Nordic Credit Rating

FINANCIAL INSTITUTION

Norway
4 Nov. 2024

Sparebanken Narvik

Full Rating Report

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N2

PRIMARY ANALYST
Christian Yssen
+4740019900
christian.yssen@nordiccreditrating.com

SECONDARY CONTACTS
Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

Elisabeth Adebäck
+46700442775
elisabeth.adeback@nordiccreditrating.com

RATING RATIONALE

Our 'A-' long-term issuer rating on Norway-based Sparebanken Narvik reflects the bank's exceptional capital position, low risk appetite and strong earnings. The bank has a cooperation agreement with the Eika banking alliance, which we view as positive, as it provides product diversity, shared development costs, and the opportunity to finance residential retail mortgages through mortgage company Eika Boligkreditt. We expect strong cost efficiency to support the bank's core earnings despite a likely decline in net interest margins over the next few years. We also expect robust pre-provision profit to offset elevated loan losses due to a slowdown in the overall economy.

We expect Sparebanken Narvik to maintain strong earnings and robust cost efficiency over our forecast period through 2026. Together with moderate lending growth, significant gift contributions to the local community and customer dividend payments, we expect the bank's capital ratios to stabilise at relatively high levels from 2025 in comparison with those of its peers. In addition, we estimate elevated, but low, credit losses following a five-year period of zero losses on an accumulated basis.

The rating is constrained by the bank's concentrated exposure to real estate in the Narvik and Mid-Troms regions. It is also constrained by strong competition and a low market share in Mid-Troms.

STABLE OUTLOOK

The outlook is stable, reflecting our view that a weak economic climate and projected credit losses will be offset by strong capital and strong earnings metrics. We believe Sparebanken Narvik's low risk appetite, strong real-estate collateral, improved earnings, and strong cost position will enable resilience to a moderate slowdown in the economy. We forecast that the bank's cost efficiency and capital ratios will remain at levels better than those of its peers. We expect Sparebanken Narvik's capital ratios to be further boosted by the prospective positive impact of implementing the EU's Capital Requirements Regulations III (CRR3).

POTENTIAL POSITIVE RATING DRIVERS

- An upgrade is unlikely at this time, given the bank's regional and sectoral concentrations.

POTENTIAL NEGATIVE RATING DRIVERS

- A material deterioration in the regional operating environment or increased risk appetite.
- A lasting reduction in the Tier 1 capital ratio to below 20%.
- Risk-adjusted earnings metrics below 2% of risk exposure amount (REA) or cost/income above 50% over a protracted period.

Figure 1. Key credit metrics, 2020–2026e

%	2020	2021	2022	2023	2024e	2025e	2026e
Net interest margin	1.9	1.9	2.2	2.9	2.8	2.7	2.5
Loan losses/net loans	0.26	-0.23	-0.04	0.04	0.09	0.11	0.11
Pre-provision income/REA*	1.9	2.0	2.2	2.9	3.3	3.3	3.2
Cost-to-income	53.2	50.0	50.0	44.0	35.5	36.3	37.5
Return on ordinary equity	5.8	7.9	7.5	8.9	9.9	9.4	9.0
Loan growth	2.2	5.2	3.9	1.7	10.1	5.0	5.0
CET1 ratio*	21.3	21.6	23.1	24.0	23.6	26.3	26.3
Tier 1 ratio*	21.7	22.0	23.5	24.4	23.9	26.7	26.7

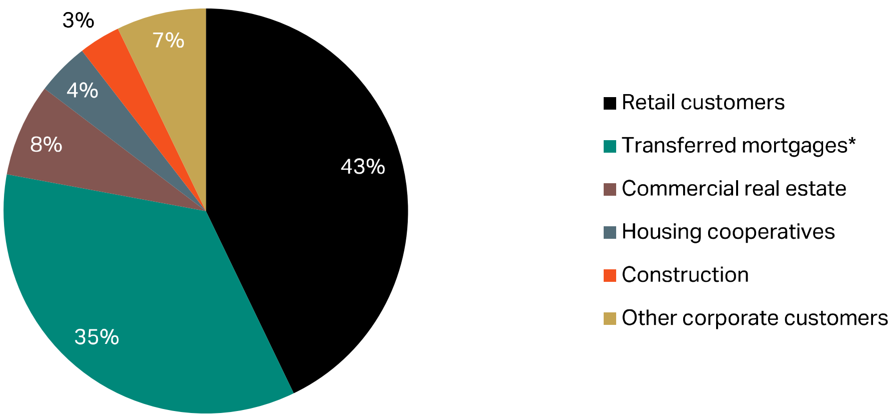
Source: company and NCR. e–estimate. CET1–common equity Tier 1. All metrics adjusted in line with NCR methodology. *Consolidated capital adequacy metrics, including the estimated effect of CRR3 from 2025.

ISSUER PROFILE

Sparebanken Narvik is a mid-sized Norwegian savings bank with roots dating back to 1901. The bank has about 50 employees and provides core banking services through its headquarters in Narvik in Nordland County and, since 2019, a branch in Finnsnes. Sparebanken Narvik had total net lending, including transferred loans, of NOK 11.5bn as of mid-2024, including loans transferred to Eika Boligkreditt. Lending is centred in the Narvik region and Mid-Troms, with retail customers and SMEs accounting for the core customer base. The bank operates as an independent savings bank and its equity is self-owned.

Sparebanken Narvik is a member of the Eika Alliance, an association of about 50 small and medium sized Norwegian savings banks. The association enables product diversity and helps to improve cost efficiency through the sharing of IT costs and joint efforts in risk management and compliance. It also provides the opportunity to finance residential mortgages via Eika Boligkreditt, one of Norway's largest issuers of covered bonds.

Figure 2. Gross loans by sector/type (including transferred loans), 30 Jun. 2024



Source: company. *net loans transferred to Eika Boligkreditt.

OPERATING ENVIRONMENT

Operating environment

We consider a balance of national and regional factors in our assessment of the operating environment. Sparebanken Narvik has a high proportion of exposure to its core markets in a region with slightly declining population growth and lower unemployment than the national average. The national economy could weaken over the next few years due to low economic activity and the ongoing impact of high inflation, but we believe that the Norwegian banking sector is well positioned to offset higher credit risk with strong earnings and capital.

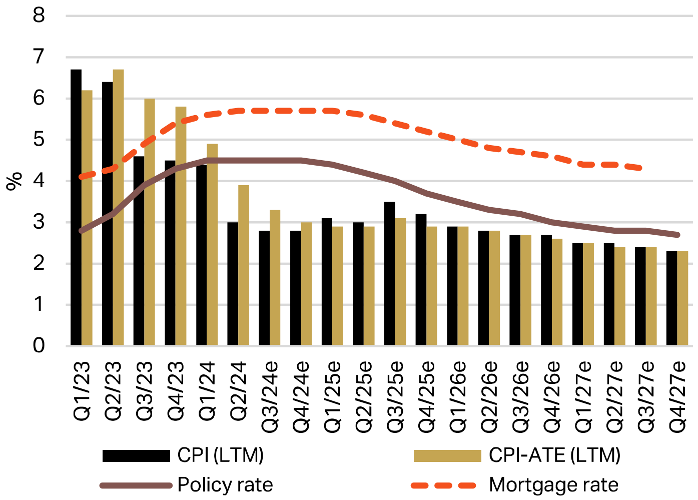
Norwegian savings banks resilient to reduced economic activity

National factors

High interest rates have significantly increased net interest margins for Norwegian savings banks over the past two years. Together with strong lending growth, this has boosted earnings across the sector. However, we believe that core earnings growth in the sector will slow this year due to greater competition and increased, albeit moderate, loan losses. Among NCR-rated Norwegian savings banks, we expect a marginal decline in core profits in 2024 but anticipate that normalisation of non-core revenues will contribute to an 8% increase in pre-tax profit. We also believe that interest margins could prove more resilient than we previously anticipated due to continuing high interest rates.

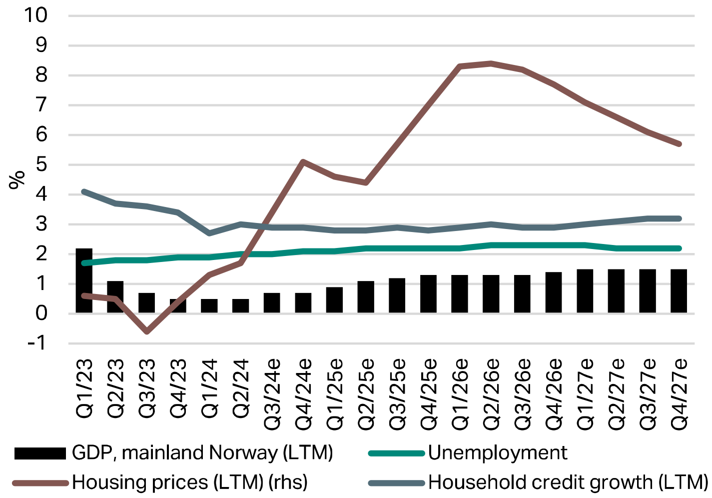
As intended, high interest rates are helping to slow the economy. We believe that high interest rates and weak economic conditions could lead to a rise in loan-loss provisions among domestic savings banks over the next 12 months, but that levels will vary significantly between individual banks. Norway's savings banks are well capitalised and have strong pre-provision profitability, which makes them relatively resilient to increased credit losses.

Figure 3. Norwegian inflation and interest rates, 2023–2027e



Source: central bank. e–estimate. CPI–consumer price index. LTM–last 12 months. ATE–adjusted for tax changes and excluding energy products.

Figure 4. Norwegian economic indicators, 2023–2027e



Source: central bank. e-estimate.

Narvik to host of 2029 Alpine World Ski Championships

Regional, sectoral, and cross-border factors

Sparebanken Narvik's core market is located in the Narvik region and Mid-Troms, in Northern Norway. The municipalities of Narvik and Senja have a combined population of about 36,000 and account for about 70% of the bank's gross lending. Population and employment growth have been low in recent years, and the population of the core market is projected to drop by 1.9% by 2050, according to Statistics Norway. However, unemployment remains low (1.5% as of August 2024) compared with the national average of 2.1%.

Sparebanken Narvik's core operating region is set in mountainous terrain that attracts tourists all year round and is a popular destination for winter sports and leisure activities. In 2029, Narvik will host the International Ski Federation's Alpine World Ski Championships, which are considered the world's second-largest winter sports event after the Winter Olympic Games. We anticipate increased investments in the region in preparation for the event, especially in construction and tourism. We also believe the championships, awarded in 2024, could contribute to stronger near-term population growth in Narvik than predicted in previous estimates by Statistics Norway (see Figure 3). In addition, the importance of a military base in the region has led to increased investment by the Norwegian Armed Forces amid recent geopolitical tension.

Figure 5. Core markets

Municipality	Population, 2024	Expected population change, 2024–2050 (%)	Unemployment, Aug. 2024 (%)	Unemployment, Aug. 2023 (%)
Narvik	21,571	-7.4	1.5	1.6
Senja	14,860	-1.9	1.5	1.5
Målselv	6,746	5.1	1.6	0.6
Bardu	4,008	11.0	0.7	0.5
Hamarøy	2,747	3.8	2.3	1.2
Gratangen	1,079	4.3	1.4	*
Core market	51,011	-1.9	1.5	1.3
Norway	**5,562,363**	**9.9**	**2.1**	**1.9**

Source: Statistics Norway, Norwegian Labour & Welfare Administration. *Fewer than four unemployed.

Narvik is an important transport and logistics hub in northern Norway. The city has the northernmost train station in western Europe and its port is Norway's second-largest in terms of tonnage (10%). The city has been a major iron ore exporter for over a century, shipping ore extracted from Kiruna in Sweden and transported to Norway by train. However, more efficient shipping methods have reduced the number of jobs in the sector. Narvik plans to develop as a green industrial hub and has several large projects under development. Mid-Troms is heavily reliant on fishing and aquaculture, particularly exports of salmon and cod. In both regions, the public sector is a major employer, particularly in education, health, social work, and military defense.

RISK APPETITE

Risk appetite assessment

Our assessment of Sparebanken Narvik's risk profile reflects the bank's exceptional capital, diverse funding profile, large proportion of residential mortgage lending, and ability to transfer loans to Eika Boligkreditt. Risk governance and internal risk reporting are adequate, in view of the bank's risk profile and complexity. The bank has some regional concentrations in its core markets and a significant proportion of property lending.

Risk governance in line with that of medium-sized savings banks

Risk governance

In our view, Sparebanken Narvik's risk governance framework, risk appetite, limit monitoring, and risk reporting are proportionate with its balance sheet and risk profile. The bank has well-defined guidelines for risk governance and relevant risk areas. It has also established anti-money laundering practices and policies, reducing the risk of related regulatory fines and associated losses. The bank's internal risk reporting and internal capital adequacy assessment processes are proportional to its risk profile. We note that the bank has replaced a material proportion of its employee base in recent years, exposing it to increased short-term risk resulting from insufficient training and operational errors. Given the bank's increasing size, we expect it to implement an internal audit function in the first half of 2025.

Sparebanken Narvik has made significant efforts to support sustainability and contributes to the local region through social contributions. The bank assesses environmental, social and governance (ESG) risk for all new and recurring corporate customers, contributing to better internal risk awareness and sustainable customer behaviour. In addition, the bank has obtained Miljøfyrtårn/Eco-Lighthouse environmental certification for its head office.

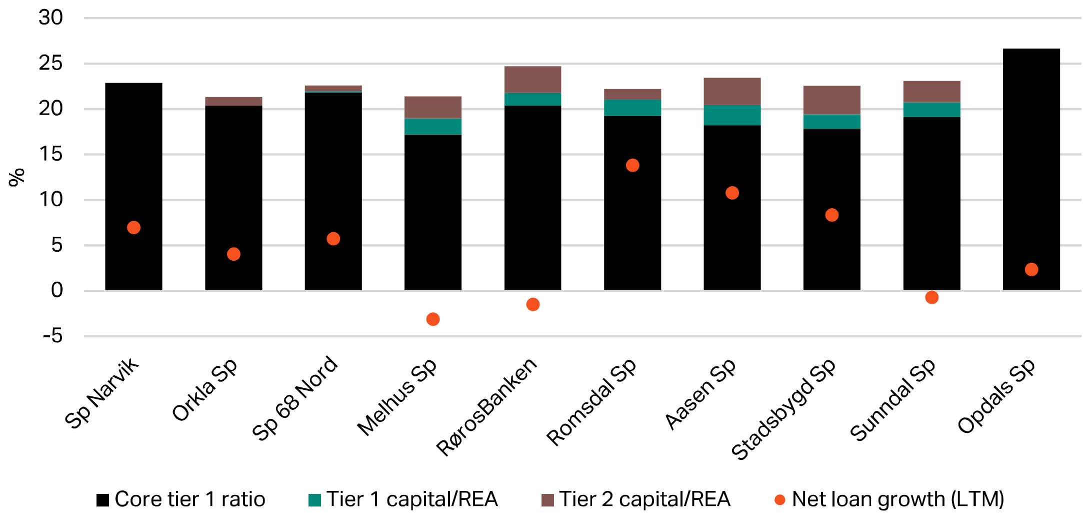
Sparebanken Narvik's cooperation with the Eika Alliance provides additional resources for future risk governance and sustainability development, and 45% of the bank's mortgage portfolio is financed through Eika Boligkreditt, which has also established a framework for the issuance of green bonds.

Capital ratios strong, even without hybrid instruments

Capital

Our capital assessment takes into consideration Sparebanken Narvik's consolidated capital position, including its proportionate holdings in Eika Gruppen and Eika Boligkreditt. As of 30 Jun. 2024, the bank's consolidated CET1 ratio was 22.7% and its Tier 1 ratio 23.1% (excluding 0.4pp as 50% of current year profits). These compare with its respective minimum targets of 16.3% and 18.2% (including a 1.5pp management buffer). The consolidated leverage ratio is strong at 9.5%, compared with a regulatory minimum requirement of 3%. We expect Sparebanken Narvik's on-balance-sheet loan book to grow by 10% in 2024, declining to 5% annual growth in 2025 and 2026. In addition, we expect a return on equity of 9-10% through 2026 due to strong earnings, stable operating costs, implementation of a new IT platform, and moderate loan losses. We also expect the bank's capital ratios to remain strong, at around 24% excluding the expected positive regulatory effects of CRR3. The bank targets a 60% payout ratio for gifts and customer dividends, but retains flexibility to reduce payouts to maintain strong capital ratios, which we regard as positive.

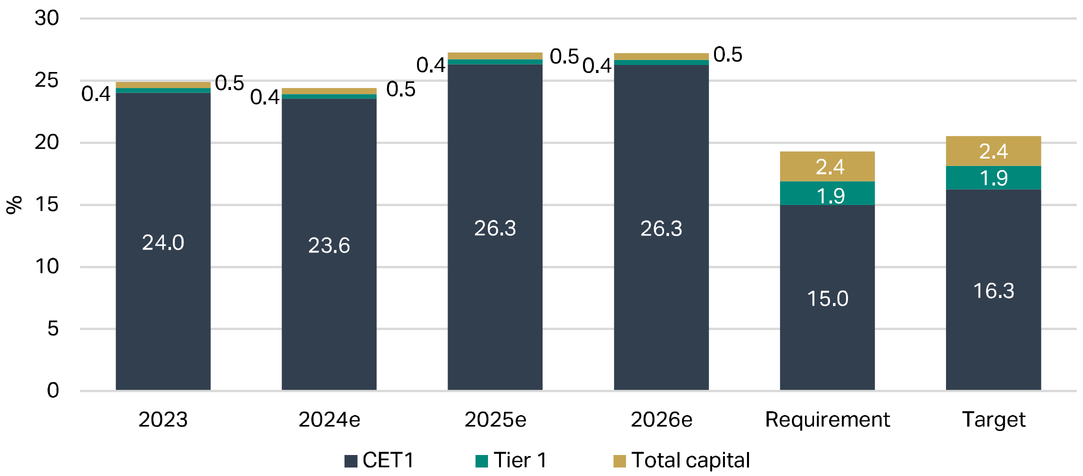
Figure 6. Norwegian savings banks' capital ratios* and loan growth, 30 Jun. 2024



Source: bank reports. Unconsolidted capital ratios of parent banks.

CRR3, a new standard method for calculating capital requirements for credit risk, is scheduled to come into force in Norway from 1 Jan. 2025 (see relevant research). The new method is more risk-sensitive than previously and likely to reduce capital requirements significantly for small to medium-sized retail and savings banks. We expect CRR3 to improve the competitiveness of banks that use the standard approach to credit risk by mitigating the current disparity with larger banks that use the internal ratings-based approach. In June 2024, the Norwegian regulator confirmed it will not require greater weights for loans secured by residential mortgages (retail or corporate), but will opt for a slightly greater risk weighting for commercial real estate and second homes. The regulator estimates that an average standard-method bank will improve its capital ratios by several percentage points and our forecast for Sparebanken Narvik assumes a positive impact of 2.8pp on its consolidated Tier 1 ratio from 2025. However, we remain cautious about the actual outcome and its effect on the bank's capital strategy. Including the positive regulatory effect, we estimate a Tier 1 ratio of 26.7% at end-2025.

Figure 7. Consolidated capital ratios 2023–2026e, capital requirement and targets* as of Q2 2024



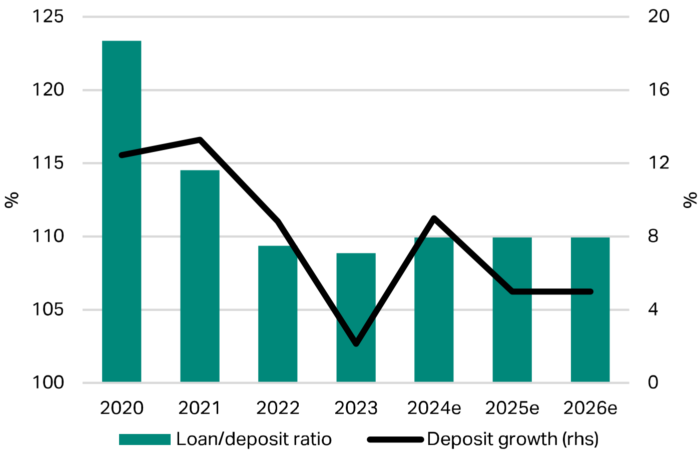
Source: company. e-estimate. *total pillar 2 guidance (P2G) of 1.8%

Eika Boligkreditt an important funding source

Funding and liquidity

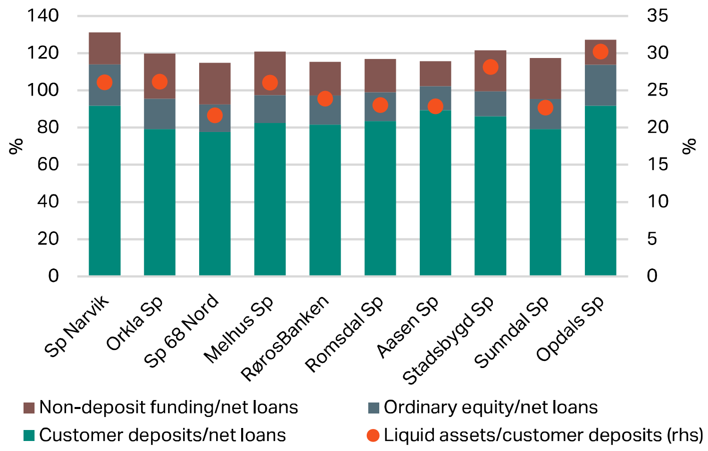
Sparebanken Narvik's funding and liquidity profile is diverse, given the bank's size. The bank has a strong retail deposit base and demonstrable access to capital market funding. Its loan to deposit ratio has decreased in recent years due to deposit growth outpacing lending growth and stood at 109% as of 30 Jun. 2024. Our forecast assumes deposit growth in line with lending growth, resulting in a stable loan to deposit ratio. The bank has few single-name concentrations among its customer deposits, strong liquidity buffers (26% of customer deposits as of 30 Jun. 2024), and access to a NOK 160m credit line from DNB. As of 30 Jun. 2024, the liquidity coverage ratio was 235% and the net stable funding ratio 132%, well above the bank's internal limits of 115% for both.

Figure 8. Deposit metrics, 2020-2026e



Source: company. e-estimate.

Figure 9. Norwegian savings banks' funding, 30 Jun. 2024



Source: bank reports.

As of 30 Jun. 2024, Sparebanken Narvik had six outstanding senior bonds totalling NOK 1.1bn, with evenly distributed maturities through 2029 and weighted time to maturity of 2.7 years. In our forecast, we expect the bank to increase bond funding modestly by NOK 100m through 2026. This implies a stable proportion of senior debt to projected net loans. The bank has internal limits for annual and quarterly maturities to reduce refinancing risk.

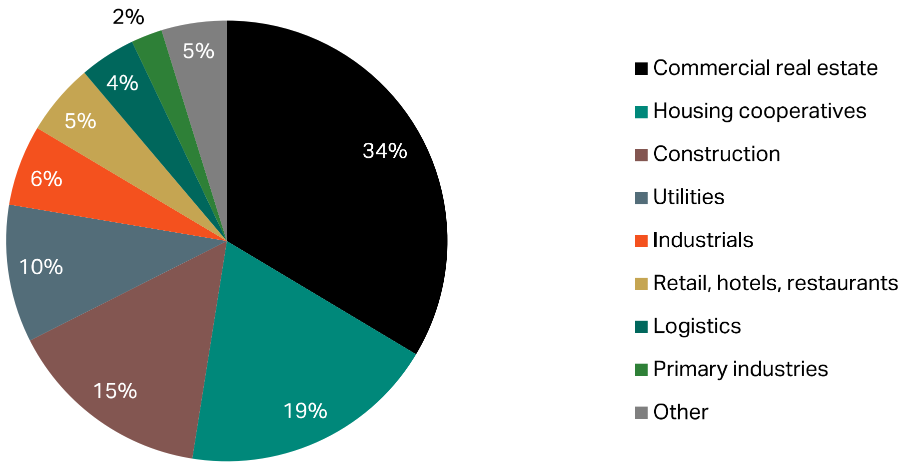
Eika Boligkreditt is a stable and important source of funding for Sparebanken Narvik. It provides access to more affordable funding for retail mortgages, with longer terms to maturity, than the bank could source by itself. As of 30 Jun. 2024, the bank had transferred NOK 3.3bn in mortgage loans, or 45% of total retail mortgage lending, including NOK 4.1bn on its own loan book. We anticipate the bank will maintain its current proportion of transferred loans through our forecast period. In addition, the bank maintains a material volume of readily transferrable loans as a liquidity buffer (NOK 540m as of 30 Jun. 2024).

High proportion of local property lending

Credit risk

Sparebanken Narvik's loan portfolio has a strong regional focus, with about two-thirds of retail customers located in its core markets. The bank does not promote lending to borrowers in other regions and customers outside its core markets are mostly domestic migrants. Some 78% of the bank's exposures (including transferred loans) are to private customers and secured by housing properties. While we regard this as low-risk credit, it nonetheless increases concentration on local borrowers and exposes the bank's collateral to any decline in property values. Housing prices and real-estate values in the region have been falling in line with the wider Norwegian market as interest rates have risen. However, housing prices in the bank's operating region are lower than in metropolitan areas, resulting in lower debt burdens for the bank's customers and a relatively low impact from interest rate increases in recent years. Housing price growth over the past decade has strengthened the bank's collateral.

Figure 10. Corporate gross loans by sector (excluding transferred loans), 30 Jun. 2024



Source: company.

In the 12 months to 30 Jun. 2024, Sparebanken Narvik had gross loan growth of 8.6% (including transferred loans). On- and off-balance sheet mortgage lending increased by 7.8%, while corporate lending increased by 11.6%. Our forecast includes loan growth of 10% for 2024, both on and off the bank's balance sheet, before declining to a more modest 5% from 2025. Sparebanken Narvik's main corporate exposure is to commercial real estate. We remain concerned about construction and commercial real-estate lending, due to high interest costs and falling property prices.

As at 30 Jun. 2024, Sparebanken Narvik had transferred loans amounting to NOK 3.3bn, which generates a modest proportion of pre-provision income (9% in 2023). However, the bank does not offload the associated risk, and we expect it to take back all non-performing loans to enable Eika Boligkreditt to maintain a clean cover pool. Sparebanken Narvik has always accepted repatriated loans, but in the event that repatriation should not prove possible, the bank guarantees 1% of transferred loans and covers 80% of any net loss incurred by Eika Boligkreditt through a loss guarantee. The bank is jointly liable with existing Eika Alliance banks for losses not covered by the guarantee. Due to the high credit quality of transferred loans and repatriation agreements, the mortgage company has never incurred actual credit losses.

Other risks in line with risk appetite

Other risks

Other risks are in line with our risk appetite assessment. We do not believe market risk is a material factor for Sparebanken Narvik, given the lack of a trading portfolio and the bank's low limits on interest rate risk and currency risk.

Sparebanken Narvik has strategic ownership positions in Eika Gruppen (2.9%) and Eika Boligkreditt (3.3%), which provide it with access to the Norwegian covered-bond market, insurance, asset management, real-estate agency and credit products, and ensure a strong voice alongside other owners. This ownership also contributes to the bank's earnings through dividend payments, as well as commission paid on transferred loans and savings. The bank also has a 33% stake in a local real estate agency.

COMPETITIVE POSITION

Competitive position

Sparebanken Narvik has a leading market share of more than 30% in the Narvik region of Nordland and a more modest market share in Mid-Troms. However, Mid-Troms has been a targeted market only since 2019. The larger Sparebank 1 Nord-Norge is the main competitor in the bank's core markets with a leading market share in Mid-Troms, while Sparebank 68° Nord is the closest similarly sized competitor in the Narvik region. Over the12 months to 30 Jun. 2024, Sparebanken Narvik moderately outpaced both banks in terms of residential lending growth, corporate lending growth, and customer deposits. Other major banks, including DNB and Nordea, also have modest market shares in the region.

Sparebanken Narvik's membership in the Eika Alliance diversifies revenues and enables the bank to provide a wider range of customer services than it could with its own resources. The alliance enables the bank to provide insurance, debit and credit products, asset management and real-estate agency services. The bank's direct ownership in a real-estate agency increases diversity and provides opportunities for cross-selling.

We regard Sparebanken Narvik's contributions to its core markets as a positive factor in our view of the bank's competitive position. In September 2024, the bank introduced customer dividends, which we believe will strengthen customer loyalty and improve the bank's market position. The bank's primary ESG attribute is its strong sense of social responsibility to its local communities, reflected by its funding of local social and cultural activities. This includes material contributions to preparations for the Alpine World Ski Championships in 2029.

PERFORMANCE INDICATORS

Performance indicators

Sparebanken Narvik has reported strong cost efficiency and risk-adjusted earnings relative to those of its peers in recent years. We believe earnings will remain solid, despite pressure on margins. The bank has a lower proportion of non-performing loans than its regional peers and we expect loan losses to remain at relatively modest levels.

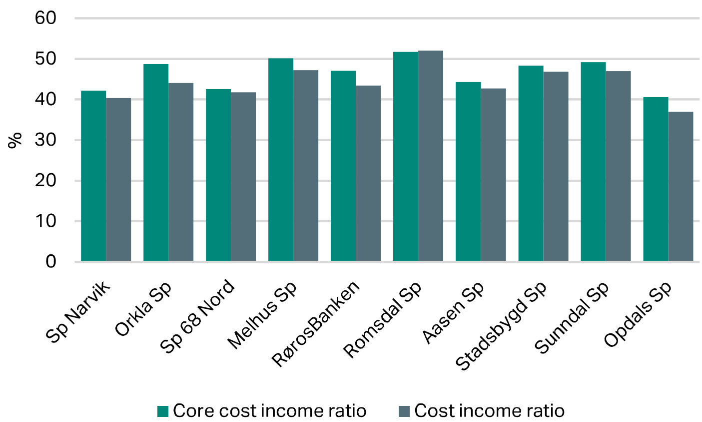
Improved cost-efficiency

Earnings

As with most Norwegian banks, Sparebanken Narvik has seen an improvement in earnings following interest rate increases in recent years. In the first six months of 2024, the bank had a net interest margin of 2.9%, significantly above its domestic peer group average. We believe the central bank will keep policy rates high for longer than its Swedish counterpart and the European Central Bank, effectively supporting Sparebanken Narvik's net interest margin, at least for the remainder of the year. We believe margins will remain robust through our forecast period, despite a gradual decrease due to interest rate cuts from 2025, increased competition, and slowing loan demand. We also expect lower dividend income from Eika Gruppen (and Eika Boligkreditt) due to weaker earnings and lower mortgage lending margins.

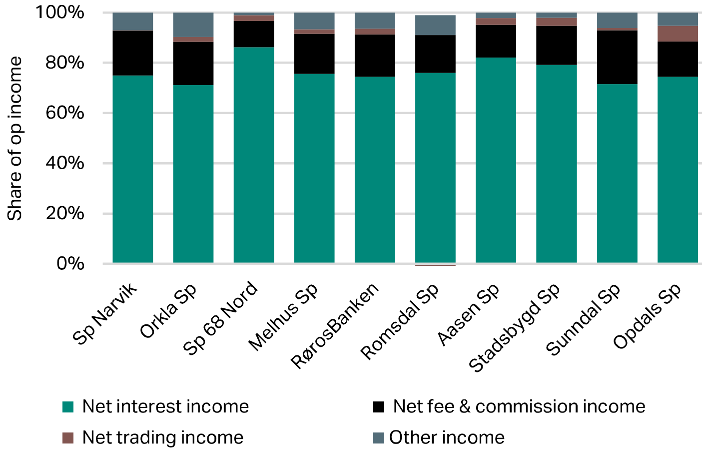
Sparebanken Narvik's cost efficiency has improved as growth in operating revenue has outstripped growth in costs. The bank has reduced personnel expenses over the last year, while a new IT system launched in 2023 has lowered costs. In the 12 months to 30 Jun. 2024, the bank's cost-to-income ratio was 40.4%, significantly lower than its peer group average. We expect a significant reduction in operating costs in full-year 2024 followed by moderate increases in 2025-2026. These factors, together with slight increases in operating revenue, are likely to result in strong cost efficiency at around 36% through our forecast period. This in turn should result in a robust risk-adjusted ratio of pre-provision income to consolidated REA of about 3.3% over the next few years.

Figure 11. Norwegian savings banks' cost efficiency metrics, LTM to 30 Jun. 2024



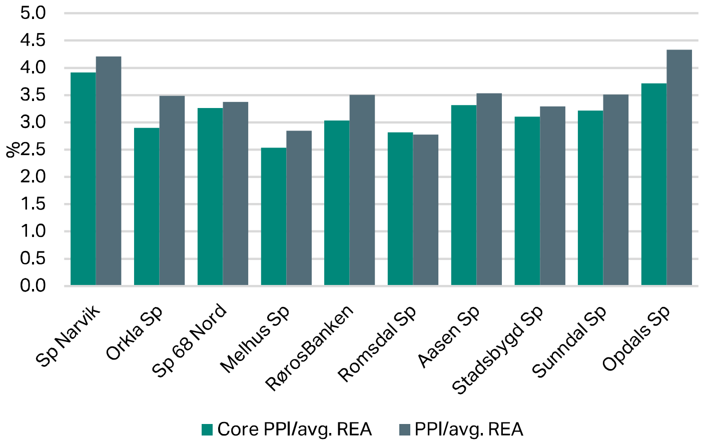
Source: bank reports. LTM-last twelve months. Core represents net interest income and net fee & commission income.

Figure 12. Norwegian savings banks' split between income groups, LTM to 30 Jun. 2024



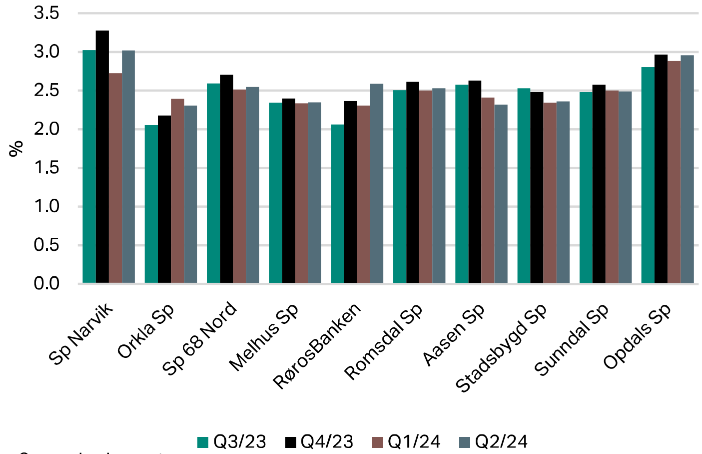
Source: bank reports.

Figure 13. Norwegian savings banks' PPI to REA*, LTM to 30 Jun. 2024



Source: bank reports. PPI-pre-provision income. *Unconsolidated REA of parent banks.

Figure 14. Norwegian savings banks' annualised net interest margins, Q3 2023–Q2 2024



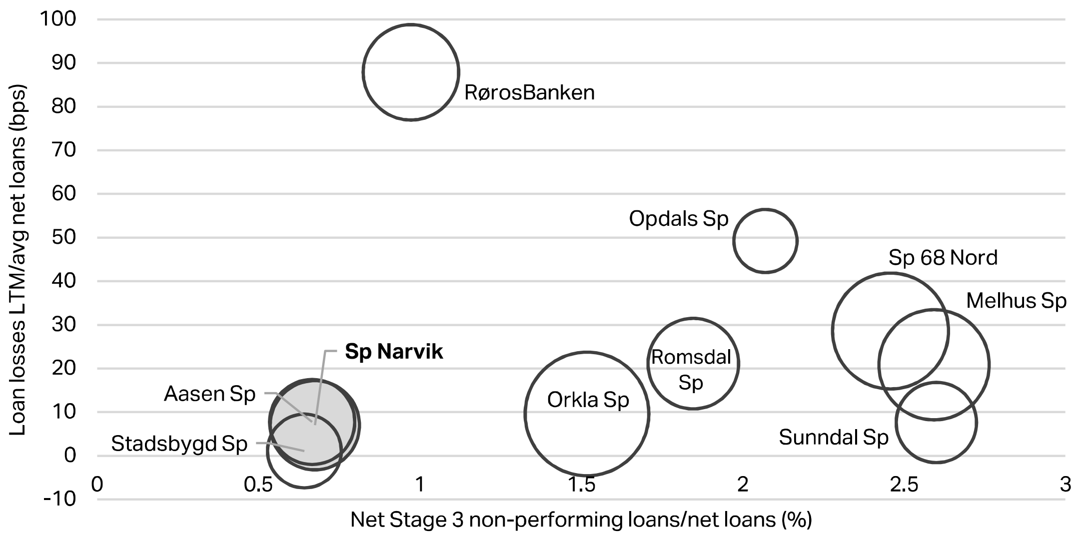
Source: bank reports.

Modest level of non-performing loans

Loss performance

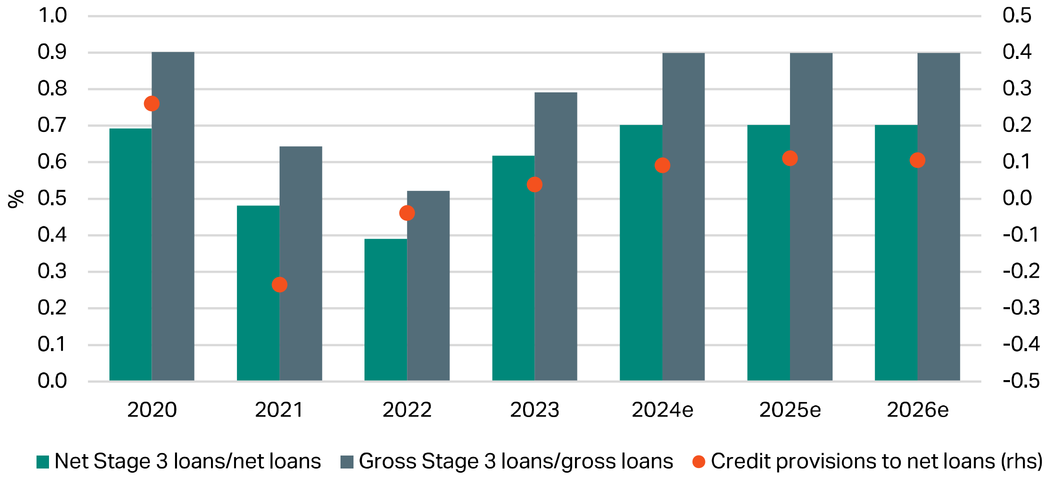
Sparebanken Narvik's credit losses to net loans have averaged zero over the past five years. The bank booked reversals of NOK 0.1m in the first six months of 2024, compared with NOK 2m in full-year 2023. We project loan losses will remain at low levels of about 10bps through 2026. The bank's Stage 3 loans have remained relatively low compared with those of its domestic peers, and stood at 0.7% as of 30 Jun 2024. We anticipate the proportion of net Stage 3 lending will remain relatively stable at similarly low levels.

Figure 15. Norwegian savings banks' asset quality metrics, 30 Jun. 2024



Source: bank reports. Bubble sizes reflect net loan volumes.

Figure 16. Asset quality metrics, 2020–2026e



Source: company. e-estimate.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

ESG factors are considered throughout our analysis, where material to the credit assessment. In aggregate, we view Sparebanken Narvik's ESG profile as having a moderately positive impact on its creditworthiness.

Figure 17. Priority ESG factors

Issue/area	Risk/opportunity	Impacted subsections (impact on credit assessment*)
Physical climate risk to collateral	Climate-related damage to real-estate collateral (closely linked to supervision of insurance). Longer-term effects on market values in flood risk areas.	Credit risk (-) Loss performance (0)
Social engagement in local community	Close connection to narrow regional markets provides a benefit.	Competitive position (++) Earnings (+) Funding & liquidity (+)
Anti-money laundering capacity	Risk of sanctions and fraud due to insufficient reviews of customers.	Risk governance (-)
Control of sustainability issues	Risk of overlooking sustainability impacts in the bank's underwriting, operations, and customer base.	Risk governance (0) Credit risk (0)

*Defined on a 5-step scale ranging from double minus (--) to double plus (++), with (--) representing the most negative impact and (++) the most positive. See ESG factors in financial institution ratings.

ADJUSTMENT FACTORS

Support analysis

We view Sparebanken Narvik's ownership as neutral for our standalone credit assessment. The bank operates as a self-owned institution, which means it does not have traditional shareholders. Instead, it is owned by its depositors and reinvests profits in local community activities. Many Norwegian savings banks have chosen to issue equity instruments (equity capital certificates) to finance growth or to recapitalise. Thus far, Sparebanken Narvik has chosen not to issue equity instruments, but could do so in a process that normally takes up to six months.

ISSUE RATINGS

Our rating on Sparebanken Narvik's unsecured senior debt is in line with the 'A-' long-term issuer rating. The bank has not issued Tier 2 or Additional Tier 1 instruments, which we likely would rate one and three notches respectively below the issuer rating if it chooses to do so. Consequently, a Tier 2 instrument would be rated 'BBB+', while an Additional Tier 1 instrument would be rated 'BBB-'.

SHORT-TERM RATING

The 'N2' short-term rating is the higher of two possible alternatives given the 'A-' long-term issuer rating. It reflects Sparebanken Narvik's access to central bank funding and our assessment that the bank's liquidity is adequate on the basis of an average liquidity coverage ratio of 328% over the past four quarters.

METHODOLOGIES USED

(i) Financial Institutions Rating Methodology, 14 Feb. 2024.
(ii) Rating Principles, 14 Feb. 2024.
(iii) Group and Government Support Rating Methodology, 14 Feb. 2024.

RELEVANT RESEARCH

(i) Nordic consumer banks' earnings continue to offset elevated provisions, 10 Sep. 2024
(ii) Norwegian savings banks' capitalization boosted by CRR3, 26 Jun. 2024
(iii) Swedish savings banks face weaker earnings and low loan growth in 2024, 6 Feb. 2024
(iv) Norwegian savings banks face margin squeeze in 2024, 11 Dec. 2023

Figure 18. Sparebanken Narvik key financial data, 2020–Q2 2024 YTD

Key credit metrics (%)	FY 2020	FY 2021	FY 2022	FY 2023	Q2 2024 YTD
INCOME COMPOSITION					
Net interest income to op. revenue	67.0	63.8	69.9	76.3	74.9
Net fee income to op. revenue	23.6	25.6	21.4	17.0	17.9
Net trading income to op. revenue	-2.8	1.2	-1.1	0.3	0.1
Net other income to op. revenue	12.2	9.4	9.8	6.4	7.1
EARNINGS					
Net interest income to financial assets	1.9	1.9	2.2	2.9	2.9
Net interest income to net loans	2.3	2.3	2.7	3.5	3.6
Pre-provision income to REA	2.4	2.6	2.9	3.9	4.7
Core pre-provision income to REA (NII & NF&C)	1.9	2.0	2.4	3.4	4.2
Return on ordinary equity	5.8	7.9	7.5	8.9	10.9
Return on assets	0.9	1.2	1.2	1.5	1.8
Cost-to-income ratio	53.2	50.0	50.0	44.0	33.8
Core cost-to-income ratio (NII & NF&C)	58.7	55.9	54.8	47.1	36.4
CAPITAL					
CET1 ratio	22.9	23.5	24.6	25.5	22.9
Tier 1 ratio	22.9	23.5	24.6	25.5	22.9
Capital ratio	22.9	23.5	24.6	25.5	22.9
REA to assets	55.1	51.3	50.1	49.3	51.2
Dividend payout ratio					
Leverage ratio	12.6	12.1	12.4	12.9	11.5
Consolidated CET1 ratio	21.3	21.6	23.1	24.0	22.7
Consolidated Tier 1 ratio	21.7	22.0	23.5	24.4	23.1
Consolidated Capital ratio	22.1	22.5	24.0	24.9	23.7
Consolidated Leverage ratio	10.7	10.2	10.6	11.1	10.5
GROWTH					
Asset growth	9.8	8.1	2.9	6.5	2.2
Loan growth	2.2	5.2	3.9	1.7	5.3
Deposit growth	12.5	13.3	8.8	2.1	5.2
LOSS PERFORMANCE					
Credit provisions to net loans	0.26	-0.23	-0.04	0.04	0.00
Stage 3 coverage ratio	23.72	25.44	25.46	22.18	19.33
Stage 3 loans to gross loans	0.90	0.64	0.52	0.79	0.83
Net stage 3 loans to net loans	0.69	0.48	0.39	0.62	0.67
Net stage 3 loans/ordinary equity	3.52	2.40	1.81	2.68	3.02
FUNDING & LIQUIDITY					
Loan to deposit ratio	123.4	114.5	109.4	108.9	109.0
Liquid assets to deposit ratio	24.3	26.4	24.5	28.4	26.1
Net stable funding ratio	141.0	140.0	140.0	138.0	132.0
Liquidity coverage ratio	138.0	209.0	235.0	467.0	235.0

Key financials (NOKm)	FY 2020	FY 2021	FY 2022	FY 2023	Q2 2024 YTD
BALANCE SHEET					
Total assets	6,742	7,286	7,495	7,981	8,161
Total tangible assets	6,742	7,286	7,495	7,981	8,161
Total financial assets	6,271	6,779	7,005	7,340	7,597
Net loans and advances to customers	5,238	5,509	5,724	5,820	6,130
Total securities	874	919	872	1,024	1,060
Customer deposits	4,246	4,810	5,234	5,346	5,624
Issued securities	1,300	1,251	903	1,055	1,055
of which other senior debt	1,300	1,251	903	1,055	1,055
of which subordinated debt	–	–	–	–	–
Total equity	1,029	1,107	1,231	1,342	1,367
of which ordinary equity	1,029	1,107	1,231	1,342	1,367
CAPITAL					
Common equity tier 1	852	880	925	1,004	955
Tier 1	852	880	925	1,004	955
Total capital	852	880	925	1,004	955
REA	3,717	3,736	3,752	3,934	4,176
INCOME STATEMENT					
Operating revenues	175	192	219	268	143
Pre-provision operating profit	82	96	109	150	94
Impairments	14	-13	-2	2	-0
Net Income	55	85	87	114	74

Source: company. FY–full year. YTD–year to date.

Figure 19. Sparebanken Narvik rating scorecard

Subfactors	Impact	Score
National factors	5.0%	a
Regional, cross border, sector	15.0%	bbb
Operating environment	20.0%	bbb+
Risk governance	5.0%	bbb+
Capital	17.5%	aa-
Funding and liquidity	15.0%	a-
Credit risk	10.0%	bbb
Market risk	-	-
Other risks	2.5%	a
Risk appetite	50.0%	a
Competitive position	15.0%	bbb-
Earnings	7.5%	aa-
Loss performance	7.5%	a+
Performance indicators	15.0%	a+
Indicative credit assessment		**a-**
Transitions		Neutral
Peer calibration		Neutral
Borderline assessments		Neutral
Stand-alone credit assessment		**a-**
Material credit enhancement		Neutral
Rating caps		Neutral
Support analysis		Neutral
Issuer rating		**A-**
Outlook		Stable
Short-term rating		**N2**

Figure 20. Capital structure ratings

Seniority	Rating
Senior unsecured	A-

DISCLAIMER

NORDIC CREDIT RATING AS

nordiccreditrating.com