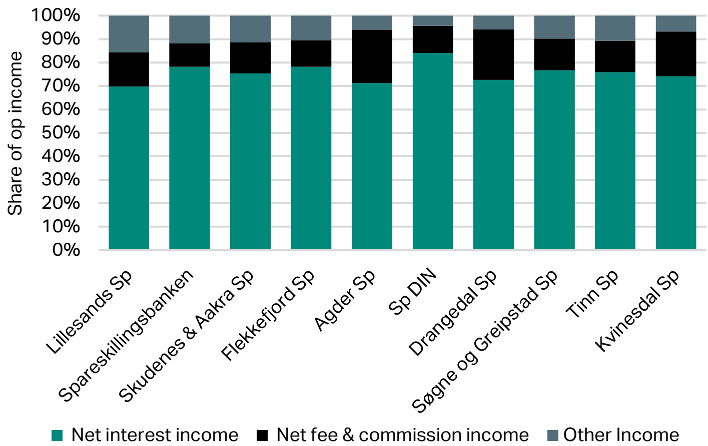
Cost-to-income ratio has remained below 60% in recent years and improved to 54.4% in the last 12 months to 30 Sep. 2024, as growth in operating income has exceeded operating expenses. In our view, the bank's size and weaker scale effects is a key factor in its relatively weaker cost efficiency. We anticipate an opposite trend in the cost-to-income ratio during our forecast period, but still expect the bank's cost efficiency will be maintained well below 60%. This will result in a weaker risk-adjusted pre-provision income (PPI) to REA of 1.8-1.9% in 2025-2026, more in line with historical averages.

Figure 14. Norwegian savings banks' cost efficiency metrics, LTM to 30 Sep. 2024



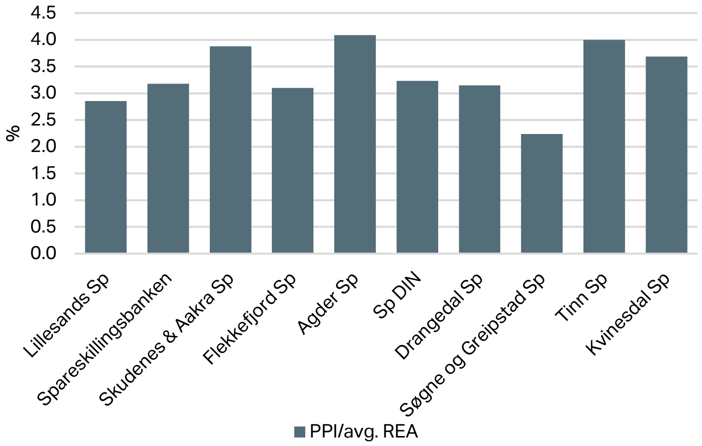
Source: bank reports. LTM-last twelve months.

Figure 15. Norwegian savings banks' split between income groups, LTM to 30 Sep. 2024



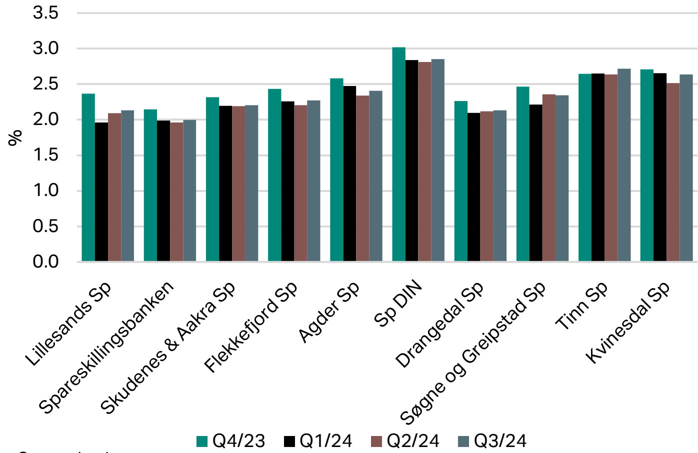
Source: bank reports.

Figure 16. Norwegian savings banks' PPI to REA*, LTM to 30 Sep. 2024



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

Figure 17. Norwegian savings banks' annualised net interest margins, Q4 2023–Q3 2024



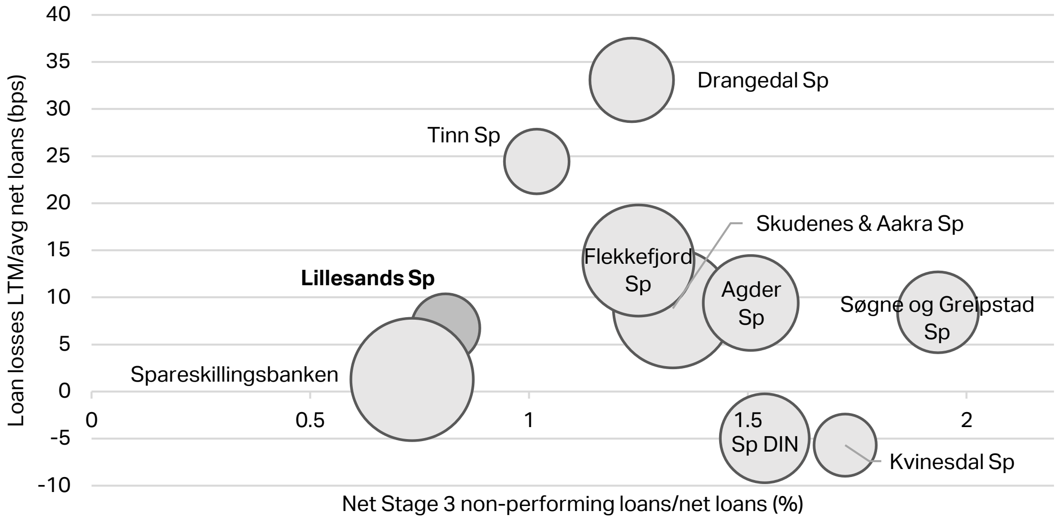
Source: bank reports.

Low proportion of non-performing loans

Loss performance

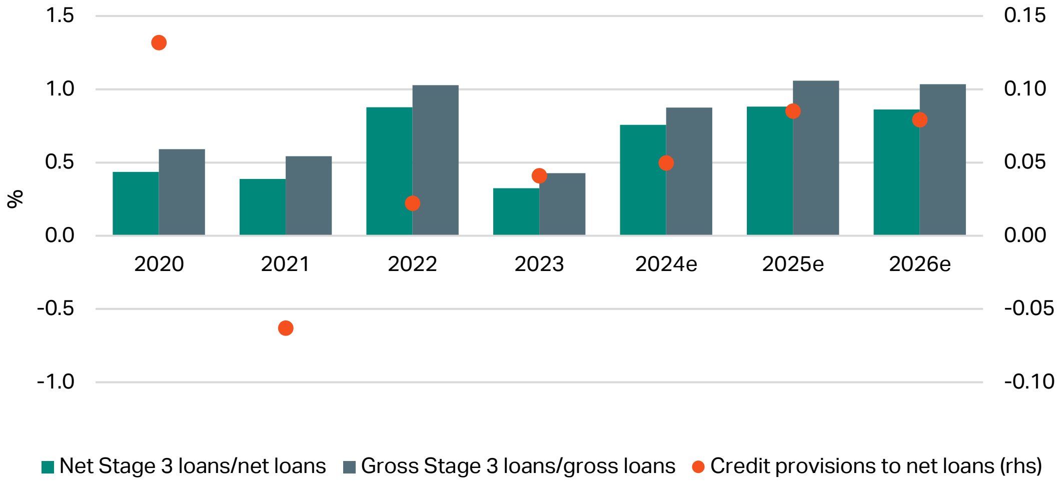
Lillesands Sparebank's credit losses have averaged a low 1.5bps of net lending in the past five years. As of 30 Sep. 2024, the bank had booked loan losses of NOK 0.8m, compared with NOK 1.3m in full-year 2023. We project somewhat elevated loan losses of 8-9bps annually in 2025–2026. The bank's share of net Stage 3 loans is significantly below the average of peers at 0.8% as of 30 Sep. 2024 and higher than the 0.3% at end-2023. However, we note that single exposures moved to Stage 3 will have a relatively stronger impact on the share of Stage 3 loans-to-net-lending ratio and experience increased volatility compared to larger banks with higher lending volumes. We anticipate that the proportion of net Stage 3 lending will remain below 1% over our forecast period.

Figure 18. Norwegian savings banks' asset quality metrics, 30 Sep. 2024



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

Figure 19. Asset quality metrics, 2020–2026e



Source: company, e-estimate.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

ESG factors are considered throughout our analysis, where material to the credit assessment. In aggregate, we view Lillesands Sparebank's ESG profile as having a neutral impact on its creditworthiness.

Figure 20. 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 (0) 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 (-)
Control of sustainability issues	Risk of overlooking sustainability impacts in the bank's underwriting, operations, and customer base.	Risk governance (-) 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 view Lillesands Sparebank's ownership as neutral for our standalone credit assessment. The bank operates as a self-owned institution, which means it does not have traditional shareholders and reinvests profits in the local community. Many Norwegian savings banks have chosen to issue equity instruments (equity capital certificates) to finance growth or to recapitalise. Thus far, Lillesands Sparebank has chosen not to issue equity instruments, but could do so in a process that normally takes up to six months.

ISSUE RATINGS

Our rating on Lillesands Sparebank's unsecured senior debt is in line with the 'BBB+' long-term issuer rating. The bank has not issued Tier 2 or Additional Tier 1 instruments, which we likely would rate one and three notches, respectively, below the issuer rating if it chooses to do so. Consequently, a Tier 2 instrument would be rated 'BBB', while an Additional Tier 1 instrument would be rated 'BB+'.

SHORT-TERM RATING

The 'N2' short-term rating is the higher of two possible alternatives, given the 'BBB+' long-term issuer rating. It reflects the bank's access to central bank funding and our assessment that its liquidity is strong, on the basis of an average liquidity coverage ratio of 260% over the last 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) Falling interest rates yet to impact Nordic niche banks, 21 Nov. 2024.
(ii) Norwegian savings banks' capitalization boosted by CRR3, 26 Jun. 2024.
(iii) Swedish savings banks face weaker earnings and low loan growth in 2024, 6 Feb. 2024.
(iv) Norwegian savings banks face margin squeeze in 2024, 11 Dec. 2023.

Figure 21. Lillesands Sparebank 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	62.7	69.7	71.0	74.7	69.7
Net fee income to op. revenue	12.4	14.6	15.5	12.4	14.7
Net trading income to op. revenue	22.6	4.0	4.9	5.6	10.3
Net other income to op. revenue	2.3	11.7	8.6	7.4	5.3
EARNINGS					
Net interest income to financial assets	1.5	1.5	1.8	2.2	2.0
Net interest income to net loans	1.8	1.8	2.1	2.6	2.5
Pre-provision income to REA	2.4	1.8	2.2	2.8	3.1
Core pre-provision income to REA (NII & NF&C)	1.2	1.1	1.5	2.0	2.1
Return on ordinary equity	7.0	5.5	6.9	8.1	8.7
Return on assets	0.9	0.7	0.9	1.1	1.2
Cost-to-income ratio	50.7	58.7	57.5	54.1	50.4
Core cost-to-income ratio (NII & NF&C)	67.5	69.7	66.6	62.2	59.7
CAPITAL					
CET1 ratio	21.6	23.7	23.2	22.8	21.7
Tier 1 ratio	21.6	23.7	23.2	22.8	21.7
Capital ratio	21.6	23.7	23.2	22.8	21.7
REA to assets	52.2	48.2	47.5	47.1	47.0
Dividend payout ratio					
Leverage ratio	11.4	11.5	11.2	10.9	10.4
Consolidated CET1 ratio	20.3	21.5	21.8	20.8	19.9
Consolidated Tier 1 ratio	20.6	21.8	22.1	21.2	20.5
Consolidated Capital ratio	20.8	22.0	22.5	21.8	21.3
Consolidated Leverage ratio	10.6	10.7	10.5	9.9	9.5
GROWTH					
Asset growth	0.0	3.2	1.7	4.8	2.9
Loan growth	3.3	-0.3	2.0	4.1	1.6
Deposit growth	-3.0	6.7	3.5	7.1	5.2
LOSS PERFORMANCE					
Credit provisions to net loans	0.13	-0.06	0.02	0.04	0.03
Stage 3 coverage ratio	26.47	28.96	14.88	24.15	8.60
Stage 3 loans to gross loans	0.59	0.54	1.03	0.43	0.88
Net stage 3 loans to net loans	0.44	0.39	0.88	0.32	0.81
Net stage 3 loans/ordinary equity	2.83	2.41	5.33	1.95	4.68
FUNDING & LIQUIDITY					
Loan to deposit ratio	132.1	123.4	121.6	118.3	114.3
Liquid assets to deposit ratio	19.9	23.7	22.3	22.2	23.2
Net stable funding ratio	150.0	150.0	141.0	120.0	123.0
Liquidity coverage ratio	118.0	271.0	204.0	241.0	201.0

Key financials (NOKm)	FY 2020	FY 2021	FY 2022	FY 2023	Q3 2024 YTD
BALANCE SHEET					
Total assets	3,635	3,752	3,815	3,996	4,112
Total tangible assets	3,635	3,752	3,815	3,996	4,112
Total financial assets	3,609	3,726	3,774	3,946	4,061
Net loans and advances to customers	3,137	3,126	3,190	3,322	3,376
Total securities	289	340	325	349	378
Customer deposits	2,374	2,534	2,622	2,807	2,955
Issued securities	651	613	553	518	452
of which other senior debt	651	613	553	518	452
of which subordinated debt	–	–	–	–	–
Total equity	483	501	525	551	584
of which ordinary equity	483	501	525	551	584
CAPITAL					
Common equity tier 1	410	429	421	429	419
Tier 1	410	429	421	429	419
Total capital	410	429	421	429	419
REA	1,898	1,808	1,812	1,884	1,934
INCOME STATEMENT					
Operating revenues	87	81	95	112	88
Pre-provision operating profit	43	33	40	51	44
Impairments	4	-2	1	1	1
Net Income	32	27	35	44	37

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

Figure 22. 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 23. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB+

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