Credit Rating Announcement

22 April 2024

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

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

The A- issuer rating on Aurskog Sparebank (Aurskog) reflects the following assessments:

- **Business model assessment: Focused (high)**. Aurskog is a well-established savings bank operating in south-east Norway. Its operations are concentrated in Romerike, an area that is experiencing above average population growth as people look for more affordable housing and the government seeks to encourage development in the wider Oslo region. As a member of the Eika Alliance, the bank enjoys significant benefits, including the ability to offer a broad range of financial services, economies of scale and strong digital capabilities. In addition, a focus on retail clients and mortgage lending supports stable and solid risk-adjusted performance.

- **Operating environment assessment: Very supportive (low)**. Norway's operating environment remains very conducive for financial services activities. Norway is a relatively small open economy with one of the world's highest per capita income levels and low unemployment. A very robust government fiscal position provides ample capacity to support the economy when needed. The regulatory environment is well-established and rigorous, and the central bank has a strong record of providing refinancing facilities to banks in times of stress.

- **Initial mapping of bbb**: The initial mapping results from the combination of our business model and operating environment assessments.

- **Long term sustainability assessment (ESG factor): Developing**. As a local savings bank, Aurskog's business franchise is underpinned by close ties to the local community. Management actively embraces developments in the area of sustainability. This includes developing further competence to evaluate and report on potential ESG risks in the loan portfolio, supporting the transition efforts of clients and investing in the bank's digital infrastructure.

- **Earnings and risk exposures assessment: Supportive**. Aurskog generates solid returns, underpinned by good cost efficiency and low credit losses. For 2023, the bank reported a return on equity of 11%, above management's target of at least 10%. Performance this year is expected to be in line with targets despite competitive pressures on margins for creditworthy clients and generally higher operating expenses.

  Asset quality compares well with peers, reflecting management's risk appetite and a largely secured loan book. The bank is proactively engaging with customers who may be facing challenges and the number of customers seeking forbearance remains low by historical standards. The stage 3 ratio stood at 0.3% as of YE 2023, up from 0.2% as of YE 2022. 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**. The bank maintains a sound solvency profile, with management aiming for a buffer of at least 1% above requirements. As of YE 2023, the CET1 and leverage ratios were 18% and 10.4%, respectively. Aurskog's main source of funding is customer deposits, with management targeting a deposit/loan ratio of at least 70%. In 2023, deposits grew by more than 9%, in line with the growth in on-balance sheet loans. Similar to peers, deposits do not fully support lending activity and the bank must also use market funding, including covered bonds.

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 view that risks to the ratings are balanced over the next 12 to 18 months.

What could move the rating up:

- Sustained 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 - low

Business model: Focused - high

Initial mapping: 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-

Debt ratings

The senior unsecured debt rating is aligned with the issuer rating.

The senior unsecured (subordinated) debt rating is one notch below the issuer rating, reflecting statutory subordination.

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, 6 February 2024), 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/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
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The Credit Ratings/Outlooks were first released by Scope Ratings on 23 June 2022. The Credit Ratings/Outlooks were last updated on 25 May 2023.

Potential conflicts

See www.scoperatings.com under Governance & Policies/Regulatory for a list of potential conflicts of interest disclosures related to the issuance of Credit Ratings.

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About Scope Group

With more than 300 employees operating from offices in Berlin, Frankfurt, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG analysis and fund research. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. Scope Ratings is registered in accordance with the EU rating regulation and operating in the European Union with ECAI status. Scope Ratings is the only European rating agency accepted by the ECB for the Eurosystem Credit Assessment Framework (ECAF). The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several European countries. More on www.scopegroup.com

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