



## Rating Action: Moody's upgrades SpareBank 1 SMN's long-term deposit and senior unsecured ratings to Aa3 from A1; outlook stable

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London, October 27, 2023 -- Moody's Investors Service ("Moody's") has today upgraded SpareBank 1 SMN's (SMN) Baseline Credit Assessment (BCA) and Adjusted BCA to a3 from baa1, long-term (LT) deposit ratings to Aa3 from A1, LT issuer and senior unsecured debt ratings to Aa3 from A1, senior unsecured Euro Medium-Term Note (MTN) programme ratings to (P)Aa3 from (P)A1, junior senior unsecured debt ratings to A3 from Baa1, long-term Counterparty Risk Ratings (CRRs) to Aa3 from A1, subordinated MTN programme ratings to (P)Baa1 from (P)Baa2 and the long-term Counterparty Risk Assessment (CRA) to Aa3(cr) from A1(cr).

The agency also assigned a junior senior unsecured Euro MTN programme rating of (P)A3. The short-term (ST) CRRs and deposits ratings were affirmed at Prime-1 and the ST CRA was affirmed at Prime-1(cr). The outlooks on the long-term deposit, issuer and senior unsecured ratings were changed to stable from positive.

### RATINGS RATIONALE

#### BASELINE CREDIT ASSESSMENT

The upgrade of the SMN's BCA is reflective of the bank's resilient financial performance as evident by its sound capital base, strong profitability and improved risk profile, while continuing to grow its retail deposit base, resulting in somewhat lower use of market funds. The BCA upgrade also reflects Moody's expectation that the bank will continue to demonstrate a strong underlying financial performance.

SMN's capitalization is strong, reflected by its Moody's-adjusted tangible common equity to risk weighted assets ratio of 20.1% and a CET1 ratio of 19.1% at end June 2023, well above the regulatory minimum of 16.6% (including a temporary 0.7% additional Pillar 2 requirement). The rating agency expects the bank to maintain a strong capital position, even as it optimizes its capital structure going forward.

The bank's profitability is resilient and continues to support its organic capital generation. SMN has been able to generate a return of average assets (RoTBAs) of around 1% during 2020-23 despite a challenging operating environment during the outbreak of COVID-19 and incurring costs related to its merger with SpareBank 1 Sør-Søndre, which was completed last May. This performance has been supported by good net interest income due to the high interest rate environment and good loan growth, combined with a low cost of risk. Following the merger, Moody's expects SMN to continue to strengthen its franchise and be able to maintain this strong profitability while continuously growing its deposit base leading to a lower use of market funds.

SMN's asset quality has continued to improve during 2023, the bank reporting a problem loan ratio of 1% (including loans transferred to the jointly owned covered bond companies) at end June 2023 from 1.1% at end June 2022 and 1.7% in 2021, reflecting the improved conditions in the oil and offshore sectors, which have been the main source of problem loans in the past.

The rating agency expects the bank's asset quality to remain resilient, despite uncertainties in the operating environment stemming from higher inflation and higher interest rates, supported by its low-risk retail mortgage book accounting for 67.5% of gross loans in June 2023. Moody's believes that although the bank has some regional

concentration towards the commercial real estate sector in Norway, accounting for 9% of gross loans at end June 2023, the exposure is unlikely to generate significant losses.

## LONG-TERM RATINGS

The upgrade of SMN's LT deposit, senior unsecured debt and LT issuer ratings to Aa3 from A1 primarily reflects the upgrade of the bank's BCA to a3 from baa1. The bank's LT ratings are also underpinned by the unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis, based on the bank's funding plans. This results in a three-notch uplift from the BCA for deposits and senior unsecured debt ratings indicating an extremely low loss-given-failure.

The upgrade of SMN's LT ratings also factors in an unchanged low probability of support from the Government of Norway (Aaa, stable), which results in no further rating uplift.

## OUTLOOK

The stable outlook on SMN's LT deposit, issuer and senior unsecured debt ratings reflect Moody's view that the bank will continue to generate strong earnings supporting its capital base, while managing asset risk prudently and strengthening its deposit base. These are balanced by the bank's certain credit concentrations in its home region and its high reliance on market funding.

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

The bank's LT ratings could be upgraded if it significantly strengthened its capitalization well-above regulatory minimum requirements; further improved its asset quality whilst reducing single name, sector and regional concentration; strengthened its profitability; and reduced reliance on market funding with an enlarged retail deposit base.

SMN's ratings could be downgraded if the bank (1) increases its exposure to more volatile sectors significantly from current levels; (2) experienced material deterioration in asset quality and profitability; and (3) use of market funds was to increase towards previous levels (4) weakens its liquidity.

The ratings could also be downgraded as a result of a reduction in the volumes of loss absorbing liabilities protecting creditors and depositors in case of failure.

## 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.

## 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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