Credit Rating Announcement

23 June 2022

Scope assigns to Aurskog Sparebank a first-time issuer rating of A- with Stable Outlook

Rating reflects the Norwegian bank's focused savings bank business model, solid earnings and reassuring solvency metrics

Rating action

Scope Ratings UK Limited (Scope) has today assigned a first-time issuer rating of A- to Aurskog Sparebank. The rating agency also assigned a first-time rating of A- to preferred senior unsecured debt and a rating of BBB+ to non-preferred senior unsecured debt. All credit ratings have a Stable Outlook.

Rating rationale

Aurskog Sparebank (Aurskog) is a well-established local savings bank operating in south-east Norway. Activities are concentrated in Romerike, an area with 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 sound asset quality. In Q1 2022, the bank reported a return on equity of 9.5% while the cost-income ratio was about 43%. The Norwegian central bank has been raising the policy rate since last year and further hikes are expected which will support margins. Management targets a cost-income ratio below 40%.

Reflecting the bank’s risk appetite, Aurskog maintains sound asset quality metrics that compare well to peers. As of end-March 2022, the Stage 3 ratio stood at 0.2%. Further, the bank continues to hold a portion of the additional provisions taken in 2020 for uncertainties related to the Covid-19 pandemic.

Minimum solvency requirements for Norwegian banks are comparatively high and are set to rise following announced increases in the countercyclical buffer rate and the systemic risk buffer for banks using standardised models such as Aurskog. In April, the bank successfully raised about NOK 200m in capital to support business growth as well as to ensure comfortable buffers above regulatory requirements. As of end-

March 2022, the bank's CET1 capital and leverage ratios were 16% (proportional consolidation basis) and 9.5%, respectively. The capital increase is expected to benefit the CET1 capital ratio by about 260bps.

Aurskog's primary source of funding is customer deposits, with management targeting a 70% deposit to loan ratio. 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.

Under Scope's financial institutions rating methodology, the 'long-term sustainability' assessment (ESG factor) captures how relevant environmental, social and governance (ESG) factors and preparedness for digital transition (D) may impact an issuer's creditworthiness. Scope assesses Aurskog as 'Developing', reflecting its view that, as with other Norwegian banks, Aurskog is actively embracing developments in the area of sustainability. The bank has started including sustainability and climate risk considerations into its risk management and credit assessment process. This year, the bank aims to report to TCFD and GRI standards. As well, along with the other Eika banks, Aurskog is upgrading the bank's 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 view that the bank's business and operating performance will remain resilient even in a potentially weaker macroeconomic scenario.

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/or Outlooks, (Financial Institutions Rating Methodology, 28 January 2022), 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 the 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 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.

Potential conflicts

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About Scope Group

With more than 250 employees operating from offices in Berlin, Frankfurt, Hamburg, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG and fund analysis. 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 the largest European credit rating agency, registered in accordance with EU and UK rating agency regulation, offering opinion-driven and non-mechanistic credit risk analysis. **Scope ESG Analysis** provides tools for analysing and reporting on ESG impact and risk, as well as second-party opinions on green, social and sustainable bonds. **Scope Fund Analysis** rates more than 10,000 funds and asset managers across all major asset classes. 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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