

Rating Action: Moody's assigns first time A2 deposit rating to SpareBank 1 Ringerike Hadeland

10 May 2021

Baseline Credit Assessment positioned at baa1

London, 10 May 2021 -- Moody's Investors Service ("Moody's") has today assigned A2 long-term and Prime-1 short-term foreign and local currency bank deposit ratings to Norway's SpareBank 1 Ringerike Hadeland (SpareBank 1 RH). The assigned long-term deposit ratings carry a stable outlook.

Simultaneously, Moody's assigned to the bank a Baseline Credit Assessment (BCA) and Adjusted BCA of baa1, an A1(cr) long-term and Prime-1(cr) short-term Counterparty Risk (CR) Assessment, and A1 long-term and Prime-1 short-term foreign and local currency Counterparty Risk Ratings (CRRs). This is the first time that Moody's has assigned ratings to SpareBank 1 RH.

The ratings reflect SpareBank 1 RH's sound capitalization coupled with strong recurring profitability and low asset risk, reflective of the bank's mortgage focus. These strengths are balanced against its high sector concentration to the commercial real estate and its limited geographical reach.

For a detailed list of the affected ratings please refer to the end of this press release.

RATINGS RATIONALE

The primary driver for the deposit ratings A2/Prime-1 assigned to the bank is its standalone credit profile as captured by its BCA of baa1, which is driven by its robust asset quality, sound capital levels and resilient profitability, balanced against a high reliance on confidence sensitive market funding.

SpareBank 1 RH's baa1 BCA reflects its low level of problem loans to gross loans of 0.18% at end-December 2020, down from 0.29% at end 2019. The bank's retail oriented loan book (retail loans, mostly in the form of mortgages account for 68% of the gross loans) supports the strong asset quality of the bank and loan losses only consumed 0.4% of gross loans during 2020. The bank benefits from low risk mortgages with an average loan-to-value (LTV) of 58% (including loans transferred to the covered bond companies), while the coverage ratio for the whole lending book is close to 160% which compares favourably to its Norwegian peer average of 60%.

The bank's operations are nevertheless concentrated to its home Ringeriks-region and the bank's corporate loan book shows concentration to the Commercial Real Estate sectors, thus elevating somewhat its asset risk. Although the bank has a proven track record of low losses owing it to its strong underwriting and proactive monitoring approach, we expect the bank's asset quality to deteriorate marginally as Government support measures roll out during 2021 as a result of its exposures to the commercial real estate subsectors, with mixed real estate including offices, hotels and restaurants.

The bank's BCA also takes into account its sound capital position with a tangible common equity ratio to tangible assets of 19.8% (reported CET1 ratio of 18.9%) well above the minimum capital requirement of 12.7% while it also benefits from a strong leverage ratio (as measured by tangible common equity to tangible banking assets) of 8.8% at end December 2020.

Moreover, SpareBank 1 RH benefits from strong recurring profitability, enabling it to generate capital internally and provides the bank capacity to absorb losses in case of need. The bank reported a return on tangible assets of 1% during 2020 which compares well to Moody's Norwegian rated average of around 0.6% owing to its high-quality mortgage book. In addition, SpareBank 1 RH's membership in the SpareBank 1 Alliance entails important cost synergies and enables the bank to offer a wide set of products (real estate, accounting services and accounting), which creates earnings diversification. We expect profitability to remain broadly at current levels over the next 12-18 months as interest rate increases towards the end of 2021 would partially offset any additional deterioration in asset quality in the first half of the year as Government support measures come to an end.

SpareBank 1 RH's strong solvency profile is balanced against a high reliance on confidence sensitive market funding, as indicated by the rating agency's market funding ratio (market funds to tangible banking assets) of 29% at end-December 2020. High reliance on market funding is however a common feature among Norwegian and Nordic banks and SpareBank 1 RH has access to a resilient covered bond market through the covered bond companies SpareBank 1 Boligkreditt AS (A2, Stable) and SpareBank 1 Naeringskreditt AS jointly owned by the SpareBank 1 Alliance banks.

Furthermore, the bank has a sizable deposit base representing around 50% of non-equity funding at end-December 2020, which grew by more than 10% during the past year. Although the bank benefits from a stable deposit base, we expect deposit growth in the next 12-18 months to be weaker and the bank's use of market funds to somewhat increase from current levels over the next 12-18 months.

SpareBank 1 RH's long-term deposit ratings of A2 are underpinned by the bank's adjusted BCA of baa1 and Moody's advanced LGF analysis which takes into account the severity of loss faced by the different liability classes in the event of a failure. The LGF analysis for SpareBank 1 RH indicates a very low loss-given-failure, leading to two notches of rating uplift from the bank's baa1 Adjusted BCA.

SpareBank 1 RH's CR Assessment is positioned at A1(cr)/Prime-1(cr), three notches above the bank's Adjusted BCA of baa1, based on the substantial cushion against default provided by subordinated instruments to the senior obligations represented by the CRA. Concurrently, the CRRs of A1/Prime-1 are positioned three notches above the Adjusted BCA of baa1, reflecting also the extremely low loss-given-failure from the high volume of instruments that are subordinated to CRR liabilities.

We assume a low probability of government support for SpareBank 1 RH's deposit, CRA, and CRR ratings reflecting Norway's implementation of EU's BRRD and the bank's limited systemic importance to the national payment system.

OUTLOOK

The stable outlook on the bank's deposit ratings reflects the bank's resilient core earnings, loan growth and asset quality through the cycle balancing downside risks stemming from its exposure to real estate and home prices, especially in the Oslo region.

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

Upward rating momentum could develop if SpareBank 1 RH demonstrates (1) stable asset risk and profitability as Government guarantee support measures roll off, (2) a reduction in concentration to commercial real estate, (3) a sustained strong growth in customer deposits leading to lower use of market funds and (4) continued good access to capital markets and improved liquidity.

Downward rating pressure would emerge if (1) SpareBank 1 RH's problem loan ratio increases above the average of its similarly rated global peers; (2) financing conditions become more difficult; (3) its risk profile deteriorates, for example, as a result of increased exposures to more volatile sectors; and (4) the macroeconomic environment deteriorates significantly, leading to a lower Macro Profile. Also, any reduction in the volume of loss absorbing capacity as result of a material change in the bank's liability structure, could lead to a rating downgrade.

LIST OF AFFECTED RATINGS

..Issuer: SpareBank 1 Ringerike Hadeland

Assignments:

....Adjusted Baseline Credit Assessment, Assigned baa1

....Baseline Credit Assessment, Assigned baa1

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

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

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

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

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

....Long-term Bank Deposit Ratings, Assigned A2, Outlook Assigned Stable

Outlook Action:

....Outlook, Assigned Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1261354 . 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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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1263068 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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