Hegra Sparebank

Full Rating Report

LONG-TERM RATING

BBB+

OUTLOOK

Positive

SHORT-TERM RATING

N2

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RATING RATIONALE

Our 'BBB+' long-term issuer rating on Norway-based Hegra Sparebank reflects the bank's solid capital position, low risk appetite and strong earnings. The bank is currently in a merger process with somewhat larger Selbu Sparebank, which is expected to finalise around April 2027. We anticipate the merger to strengthen the bank's market position in Trøndelag County and improve long-term cost efficiency, although expect extraordinary costs to weaken earnings in the near term.

As a standalone bank, Hegra Sparebank has demonstrated access to capital market funding and has limited single-name concentrations in both lending and deposits. Its substantial accounting firm contributes to greater business and revenue diversification compared to similarly sized savings banks. Membership in the Eika Alliance supports product diversity, shared development costs, and the ability to finance residential retail mortgage loans through the jointly owned covered-bond company Eika Boligkreditt AS. We expect the merged bank to remain in the Eika Alliance.

The rating is constrained by the standalone bank’s geographic concentration east of Trondheim and its high proportion of real estate collateral in core markets. It is also constrained by its current size and limited market share in a competitive operating region. We expect the merger to proceed without material complications, although note our limited visibility into the loan book at this point in time.

POSITIVE OUTLOOK

The outlook is positive, reflecting our expectation that the merger with Selbu Sparebank will be completed in the second quarter of 2027 and strengthen the bank's geographic footprint and market share in Trøndelag County. We expect asset quality and risk appetite to remain broadly unchanged. Despite near-term integration costs, we expect increased scale to support long-term efficiency improvements. While the merger is expected to reduce capital ratios somewhat, we expect these ratios to remain strong compared to peers and continue to provide substantial loss-absorbing capacity.

POTENTIAL POSITIVE RATING DRIVERS

- Successful completion of the merger process without material complications; and
- Asset quality metrics improving in line with forecast.

DRIVERS FOR STABLE OUTLOOK

- A material weakening in asset quality metrics, with share of net Stage 3 loans materially above peers.
- Increased risk appetite, resulting in a consolidated Tier 1 ratio below 22%.
- Weakened long-term earnings expectations, with PPI/REA below 2.5%

Figure 1. Key credit metrics, 2022–2028e

%	2022	2023	2024	2025	2026e	2027e	2028e
Net interest margin	2.2	2.7	2.4	2.5	2.3	2.1	2.1
Pre-provision income/REA*	2.2	2.8	3.1	3.4	3.2	1.9	2.5
Cost-to-income	61.8	59.0	54.3	54.0	57.6	66.1	55.4
Return on ordinary equity	9.2	10.7	11.4	11.3	9.6	5.7	7.5
Loan losses/net loans	0.05	0.06	0.05	0.08	0.08	0.08	0.08
Net Stage 3/net loans	0.17	0.67	1.97	1.69	1.78	1.61	1.52
Tier 1 ratio*	19.1	21.4	21.0	26.0	27.1	24.1	24.2

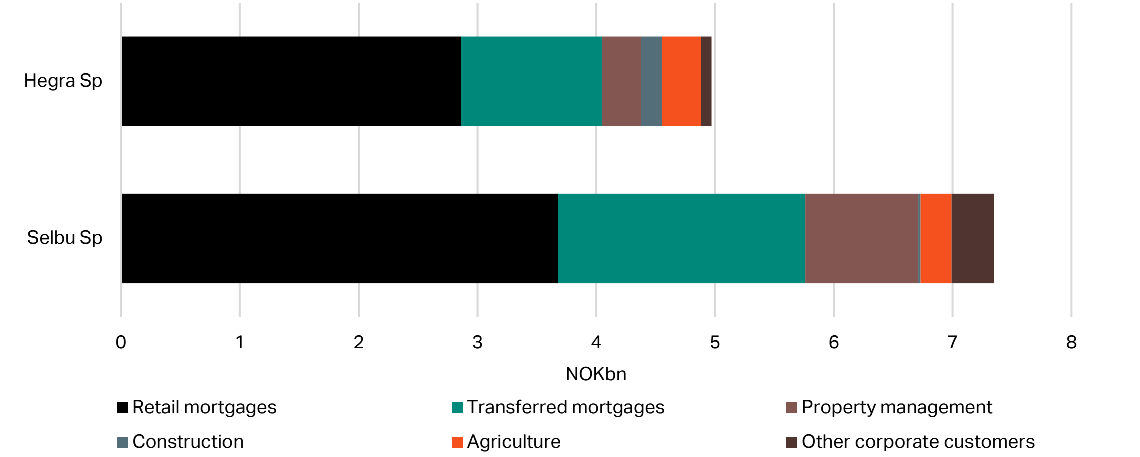
Source: company and NCR. e–estimate. REA–risk exposure amount. All metrics adjusted in line with NCR methodology. *Consolidated capital adequacy metrics. Includes

ISSUER PROFILE

Hegra Sparebank is an independent Norwegian savings bank with roots dating back to 1897. The bank's primary market encompasses the Værnes region in Trøndelag county, east of Trondheim. Through its headquarters in Hegra and a branch in Stjørdal, the bank serves retail customers and SMEs. In addition to traditional banking services, the bank owns an accounting services firm (Eika Økonomi Midt-Norge AS), a local real-estate agency (Aktiv Stjørdal AS) and a commercial real-estate company (Titan Næring AS). As of 30 Jun. 2026, the bank has close to 30 employees and about NOK 5.0bn in gross loans (including loans transferred to Eika Boligkreditt).

Together with Selbu Sparebank, the banks' board of directors has approved a merger plan to create a larger regional savings bank. On a pro-forma basis, the merged bank would have about NOK 12.3bn in total assets as of 30 Jun. 2026, including NOK 3.3bn in loans transferred to covered bond mortgage companies. Hegra Sparebank is intended as the surviving entity and we anticipate the merged bank to continue as a member of the Eika Alliance, an association of some 40 small and medium-sized Norwegian savings banks. The merger is subject to approval by the Norwegian FSA and expected to be completed on 1 Apr. 2027, or shortly thereafter.

Figure 2. Gross loans by sector, 30 Jun. 2026



Source: companies.

Competitive position

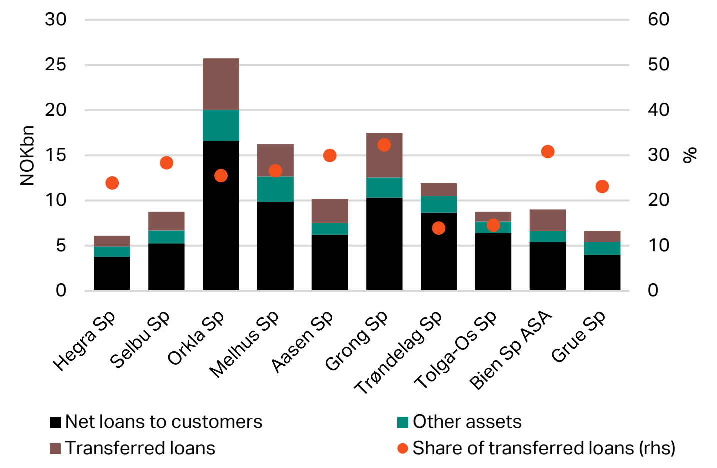
Becoming a larger regional player

Hegra Sparebank has a well-established position in its core region of operation with about 15% market share in Stjørdal municipality. However, the bank faces significant competition from Norway's largest banks and small-to mid-size savings banks in the broader region. The planned merger with the adjacent Selbu Sparebank will materially strengthen its market position in terms of lending volumes, broader customer reach and improved operating scale. The banks have somewhat overlapping regional exposures, with both having material lending volumes in Stjørdal and Trondheim, and we expect the merger to improve the combined bank's ability to compete for retail and SME customers across its core markets.

Competition is even stiffer in the Trondheim metropolitan area where most players are active. Hegra Sparebank does not actively seek customers in the highly competitive city of Trondheim, although this area accounts for 16% of the bank's lending. Following the merger, we expect this share to increase to around 25%.

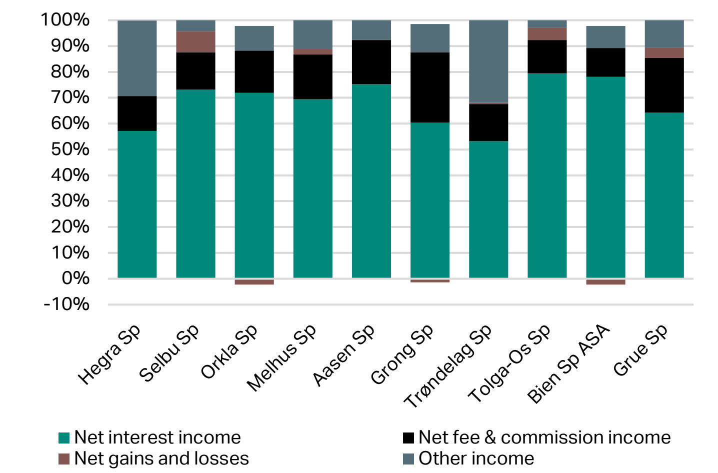
Hegra Sparebank's membership in the Eika Alliance diversifies its revenues and allows it to offer a broader range of customer services than it could independently. Through the alliance, the bank provides insurance, debit and credit products, asset management, and real estate agency services. We expect Selbu Sparebank to join the Eika Alliance from Lokalbank by the planned merger. The bank's wholly owned subsidiaries, local real-estate agency (Aktiv Stjørdal AS) and an accounting services firm (Eika Økonomi Midt-Norge) support our assessment of its competitive position by strengthening customer loyalty, enabling cross-selling opportunities, and diversifying revenue streams. The accounting services company contributes a significant share of revenue compared with most similarly sized savings banks (18% of revenue in 2025), although this is expected to decrease for the merged bank.

Figure 3. Balance sheet volume comparison, Q2 2026



Source: companies.

Figure 4. Revenue source split comparison, Q2 2026 LTM



Source: companies.

Both standalone banks demonstrate a strong commitment to their local communities through engagement, access to local capital, and charitable contributions and sponsorships. We expect the merged bank to continue playing a significant role in its local markets and act as a positive factor on our assessment.

Risk governance

Risk resources expected to be strengthened

As a smaller local bank, Hegra Sparebank's operations are consequently less complex than those of larger banks. In our opinion, it has an adequate risk appetite framework and internal risk and compliance tools. We view its internal risk reporting and internal capital adequacy assessment processes to be proportional to its risk profile. Furthermore, the bank has well-defined guidelines to support anti-money laundering in its daily operations. This reduces the risk of related losses and fines, which the Norwegian regulator has levied against some banks.

We expect the merger to require increased risk-related resources in a transitional period, although to be supported by the Eika Alliance and facilitators with experience from multiple mergers in recent years. Given the boost in size of the merged bank, we also expect implementation of an internal audit function as a third line of defence.

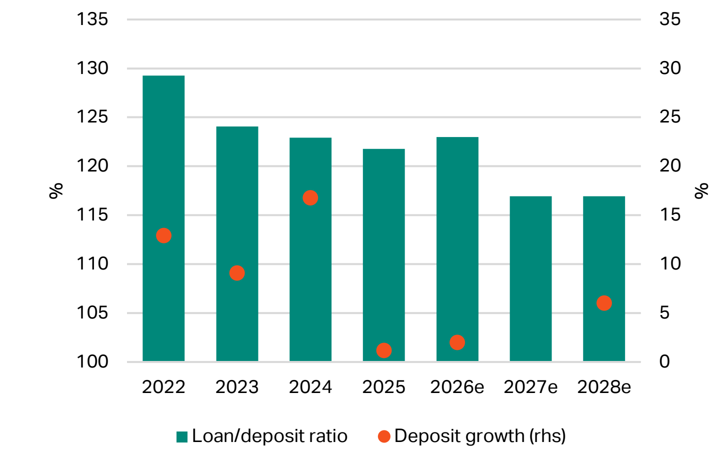
Funding and liquidity

Diverse funding profile with few concentrations

Hegra Sparebank's funding and liquidity profile is diverse, given its size. The bank has a solid retail deposit base with few concentrations and demonstrable access to capital market funding. Deposit growth has kept similar pace to on-balance sheet loan growth in recent years and reported a loan-to deposit ratio of 123% as of 30 Jun. 2026. However, we note a decline in deposits of 5% over the past year, together with a slight decline in the loan book. We expect positive loan growth for the full-year 2026 and to keep pace with growth in on-balance-sheet lending ahead. Liquidity coverage ratio was 1,110% and the net stable funding ratio 141%, well above the bank's internal limits of 110% and 103%, respectively. Hegra Sparebank also holds strong liquidity buffers, at 21% of customer deposits as of 30 Jun. 2026.

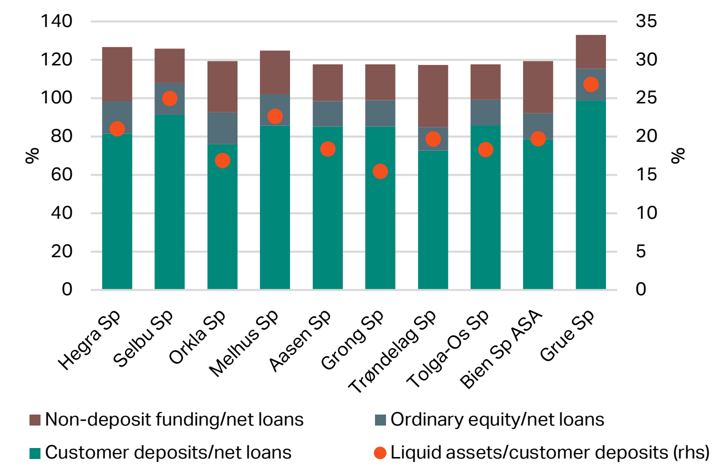
Eika Boligkreditt is another stable and important source of funding for Hegra Sparebank. It provides access to more affordable funding for retail mortgages, with longer terms to maturity, than the bank could source by itself. The merger in 2027 will also introduce transferred loans to Verd Boligkreditt with broadly aligned characteristics. We anticipate these to steadily decline in a runoff period of several years.

Figure 5. Deposit metrics, 2022-2028e



Source: company and NCR. e–estimate. 166% deposit growth expected in 2027 due to the merger.

Figure 6. Norwegian savings banks' funding profiles, 30 Jun. 2026



Source: companies.

CREDIT RISK PROFILE

Operating environment

Expanding presence in Trøndelag

Our assessment of Hegra Sparebank's operating environment is based on a combination of our assessment of Norway's banking environment and the bank's regional exposures to its core markets in Trøndelag. Despite a reversal in the rate path in 2026, we believe gradual rate cuts from 2027 are likely as inflationary pressures ease. Elevated rates continue to constrain credit growth, particularly in rate-sensitive segments, while strong competition and high deposit pass-through are expected to limit further margin upside. The Norwegian economy remains resilient, while risks are driven by persistent inflation, tighter financial conditions, and continued pressure on property-related sectors.

Hegra Sparebank is based in Stjørdal municipality, about 30 minutes by car from Trondheim. Some 42,000 people reside in the municipalities of Stjørdal, Meråker, and Malvik, which together account for about two-thirds of the bank's total lending. A substantial portion of lending is also concentrated in Trondheim. The merger with Selbu Sparebank will extend the bank's core market to include Selbu and Tydal municipalities, broadening its geographical presence in Trøndelag. We expect the merged bank to retain exposure to a regional operating environment with favourable long-term growth prospects, supported by close ties to Trondheim and neighbouring growth municipalities.

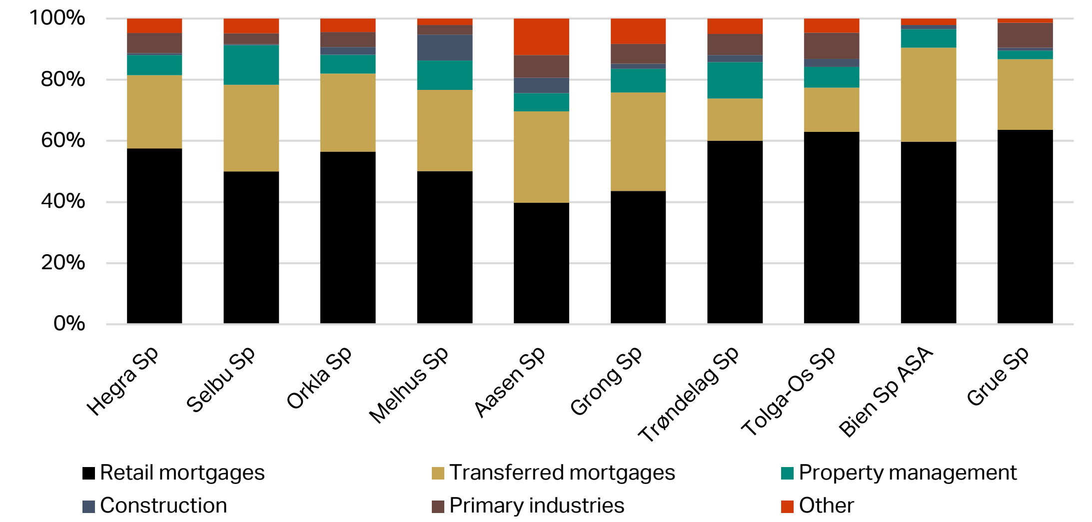
Figure 7. Regional core characteristics

	Strengths	Weaknesses
Regional employment and economic diversity	Stjørdal benefits from a diversified local economy supported by logistics, public sector employment, agriculture, Trondheim Airport and the Værnes military base. Close proximity to Trondheim broadens employment opportunities and reduces sector concentrations.	Economic activity is partly linked to developments in Trondheim and surrounding growth corridors. Outside areas offers less economic diversification.
Expected population growth and credit demand	Especially strong population growth prospects in Trondheim, supporting housing demand, lending growth and business activity over time.	Below average or flat growth prospects in some smaller municipalities, constraining long-term credit demand.

Credit and market risk

Hegra Sparebank's loan portfolio has a strong regional focus, with close to 90% of balance-sheet loans located in its core markets, of which 60% is in Stjørdal municipality. The bank does not promote lending to borrowers in other regions and customers outside its core markets are mostly domestic migrants. Some 88% 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. Remaining corporate exposures are primarily to commercial real estate and construction. Given persistent inflation and higher than expected interest rates, we remain concerned about real estate development lending, given the impact of high interest costs and a weak property market on demand for newly built homes. We expect Selbu Sparebank to have a similar regional lending profile in adjacent markets to Hegra Sparebank and view the loan book as similar in composition. While the combined bank remains regionally concentrated within Trøndelag County, the wider geographic footprint and larger customer base reduce concentration risk relative to each standalone bank.

Figure 8. Norwegian savings banks' gross loan book sector split, 30 Jun. 2026



Source: companies.

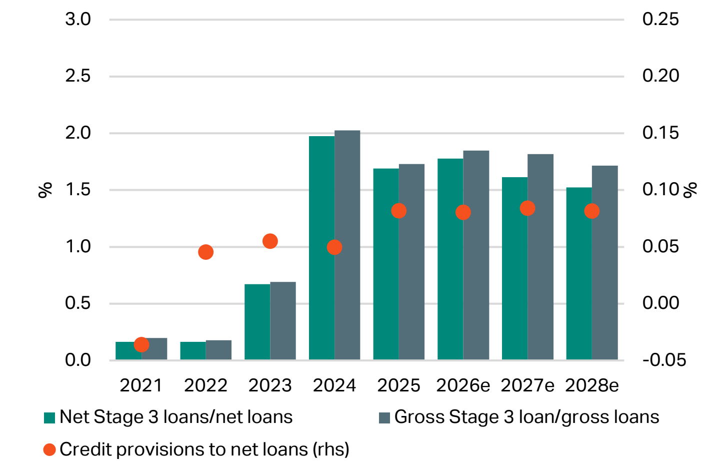
Hegra Sparebank's loan growth has remained weak, with total net loans (including transferred loans) broadly unchanged both in the first half of 2026 and over the 12 months to 30 June 2026. Despite the flat development so far this year and the upcoming merger, which could put pressure on resources and constrain near-term growth initiatives, our forecast assumes loan growth of 3% for full-year 2026. Thereafter, we expect annual net loan growth of 6% in 2027-2028, while maintaining a broadly similar loan composition for the merged bank.

Hegra Sparebank had transferred loans amounting to NOK 1.1bn as of 30 Jun. 2026, which generates a small share of pre-provision income (PPI) (9.3% in 2024). We also note a higher share of transferred loans for Selbu Sparebank, amounting to NOK 2.1bn. However, the bank does not offload the associated risk and we expect it to take back all non-performing loans to enable the covered bond mortgage companies to maintain clear cover pools.

Loss performance

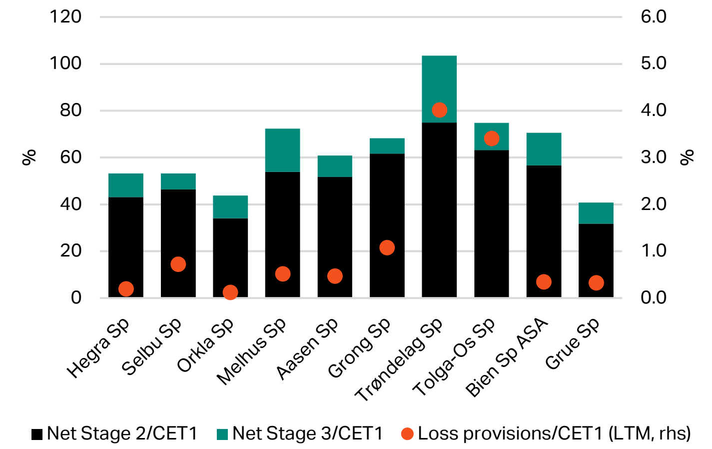
Hegra Sparebank's credit losses have averaged a low 4bps over the past five years, with 3bps reported over the last 12 months to 30 Jun. 2026. Its proportion of net Stage 3 loans was 1.6%, near the peer group average of 1.7%. Selbu Sparebank reported a lower share of net Stage 3 loans, at 1.1% of net loans. Looking ahead, we take a somewhat more conservative approach due to limited visibility into Selbu Sparebank's loan portfolio. We project annual credit losses of 8bps and a gradual decline in the share of net Stage 3 loans to 1.5% by end-2028.

Figure 9. Asset quality metrics, 2021–2028e



Source: company and NCR. e–estimate.

Figure 10. Asset quality in relation to capitalisation, 30 Jun. 2026



Source: companies. CET1-Common Equity Tier 1. LTM-last twelve months.

CAPITAL GENERATION

Capital

Capitalisation expected to remain strong

Our capital assessment takes into consideration Hegra Sparebank's consolidated capital position, including its proportional holdings in affiliated financial institutions. The bank's consolidated Common Equity Tier 1 (CET1) ratio was 23.5% and its Tier 1 ratio 25.7% (excluding 0.5pp as 50% of current year profits) as of 30 Jun. 2026. These compare with its respective minimum targets of 16.1% and 17.9% (including a 1pp management buffer). Its consolidated leverage ratio stood at 10.6%, compared with a regulatory minimum requirement of 3%.

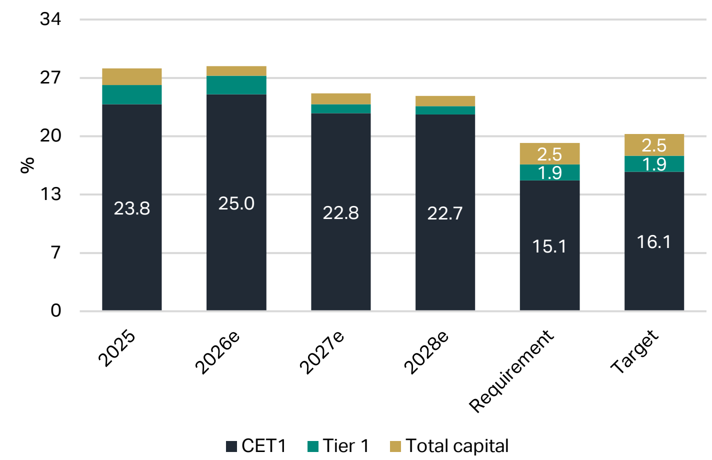
We expect the merged bank to report somewhat lower capital ratios than Hegra Sparebank on a standalone basis. This is reflected by Selbu Sparebank's somewhat lower capitalisation and the approximately NOK 41m cash consideration payable to Selbu Sparebank's owners as part of the merger, which reduces the amount of equity transferred to the combined entity. However, supported by our expectations of moderate growth and continued earnings generation, we project capitalisation to remain strong, with a Tier 1 ratio of 23.4%.

Figure 11. Capital projection assumptions

%	2026e	2027e	2028e
Net interest margin	2.3	2.1	2.1
Loan growth	3.0	152.9	6.0
Return on equity	9.6	5.7	7.5
Equity certificate ratio	14.6	41.3	41.3

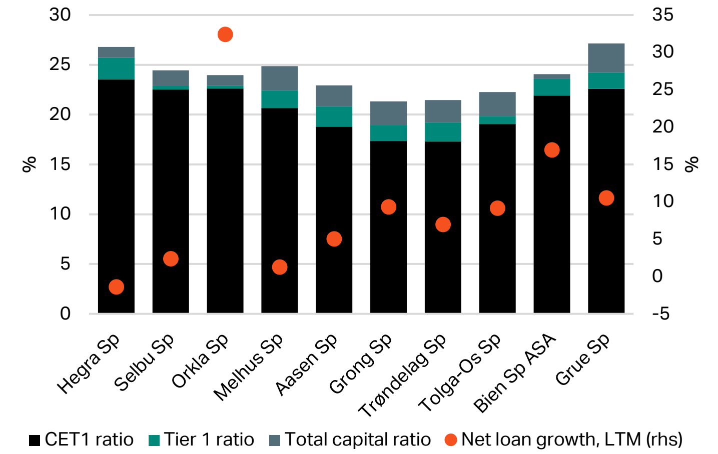
Source: NCR. e–estimate. All metrics adjusted in line with NCR methodology.

Figure 12. Forecast capital ratios vs. requirements, 2024–2028e



Source: company and NCR. e–estimate. Pillar 2 requirement (P2R) of 1.9%.

Figure 13. Norwegian savings banks' capital ratios and loan growth, 30 Jun. 2026



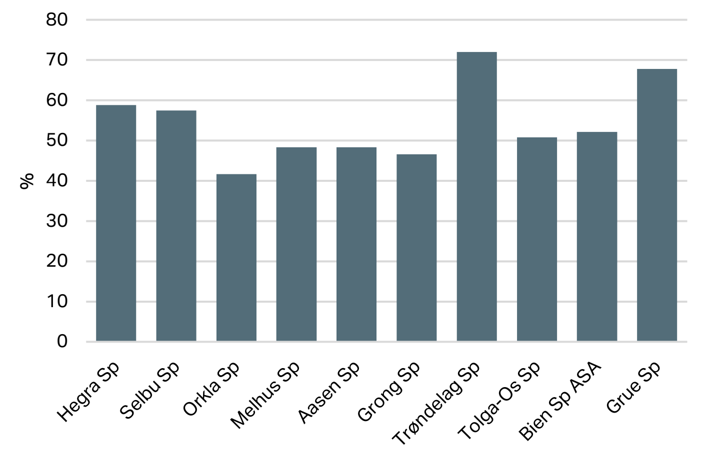
Source: companies.

Earnings

Hegra Sparebank benefits from a more diversified revenue base compared to similarly sized savings banks, largely due to its wholly owned accounting business. While this supports earnings stability and reduces reliance on net interest income, it also weighs on consolidated cost efficiency. The bank reported a cost-to-income ratio of 59% in the 12 months ended 30 Jun. 2026, above the peer group average of 54%. However, the parent bank reported a cost-to-income ratio of 45% in the same period, indicating solid efficiency in its core banking operations. Hegra Sparebank also reports strong risk-adjusted earnings, reporting consolidated pre-provision income to risk exposure amount (PPI/REA) of 3.1% in the 12 months to 30 Jun. 2026.

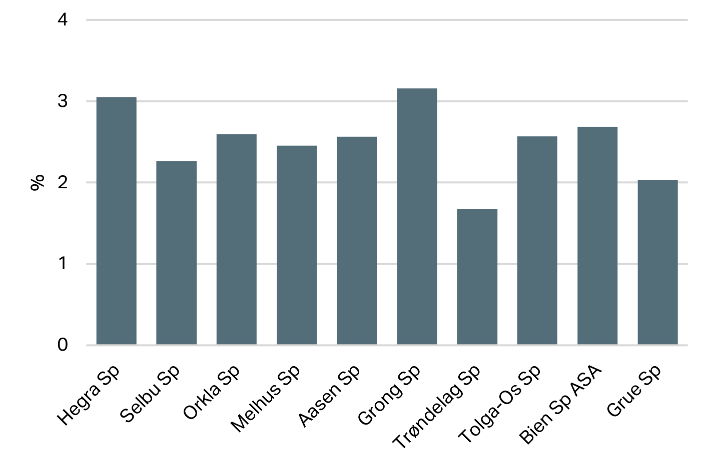
We expect merger-related costs and lower insurance commission income following Selbu Sparebank's departure from Lokalbanksamarbeidet to weaken profitability in 2027. However, improved scale and cross-selling opportunities are expected to compensate these effects over time. We project a temporarily weakened cost-to-income ratio of 66% in 2027, before improving to 55% in 2028. At the same time, we project PPI/REA at 1.9% in 2027 and 2.5% in 2028.

Figure 14. Norwegian savings banks' cost-to-income ratio, LTM to 30 Jun. 2026



Source: companies. LTM-last twelve months. Core representes net interest income and net fee & commission income.

Figure 15. Norwegian savings banks' PPI to REA, LTM to 30 Jun. 2026



Source: companies.

SUPPORT ANALYSIS

We assess the company's ownership as neutral according to our group and government methodology. Hegra Sparebank has equity capital certificates (ECCs), which are not publicly listed. As of 30 Jun. 2026, around 16% of the bank's equity was owned by ECC holders, while the remainder was ownerless capital. As a result of the ownership restructuring related to the merger, both Hegra Sparebank and

Selbu Sparebank will have ownership stakes through established savings bank foundations. The merger will materially increase the merged bank's share of ECCs to 41.3%, although subject to minor pre-merger adjustments.

Figure 16. Proforma merged ownership structure, 31 Mar. 2026

	%
Sparebankstiftelsen Selbu Sparebank	42.3
Sparebankstiftelsen Hegra Sparebank	34.3
Current ECC holders of Hegra Sparebank	16.7
Current ECC holders of Selbu Sparebank	6.7

Source: company.

ISSUE AND SHORT-TERM RATINGS

Figure 17. Issue and short-term ratings

	Rating
Senior unsecured	BBB+
Tier 2	BBB
Additional Tier 1	BB+
Short-term rating	N2; adequate due to LCR above 200% over the last four quarters and central bank access.

Short-term and issue ratings are mapped to the long-term issuer rating, in accordance with our Financial Institutions Rating Methodology. In cases where two alternatives for short-term ratings are possible, the short-term rating is assigned based on liquidity being strong, adequate, or weak, as applicable. See definitions in the methodology.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

We consider ESG factors throughout our analysis, when they are material to our credit assessment.

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. Longer-term effects on market values in flood risk areas.	Credit risk (-) Loss performance (0)
Social engagement in the community	Close connection to narrow niche provides a benefit.	Competitive position (+)
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.

METHODOLOGIES USED

(i) Financial Institutions Rating Methodology, 12 May 2025.
(ii) Rating Principles, 14 Feb. 2024.
(iii) Group and Government Support Rating Methodology, 14 Feb. 2024.

RELEVANT RESEARCH

(i) Capital strength sets Norwegian savings banks up for 2026 growth, 9 Jan. 2026
(ii) SME lending gains momentum among Nordic niche banks, 8 Sep. 2026.
(iii) Swedish savings banks face little drama in 2026, 12 Jan. 2026

Figure 19. Hegra Sparebank key financial data, 2022–Q2 2026 YTD

Key credit metrics (%)	FY 2022	FY 2023	FY 2024	FY 2025	Q2 2026 YTD
INCOME COMPOSITION					
Net interest income to op. revenue	59.0	62.0	58.3	60.1	57.3
Net fee income to op. revenue	16.8	13.0	13.9	13.5	13.5
Net gains and losses/operating revenue	-1.2	1.2	3.7	-0.3	-0.1
Net other income to op. revenue	25.3	23.8	24.1	26.6	29.3
EARNINGS					
Net interest income to financial assets	2.2	2.7	2.4	2.5	2.2
Net interest income to net loans	2.6	3.2	3.0	3.1	2.8
Pre-provision income to REA	2.7	3.5	3.7	3.8	3.2
Core pre-provision income to REA (NII & NF&C)	1.0	1.3	1.4	1.6	0.8
Return on ordinary equity	9.2	10.7	11.4	11.3	8.8
Return on assets	1.0	1.3	1.4	1.4	1.1
Cost-to-income ratio	61.8	59.0	54.3	54.0	60.4
Core cost-to-income ratio (NII & NF&C)	81.5	78.7	75.2	73.3	85.3
CAPITAL					
CET1 ratio	18.9	21.7	22.4	26.5	26.3
Tier 1 ratio	20.6	23.2	23.6	28.7	28.5
Capital ratio	22.7	25.2	25.3	30.5	29.4
REA to assets	49.4	49.8	50.7	46.2	46.4
Dividend payout ratio	10.1	8.7	15.5	13.2	13.3
Leverage ratio	10.1	11.4	11.5	12.6	12.6
Consolidated CET1 ratio	17.5	19.9	19.6	23.8	23.5
Consolidated Tier 1 ratio	19.1	21.4	21.0	26.0	25.7
Consolidated Capital ratio	21.3	23.3	22.7	28.0	26.8
Consolidated Leverage ratio	8.8	9.9	9.6	10.7	10.6
GROWTH					
Asset growth	9.9	8.8	17.9	3.5	-0.1
Loan growth	15.7	4.7	15.7	0.2	-0.1
Deposit growth	12.9	9.1	16.8	1.2	-0.9
LOSS PERFORMANCE					
Credit provisions to net loans	0.05	0.06	0.05	0.08	0.02
Stage 3 coverage ratio	7.71	3.01	2.69	2.54	3.87
Stage 3 loans to gross loans	0.18	0.69	2.02	1.73	1.67
Net stage 3 loans to net loans	0.17	0.67	1.97	1.69	1.61
Net stage 3 loans/ordinary equity	1.23	4.28	13.40	10.29	9.56
FUNDING & LIQUIDITY					
Loan to deposit ratio	129.3	124.1	122.9	121.8	122.7
Liquid assets to deposit ratio	16.8	22.0	24.3	23.0	21.0
Net stable funding ratio	139.0	140.0	144.0	140.0	141.0
Liquidity coverage ratio	289.3	430.5	989.6	995.0	1109.7

Key financials (NOKm)	FY 2022	FY 2023	FY 2024	FY 2025	Q2 2026 YTD
BALANCE SHEET					
Total assets	3,708	4,033	4,755	4,923	4,919
Total tangible assets	3,705	4,030	4,752	4,919	4,916
Total financial assets	3,629	3,956	4,684	4,819	4,832
Net loans and advances to customers	3,115	3,262	3,774	3,783	3,778
Liquid assets	406	579	745	716	647
Customer deposits	2,410	2,629	3,070	3,106	3,078
Issued securities	649	661	897	921	942
of which other senior debt	609	620	856	881	922
of which subordinated debt	40	40	40	40	20
Total equity	449	541	586	672	687
of which ordinary equity	419	511	556	621	637
CAPITAL					
Common equity tier 1	347	435	540	604	601
Tier 1	377	465	570	654	651
Total capital	417	505	610	694	671
REA	1,832	2,009	2,413	2,276	2,282
INCOME STATEMENT					
Operating revenues	128	162	179	195	93
Pre-provision operating profit	49	67	82	90	37
Impairments	1	2	2	3	0
Net Income	37	50	61	67	28

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

Figure 20. Hegra Sparebank rating scorecard

Subfactors	Impact	Score
National banking environment	5.0%	a
Sector exposure assessment	-	-
Regional assessment	15.0%	bbb+
Cross border assessment	-	-
Operating environment	20.0%	bbb+
Risk governance	7.5%	bbb+
Capital	17.5%	aa
Funding and liquidity	15.0%	a
Credit and market risk	10.0%	bbb
Risk appetite	50.0%	a
Competitive position	15.0%	b+
Earnings	7.5%	a
Loss performance	7.5%	a-
Performance indicators	15.0%	a-
Indicative credit assessment		**bbb+**
Peer comparison		Neutral
Transitions		Neutral
Borderline assessments		Neutral
Stand-alone credit assessment		**bbb+**
Ownership		Neutral
Capital structure protection		Neutral
Rating caps		Neutral
Issuer rating		**BBB+**
Outlook		Positive
Short-term rating		**N2**

Figure 21. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB+
Tier 2	BBB
Additional Tier 1	BB+

DISCLAIMER

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