

Credit Rating Announcement

16 April 2025

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

The rating reflects the Norwegian bank's focused savings bank business model, solid earnings and sound prudential metrics.

Rating action

Scope Ratings UK Ratings Limited (Scope) has affirmed Aurskog Sparebank's issuer rating of A- and senior unsecured debt rating of A-, both with a Stable Outlook.

The full list of rating actions is at the end of this rating action release.

Key rating drivers

Business model assessment: Focused (High). The issuer rating is anchored by the Focused (High) business model assessment. Aurskog Sparebank is a well-established Norwegian savings bank with on-balance sheet assets of NOK 19.2bn as of YE 2024. In addition, the bank has transferred NOK 3.4bn in residential mortgage loans to the joint covered bond funding vehicle of the Eika Alliance. Reflecting its local savings bank business model and strategy, the bank's operations are concentrated in the wider Oslo region. The bank serves personal and business customers from its head office in Aurskog and eight branches.

The bank's competitive position is significantly strengthened by its membership in the Eika Alliance, which is a supportive factor in Scope's assessment. Benefits include the ability to offer a wide range of financial services, economies of scale and strong digital capabilities. Aurskog Sparebank's focus on retail customers and residential mortgages (almost 75% of total lending) also underpins stable and solid risk-adjusted performance.

Operating environment assessment: Very supportive (Low). Aurskog Sparebank only operates in Norway (Very supportive low). Norway is a relatively small open economy with one of the highest levels of per capita income in the world and low unemployment. A very strong government fiscal position provides ample capacity to support the economy when needed. The regulatory framework is well established and rigorous, and the central bank has a good track record of providing funding to banks in times of stress.

Scope arrives at an initial mapping of **bbb** based on a combined assessment of the issuer's operating environment and business model.

Long-term sustainability assessment (ESG factor): Developing. The assessment reflects Scope's view that the issuer is embracing changes to ensure the long-term sustainability of its business model. Progress

made may be tangible but does not warrant further credit differentiation.

Management is actively addressing ESG-related risks and opportunities. This includes managing ESG risks in the loan portfolio, facilitating customers' transition efforts and investing in the bank's digital infrastructure. In addition, as a local savings bank, Aurskog Sparebank's business is underpinned by close ties with the local community. The bank promotes economic development and supports community life in its markets. In common with other Norwegian savings banks, Aurskog Sparebank's governance structure further reinforces its close relationship with customers and the local community.

The long-term sustainability assessment leads to an adjusted rating anchor of **bbb**.

Earnings capacity and risk exposures assessment: Supportive (+1 notch). The assessment reflects Scope's view that earnings capacity is stable through economic cycles and provides a strong buffer against losses. Risks are well managed and are highly unlikely to lead to losses capable of undermining the issuer's viability.

Aurskog Sparebank generates solid returns, underpinned by good cost efficiency and low credit losses. Management targets a return on equity of at least 10% and a cost-income ratio of no more than 38% over the long term. For 2024, the bank reported a return on equity of 10.6% and a cost-income ratio of less than 33%. Operating performance this year is expected to be supported by continued strong growth in retail loans, driven by the ongoing development of three recently opened branches. While the net interest margin is likely to moderate due to increased competition for creditworthy customers and investments to grow the business, net interest income is expected to increase due to higher volumes.

Asset quality compares well with peers, reflecting management's risk appetite and a largely secured loan book. The bank proactively engages with customers who may be facing challenges and actively monitors non-performing exposures. The stage 3 ratio remains low at 0.5% as of YE 2024, despite increasing slightly from 0.3% as of YE 2023. Given economic uncertainties, the bank continues to hold additional provisions for potential risks that it considers to be insufficiently covered by ECL model-based provisions.

Financial viability management assessment: Comfortable (+1 notch). The assessment reflects Scope's view that the issuer maintains comfortable buffers to relevant regulatory requirements and Scope expects it to continue to do so. The issuer's financial viability is largely resilient to tail-risk events.

The bank maintains a sound solvency profile, with relatively high absolute levels of capital. As of YE 2024, the CET1 and leverage ratios were 17.5% and 9.7%, respectively, on a proportionally consolidated basis. The bank actively manages business growth to ensure that it maintains a sufficient buffer to regulatory requirements. Management targets a buffer of at least 1%, which Scope considers to be adequate. With the implementation of CRR3 in Norway from 1 April 2025, the bank's CET1 ratio is expected to increase by at least 200 bps.

Aurskog Sparebank benefits from a stable deposit base, with nearly 70% of deposits being from personal customers. In 2024, deposits grew by more than 8%, slightly below the growth in on-balance sheet loans. Like with peers, deposits do not fully support lending activity, and the bank must also use market funding, including covered bonds. This is made possible through the covered bond issuing vehicle of the Eika Alliance. The bank's liquidity metrics remain at reassuring levels. Over the last five years, the LCR has averaged just below 200% and the NSFR has averaged more than 135%.

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

Outlook and rating sensitivities

The **Stable Outlook** reflects Scope's view that the risks to the current rating are balanced.

The **upside scenario** for the ratings and Outlooks is:

1. Significant development of the business model, through a material increase in size, market share gains or broader diversification, without a meaningful increase in risk appetite or a weakening of the financial profile

The **downside scenarios** for the ratings and Outlooks are (individually or collectively):

1. A significant deterioration in the bank's profitability or asset quality, indicating a weaker capacity to cover losses from ordinary earnings
2. An inability to balance business growth with maintaining sufficient buffers above regulatory capital requirements combined with a deterioration in the stability of the funding profile

Debt ratings

Preferred senior unsecured debt: A-/Stable. The rating is aligned with the issuer rating and applies to senior unsecured debt ranking above other classes of senior unsecured debt.

Non-preferred senior unsecured debt: BBB+/Stable. The rating is one notch lower than the issuer rating, reflecting statutory subordination.

Environmental, social and governance (ESG) factors

Please refer to the 'long-term sustainability assessment' under the 'key rating drivers' section above for the ESG analysis.

All rating actions and rated entities

Aurskog Sparebank

Issuer rating: A-/Stable, affirmed

Preferred senior unsecured debt rating: A-/Stable, affirmed

Non-preferred senior unsecured debt rating: BBB+/Stable, affirmed

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/or Outlooks, (Financial Institutions Rating Methodology, 10 January 2025), 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://scooperatings.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.scooperatings.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://scooperatings.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.

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

Regulatory disclosures

These Credit Ratings and/or 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/or Outlooks are EU-endorsed.

Lead analyst: Pauline Lambert, Executive Director

Person responsible for approval of the Credit Ratings: Karlo Stefan Fuchs, Managing Director

The Credit Ratings/Outlooks were first released by Scope Ratings on 23 June 2022. The Credit Ratings/Outlooks were last updated on 22 April 2024.

Potential conflicts

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Contact

Analyst	Pauline Lambert	p.lambert@scoperatings.com
Team leader	Marco Troiano	m.troiano@scoperatings.com



Scope Ratings UK Ltd • 52 Grosvenor Gardens. • SW1W 0AU London www.scoperatings.com

Executive Board: Michael Baker • Company registration number: 11810998

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