

Scope affirms A- issuer rating of Brage Finans AS with Stable Outlook

Rating continues to reflect a focused leasing and car financing business, solid credit fundamentals, and the strategic relationship with its owner banks.

Rating action

Scope Ratings UK Limited (Scope) has today affirmed Brage Finans AS' issuer rating of A- and its senior unsecured debt rating of A-, both with Stable Outlook.

Rating rationale

Brage Finans' (Brage) issuer rating of A- reflects a focused leasing and car financing business, solid credit fundamentals and the strategic relationship with its owners.

Brage serves as the finance company for its owners, primarily well-established and solid savings banks located in western and southern Norway. Combined, the owner banks have more than 100 local offices, forming an essential part of the company's distribution network. With five of eight board members coming from the banks, the owners steer the strategic direction of the company. In addition, the owners have consistently provided capital and funding to sustain Brage's growth and development.

Through the considered expansion of distribution channels as well as market share gains, Brage's returns have steadily increased. For 2022, Brage reported a return on equity of 12% (excluding commissions paid to its owners), its best annual result, with performance supported by high activity levels, low credit losses and strong cost efficiency. The company sees opportunities for further growth although the more uncertain economic environment is expected to temper the level of investment spend by businesses.

While benefitting from higher margins, the nature of Brage's business activities entails greater asset risk than traditional banking focused on mortgage lending. In leasing, counterparties are often small businesses in cyclical sectors such as construction and transport. At the same time, Brage has been growing the car financing business, increasing the number of personal customers. Asset quality remains sound, underpinned by a diversified and mainly asset-backed credit portfolio and consistent risk management. As of year-end 2022, the Stage 3 ratio stood at 2.2%.

Brage integrates sustainability considerations into its business strategy and credit risk processes. Ongoing enhancements to the company's up-to-date technology systems supports the business franchise. Further, an independently assessed green bond framework facilitates the issuance of green bonds.

As a licensed finance company regulated and supervised by the Norwegian FSA, Brage is subject to most of

the same requirements as banks, including in the areas of solvency and liquidity. Brage maintains prudential metrics above relatively stringent requirements with support from its owners as needed. Absolute solvency levels remain high, including a leverage ratio of 13.9% at year-end 2022, although Scope expects the distance to risk-based requirements to reduce due to pending increases in capital buffer requirements

Brage relies on wholesale funding and is a frequent issuer in the domestic debt market as it is not authorized to collect deposits. Liquidity metrics remain above internal targets and minimum requirements but have declined compared to last year (LCR at 113% as of year-end 2022 vs. 153% as of year-end 2021), reflecting efforts to manage funding costs more efficiently in a higher interest rate environment and with support from core shareholders.

Outlook and rating-change drivers

The Stable Outlook reflects Scope's expectation that Brage's operating performance and prudential metrics will remain sound as the business continues to grow.

What could move the rating up:

- Sustainable growth underpinned by increased business and geographic diversification
- Further diversification of funding profile

What could move the rating down:

- A change in the supportive nature of the relationship between Brage and its owners
- A material deterioration in asset quality or earnings, potentially stemming from a weaker macroeconomic environment

Overview of rating construct

Operating environment: Very supportive

Business model: Focused

Initial mapping refinement: High

Initial mapping: bbb/bbb+

Long-term sustainability (ESG-D): Advanced

Adjusted anchor: bbb+

Earnings capacity and risk exposures: Neutral

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 methodologies used for these Credit Ratings and Outlooks, (Financial Institutions Rating Methodology, 7 February 2023), is available on <https://scooperatings.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.scooperatings.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://scooperatings.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.scooperatings.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://scooperatings.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 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: Pauline Lambert, Executive Director.

Person responsible for approval of the Credit Ratings: Nicolas Hardy, Executive Director.

The Credit Ratings/Outlooks were first released by Scope Ratings on 28 January 2020. The Credit Ratings/Outlooks were last updated on 24 February 2022.

Potential conflicts

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