

# MOODY'S

## INVESTORS SERVICE

### Rating Action: Moody's upgrades SpareBank 1 Sorost-Norge's deposit and issuer ratings to A1; outlook changed to stable

18 Oct 2022

London, October 18, 2022 -- Moody's Investors Service ("Moody's") has today upgraded SpareBank 1 Sorost-Norge's long-term deposit and issuer ratings to A1 from A2. Furthermore, the rating agency has affirmed the Baseline Credit Assessment (BCA) at baa1. The outlook on the long-term deposit and issuer ratings was changed to stable from positive.

The stable outlook on the long-term deposit and issuer ratings and the affirmation of the BCA reflect SpareBank 1 Sorost-Norge's stable fundamentals, in particular sound capitalization and good asset quality, reflective of the bank's retail focus and the agency's expectation that this performance will be sustained in the next 12-18 months.

The upgrades of the deposit and issuer ratings reflect (1) the bank's baa1 Adjusted BCA and (2) the incorporation of future issuances of senior non-preferred (SNP) debt up to end 2023, when the bank needs to fully meet its minimum requirement for own funds and eligible liabilities (MREL), will have to issue to comply with the subordination requirements of the MREL regulation, in Moody's forward-looking Advanced Loss Given Failure (LGF) analysis.

The full set of the affected ratings can be found at the end of this press release.

#### RATINGS RATIONALE

#### BASELINE CREDIT ASSESSMENT

The affirmation of SpareBank 1 Sorost-Norge's baa1 BCA reflects the bank's strong solvency position with a stable level of asset quality over the past years, despite significant M&A activity, as evident by a stable problem loan to gross loans ratio of 0.4% at end June 2022 (including loans transferred to covered bond companies). This is reflective of the bank's focus to the residential sector with residential mortgages accounting for 78% of gross loans at end June 2022. The bank's BCA is also supported by its very strong capitalisation with a tangible common equity to risk weighted assets of 20.26% at end June 2022 and a leverage ratio of 8.5% which compares favourably to similarly rated peers. These strengths are balanced against the bank's sector and geographical concentration and its reliance on confidence sensitive market funding.

#### LOSS GIVEN FAILURE

The upgrade of the long-term deposit and issuer ratings to A1 results from Moody's forward-looking Advanced LGF analysis of SpareBank 1 Sorost-Norge's liability structures, which 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 SpareBank 1 Sorost-Norge will be required to issue large 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).

The analysis takes into account the current MREL requirement as well as the Norwegian Financial Supervisory Authority's (FSA)'s new approach to calculating MREL subordination requirements under, following the expected implementation of the amended Bank Recovery and Resolution Directive (BRRD2) into Norwegian law; as well as the bank's need to hold buffers above the minimum requirements.

The affirmation of the Counterparty Risk Assessment and Counterparty Risk Ratings at A1(cr)/P-1(cr) and A1/P-1 respectively, reflect three notches of uplift as indicated by Loss Given Failure (LGF) analysis due to large volumes of loss absorbing liabilities protecting counterparties in case of failure. Three notches above the Adjusted BCA, is the maximum uplift possible in the LGF analysis.

#### OUTLOOK

The stable outlook on the long-term deposit and issuer ratings reflects the agency's expectation that the bank will continue its resilient performance over the next 12-18 months, following the integration of SpareBank 1 Modum (not rated).

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

The ratings could be upgraded if the bank (1) demonstrates its ability to successfully integrate SpareBank 1 Modum into the group without compromising its financial performance and/or crystallizing operational risk, (2) delivers sustained robust earnings at a level of its higher-rates peers without compromising its risk profile, (3) demonstrates continued good access to market funding combined by strong liquidity.

Downward ratings pressure could emerge if (1) the bank's problem loan ratio was to deteriorate materially in light of higher inflation ; (2) financing conditions were to become more difficult; (3) its risk profile was to increase, for example as a result of increasing exposure to more volatile sectors, or due to increase in operational risk and/or (4) macroeconomic environment were to deteriorate leading to adverse developments in the Norwegian real-estate market.

Downward rating pressure on the long-term deposit and issuer ratings may also develop because of lower issuance of senior non-preferred securities leading to a reduction in the rating uplift through our LGF analysis.

#### LIST OF AFFECTED RATINGS

..Issuer: SpareBank 1 Sorost-Norge

##### Upgrades:

....Long-term Issuer Ratings, Upgraded to A1 from A2, Outlook Changed To Stable From Positive

....Long-term Bank Deposit Ratings, Upgraded to A1 from A2, Outlook Changed To Stable From Positive

##### 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

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

##### Outlook Action:

....Outlook, Changed To Stable From Positive

#### 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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Effie Tsotsani  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London, E14 5FA  
United Kingdom  
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 Ltd.  
One Canada Square  
Canary Wharf  
London, E14 5FA  
United Kingdom

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



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