Trøndelag Sparebank

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Negative

SHORT-TERM RATING

N2

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Trøndelag Sparebank outlook revised to negative; 'BBB+' long-term issuer rating affirmed

Nordic Credit Rating has revised the outlook on its 'BBB+' long-term issuer rating on Norway-based Trøndelag Sparebank to negative from stable. The long-term rating has been affirmed, as have the 'N2' short-term issuer rating, the 'BBB+' senior unsecured issue rating, the 'BBB' Tier 2 issue rating, and the 'BB+' Additional Tier 1 issue rating.

Rating rationale

The outlook revision reflects Trøndelag Sparebank's high level of non-performing loans and the risk that it might not be able to reduce such lending without increasing loan-loss provisions beyond our current projections. We forecast an average of 16bps in credit losses for 2025 and 2026, while taking into account the bank's solid collateral, likely lower interest rates, and a steady decline in non-performing loans through 2027. We have lowered our assessment of risk governance and other risks due to concerns about the bank's strong corporate loan growth. In addition, we have revised our view of the operating environment to capture increased risk to local industries in the bank's export-oriented region of operation in central Norway.

The long-term issuer rating continues to reflect Trøndelag Sparebank's low risk appetite, strong capital position, and ready access to funding. The bank has a cooperation agreement with the Eika Alliance banking association, which we view as positive. We believe that the bank is likely to maintain profitability through improved cost efficiency and loan growth despite pressure on net interest margins due to declining interest rates and growing competition.

The rating is constrained by Trøndelag Sparebank's concentrated exposure to real estate and agriculture in the region west of Trondheim. Although the bank has a strong market share in its core region, the rating is further constrained by its low, albeit growing, market share elsewhere in Trøndelag county.

Negative outlook

The negative outlook reflects our uncertainty about the adequacy of Trøndelag Sparebank's current loan-loss provisions given the bank's strong growth and high level of non-performing loans. It also reflects shortcomings in the bank's risk management. In addition, it reflects the possibility that profitability is insufficient to finance the bank's growth ambitions of 10% annually. Such expansion would likely lead to weakened capitalisation and reduced loss absorbing capacity.

We could lower the rating to reflect increased loan losses and lack of improvement in asset quality, a Tier 1 ratio below 19% for a protracted period, or risk-adjusted earnings metrics below 2% of pre-provision income to risk exposure amount on a lasting basis.

We could revise the outlook to stable to reflect improved asset quality (as evidenced by reduced loan losses and/or non-performing loans), a Tier 1 ratio sustainably above 19%, pre-provision income to risk exposure amount sustainably above 2%, and cost-to-income below 60%.

Rating list	**To**	**From**
Long-term issuer credit rating:	BBB+	BBB+
Outlook:	Negative	Stable
Short-term issuer credit rating:	N2	N2
Senior unsecured issue rating:	BBB+	BBB+
Tier 2 issue rating:	BBB	BBB
Additional Tier 1 issue rating:	BB+	BB+

Figure 1. Trøndelag 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%	bbb+	a-
Risk governance	5.0%	bbb	bbb+
Capital	17.5%	a-	a-
Funding and liquidity	15.0%	a-	a-
Credit risk	10.0%	bbb	bbb
Market risk	-	-	-
Other risks	2.5%	bbb	bbb+
Risk appetite	50.0%	bbb+	bbb+
Competitive position	15.0%	bb	bb
Earnings	7.5%	bbb+	bbb+
Loss performance	7.5%	bbb	bbb+
Performance indicators	15.0%	bbb	bbb+
Indicative credit assessment		**bbb+**	**bbb+**
Transitions		Neutral	Neutral
Peer calibration		Neutral	Neutral
Borderline assessments		Neutral	Neutral
Stand-alone credit assessment		**bbb+**	**bbb+**
Material credit enhancement		Neutral	Neutral
Rating caps		Neutral	Neutral
Support analysis		Neutral	Neutral
Issuer rating		**BBB+**	**BBB+**
Outlook		Negative	Stable
Short-term rating		**N2**	**N2**

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BBB+	BBB+
Tier 2	BBB	BBB
Additional Tier 1	BB+	BB+

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 15 May. 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, 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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