



Rating Action: Moody's affirms Sparebanken Oest's ratings, outlook remains stable

13 Dec 2022

Stockholm, December 13, 2022 – Moody's Investors Service ("Moody's") today affirmed Sparebanken Oest's Baseline Credit Assessment (BCA) and Adjusted BCA of baa1, its long-term deposit ratings and long-term issuer ratings of A1, long-term Counterparty Risk Assessment (CRA) of A1(cr) and long-term Counterparty Risk Ratings (CRRs) of A1. The outlook on the deposit and issuer ratings remains stable.

A full list of the affected ratings can be found at the end of this press release.

RATINGS RATIONALE

BASELINE CREDIT ASSESSMENT

The affirmation of the bank's baa1 BCA reflects the bank's resilient performance as demonstrated by its sound asset quality, strong capitalization and robust profitability. The bank's problem ratio remained at very low levels at 0.6% of gross loans at end September 2022 down from 0.8% at end 2021, which is reflective of the bank's low-risk mortgage portfolio. Sparebanken Oest also benefits from solid capital levels, with a tangible common equity to risk weighted assets of 20.2% at end September 2022. Profitability also remained resilient through the pandemic with a return to tangible banking assets of 0.75% in 2021, but dropped to 0.56% in the first nine months of 2022, mostly due to unrealized losses from market valuations.

These strengths are balanced against the bank's relatively high level of capital markets funding and some credit concentrations towards southeastern Norway and the real-estate sector.

LOSS GIVEN FAILURE

Moody's forward-looking Advanced Loss Given Failure (LGF) analysis of Sparebanken Oest's liability structure indicates that depositors and senior unsecured creditors are likely to face extremely low losses given failure resulting in three notches of uplift to the ratings from the BCA. This reflects our expectation that Sparebanken Oest will issue additional volumes of instruments, prior to the end of 2023, that are subordinated to depositors and senior creditors in order to comply with their minimum requirements for own funds and eligible liabilities (MREL).

OUTLOOK

The bank's deposit and issuer ratings carry a stable outlook balancing its robust financial performance with downside risks stemming from its dependence on market funding and real-estate and home prices in its home region. The outlook also reflects Moody's expectation that the bank will issue sufficient volumes of junior senior debt to support the issuer rating.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The ratings and assessments of Sparebanken Oest could be upgraded if the bank improved its funding profile through a reduction of confidence sensitive market funding or reduced its geographic, sector, and single borrower concentration while maintaining good asset quality and adequate coverage of problem loans.

The ratings and assessments of Sparebanken Oest could be downgraded if its credit risk profile worsens through elevated sectoral or borrower concentration, its franchise weakens reducing its earnings capacity, funding conditions become more difficult that would challenge the bank's refinancing capacity, or the bank issues a significantly lower volume than expected of junior senior securities.

LIST OF AFFECTED RATINGS

..Issuer: Sparebanken Oest

Affirmations:

.... Adjusted Baseline Credit Assessment, Affirmed baa1

.... Baseline Credit Assessment, Affirmed baa1

.... Long-term Counterparty Risk Assessment, Affirmed A1(cr)

.... Short-term Counterparty Risk Assessment, Affirmed P-1(cr)

.... Long-term Counterparty Risk Ratings, Affirmed A1

.... Short-term Counterparty Risk Ratings, Affirmed P-1

.... Long-term Issuer Ratings, Affirmed A1, Outlook Remains Stable

.... Short-term Bank Deposit Ratings, Affirmed P-1

.... Long-term Bank Deposit Ratings, Affirmed A1, Outlook Remains Stable

Outlook Actions:

....Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

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Mattias Eric Frithiof
Asst Vice President - Analyst
Financial Institutions Group
Moody's Investors Service (Nordics) AB
Norrländsgatan 20
Stockholm, 111 43
Sweden

JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Simon Ainsworth
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service (Nordics) AB
Norrandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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