

Rating Action: Moody's upgrades Sparebanken More's deposits to A1; assigns Baa1 rating to senior non-preferred (SNP) bonds

20 Jan 2021

Stockholm, January 20, 2021 -- Moody's Investors Service ("Moody's") has upgraded Sparebanken More's long-term bank deposit and long-term issuer ratings to A1 from A2, respectively, both carrying a stable outlook. The rating upgrades are driven by an affirmation of the bank's baa1 Baseline Credit Assessment (BCA) and an update to our Advanced Loss Given Failure (LGF) analysis to take into account the bank's funding plans, which results in a three-notch rating uplift from the BCA.

Furthermore, Moody's has today assigned a local currency Baa1 rating to the upcoming issuance of up to NOK750 million senior non-preferred notes by Sparebanken More. The senior non-preferred (SNP) notes, which are classed as "junior senior" unsecured notes by Moody's, are ranked junior to other senior unsecured obligations, including senior unsecured debt, and senior to subordinated debt issuances of the bank.

Moody's has also affirmed the P-1 short-term bank deposit ratings, as well its long-term Counterparty Risk Rating (CRR) of A1 and short-term Counterparty Risk Rating of P-1. The bank's Counterparty Risk Assessment (CRA) of A1(cr)/P-1(cr) have also been affirmed by the rating agency. The bank's long-term issuer and long-term bank deposit ratings carries a stable outlook.

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

RATINGS RATIONALE

The rating affirmation of Sparebanken More's BCA of baa1 takes into account its relatively strong underlying financial fundamentals, which in our view help the bank weather the impact of the Coronavirus pandemic and the fall in oil prices during 2020. Furthermore, government fiscal measures will likely mitigate much of the negative impact on the banking system.

The bank's solid capital buffers (Tangible Common Equity ratio of 19.4%, as of September 2020) provide a sizable loss absorption buffer, while its sound asset-quality limits any material downside risks to its solvency, despite an increase in impairments on some oil industry related exposures during 2020. The BCA also takes into consideration Sparebanken More's track record of satisfactory recurring profitability, although the current challenging operating environment combined with limited earnings diversification, will likely continue to pressure the bank's income in 2021. The bank's sizeable reliance on market funding, albeit somewhat lower than the average for Norwegian savings banks, also weighs on its BCA.

UPGRADE OF DEPOSIT AND ISSUER RATINGS, AND ASSIGNMENT OF JUNIOR SENIOR NOTES RATING REFLECT GREATER EXPECTED VOLUMES OF MREL-ELIGIBLE NOTES

The A1 long-term bank deposit and issuer ratings and Baa1 junior senior rating assigned to the bank's senior non-preferred notes reflect: (1) Sparebanken More's adjusted Baseline Credit Assessment (BCA) of baa1; (2) Moody's advanced forward-looking loss given failure (LGF) analysis of the bank's liability structure by the end of 2023 when the bank needs to fully meet its minimum requirement for own funds and eligible liabilities (MREL).

Sparebanken More is subject to the Norwegian operational resolution regime based on Norway's implementation of the Bank Recovery and Resolution Directive (BRRD). Under this regime on 14 December 2020 the bank was given an MREL of 31.4% of adjusted risk-weighted assets. MREL must be met from capital and other eligible liabilities, including the senior non-preferred class (SNP) of debt which has been introduced in Norway to facilitate loss-absorption and recapitalisation via a debt conversion or write-down of the junior senior notes in resolution. Assuming that the countercyclical buffer will remain at the current 1%, Sparebanken More will likely issue SNP debt of at least NOK5.0 billion in a linear manner by the end of 2023, including the NOK750 million it issued today.

The rating agency's analysis indicates that following the expected issuance of the larger volume of more subordinated liabilities the depositors and other senior creditors of Sparebanken More are likely to face a very

low severity of loss in the event of the bank's failure leading to a one notch upgrade in their ratings to A1.

Furthermore, Moody's expects that junior senior instrument holders will likely face moderate loss severity in the event of the bank's failure, leading to a positioning at the same level as the bank's adjusted BCA. Moody's assumption of a low probability of government support, results in no additional rating uplift in any rated instruments.

IMPLEMENTATION OF BRRD2 IN NORWAY UNLIKELY TO MATERIALLY CHANGE THE VOLUME OF JUNIOR SENIOR ISSUANCE BY THE BANK

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 junior senior issuance by the bank. 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 EEA 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 Sparebanken More, and therefore lower volumes of junior senior 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.moody.com/research/--PBC_1122335) for additional details on the junior senior notes and the risks they pose to creditors.

STABLE OUTLOOK ON LONG-TERM DEPOSIT AND ISSUER RATINGS DRIVEN BY THE BANK'S RESILIENT CORE EARNINGS PERFORMANCE AND HIGH CAPITALISATION

The bank's deposit and issuer ratings carry a stable outlook reflecting Sparebanken More's robust positioning, when compared to local and international peers. The stable outlook also reflects the bank's solid capitalization, resilient core earnings, and asset quality through the cycle balanced by challenges induced by the coronavirus and reduced oil prices on the back of its oil-related exposures.

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

Sparebanken More's ratings could be upgraded or downgraded in response to an upgrade or downgrade of its BCA.

Over time, upward pressure on the BCA could develop if the bank demonstrates (1) improved asset-quality metrics and contains sector and single-name concentration levels in its loan book (2) a stronger earnings generation, without a material deterioration in its risk profile; and (3) continued good access to capital markets and further issuance of covered bonds eligible as liquidity assets in the liquidity coverage ratio (LCR), which will further improve its liquidity metrics.

Future downward BCA pressure would emerge if (1) Sparebanken More's risk profile weakens materially as a result of the operating environment deteriorating more than currently expected; (2) should its recurring profitability weaken significantly from the current levels; or (3) financing conditions become more difficult.

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

LIST OF AFFECTED RATINGS

..Issuer: Sparebanken More

Upgrades:

....Long-term Issuer Rating, Upgraded to A1 from A2, Outlook Remains Stable

...Long-term Bank Deposit Ratings, Upgraded to A1 from A2, Outlook Remains Stable

Assignment:

...Junior Senior Unsecured Regular Bond/Debenture, Assigned Baa1

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, Remains Stable

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

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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