

Credit Rating Announcement

25 May 2023

Scope affirms Aurskog Sparebank's A- issuer rating with Stable Outlook

Rating continues to reflect the Norwegian bank's focused savings bank business model, solid earnings and sound solvency metrics.

Rating action

Scope Ratings UK Limited (Scope) has today affirmed the ratings of Aurskog Sparebank with a Stable Outlook:

- Issuer rating of A-
- Senior unsecured debt rating of A-
- Senior unsecured debt (subordinated) rating of BBB+. This category includes debt statutorily issued as non-preferred senior.

Rating rationale

Aurskog Sparebank is a well-established local savings bank operating in south-east Norway. Activities are concentrated in Romerike, an area benefitting from above average population growth as people look for more affordable housing options and as the government seeks to foster development in the broader Oslo region.

Membership in the Eika Alliance brings significant benefits and supports the bank's competitive position. Collectively, the alliance represents the third largest provider of financial products and services in the country. In addition to enabling the bank to meet the broader financial needs of clients, the alliance is a source of expertise and provides important economies of scale, particularly in banking operations and digital capabilities. At the same time, the bank's focus on retail clients and mortgage lending contributes to earnings stability.

Aurskog generates solid returns underpinned by good cost efficiency and low credit losses. In Q1 2023, the bank reported a return on equity of 11.1% while the cost-income ratio was about 36%. Reflecting management's risk appetite and a largely secured loan book, Aurskog's asset quality metrics compare well to peers. The largest corporate exposures are to commercial real estate and building and construction given the importance of these industries in the region. As of end-March 2023, the Stage 3 ratio stood at 0.2%. Further, the bank continues to hold additional provisions for economic uncertainties.

Minimum solvency requirements for Norwegian banks are comparatively high and are set to increase at year-

end when the systemic risk buffer rises to 4.5% for banks using standardised models such as Aurskog. The bank has a sound solvency profile and is expected to maintain a buffer of at least 1% above requirements. As of end-March 2023, the bank's CET1 capital and leverage ratios were 18% (proportional consolidation basis) and 9.5%, respectively.

Aurskog's primary source of funding is customer deposits, with management targeting a deposit to loan ratio of at least 70%. Similar to peers, deposits are insufficient to fully support lending and Aurskog must also make use of market funding. The bank benefits from direct access to the domestic funding market as well as through the covered bond issuing entity of the alliance.

Aurskog is actively embracing developments in the area of sustainability (ESG factor). The bank continues to develop its capabilities to assess sustainability and climate risk considerations in its risk management and credit assessment process. As a signatory to various global initiatives, the bank is also further refining its sustainability objectives and reporting. Additionally, along with other banks in the Eika Alliance, Aurskog is upgrading its digital infrastructure.

One or more key drivers of the credit rating action are considered an ESG factor.

Outlook and rating-change drivers

The Stable Outlook reflects Scope's expectation that the bank's operating performance and credit fundamentals will remain sound.

What could move the rating up:

- Significant strengthening of market position accompanied by consistent earnings generation and sound prudential metrics

What could move the rating down:

- A deterioration in the operating environment which materially impacts earnings
- A change in strategic direction or management's risk appetite which increases the bank's risk profile

Overview of rating construct

Operating environment: Very supportive

Business model: Focused

Initial mapping refinement: High

Initial mapping: bbb/bbb+

Long-term sustainability (ESG-D): Developing

Adjusted anchor: bbb

Earnings capacity and risk exposures: Supportive

Financial viability management: Comfortable

Additional rating factors: Neutral factor

Stand-alone assessment: a-

External support: Not applicable

Issuer rating: A-

Stress testing & cash flow analysis

No stress testing was performed. No cash flow analysis was performed.

Methodology

The methodology used for these Credit Ratings and Outlooks, (Financial Institutions Rating Methodology, 7 February 2023), is available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions - Credit Ratings, Ancillary and Other Services', published on <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://scoperatings.com/governance-and-policies/regulatory/uk-regulation>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity, and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting these Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and Outlooks and the principal grounds on which the Credit Ratings and Outlooks are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

These Credit Ratings and Outlooks are issued by Scope Ratings UK Limited at 52 Grosvenor Gardens, London, United Kingdom, SW1W 0AU, Tel +44 20 7824 5180. The Credit Ratings and Outlooks are EU-endorsed.

Lead analyst: Pauline Lambert, Executive Director

Person responsible for approval of the Credit Ratings: Nicolas Hardy, Executive Director

The Credit Ratings/Outlooks were first released by Scope Ratings on 23 June 2022.

Potential conflicts

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