

Rating Action: Moody's changes rating outlook to stable from negative for seven Norwegian banks and a covered bond company

03 Jun 2019

Outlook change triggered by upcoming MREL requirements

Limassol, June 03, 2019 -- Moody's Investors Service ("Moody's") has today changed the outlook to stable from negative on the long-term deposit and senior unsecured debt ratings of seven Norwegian banks: DNB Bank ASA (DNB), SpareBank 1 SR-Bank ASA, Sparebanken Vest, SpareBank 1 SMN, SpareBank 1 Ostlandet, SpareBank 1 Nord-Norge and Sparebanken Sor. The outlook on the long-term issuer rating of SpareBank 1 Boligkreditt AS, the covered bond company of the SpareBank 1 Alliance banks, was also changed to stable from negative. The deposit, senior debt, issuer and subordinated debt ratings, where applicable, of the above banks were affirmed. Concurrently, the long-term counterparty risk assessment (CR Assessment) and counterparty risk ratings (CRR) for DNB Bank ASA were downgraded to Aa2(cr) from Aa1(cr) and to Aa2 from Aa1 respectively, and for the other six savings banks to A1(cr) from Aa3(cr) and to A1 from Aa3 respectively. SpareBank 1 Boligkreditt AS's long-term CR Assessment and CRRs were also downgraded to A2(cr) from A1(cr) and to A2 from A1 respectively. The baseline credit assessments (BCA) of these banks remain unaffected.

Today's rating actions incorporate Moody's forward-looking Loss Given Failure (LGF) analysis and the rating agency's expectations that the banks will issue additional loss-absorbing instruments, mainly in the form of non-preferred senior (NPS) debt, referred to as "junior senior" unsecured notes by Moody's, in response to the framework for minimum requirements for own funds and eligible liabilities (MREL) that has been set by the Norwegian Financial Supervisory Authority (FSA). Future issuance of additional loss-absorbing debt will potentially reduce loss severity for junior depositors and senior unsecured creditors according to Moody's Advanced LGF analysis.

In addition, the rating actions also take into consideration the implementation of the relevant law that transposed EU's bank recovery and resolution directive (BRRD) and the deposit guarantee scheme directive in Norway from 1 January 2019. The rating agency said that Norwegian banks now benefit from a lower probability of government support, although the resulting downward pressure on the deposit and senior debt ratings is counterbalanced by the aforementioned lower loss severity from Moody's forward-looking LGF analysis. Moody's said that today's rating actions more closely align its support assumptions for Norwegian banks to those of its European Union peers.

The downgrade of the above banks' CR Assessments and CRRs, however, reflects the rating agency's assumption of lower level of government support, combined with no additional benefit provided to this debt class from the higher loss-absorbing cushion that banks will obtain going forward through their junior senior notes.

Today's rating actions cover all Norwegian banks whose ratings currently benefit from an uplift due to government support. The Norwegian FSA has also announced that all the impacted banks will be given an MREL requirement during 2019, which would facilitate a full recapitalization. A full list of the affected ratings is provided at the end of this press release.

RATINGS RATIONALE

MREL AND LOWER GOVERNMENT SUPPORT ASSUMPTIONS DRIVE STABLE OUTLOOK ON DEBT AND DEPOSIT RATINGS

Banks' long-term deposit and senior unsecured debt rating outlook change to stable from negative reflects Moody's expectation that the reduced loss severity for senior creditors, due to the upcoming issuance of additional loss-absorbing debt, will offset the downward rating pressure from lower government support. Banks will need to issue additional loss-absorbing instruments, predominantly in the form of non-preferred senior (or junior senior) debt, as a response to the Norwegian FSA's forthcoming bank-specific MREL.

A non-preferred senior debt class has been introduced in Norway allowing banks to meet their MREL

recapitalization requirements. This new debt class is senior to subordinated debt and regulatory capital instruments, and junior to other ordinary senior unsecured claims. Such instruments facilitate loss-absorption via a conversion to equity or write-down in resolution, before senior creditors are affected. Moody's expects the Norwegian FSA to formally communicate to the seven banks above their MREL later this year. Moody's attaches a high degree of confidence to the likelihood that these banks will fulfil MREL along with the subordination required over the next 2-3 years, and therefore applies a forward looking time-horizon in its advanced LGF analysis.

The rating agency's estimated NPS debt requirements, based on the MREL formula published by the Norwegian FSA and the banks' existing capital levels, which were used in its forward-looking LGF analysis are as follows:

- DNB BANK ASA, approximately NOK150 billion
- SPAREBANK 1 SR-BANK ASA, approximately NOK20 billion
- SPAREBANK 1 SMN, approximately NOK14 billion
- SPAREBANKEN VEST, approximately NOK12 billion
- SPAREBANKEN SOR, approximately NOK10 billion
- SPAREBANK 1 OSTLANDET, approximately NOK10 billion
- SPAREBANK 1 NORD-NORGE, approximately NOK9 billion

The previously negative rating outlook has been in place for the majority of the above-mentioned banks since July 2017, and was driven by the anticipated new legislation in Norway with a set of rules to prevent and manage bank failures, in line with the EU's BRRD. The law entails a new set of rules regarding recovery and resolution plans, early intervention and resolution tools, including bail-in powers of an amount equal to 8% of an entity's total assets.

In accordance with the legislation's stricter constraints on the circumstances under which government support may be provided, Moody's has revised its government support assumptions for these large banks. For DNB Bank ASA, the largest bank in Norway with a national market share of around 30%, the rating agency changed its government support assumption to moderate from high, which is consistent with the assumptions used for other significantly large and systemically important banks in the EU. For the other six smaller savings banks, which have a dominant regional presence but with less than 5% national market share each, Moody's changed its government support assumptions to low from moderate.

Accordingly, the rating uplift previously incorporated into these banks' senior unsecured debt and deposit ratings was reduced to one notch from two notches for DNB Bank, and to zero from one notch for the other six savings banks. Nonetheless, Moody's said that there was no net impact on these banks' deposit and senior debt ratings, due to the additional one notch rating uplift from Moody's revised forward looking LGF analysis that now incorporates the additional loss-absorbing NPS debt instruments, which the banks are expected to issue. These two counterbalancing rating drivers underpin the seven banks' stable senior unsecured debt and long-term deposit rating outlooks. In addition, the stable outlook also takes into account the solid underlying financial performance of these banks, combined with their strong credit profiles without any immediate material downward pressure.

DOWNGRADE OF BANKS' COUNTERPART RISK ASSESSMENT (CR ASSESSMENT) AND COUNTERPARTY RISK RATING (CRR)

The downgrade of the seven banks' long-term CR Assessments and CRRs, is mainly driven by the reduction of Moody's government support assumptions, combined with the unchanged rating uplift that these bank obligations benefit from the advanced LGF analysis. The rating agency notes that these banks' CR Assessments and CRRs already incorporate the maximum allowable of three notches above their BCAs under the Moody's advanced LGF analysis, and that this positioning remains unchanged even with the potential issuance of the new loss-absorbing NPS debt instruments. Accordingly, the removal of the one notch rating uplift previously incorporated in the CR Assessments and the CRRs due to the rating agency's revised government support assumptions, has also triggered their rating downgrade.

STABLE OUTLOOK FOR SPAREBANK 1 BOLIGKREDITT AS's ISSUER RATING OF A2, AND

DOWNGRADE OF THE CR ASSESSMENT AND CRRs

SpareBank 1 Boligkreditt AS is the jointly-owned covered bond company of the SpareBank 1 Alliance banks (SpareBank 1 SR-Bank ASA, SpareBank 1 SMN, SpareBank 1 Ostlandet and SpareBank 1 Nord-Norge) are the four largest banks of the Alliance), and its issuer rating and outlook are derived from the owner banks' ratings. Accordingly, the company's outlook is changed to stable from negative, in line with the owner banks' rating outlook, while its long-term CR Assessment and CRRs are downgraded by one notch to A2(cr) from A1(cr) and to A2 from A1 respectively to reflect the revised CR Assessments and CRRs of the owner banks.

According to the rating agency's methodology, such special covered bond issuers are rated based on the weighted-average credit profile of the individual owner-banks forming the SpareBank 1 Alliance, as well as the agency's assessment of the likelihood that these banks will support SpareBank 1 Boligkreditt AS in case of need.

WHAT COULD CHANGE THE RATINGS UP/DOWN

DNB BANK ASA

DNB's debt and deposit ratings could be upgraded as a result of an upgrade in its standalone BCA. The bank's BCA could be upgraded if it: (1) further reduces its asset vulnerability, especially in relation to oil-related and offshore exposures as well as to historically more volatile segments, such as shipping and CRE; (2) maintains strong and stable earnings generation without increasing its risk profile; and (3) preserves sustained access to international capital markets.

DNB's debt and deposit ratings could be downgraded as a result of (i) a downgrade in its standalone BCA; or (ii) gradual replacement of maturing senior debt with non-preferred senior debt being significantly below Moody's expectation. Downwards pressure on the bank's BCA could develop if: (1) DNB's financing conditions become challenging; (2) its asset quality were to deteriorate beyond our expectations and lead to further increase of the bank's credit costs; (3) its credit profile substantially deteriorates due to adverse developments in the Norwegian oil, offshore and real-estate markets; (4) DNB increases its involvement in more risky operations such as capital market activities.

REGIONAL SAVINGS BANKS

Upward pressure could develop if these banks demonstrate: (1) reduced credit risk stemming from more volatile sectors such as the oil and commercial real estate related sectors; (2) diversified access to capital markets, robust deposit growth and improved liquidity; and/or (3) stronger earnings generation without any material increase in risk profiles.

Downward rating pressure would develop on these banks' ratings if: (1) problem loan ratios increase above 2%; (2) profitability deteriorates or margin pressure develops significantly; (3) they fail to sustain their market position and core earnings generation; and/or (3) the actual cushion of their loss-absorbing debt instruments that qualify for MREL is less than anticipated by the rating agency.

FULL LIST OF AFFECTED RATINGS

Issuer: Sparebanken Sor

..Downgrades:

.... Long-term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)

.... Long-term Counterparty Risk Rating, Downgraded to A1 from Aa3

..Affirmations:

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

.... Short-term Counterparty Risk Rating, Affirmed P-1

.... Long-term Issuer Rating, Affirmed A1, Outlook Changed To Stable From Negative

....Senior Unsecured Medium-Term Note Program, Affirmed (P)A1

...Senior Unsecured Regular Bond/Debenture, Affirmed A1, Outlook Changed To Stable From Negative

...Long-term Bank Deposits, Affirmed A1, Outlook Changed To Stable From Negative

... Short-term Bank Deposits, Affirmed P-1

Outlook Action:

...Outlook Changed To Stable From Negative

Issuer: Sparebanken Vest

..Downgrades:

... Long-term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)

... Long-term Counterparty Risk Rating, Downgraded to A1 from Aa3

..Affirmations:

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

... Short-term Counterparty Risk Rating, Affirmed P-1

...Senior Unsecured Medium-Term Note Program, Affirmed (P)A1

...Junior Subordinate Medium-Term Note Program, Affirmed (P)Baa3

...Subordinate Medium-Term Note Program, Affirmed (P)Baa2

...Other Short-term, Affirmed (P)P-1

...Senior Unsecured Regular Bond/Debenture, Affirmed A1, Outlook Changed To Stable From Negative

...Long-term Bank Deposits, Affirmed A1, Outlook Changed To Stable From Negative

... Short-term Bank Deposits, Affirmed P-1

..Outlook Action:

...Outlook Changed To Stable From Negative

Issuer: DNB Bank ASA

..Downgrades:

... Long-term Counterparty Risk Assessment, Downgraded to Aa2(cr) from Aa1(cr)

... Long-term Counterparty Risk Rating, Downgraded to Aa2 from Aa1

..Affirmations:

...Commercial Paper, Affirmed P-1

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

... Short-term Counterparty Risk Rating, Affirmed P-1

...Subordinate Medium-Term Note Program, Affirmed (P)Baa1

...Other Short-term, Affirmed (P)P-1

...Pref. Stock Non-cumulative Preferred Stock, Affirmed Baa3 (hyb)

...Senior Unsecured Regular Bond/Debenture, Affirmed Aa2, Outlook Changed To Stable From Negative

... Senior Unsecured Regular Bond/Debenture, Affirmed (P)Aa2

...Senior Unsecured Medium-Term Note Program, Affirmed (P)Aa2

...Subordinate Regular Bond/Debenture, Affirmed Baa1 (hyb)

...Long-term Bank Deposits, Affirmed Aa2, Outlook Changed To Stable From Negative

... Short-term Bank Deposits, Affirmed P-1

..Outlook Action:

...Outlook Changed To Stable From Negative

Issuer: DNB Bank ASA, New York Branch

..Affirmations:

... Long-term Deposit Note/CD Program, Affirmed Aa2, Outlook Changed To Stable From Negative

...Other Short-term , Affirmed P-1

...Long-term Bank Deposits, Affirmed Aa2, Outlook Changed To Stable From Negative

... Short-term Bank Deposits, Affirmed P-1

..Outlook Action:

...Outlook Changed To Stable From Negative

Issuer: SpareBank 1 Boligkreditt AS

..Downgrades:

... Long-term Counterparty Risk Assessment, Downgraded to A2(cr) from A1(cr)

... Long-term Counterparty Risk Rating, Downgraded to A2 from A1

..Affirmations:

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

... Short-term Counterparty Risk Rating, Affirmed P-1

... Long-term Issuer Rating, Affirmed A2, Outlook Changed To Stable From Negative

..Outlook Action:

...Outlook Changed To Stable From Negative

Issuer: SpareBank 1 Nord-Norge

..Downgrades:

... Long-term Counterparty Risk Rating, Downgraded to A1 from Aa3

... Long-term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)

..Affirmations:

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

... Short-term Counterparty Risk Rating, Affirmed P-1

... Long-term Issuer Rating, Affirmed A1, Outlook Changed To Stable From Negative

...Senior Unsecured Medium-Term Note Program, Affirmed (P)A1

.... Junior Subordinate Medium-Term Note Program, Affirmed (P)Baa3
....Subordinate Medium-Term Note Program, Affirmed (P)Baa2
....Pref. Stock Non-cumulative ,Affirmed Ba1 (hyb)
....Senior Unsecured Regular Bond/Debenture, Affirmed A1, Outlook Changed To Stable From Negative
....Long-term Bank Deposits, Affirmed A1, Outlook Changed To Stable From Negative
.... Short-term Bank Deposits, Affirmed P-1

..Outlook Action:

....Outlook Changed To Stable From Negative

Issuer: SpareBank 1 Ostlandet

..Downgrades:

.... Long-term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)

.... Long-term Counterparty Risk Rating, Downgraded to A1 from Aa3

..Affirmations:

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

.... Short-term Counterparty Risk Rating, Affirmed P-1

.... Long-term Issuer Rating, Affirmed A1, Outlook Changed To Stable From Negative

....Senior Unsecured Medium-Term Note Program, Affirmed (P)A1

.... Junior Subordinate Medium-Term Note Program, Affirmed (P)Baa3

....Subordinate Medium-Term Note Program, Affirmed (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Affirmed A1, Outlook Changed To Stable From Negative

....Long-term Bank Deposits, Affirmed A1, Outlook Changed To Stable From Negative

.... Short-term Bank Deposits, Affirmed P-1

..Outlook Action:

....Outlook Changed To Stable From Negative

Issuer: SpareBank 1 SR-Bank ASA

..Downgrades:

.... Long-term Counterparty Risk Assessment , Downgraded to A1(cr) from Aa3(cr)

.... Long-term Counterparty Risk Rating, Downgraded to A1 from Aa3

..Affirmations:

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

.... Short-term Counterparty Risk Rating, Affirmed P-1

.... Long-term Issuer Rating , Affirmed A1, Outlook Changed To Stable From Negative

....Senior Unsecured Medium-Term Note Program, Affirmed (P)A1

.... Junior Subordinate Medium-Term Note Program, Affirmed (P)Baa3

... Subordinate Medium-Term Note Program, Affirmed (P)Baa2
...Senior Unsecured Regular Bond/Debenture, Affirmed A1, Outlook Changed To Stable From Negative
...Subordinate Regular Bond/Debenture, Affirmed Baa2 (hyb)
...Subordinate Regular Bond/Debenture, Affirmed Baa2
...Long-term Bank Deposits, Affirmed A1, Outlook Changed To Stable From Negative
... Short-term Bank Deposits, Affirmed P-1

..Outlook Action:

...Outlook Changed To Stable From Negative

Issuer: SpareBank 1 SMN

..Downgrades:

... Long-term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)
... Long-term Counterparty Risk Rating, Downgraded to A1 from Aa3

..Affirmations:

... Short-term Counterparty Risk Assessment, Affirmed P-1(cr)
... Short-term Counterparty Risk Rating, Affirmed P-1
... Long-term Issuer Rating, Affirmed A1, Outlook Changed To Stable From Negative
...Senior Unsecured Medium-Term Note Program, Affirmed (P)A1
... Junior Subordinate Medium-Term Note Program, Affirmed (P)Baa3
... Subordinate Medium-Term Note Program, Affirmed (P)Baa2
...Senior Unsecured Regular Bond/Debenture, Affirmed A1, Outlook Changed To Stable From Negative
...Subordinate Regular Bond/Debenture, Affirmed Baa2 (hyb)
...Long-term Bank Deposits, Affirmed A1, Outlook Changed To Stable From Negative
... Short-term Bank Deposits, Affirmed P-1

..Outlook Action:

...Outlook Changed To Stable From Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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