

Rating Action: Moody's upgrades four Norwegian banks' deposit and issuer ratings and places SpareBank 1 BV's bank deposit and issuer ratings on review for upgrade

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Stockholm, January 29, 2021 -- Moody's Investors Service (Moody's) has today upgraded the long-term bank deposit and long-term issuer ratings of Sparebanken Oest, and Sparebanken Sogn og Fjordane to A1 from A2; the long-term bank deposit and long-term issuer ratings of OBOS-banken AS have been upgraded to A3 from Baa1; the bank deposit ratings of Sbanken ASA have been upgraded to A2/P-1 from A3/P-2, its senior unsecured MTN program rating to (P)A2 from (P)A3 and its short-term program rating to (P)P-1 from (P)P-2. Moody's has also placed SpareBank 1 BV's A2 long-term bank deposit and long-term issuer ratings on review for an upgrade.

Concurrently, the rating agency also affirmed the short-term bank deposit ratings of Sparebanken Oest, Sparebanken Sogn og Fjordane and SpareBank 1 BV at P-1, and OBOS-banken AS at P-2. The outlook on Sparebanken Oest's, Sparebanken Sogn og Fjordane's and OBOS-banken AS's long-term bank deposit and long-term issuer ratings remains stable. The outlook on Sbanken ASA's long-term bank deposit ratings remains positive.

The rating upgrades are driven by Moody's expectation that the banks will issue additional loss-absorbing instruments, mainly in the form of senior non-preferred (SNP) debt, classed as "junior senior" unsecured notes by Moody's, following the assignment of minimum requirements for own funds and eligible liabilities (MREL) by the Norwegian Financial Supervisory Authority (FSA) on 14 December 2020. Future issuance of additional loss-absorbing debt will potentially reduce loss severity for junior depositors and senior unsecured creditors according to Moody's Advanced Loss Given Failure (LGF) analysis.

The review for upgrade on SpareBank 1 BV's ratings will focus on the degree to which the bank will issue additional loss-absorbing instruments, as well as the likely scale of increase in the bank's tangible banking assets which would follow the bank's previously announced merger with SpareBank 1 Telemark, and which is expected to complete in 2021, subject to regulatory approvals.

Please click on this link https://www.moody.com/viewresearchdoc.aspx?docid=PBC_ARFTL439604 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

-- UPGRADE OF RATINGS REFLECTS GREATER EXPECTED VOLUMES OF MREL-ELIGIBLE NOTES

The upgrade of the respective banks' deposit and issuer ratings reflects changes to Moody's forward-looking view of the banks' liability structures at the end of 2023 when the banks are required to fully meet their MREL with instruments that are subordinated to senior creditors, the subordination requirement, including the SNP class of debt which has been introduced in Norway in order to facilitate loss-absorption and recapitalisation via a debt conversion or write-down of junior senior notes in resolution.

Until 1 January 2024, banks in Norway may also meet part of their MREL using senior unsecured debt with a remaining maturity of more than one year.

The rating agency's analysis indicates that following the expected issuance of a larger volume of more subordinated liabilities the depositors and other senior creditors of the banks are likely to face a lower severity of loss in the event of the bank's failure leading to a 1 notch upgrade in their respective ratings.

Moody's assumption of a low probability of government support, results in no additional rating uplift in any rated instruments.

-- REVIEW FOR UPGRADE ON SPAREBANK 1 BV'S DEPOSIT AND ISSUER RATINGS

The review for upgrade on SpareBank 1 BV's long-term bank deposit and long-term issuer ratings will consider the degree to which meeting MREL and the subordination requirement will result in the bank issuing sufficient additional loss-absorbing instruments to reduce the losses faced by senior creditors following its expected merger with SpareBank 1 Telemark later this year.

On 30 November 2020, SpareBank 1 BV announced its intention to merge with SpareBank 1 Telemark, subject to regulatory approvals from both the Norwegian Financial Authority and Competition Authority. The size of the transaction will have a material impact on SpareBank 1 BV's liability structure and subsequently the amounts of loss-absorbing instruments required to fulfill regulatory requirements. The rating agency's review will consider whether the bank's future funding plans will deliver sufficient volumes of additional loss-absorbing instruments to reduce loss severity for depositors and senior unsecured creditors by end 2023 according to Moody's Advanced LGF analysis. It is anticipated that deposit and issuer ratings could be upgraded by up to one notch.

-- IMPLEMENTATION OF BRRD2 IN NORWAY UNLIKELY TO MATERIALLY CHANGE THE VOLUME OF SNP ISSUANCE BY THE BANKS

Moody's believes that there is a low likelihood that the implementation of revisions to the Bank Recovery and Resolution Directive (BRRD2) in Norway will result in a significantly lower level of SNP issuance by the banks. In particular the agency does not expect the application of the directive's subordination cap (equivalent to 27% of risk weighted assets) to significantly reduce the level of subordination for Norwegian banks currently in receipt of a recapitalisation requirement. This is because the framework includes a number of potential exceptions to the cap, particularly in the case of larger banks, or for those banks where there is an assumption that use of resolution funding would be required to facilitate resolution.

Accordingly, the rating agency expects that Norwegian banks' funding plans will most likely remain substantially unchanged and continue to be driven by the initial implementation of the BRRD rules. However, the ability of authorities to apply such exceptions to a broad range of banks remains untested, and clarity depends on the incorporation of BRRD2 in the European Economic Area agreement, implementation in Norwegian law and finally the setting of individual requirements by the Norwegian FSA (the resolution authority). Should the final implementation of BRRD2 result in lower subordination requirements for the banks, and therefore lower volumes of SNP debt, this could lead to a negative rating action.

Please see the report "Banks - Nordic Countries: FAQ: Nordic banks' new non-preferred senior debt instruments" (https://www.moodys.com/research/--PBC_1122335) for additional details on the junior senior notes and the risks they pose to creditors.

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

The banks' ratings could be upgraded or downgraded in response to an upgrade or downgrade of their Baseline Credit Assessments (BCA). Respectively for each bank:

--- SPAREBANKEN OEST

Over time, upward pressure on the BCA could develop if the bank demonstrates (1) strong earnings generation without an increase in its risk profile or worsening in its business development; and (2) sustained good asset quality in its retail and corporate books and a decline in sector/single borrower concentration while maintaining adequate cash coverage of problem loans.

Future downward BCA pressure would emerge if (1) Sparebanken Oest's credit risk profile worsens through a material increase in its problem loans ratio, or elevated sectoral or borrower concentration; (2) any indication that the bank's franchise and market position deteriorates, which will likely lead to earnings erosion; or (3) funding conditions become more difficult that would challenge the bank's refinancing capacity.

Sparebanken Oest's ratings could also be downgraded in case the bank issues a significantly lower volume than expected of junior senior securities.

--- SPAREBANKEN SOGN OG FJORDANE

Upward rating pressure could develop if Sparebanken Sogn og Fjordane (SSF) demonstrates (1) sustained strong asset quality in its retail and corporate loan books, including in the more volatile segments, and further reduction in credit concentrations; (2) stronger earnings generation without an increase in its risk profile; and (3) broader shareholder base and capital structure that will improve its capacity to raise new capital if needed.

Future downward rating pressure would emerge if (1) SSF's risk profile increases as a result of increased concentration, for example if construction and real-estate concentration or top-20 client concentration as a percent of Core Tier 1 Capital exceeds 150% or if the problem loan ratio increases significantly higher than its domestic peers' average; (2) financing conditions become more difficult locally, from where the bank raises most of its funding.

Sparebanken Sogn og Fjordane's ratings could also be downgraded in case the bank issues a significantly lower volume than expected of junior senior securities.

--- OBOS-BANKEN AS

OBOS-banken AS's ratings may be upgraded as a result of (1) a longer track record of strong asset quality and low loan losses, particularly through an entire economic cycle, along with a more moderate rate of loan growth and a seasoning of the bank's loan portfolio; (2) a sustainable improvement in profitability without an increase in its risk profile; and/or (3) reduced reliance on market funding.

Conversely, downward pressure could develop on OBOS-banken AS's ratings if there is (1) a significant deterioration in its asset-quality metrics or an increase in its risk appetite, such as a higher proportion of unsecured lending; (2) a sustained weakening in capital; or (3) a decrease in the liquidity held on the bank's balance sheet.

OBOS-banken AS's ratings could also be downgraded in case the bank issues a significantly lower volume than expected of junior senior securities, or the amount of outstanding unsecured debt together with junior deposits does not grow in line with asset growth.

--- SBANKEN ASA

Sbanken ASA's long-term deposit ratings remain on positive outlook reflecting that the ratings could be further upgraded provided that Sbanken ASA continues to (1) exhibit resilience in its financial performance; (2) is able to sustain its strong asset quality and capitalization; and (3) maintain a moderate level of credit growth.

Given the positive outlook, a downgrade is unlikely but Sbanken ASA's ratings could also be subject to downward pressure if (1) there were a significant reduction in capital, as a result of a distribution or as a result of a material deterioration in Sbanken ASA's asset quality; (2) financing conditions become more difficult or the macroeconomic environment deteriorates more than currently expected, leading to a lower Macro Profile, while its recurring profitability were to deteriorate from current level; or (3) the proportion of market funds were significantly increase.

Sbanken ASA's ratings could also be downgraded in case the bank issues a significantly lower volume than expected of junior senior securities.

--- SPAREBANK 1 BV

During the review period, SpareBank 1 BV's long-term bank deposit and long-term issuer ratings could be upgraded by one notch. The rating upgrade is subject to 1) the merged bank's future funding plans in combination with the application of Moody's advanced forward-looking LGF analysis on the bank's liability structure and 2) the combined bank's continued strong performance demonstrated by a sustained low level of problem loans, good access to capital markets and sustained robust earnings without compromising its risk profile.

Given the review for upgrade, Moody's is unlikely to downgrade SpareBank 1 BV's ratings during the review period. However, future downward rating pressure would emerge if (1) SpareBank 1 BV's problem loan ratio was to deteriorate materially as a result of the Coronavirus outbreak; (2) financing conditions were to become more difficult; (3) its risk profile were to increase, for example as a result of an increasing exposure to more volatile sectors such as commercial real estate; and/or (4) macroeconomic environment were to deteriorate leading to adverse developments in the Norwegian real-estate market.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL439604 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

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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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead rating analyst and the Moody's legal entity that has issued the ratings.

The person who approved SpareBank 1 BV, Sbanken ASA credit ratings is Simon Ainsworth, Associate Managing Director, Financial Institutions Group, 44 20 7772 5456, 44 20 7772 5454. The person who approved Sparebanken Oest, Sparebanken Sogn og Fjordane, OBOS-banken AS credit ratings is Sean Marion, MD-Financial Institutions, Financial Institutions Group, 44 20 7772 5456, 44 20 7772 5454.

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