Aurskog Sparebank

Rating report

Issuer
A-

Outlook
Stable

Lead analyst
Pauline Lambert
+44 203 9368 161
p.lambert@scoperatings.com

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Summary and Outlook

Aurskog Sparebank's (Aurskog) issuer rating of A- reflects the following assessments:

- **Business model assessment: Focused (High)**. With on-balance sheet assets of NOK 19.2bn, Aurskog is a well-established savings bank operating in southeastern Norway. The bank's membership in the Eika Alliance strengthens its competitive position. Key benefits include the ability to offer a wide range of financial services, economies of scale and strong digital capabilities. In addition, the bank's focus on retail customers and mortgage lending supports stable and solid risk-adjusted performance.
- **Operating environment assessment**: **Very supportive (Low).** The operating environment in Norway continues to be very supportive of banking activities. Income levels are high, and unemployment is low. A very robust 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 strong track record of providing funding support to banks in times of stress.
- **Long-term sustainability assessment (ESG factor): Developing**. The bank 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's business is underpinned by close ties with the local community. The bank promotes economic development and supports community life in its markets.
- **Earnings and risk exposures assessment: Supportive**. Aurskog generates solid returns, underpinned by good cost efficiency and low credit losses. The bank targets a return on equity of at least 10% and a cost-income ratio of no more than 38%. Asset quality compares well with peers, reflecting management's low risk appetite and a largely secured loan book.
- **Financial viability assessment: Comfortable**. The bank maintains a sound solvency profile, with management aiming for a buffer of at least 1% above requirements which we consider to be adequate. At YE 2024, the CET1 and leverage ratios were 17.5% and 9.7%, respectively. The bank benefits from a stable deposit base, with nearly 70% of deposits being from retail customers. Like peers, deposits do not fully support lending activity and Aurskog must also use market funding, including covered bonds.

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

The upside scenario for the rating and Outlook:

- 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 rating and Outlook:

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

Table 1: Rating drivers

	Rating drivers	Assessment					
STEP 1	Operating environment	Very constraining	Constraining	Moderately supportive	Supportive	Very supportive	
	Low/High	*Low*			*High*		
	Business model	Narrow	Focused	Consistent	Resilient	Very resilient	
	Low/High	*Low*			*High*		
	Initial mapping	**bbb**					
	Long-term sustainability	Lagging	Constrained	Developing	Advanced	Best in class	
	Adjusted anchor	**bbb**					
STEP 2	Earnings capacity & risk exposures	Very constraining	Constraining	Neutral	Supportive	Very supportive	
	Financial viability management	At risk	Stretched	Limited	Adequate	Comfortable	At risk
	Additional factors	Significant downside factor	Material downside factor	Neutral	Material upside factor	Significant upside factor	
	Standalone rating	**a-**					
STEP 3	External support	Not applicable					
Issuer rating		**A-**					

Table 2: Credit ratings

		Credit rating	Outlook
Issuer	Aurskog Sparebank		
	Issuer rating	A-	Stable
	Preferred senior unsecured debt rating	A-	Stable
	Non-preferred senior unsecured debt rating	BBB+	Stable

1. Business model

'Focused – high' business model assessment

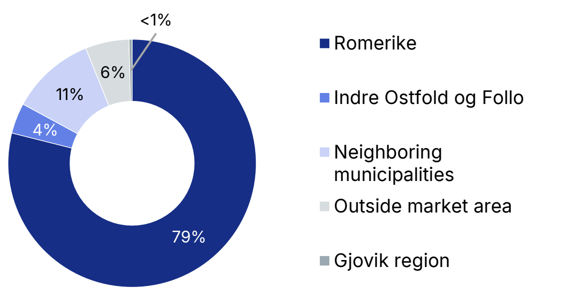
Founded in 1846, Aurskog Sparebank is a well-established savings bank operating in southeastern Norway, primarily in the wider Oslo region. The bank serves personal and business customers from its head office in Aurskog and eight branches. In addition, the bank holds a 45% stake in a local real estate broker and in October 2024, acquired a 34% stake in a local accounting firm, adding to its service offering. As of YE 2024, Aurskog had on-balance sheet assets of NOK 19.2bn and approximately 80 employees.

Aurskog's operations are geographically concentrated, reflecting its strategy and local savings bank business model. The bank defines its market area as Romerike and the surrounding municipalities, as well as Inner Ostfold and Follo and the Gjovik region (Figure 1). Management considers operating conditions in the bank's market area to be attractive and supportive of future growth.

In 2023, Aurskog reaffirmed its strategy to remain independent and grow organically in a measured way. The bank does not aim to be the market leader in the markets in which it operates but instead selectively chooses attractive customers. Since 2024, the bank has opened three new branches focused on providing investment advice to retail customers. These branches also include real estate agents, which facilitates mortgage lending.

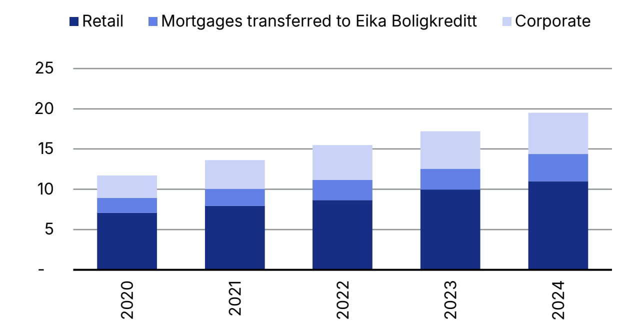
Including loans transferred to Eika Boligkreditt, lending to retail customers accounts for almost 75% of total lending (Figure 2). The bank also provides financing to local businesses that are underserved by larger banks. Being local and available for customers and having the expertise to advise on savings and investments are seen as key competitive advantages.

Figure 1: Loans by geography



Note: Gross loans of NOK 16bn as of YE 2024
Source: Company data, Scope Ratings

Figure 2: Loan volume by segment (NOK bn)



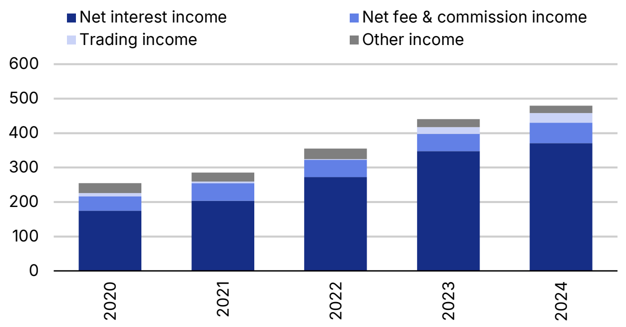
Source: Company data, Scope Ratings

The bank's primary source of revenue is net interest income, reflecting a traditional banking business (Figure 3). This is complemented by fee and commission income from providing payment services as well as the distribution of insurance and savings and investment products.

The ability to meet the broad financial needs of customers is made possible through the bank's membership in the Eika Alliance, a strategic alliance of around 45 local banks that collectively accounts for about 10% of retail lending in the country. Within the alliance, the bank is one of the largest distributors of investment products.

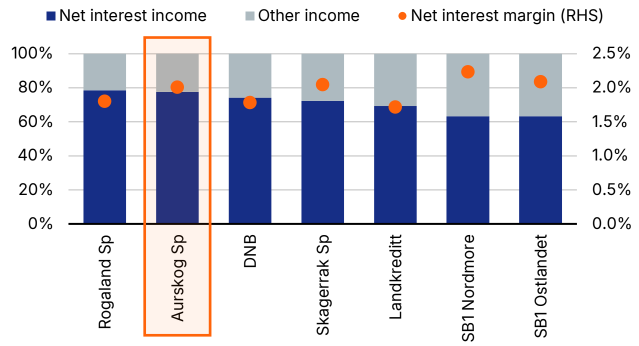
Being part of the alliance also brings benefits that are indispensable for maintaining cost efficiency and a strong competitive position, such as common IT systems, knowledge sharing and access to covered bond funding through Eika Boligkreditt.

Figure 3: Revenue development (NOK m)



Source: SNL, Scope Ratings

Figure 4: Revenue profile – peer comparison



Note: Three-year averages based on 2022-2024
Source: SNL, Scope Ratings

2. Operating environment

Focus on Aurskog Sparebank's country of domicile: Norway (AAA/Stable)

Economic assessment:

- With a population of 5.4m and a nominal GDP of USD 490bn, Norway is a relatively small open economy with one of the world's highest levels of per capita income.
- The Norwegian economy demonstrated significant resilience during the Covid-19 pandemic and the subsequent energy crisis. Inflation declined significantly in 2024, leading to real wage growth for the first time since 2021. Public sector investments are expected to remain high while private sector consumption is set to pick up, supported by rising real wages.
- A very strong government fiscal position provides ample capacity to support the economy as needed. Savings are accumulated through the world's largest sovereign wealth fund.
- The high home ownership rate of around 80% is a driver for high levels of household debt, both in historical terms and in comparison, to other countries. Macroprudential measures concerning mortgages and consumer debt are in place to manage these risks. Mortgage debt is primarily on floating rate terms.
- Exposure to commercial real estate firms is a longstanding vulnerability of the financial system.

Soundness of the banking sector:

- The Norwegian banking system is dominated by DNB Bank, with a market share of about 25%. Nordea and other foreign banks account for about 20% of the retail market and 30% of the corporate market. There are also nearly 90 savings banks, with their size ranging from less than NOK 5bn to NOK 515bn in assets. Savings banks tend to operate locally or regionally and are part of alliances.
- Savings banks are consolidating due to increasing competitive and regulatory pressures.
- Residential mortgages account for more than half of total lending while the commercial real estate sector accounts for 15% of total lending (or nearly half of corporate lending).
- Digitalisation is high and the use of cash is amongst the lowest in the world.
- A rigorous regulatory framework, with some of the highest solvency requirements amongst European banks.
- Norwegian banks are generally profitable, cost efficient and exhibit sound asset quality and solvency metrics.
- While customer deposits are the primary source of funding, the use of market funding is material, especially covered bonds.

Key economic indicators	2022	2023	2024F	2025F	2026F
Real GDP growth, %	3.3	0.2	2.1	1.9	1.7
Inflation, % change	5.8	5.5	3.1	3.2	2.5
Unemployment rate, %	3.2	3.6	4.0	4.0	4.1
Policy rate, %	2.75	4.5	4.5	3.75	2.75
Public debt, % of GDP	36	44	43	42	42
General government balance, % of GDP	25.6	16.5	12.0	11.0	9.8

Source: Scope Ratings

Banking system indicators	2019	2020	2021	2022	2023
ROAA, %	1.1	0.8	1.0	1.0	1.1
ROAE, %	11.1	8.4	10.1	10.9	12.4
Net interest margin, %	1.8	1.7	1.6	1.7	2.0
CET1 ratio, %	17.8	18.2	18.4	18.1	18.1
Problem loans/gross customer loans, %	1.3	1.6	1.4	1.2	1.1
Loan-to-deposit ratio, %	163.3	152.5	144.0	143.3	144.1

Source: SNL, Scope Ratings

3. Long-term sustainability (ESG-D)

'Developing' long-term sustainability assessment

Aurskog conducted its first double materiality analysis in the spring of 2024, laying the foundation for further work on sustainability. In addition to financial security, economic development, and strong local communities, the bank is prioritising responsible lending and green products to support the climate transition. Under the EU's Omnibus proposal, the bank would no longer be subject to CSRD reporting but is considering reporting under the Voluntary Sustainability Reporting Standards.

Social: initiatives bolster the bank's competitive position

The savings bank business model is based on maintaining close ties with the local community. Aurskog is an active member of several local business associations, sharing its expertise and organising various activities and events to promote economic development. In collaboration with the municipality of Aurskog-Holand, the bank also provides grants to support start-ups and existing businesses, with a particular focus on initiatives related to climate transition.

The bank is also an important contributor to community life through gifts and sponsorships. Each year, donations are made to a wide range of initiatives to support culture, sport, inclusion and the environment. In 2024, more than 5% of net profit was allocated to these efforts.

Governance: adequately managing numerous stakeholders

In common with other Norwegian savings banks, Aurskog's governance structure further reinforces its close relationship with customers and the local community. The board of trustees is the highest governing body and supervises the board of directors' management of the bank. The board of trustees represents the interests of numerous stakeholders; of its twenty members, eight represent customers, seven represent equity capital certificate holders, and five represent employees.

Digital: strong capabilities that are in line with the Norwegian market norm

Between 2020 and 2023, Aurskog invested NOK 36m in upgrading its digital infrastructure to meet the evolving demands of customers and to increase efficiency. The conversion to a new technology provider and core platform was done through the Eika Alliance and successfully completed in June 2023. The economies of scale achieved through the alliance ensure that the bank's digital offering remains competitive.

Environment: work in progress

The bank aims to achieve net zero emissions by 2050 and has set targets related to this goal. There is ongoing work on transition plans and scenario analysis. Aurskog has also been involved in setting common climate ambitions for all the banks in the Eika Alliance. This includes reporting on emissions and annual reviews of action plans and targets, taking into consideration the latest climate research.

Sustainability considerations, including climate risk, are part of the bank's risk management and credit assessment process. An ESG assessment is conducted on all new customers and as existing loans are renewed. As of end-2024, more than 86% of corporate loans had been assessed, up from 80% as of end-2023. The bank's advisors are supported in these efforts by training as well as an ESG questionnaire developed by the Eika Alliance.

Figure 5: Long-term sustainability overview table[1]

	Industry level			Issuer level						
	Materiality			Exposure			Management			
	Low	Medium	High	Low	Neutral	High	Weak	Needs attention	Adequate	Strong
E Factor		◇			◇				◇	
S Factor	◇				◇					◇
G Factor			◇		◇				◇	
D Factor			◇		◇				◇	

Source: Scope Ratings

[1] The overview table illustrates how each factor informs our overall assessment. Materiality refers to our assessment of the credit relevance of each factor for the banking industry. Exposure refers to what extent the bank is exposed to risks or benefits from opportunities compared to peers, given its business model and countries of operation. Management refers to how we view the bank's navigation through transitions.

4. Earnings capacity and risk exposures

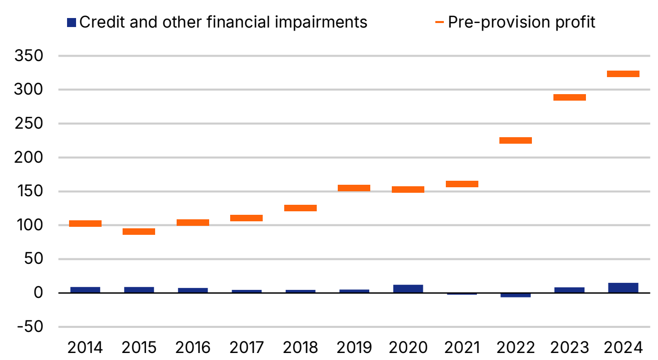
'Supportive' earnings capacity and risks exposures' assessment

The bank generates solid earnings that are consistently more than sufficient to absorb credit costs (Figure 6). 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%.

Higher interest rates and robust loan growth have supported operating performance in recent years. Loan growth including loans transferred to Eika Boligkreditt was 13% in 2024 and 11% in 2023. At the same time, the bank has not increased its risk appetite and has maintained strong asset quality. The cost of risk was 10 bps in 2024 (6 bps in 2023) and the bank does not expect it to rise above the estimated normal level of 10-15 bp over the next three years.

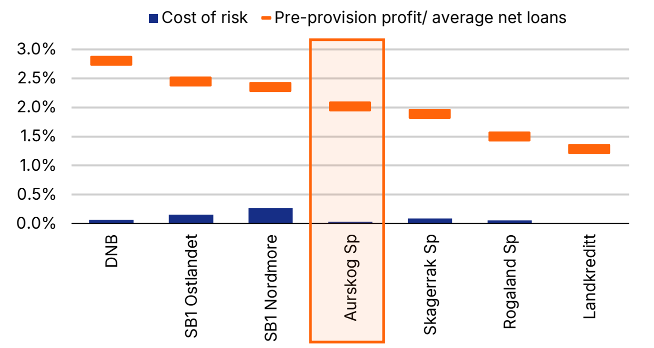
In 2025, management expects continued strong loan growth in retail loans, driven by the ongoing development of three recently opened branches. While the net interest margin is expected to moderate due to increased competition for creditworthy customers and investments to grow the business, net interest income is expected to increase due to higher volumes. The bank also plans to continue investing in additional staff to meet supervisory expectations in areas such as compliance and technology.

Figure 6: Pre-provision income and provisions (NOK m)



Source: Company data, Scope Ratings

Figure 7: Peer comparison



Note: Three-year averages based on 2022-2024.
Source: SNL, Scope Ratings

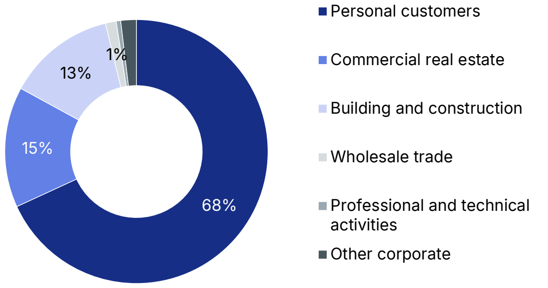
Aurskog's loan book is dominated by relatively low risk residential mortgages (Figure 8). Due to the bank's expertise and preference for lending secured by real estate as well as the dynamics of the local economy, the largest corporate exposures are to commercial real estate and construction. Meanwhile, the bank's credit policy prohibits lending to customers with significant activities in the more cyclical oil, shipping, fishing and hospitality industries.

Reflective of management's risk appetite, Aurskog maintains sound asset quality metrics which compare well to peers (Figure 9). While the level of problem loans increased slightly to 0.5% at YE 2024 from 0.3% at YE 2023, this remains low and better than the 1.7% average for Norwegian savings banks.

The bank proactively engages with customers who may be facing challenges and closely monitors non-performing exposures. In the bank's market area, there are signs of a more positive market sentiment for new residential property and developers have adapted their practices to the new market dynamics, e.g. by requiring higher levels of pre-sales before starting construction and by building smaller numbers of homes.

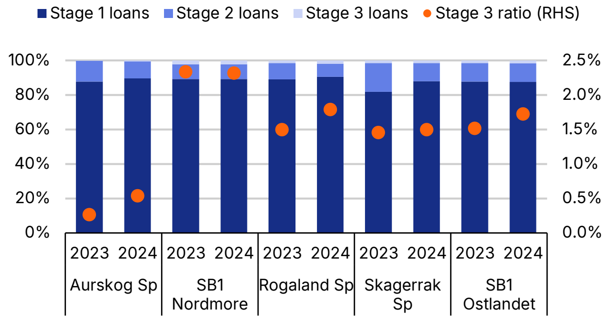
Since 2020, Aurskog has held additional provisions as it considers ECL model-based provisions to be insufficient to fully capture the potential risks to collateral values from economic uncertainties. These are included in the provisions for stage 2 exposures. As of YE 2024, this overlay amounted to NOK 14.5m (YE 2023, NOK 10.7m).

Figure 8: Credit exposures by customer segment



Note: On balance sheet loans of NOK 16bn as of YE 2024.
Source: Company data, Scope Ratings

Figure 9: Asset quality - peer comparison



Source: Company data, Scope Ratings

5. Financial viability management

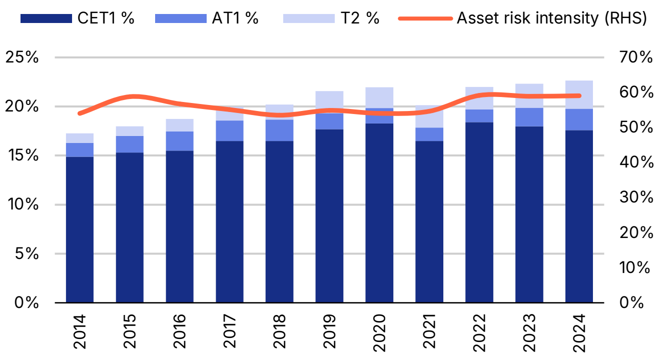
'Comfortable' financial viability management assessment

Aurskog maintains a sound solvency position, with relatively high absolute levels of capital (CET1 ratio of 17.5% and leverage ratio of 9.7% as of YE 2024). The bank actively manages business growth to ensure that it maintains sufficient buffers to regulatory requirements. Management targets a buffer of at least 1%.

The minimum CET1 requirement for domestically focused banks is 14.5%, which includes a 4.5% systemic risk buffer and a countercyclical buffer of 2.5%. In addition, Aurskog is subject to a Pillar 2 requirement of 2.7%. To date, the bank has not received a specific level for the Pillar 2 guidance.

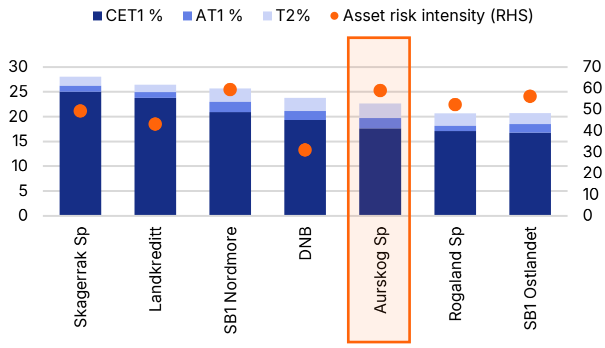
CRR3 has been in effect in Norway from 1 April 2025. Consequently, the bank's CET1 ratio is expected to increase by more than 200 bps due to a more risk-sensitive standardised approach. This will provide the bank with the capacity to further develop its business while maintaining a sound capital position.

Figure 10: Capital profile



Source: Company data, Scope Ratings

Figure 11: Capital profile – peer comparison (YE 2024)



Source: SNL, Scope Ratings

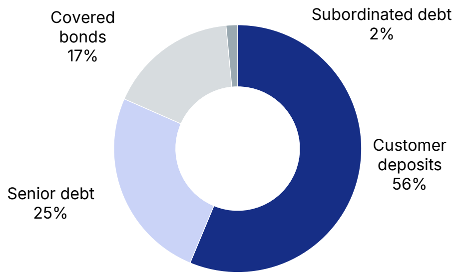
Aurskog's primary source of funding is customer deposits, with management targeting a 70% on-balance sheet deposit-to-loan ratio (Figure 12). Reflecting its business model, 70% of deposits are from personal customers. Like with other Norwegian banks, however, deposits are insufficient to fully support lending and Aurskog must also use market funding.

The bank benefits from direct access to the domestic funding market as well as through the covered bond issuing entity of the Eika Alliance. As of YE 2024, about 20% of mortgage loans have been transferred to Eika Boligkreditt. In addition, the bank established a green bond framework in May 2022, further diversifying its funding sources.

In preparation for MREL requirements, the bank has issued MREL-eligible senior unsecured debt. In August 2024, the Norwegian FSA announced that medium-sized banks will be notified of MREL requirements in stages over 2025. While banks will be subject to the full requirement by end-2027, they will not be subject to a subordination requirement[2].

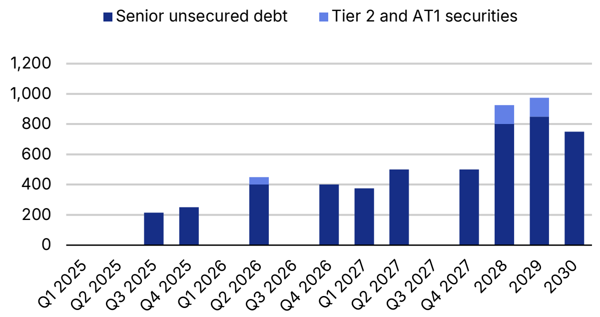
As part of its policy for managing liquidity risks, Aurskog aims to maintain sufficient liquidity to cover upcoming debt maturities over the following 18 months, mainly in the form of deposits with banks and short-term liquid securities eligible to be placed with the central bank. The bank comfortably meets this target.

Figure 12: Funding profile (YE 2024)



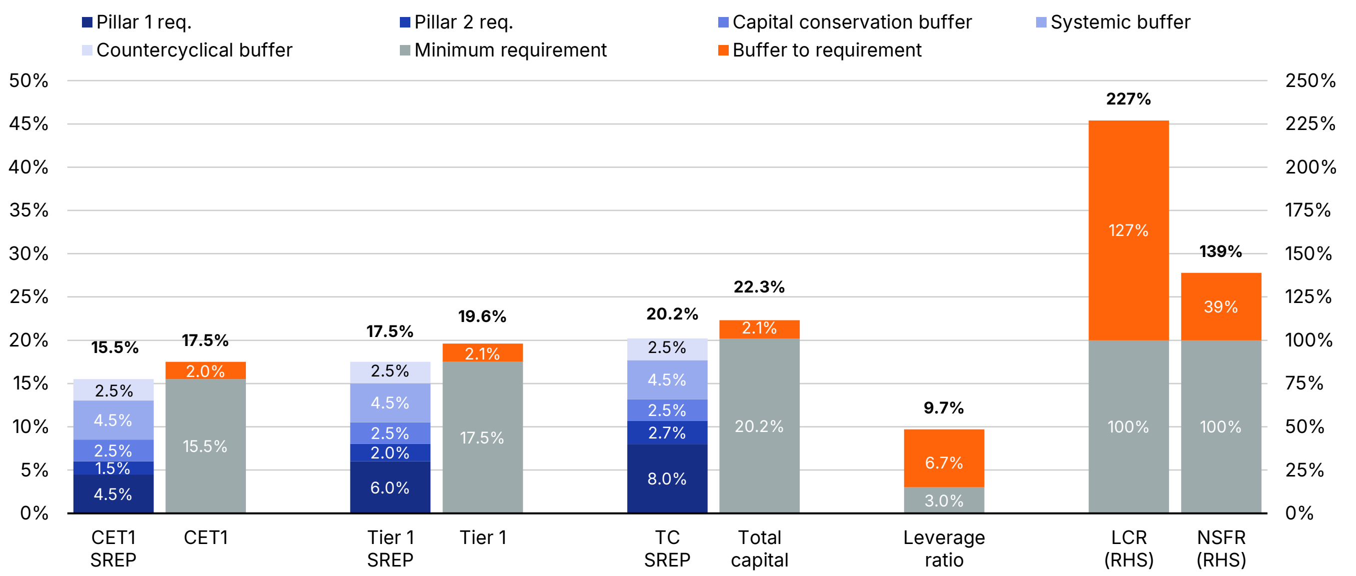
Note: Covered bonds are issued by Eika Boligkreditt
Source: Company data, Scope Ratings

Figure 13: Debt maturity profile (NOK m, as of YE 2024)



Source: Company data, Scope Ratings

Figure 14: Overview of distance to requirements as of YE 2024



Source: Company data, Scope Ratings

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[2] RWA-MREL = ((minimum Pillar 1 plus Pillar 2 requirements) x 2) plus market confidence buffer. Leverage MREL = minimum leverage ratio requirement x 2

Appendix 1. Selected financial information – Aurskog Sparebank

	2020	2021	2022	2023	2024
Balance sheet summary (NOK m)					
Assets					
Cash and interbank assets	576	371	529	838	725
Total securities	1,313	1,546	1,894	1,847	2,217
of which, derivatives	34	16	7	2	0
Net loans to customers	9,733	11,408	12,988	14,585	16,069
Other assets	134	154	144	139	183
Total assets	**11,757**	**13,478**	**15,556**	**17,409**	**19,195**
Liabilities					
Interbank liabilities	128	28	29	29	27
Senior debt	2,958	3,625	3,802	4,453	NA
Derivatives	0	1	7	1	1
Deposits from customers	7,057	8,017	9,526	10,417	11,284
Subordinated debt	135	185	186	226	301
Other liabilities	76	112	100	109	NA
Total liabilities	**10,354**	**11,969**	**13,649**	**15,236**	**16,853**
Ordinary equity	1,303	1,409	1,806	1,998	2,114
Equity hybrids	100	100	100	176	228
Minority interests	0	0	0	0	0
Total liabilities and equity	**11,757**	**13,478**	**15,556**	**17,409**	**19,195**
Common equity tier 1 capital	*1,161*	*1,213*	*1,695*	*1,845*	*1,995*
Income statement summary (NOK m)					
Net interest income	175	204	272	347	371
Net fee & commission income	42	51	50	51	60
Net trading income	28	22	26	19	28
Other income	9	9	7	24	22
Operating income	**254**	**286**	**355**	**441**	**480**
Operating expenses	102	125	130	152	156
Pre-provision income	**153**	**161**	**225**	**288**	**323**
Credit and other financial impairments	12	-3	-6	8	15
Other impairments	NA	NA	NA	NA	NA
Non-recurring income	0	0	0	0	0
Non-recurring expense	0	0	0	0	2
Pre-tax profit	**140**	**163**	**231**	**280**	**307**
Income from discontinued operations	0	0	0	0	0
Income tax expense	30	36	54	65	69
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	0	0	0	0	0
Net profit attributable to parent	**111**	**127**	**178**	**215**	**238**

Source: SNL, Scope Ratings
Note: Figures above may differ from reported figures.

Appendix 2. Selected financial information – Aurskog Sparebank

	2020	2021	2022	2023	2024
Funding and liquidity					
Net loans/ deposits (%)	138%	142%	136%	140%	142%
Liquidity coverage ratio (%)	191%	126%	176%	266%	227%
Net stable funding ratio (%)	141%	135%	131%	138%	139%
Asset mix, quality and growth					
Net loans/ assets (%)	82.8%	84.6%	83.5%	83.8%	83.7%
Problem loans/ gross customer loans (%)	0.3%	0.2%	0.2%	0.3%	0.5%
Loan loss reserves/ problem loans (%)	174.0%	187.9%	133.8%	108.6%	64.7%
Net loan growth (%)	3.0%	17.2%	13.9%	12.3%	10.2%
Problem loans/ tangible equity & reserves (%)	1.9%	1.5%	1.3%	1.8%	3.6%
Asset growth (%)	6.7%	14.6%	15.4%	11.9%	10.3%
Earnings and profitability					
Net interest margin (%)	1.5%	1.6%	1.9%	2.1%	2.0%
Net interest income/ average RWAs (%)	2.8%	2.9%	3.2%	3.6%	3.4%
Net interest income/ operating income (%)	68.9%	71.4%	76.7%	78.8%	77.3%
Net fees & commissions/ operating income (%)	16.3%	17.8%	14.2%	11.5%	12.4%
Cost/ income ratio (%)	40.0%	43.7%	36.6%	34.6%	32.6%
Operating expenses/ average RWAs (%)	1.7%	1.8%	1.5%	1.6%	1.4%
Pre-impairment operating profit/ average RWAs (%)	2.5%	2.3%	2.7%	3.0%	3.0%
Impairment on financial assets / pre-impairment income (%)	8.0%	-1.6%	-2.8%	2.9%	4.6%
Loan loss provision/ average gross loans (%)	0.1%	0.0%	-0.1%	0.1%	0.1%
Pre-tax profit/ average RWAs (%)	2.3%	2.3%	2.8%	2.9%	2.8%
Return on average assets (%)	1.0%	1.0%	1.2%	1.3%	1.3%
Return on average RWAs (%)	1.8%	1.8%	2.1%	2.2%	2.2%
Return on average equity (%)	8.3%	8.8%	10.4%	10.9%	10.5%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (%, transitional)	18.3%	16.5%	18.4%	18.0%	17.5%
Tier 1 capital ratio (%, transitional)	19.8%	17.8%	19.7%	19.9%	19.6%
Total capital ratio (%, transitional)	22.0%	20.1%	22.0%	22.3%	22.5%
Leverage ratio (%)	10.5%	9.5%	10.2%	9.8%	9.7%
Asset risk intensity (RWAs/ total assets, %)	54.0%	54.6%	59.2%	58.9%	59.1%
Market indicators					
Price/ book (x)	1.4x	1.7x	1.4x	1.4x	1.4x
Price/ tangible book (x)	1.4x	1.7x	1.4x	1.4x	1.4x
Dividend payout ratio (%)	NA	NA	NA	NA	NA

Source: SNL, Scope Ratings
Note: Figures above may differ from reported figures.

Lead Analyst

Pauline Lambert
+44 203 9368 161
p.lambert@scoperatings.com

Team Leader

Marco Troiano
+39 2 3054 4993
m.troiano@scoperatings.com

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Scope Ratings GmbH

Lennéstraße 5, D-10785 Berlin
Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
Phone: +44 20 7824 5180
info@scoperatings.com

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