

📅 THURSDAY, 27/02/2025 - Scope Ratings UK Ltd

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

The rating affirmation reflects continued robust operating and financial performance.

Rating action

Scope Ratings UK Limited (Scope) has affirmed Rogaland Sparebank's issuer rating of A-, preferred senior unsecured debt rating of A- and non-preferred senior unsecured debt rating of BBB+ all with a Stable Outlook.

The full list of rating actions and rated entities 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. Rogaland Sparebank is a well-established local savings bank operating in the county of Rogaland in south-western Norway. The business model is focused on retail banking as well as serving local corporate customers. The bank benefits from being a member of the Eika Alliance, including the ability to offer a broad range of financial services, economies of scale and strong digital capabilities. In the second half of 2024, the bank successfully completed its merger with Hjelmeland Sparebank. At 2024YE the bank had total assets of 40bn NOK and 150 employees.

Operating environment assessment: Very Supportive (Low). The assessment reflects Scope's view of Norway, when the bank solely operates. 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 refinancing facilities to banks in times of stress. While competition is high, there is also a long history of cooperation among domestic banks.

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.

Rogaland Sparebank has been actively managing ESG-related risk and opportunities. The bank has solid digital capabilities driven by its membership in the Eika alliance and recent investments made to meet evolving demands. Inherent to its savings bank roots, Rogaland Sparebank is an active participant in its local community and focuses on maintaining strong relationships and ties with its market area. In common with other Norwegian savings banks, Rogaland Sparebank's governance structure has representation from a number of different stakeholders, with the board of trustees representing employees, customers, equity capital certificate holders and the local municipality of Sandnes. The bank has incorporated ESG factors into its credit process for its corporate customers for several years, and in 2024 the bank met its target of conducting ESG assessments for 80% of its corporate credit customers.

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.

The bank has a good track record of generating earnings and maintaining sound levels of asset quality. For 2024Y the bank reported record earnings and a return on equity of 12.2%. As part of its updated strategic period, the bank has increased its return target to 11% from 10%.

Asset quality remains sound with the bank's Stage 3 ratio standing at 1.8% for 2024. Rogaland Sparebank's loan portfolio is dominated by retail lending which accounts for 76% of the groups lending. Corporate lending exposures are concentrated in the commercial real estate sector, in line with Norwegian banks. Despite being at the centre of the Oil and Gas region, the bank has no direct exposure to the oil and gas industry as well as very limited exposures to more cyclical sectors such as hotels and restaurants. Scope expects asset quality to remain sound on the back of the bank's retail focused loan book combined with the strong economic developments in the bank's home market of south-western Norway.

Financial viability management assessment: Comfortable (+1 notch). The assessment reflects Scope's view that the issuer maintains comfortable buffer 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.

Rogaland Sparebank's capital position remains robust. At 2024YE the bank's CET1 ratio stood at 17.1% while the leverage ratio stood at 8.6% (proportional consolidation basis), above current supervisory expectations. Scope expects the CET1 ratio to increase in the time ahead as a result of the implementation of CRR3 in Norway. The bank estimates that the CET1 ratio will increase by 260bps from credit matrix improvements.

The bank is primarily funded by deposits which account for around 50% of funding sources. Deposits primarily stem from retail customers. The bank's secondary funding source is covered bonds accounting for 40% of funding, which the bank issues from its wholly owned covered bond issuing entity, Rogaland Sparebank Boligkreditt.

The bank's liquidity metrics remain sturdy and above requirements, with the LCR standing at 236% at 2024YE.

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

Outlooks and rating sensitivities

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

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

1. Significant developments in the business model, including a material increase in size, material market share gains or broader diversification without a significant increase in risk appetite or financial profile.

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

1. A significant deterioration of the group's profitability or asset quality, indicating a weakening of its ability to cover losses out of ordinary profitability.
2. The inability to balance business growth with maintaining sufficient buffers above regulatory capital requirements.

Debt ratings

Preferred senior unsecured debt: A-. 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+. 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

Rogaland Sparebank

Issuer rating: A-/Stable, Affirmed

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

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

Rogaland Sparebank Boligkreditt

Issuer rating: A-/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 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://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 and Outlooks 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: Andre Hansen, Analyst

Person responsible for approval of the Credit Ratings: Marco Troiano, Managing Director

The Rogaland Sparebank's issuer Credit Rating/Outlook was first released by Scope Ratings on 19 December 2018. The Credit Rating/Outlook was last updated on 12 March 2024.

The preferred senior unsecured debt Credit Rating/Outlook was first released by Scope Ratings on 19 December 2018. The Credit Rating/Outlook was last updated on 12 March 2024.

The non-preferred senior unsecured debt Credit Rating/Outlook was first released by Scope Ratings on 28 September 2021. The Credit Rating/Outlook was last updated on 12 March 2024.

The Rogaland Sparebank Boligkredit's issuer Credit Rating/Outlook was first released by Scope Ratings on 19 December 2018. The Credit Rating/Outlook was last updated on 12 March 2024.

Potential conflicts

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