



Rating Action: Moody's upgrades the long-term issuer ratings of SpareBank 1 Boligkreditt to Aa3 from A2

03 Nov 2023

Paris, November 03, 2023 – Moody's Investors Service ("Moody's") today upgraded SpareBank 1 Boligkreditt AS's (SpaBol's) long-term issuer ratings to Aa3 from A2. The rating agency also upgraded SpaBol's long-term Counterparty Risk Ratings (CRR) to Aa3 from A2 and its long-term Counterparty Risk Assessment (CRA) to Aa3(cr) from A2(cr). SpaBol's short-term CRR and CRA were affirmed at P-1 and P-1(cr), respectively. The outlook on the long-term issuer ratings was changed to stable from positive.

RATINGS RATIONALE

The upgrade of SpaBol's ratings is driven by 1) the improving credit profiles of the larger banks that are owners of SpaBol since the upgrade of SpareBank 1 SMN's long-term deposit and senior unsecured ratings to Aa3, which is reflected in their issuer ratings, and the high quality assets they transfer to SpaBol; and 2) Moody's assessment of the probability that owner banks would provide support to SpaBol, taking into account the balance of their obligations and incentives to do so under the SpaBol's shareholders' agreement.

SpaBol's Aa3 long-term issuer ratings are mainly underpinned by the six largest member banks' issuer ratings (indicating a weighted-average issuer rating of Aa3, compared to A1 previously), which collectively own 81.4% of SpaBol as of June 2023. Similarly, SpaBol's CRA and CRR are also driven by the respective ratings of the six largest banks of the alliance. The ratings are as follows, including their shareholding based on the assets they have transferred to SpaBol:

- SpareBank 1 SMN (Issuer Rating of Aa3 Stable, CRA of Aa3(cr)/P-1(cr), CRR of Aa3/P-1, shareholding of 24.09%)
- SpareBank 1 Ostlandet (Issuer Ratings of Aa3 Stable, CRA of Aa3(cr)/P-1(cr), CRR of Aa3/P-1, shareholding of 22.42%)
- SpareBank 1 Nord-Norge (Issuer Ratings of Aa3 Stable, CRA of Aa3(cr)/P-1(cr), CRR of Aa3/P-1, shareholding of 15.58%)
- SpareBank 1 Sorost-Norge (Issuer Ratings of A1 Positive, CRA of A1(cr)/P-1(cr), CRR of A1/P-1, shareholding of 12.18%)
- SpareBank 1 Ringerike Hadeland (Issuer Ratings of A2 Stable, CRA of A1 (cr)/P-1(cr), CRR of A1/P-1, shareholding of 4.61%)
- SpareBank 1 Helgeland (Issuer Ratings of A3 Positive, CRA of A2 (cr)/P-1(cr), CRR of A2/P-1, shareholding of 2.51%)

These alliance banks maintain strong financial fundamentals, with limited variations in overall credit quality amongst individual members. While most of them focus on residential mortgages and commercial real-estate lending in a relatively small geographic area, which typically translate in high concentration levels, they also tend to feature similar strengths, such as strong overall asset quality metrics and robust capital buffers.

SpaBol's Aa3 issuer rating is now positioned at the same level as the weighted average debt rating of the SpareBank 1 Alliance member banks, reflecting our view of the very high likelihood that the owner banks will support SpaBol in

case of need, as outlined in the Shareholders' Note Purchase Agreement (SNPA) and Shareholders' Agreement. This very high likelihood is also driven by the consolidated ownership of the banks having a stronger credit profile, with the largest three banks holding 62% of the shares of SpaBol.

Moody's considers that such banks would be highly incentivized to provide support to SpaBol in case of need, without prioritizing their own liquidity and capital needs. This is predicated on the member banks' high integration within a coherent group, and the very high reputational risks involved for the SpareBank 1 brand name in case SpaBol was to default on its obligations. This alignment is consistent with how Moody's rates Boligkreditt entities for standalone banks in Norway.

OUTLOOK

The stable outlook on SpaBol's long-term issuer ratings is in line with the stable outlook on four of the six largest member banks, including the three largest.

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

The long-term ratings of SpaBol would be upgraded if the owner banks' weighted average credit profile strengthened.

The long-term issuer ratings of SpaBol could be downgraded if the credit profile of its bigger owner banks were to weaken.

SpaBol's ratings would also be downgraded in case of reduced likelihood of the owner banks supporting it, as indicated by a loosening in the support agreement and mechanism between SpaBol and the owner banks that are currently in place. Concurrently, downward pressure would also be exerted on SpaBol's ratings in case any of the stronger member banks were to either exit the alliance or create their own covered bond companies.

PRINCIPAL METHODOLOGY

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

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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 on <https://ratings.moodys.com/rating-definitions>.

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