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CREDIT OPINION
20 December 2022

Update

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RATINGS

Sparebanken Sogn og Fjordane

Domicile	Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Sparebanken Sogn og Fjordane

Update to credit analysis

Summary

Sparebanken Sogn og Fjordane's (SSF) baseline credit assessment (BCA) of baa1 and long-term deposit and issuer ratings of A1, are driven by the bank's strong financial fundamentals on the back of its expanding retail regional franchise (mainly in the area of Sogn og Fjordane), but also by the adequate protection provided to the bank's senior creditors.

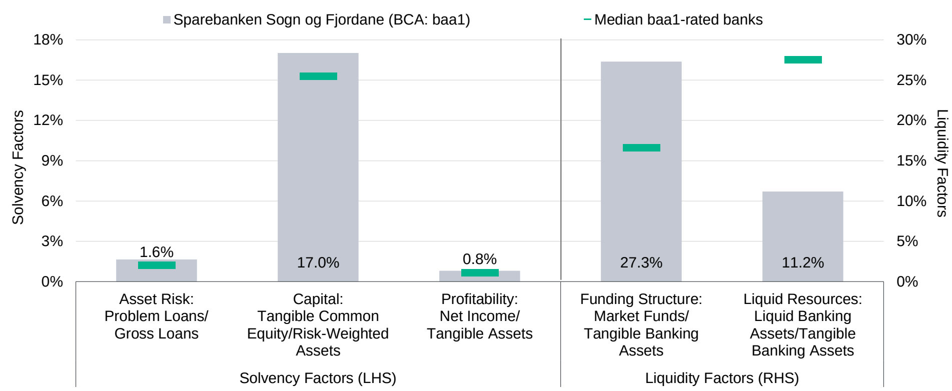
SSF's standalone BCA of baa1 reflects a low level of problem loans equivalent to 1.5% of gross loans at end-September 2022, strong capital metrics with a Tangible Common Equity (TCE) ratio of 17.0%. We expect the bank's core profitability performance to remain strong for the foreseeable future, supported by higher net interest margins.

The BCA also reflects the bank's relatively high reliance on the domestic capital markets and incorporates the bank's geographic and real estate sector credit concentrations, which could result in higher provisioning requirements in a deteriorating operating environment. We expect SSF's large residential mortgage portfolio (comprising around 76% of total loans) to remain resilient.

The bank's A1 deposit and issuer ratings take into account our Loss Given Failure (LGF) analysis of the bank's large volume of deposits and substantial layers of subordination, resulting in three notches of rating uplift from its BCA. SSF's ratings do not benefit from any government support uplift.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit strengths

» Strong capital levels which are broadly in line with Nordic peers

» Stable asset quality with retail focused lending and improved problem loans ratio

» Sound recurring profitability driven by efficient cost structure

Credit challenges

» High concentrations in its lending to the bank's home region, especially to the real estate sector

» Market funding reliance renders the bank vulnerable to fluctuations in investor sentiment, despite a large deposit base

» Limited diversification of operating income

Outlook

The bank's deposit and issuer ratings carry a stable outlook balancing its robust financial performance with downside risks stemming from its dependence on market funding and real-estate and home prices in its home region. The outlook also reflects Moody's expectation that the bank will issue sufficient volumes of junior senior debt to support the senior unsecured rating.

Factors that could lead to an upgrade

» The ratings and assessments of SSF could be upgraded if the bank demonstrates (1) sustained strong asset quality in its retail and corporate loan books, including in the more volatile segments, and further reduction in credit concentrations; (2) stronger earnings generation without an increase in its risk profile; and (3) broader shareholder base and capital structure that will improve its capacity to raise new capital if needed.

Factors that could lead to a downgrade

» The ratings and assessments of SSF could be downgraded if (1) SSF's risk profile increases as a result of increased concentration, for example in real-estate or top-20 client concentration, (2) or if the problem loan ratio increases significantly higher than its peers' average; (3) financing conditions become more difficult locally, or (4) the bank issues a significantly lower volume than expected of junior senior securities

Key indicators

Exhibit 2

Sparebanken Sogn og Fjordane (Consolidated Financials) [1]

	09-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	70.5	65.8	62.7	57.7	54.2	7.3[4]
Tangible Common Equity (NOK Billion)	5.7	5.4	5.0	4.7	4.4	6.9[4]
Problem Loans / Gross Loans (%)	1.5	1.9	1.6	1.6	1.3	1.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.0	16.1	15.4	15.9	15.3	15.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.3	18.7	16.5	16.4	13.0	16.0[5]
Net Interest Margin (%)	1.6	1.4	1.5	1.6	1.6	1.5[5]
PPI / Average RWA (%)	2.2	2.4	2.1	2.5	2.1	2.3[6]
Net Income / Tangible Assets (%)	0.8	1.0	0.7	0.9	0.8	0.8[5]
Cost / Income Ratio (%)	40.0	38.4	43.0	40.4	43.8	41.1[5]
Market Funds / Tangible Banking Assets (%)	26.8	27.3	29.4	29.7	27.7	28.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	11.1	11.2	11.0	10.4	9.6	10.6[5]
Gross Loans / Due to Customers (%)	179.9	182.9	188.4	190.5	188.6	186.0[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

Sparebanken Sogn og Fjordane (SSF) is the largest bank in the region of Sogn og Fjordane (which since 2020 is part of Vestland county) and offers retail and corporate customers products in banking, financing, insurance, savings, pensions and payment services. SSF's main geographical market is Sogn og Fjordane in western Norway, but the bank has expanded the scope of its retail operations to include several larger cities around Norway. The bank has been growing its market share in its home region having a strong positioning among SMEs, and was ranked third among all banks nationally in a customer satisfaction index (EPSI) in 2022. As of 30 September 2022, the bank reported total consolidated assets of around NOK70.5 billion (approximately €6.7 billion).

Recent developments

Russia's military invasion of Ukraine (Caa3 NEG) and the economic sanctions that the US (Aaa stable), European governments and other allies have subsequently imposed on Russia have increased risks to the global economic outlook. Heightened geopolitical risks are unambiguously negative for economic activity. The magnitude of the effects will depend on the length and severity of the crisis.

Norway's trade flows with Russia are very limited as they export the same type of goods with the production of oil and gas among the most significant to the Norwegian economy. As European countries are looking to reduce imports from Russia, Norway is likely to be positively affected by increased demand in Europe.

To curb rising inflation Norges Bank has been gradually increasing its reference rate since September 2021, resulting in a reference rate of 2.75% as of December 2022. Norges Bank expects the policy rate to be around 3% in 2023.

Detailed credit considerations

Norway's 'Very Strong-' Macro Profile remains supportive towards the bank's stand alone credit profile

Sparebanken Sogn og Fjordane operates only in Norway and thus its operating environment is reflected through the 'Very Strong -' Macro Profile we assign for Norway. Norwegian banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as a very low susceptibility to event risk. Norway has a diversified and growing economy, which demonstrated resilience to the last weakening in the oil sector in 2014-15.

The main risks to the banking system stem from the high level of household debt, elevated real estate prices and domestic banks' extensive use of market funding. However, these risks are mitigated by the strength of households' ability to service debt, banks' adequate capitalisation and the relatively small size of the banking system compared with the total size of the economy.

We expect the Norwegian mainland economy (excluding any oil-related activity) to expand by 3.1% in 2022, down from 4.1% in 2021. While unemployment rose to around 10.6% in March 2020, it fell back to 1.6% as of October 2022.

Problem loans are relatively low, although vulnerable to some single name, geographic and real estate credit concentrations

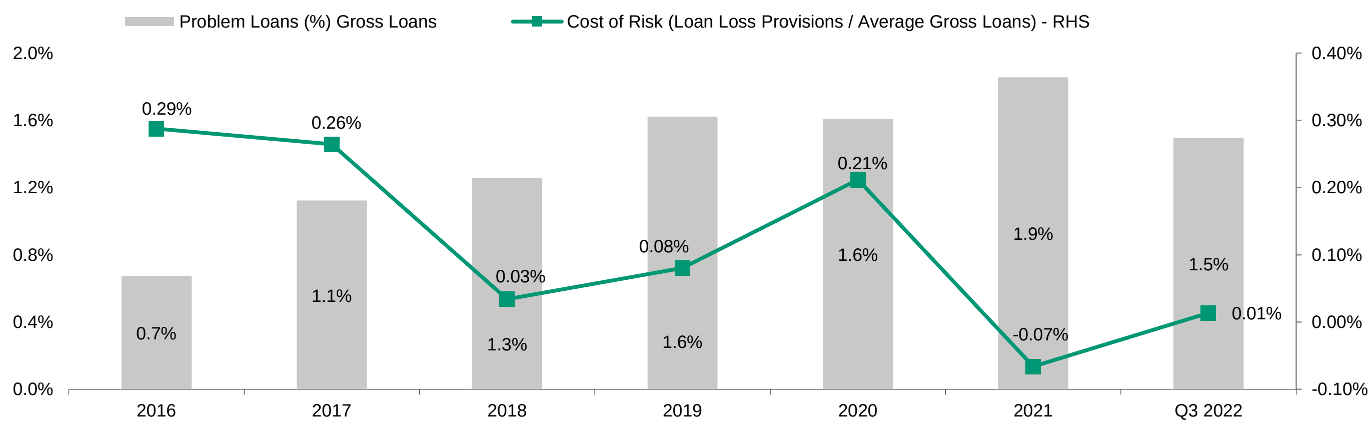
We expect SSF's asset quality to remain broadly resilient in the next 12 to 18 months, supported by the high proportion of lending to mortgages (approximately 76% of gross lending was to the retail market as of end-September 2022), a market segment with low delinquencies and losses historically. Despite the risks stemming from an elevated level of household indebtedness in Norway, we expect households to continue to service their debts as low unemployment and high oil prices paving the way to a benign macroeconomic conditions.

The bank's problem loans as a percentage of gross loans represented 1.5% as of September 2022, 36bps below the level in December 2021 (see Exhibit 3), which is relatively low in the global context although marginally higher than domestic similarly rated peers. The increase in problem loans in December 2021 was primarily driven by the implementation of new definitions of default. The problem loans ratio is back to its historic level as of September 2022. The bank's problem loans coverage ratio was 30% at end-September 2022, slightly up from 29% in 2021. Cost of risk (loan loss provisions as a percentage of gross loans) increased to 0.01% in the first nine months of 2022 compared to -0.09% in the same period in 2021.

Exhibit 3

SSF's Asset Quality Evolution

The bank's problem loans are somewhat elevated relative to peers



Source: Moody's Banking Financial Metrics

Exposure to the more volatile real-estate and construction sectors stood at around 10.2% of total loans as of end-September 2022. We note that around half of nonperforming loans to corporates are related to the construction and real estate sectors. Similar to some of its Nordic peers, the bank exhibits certain single-name concentrations, which could heighten the pace and the extent of any deterioration in asset quality in a potentially worsening operating environment.

SSF has been growing its retail book more actively in areas outside its home region (specifically Hordaland and Oslo/Akershus) driven by lower population growth in Sogn og Fjordane compared to other regions. This increased geographical diversification combined with increased granularity and lower top client concentration benefits the bank's risk profile.

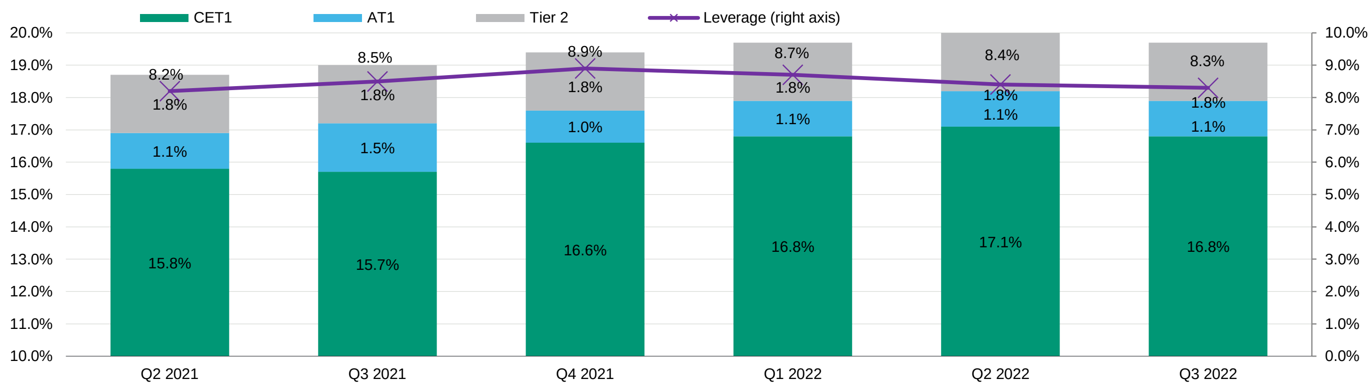
Our baa2 score for the bank's asset risk takes into account the relatively low level of problem loans, but also the slightly higher level of problem loans than its domestic peers and some single name, geographic, and real estate credit concentrations.

Capital levels will remain strong due to higher requirements

SSF's capital levels are strong given its risk profile and broadly in line with its Nordic peers, although marginally lower compared to some of the Norwegian savings banks.

SSF reported a CET1 ratio of 16.8% at end-September 2022 (see Exhibit 4). The bank's regulatory minimum CET1 capital requirement is 13.2%, including a Pillar 2 requirement of 1.7%, as of September 2022. Provided the Pillar 2 requirement stays the same the CET1 capital requirement will increase to 15.7% by the end of 2023 due to an increase in the systemic risk buffer by 1.5% to 4.5% and higher a countercyclical capital buffer. The bank will retain earnings in 2022 and 2023 to comfortably meets the requirement in addition to the 1.5% management buffer the bank has set internally.

Exhibit 4
SSF's regulatory capital ratios evolution



Source: SSF's Q3 2022 investor presentation

Following the implementation of finalised EU bank capital rules (which have yet to be fully agreed) it is likely that the bank's risk-weighted assets (RWAs) could reduce, with lower requirements being applied to SME exposures and a more risk-sensitive approach to retail mortgages. However, the implementation has been delayed from 2023 to 2025. It should be noted that SSF remains on the standardised model in calculating its RWAs.

Our assigned Capital score of aa3 reflects the bank's strong leverage ratio of 8.3% in September 2022, but also its limited shareholder investor base and capital structure that constrains its ability and capacity to raise new capital if needed during periods of market volatility.

Sound recurring profitability supports the bank's BCA in challenging times

Net income to tangible assets slightly decreased to 0.8% in the first nine months of 2022, in line with the pre-pandemic level. The bank's reported Return on Equity (ROE) decreased to 9.8% in the first nine months of 2022 from 11.7% in the same period last year. The recent interest rate hikes by Norges Bank are expected to alleviate pressure on SSF's net interest margin, although competition among Norwegian banks will continue to challenge the bank in key markets.

SSF's recurring profitability is sound and has improved as a result of better cost-efficiency, a more favorable interest rate environment, and moderate loan growth, with lending to retail clients growing year-on-year by 7.0% and to the corporate market by 6.1%. SSF's net interest income has increased to NOK816 million in the first nine months of 2022, from NOK694 million in the same period last year.

We also note the relatively low contribution of net fees and commission income to the bank's profitability, comprising only around 10.1% of its total revenues in the first nine months of 2022.

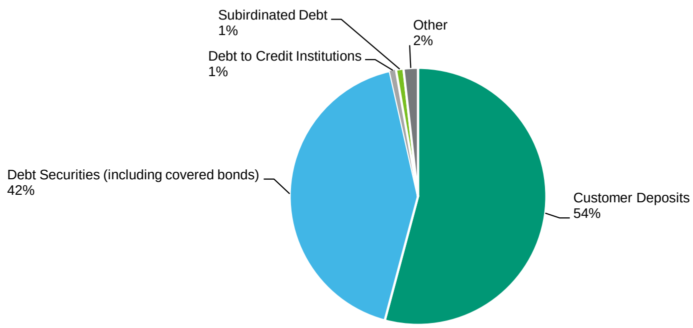
In recent years IT-related expenses were increasing due to the bank's ambitious investments in new digital solutions in order to offer competitive products to its customers. The NOK371 million operating expenses incurred in the first nine months of 2022 translated into a reported cost to income ratio of 39.6%, slightly higher than the 39.2% in the first nine months of 2021, but much lower than 42.4% reported as of year-end 2020. An increase in the ratio in 2022 is mainly due to negative result from the revaluation of bank's financial instruments. Cost of risk was low at 0.01% in the first nine months of 2022, but increased compared with the same period in 2021 when it was -0.09%.

The baa2 score we assign to profitability in the bank's scorecard, takes into consideration the likely pressure in its performance this year but also the relatively low level of earnings diversification with a very high dependence on net interest income.

Market funding reliance renders the bank vulnerable to fluctuations in investor sentiment, despite a large deposit base

SSF's funding profile benefits from a sizeable deposit base constituting 54% of non-equity funding at end-September 2022 (see Exhibit 5), while around 60% of the bank's deposits come from retail customers and have been stable over the years. However it is also significantly reliant on market funding (around 42% of total non-equity funding), rendering it vulnerable to swings in investor sentiment. The bank draws most of this funding in the form of domestically issued covered bonds but also senior debt. Covered bonds are issued through the bank's wholly-owned covered bond company Bustadkreditt Sogn og Fjordane AS that was established in 2009.

Exhibit 5
SSF's Funding Profile (excluding equity) as of September 2022



Source: SSF's quarterly results as of September 2022

Based on our methodology we reflect the stability of covered bonds relative to unsecured market funding through an adjustment to our market funds to tangible banking assets ratio and our adjusted ratio for the bank is 26.5% at end-September 2022. Although SSF's size limits somewhat its ability to undertake large benchmark issuances, we view the bank's larger issuances positively, due to their eligibility as liquid assets under the liquidity coverage ratio rules which extends the bank's investor base. The bank reported a Net Stable Funding Ratio (NSFR) of 124% as of September 2022.

We expect that the bank will continue to refinance part of its senior preferred debt with senior non-preferred (SNP) debt. This is based on the bank's minimum subordination requirement as part of its requirement for own funds and eligible liabilities (MREL).

We consider the bank's stock of liquid banking assets as adequate. Liquid assets mainly comprised government securities and covered bonds. We note that the bank's holdings are mostly Norwegian covered bonds which leads to some concentration risk, similar to peers. Both at YE 2021 and as of September 2022, SSF's liquid banking assets totaled 11.1% of tangible banking assets, which is incorporated in our scorecard. The bank reported a Liquidity Coverage Ratio (LCR) of 135% as of September 2022, down from 140% at year-end 2021.

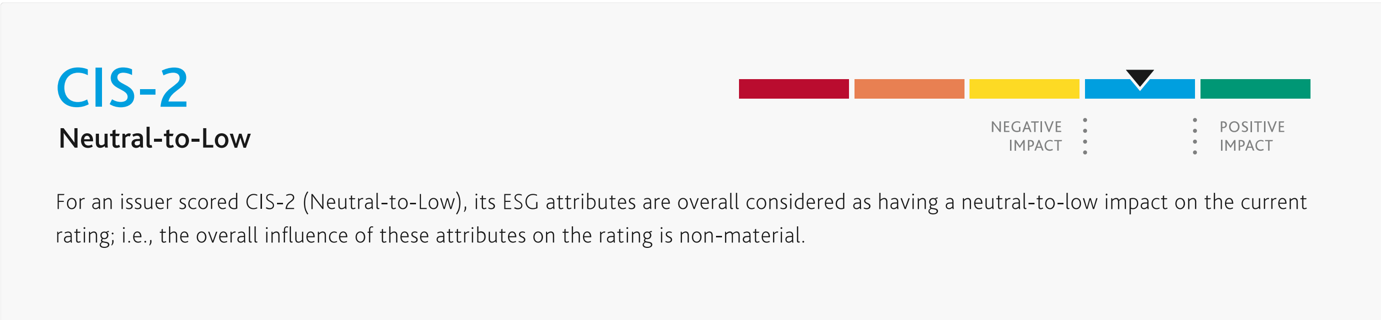
Source of facts and figures cited in this report

Unless noted otherwise, bank specific figures originate from bank's reports and Moody's Banking Financial Metrics. Moody's Banking Financial Metrics figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document: "Financial Statement Adjustments in the Analysis of Financial Institutions" published on 09 August 2018.

ESG considerations

Sparebanken Sogn og Fjordane's ESG Credit Impact Score is Neutral-to-Low CIS-2

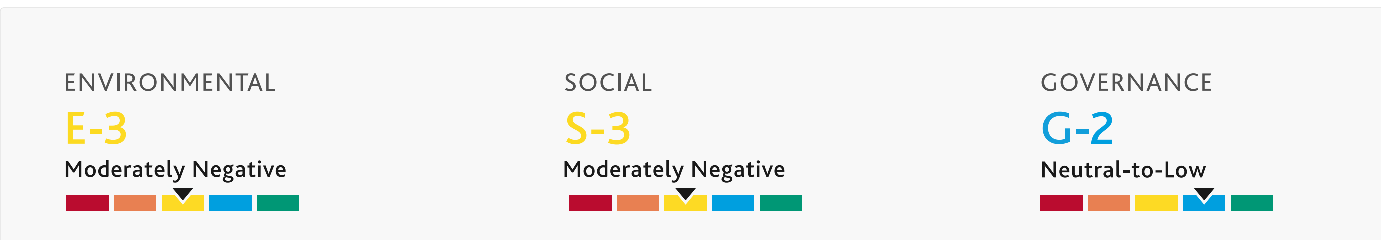
Exhibit 6
ESG Credit Impact Score



Source: Moody's Investors Service

Sparebanken SSF's ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects the limited credit impact of environmental and social risk factors on the rating to date, and neutral-to-low governance risks.

Exhibit 7
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Sparebanken SSF faces moderate environmental risks primarily because of its portfolio exposure to carbon transition. These risks are primarily related to its corporate portfolio, however, exposures to the oil, offshore and shipping business are limited. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, the bank is developing its climate risk and portfolio management capabilities.

Social

Sparebanken SSFfaces moderate social risks related to customer relations and associated regulatory and litigation risks, requiring high compliance standards. The exposure to customer relation risks is lower than its international peers, given the bank's untarnished customer conduct track record supported by the social mandate of the Savings Bank's model. Sparebanken SSF is a digitally advanced bank in Norway, with a robust IT infrastructure and strong capabilities to mitigate cyber and personal data risks.

Governance

Sparebanken SSF faces low governance risks, and its risk management, policies and procedures are in line with industry practices. Despite sectoral and geographical concentrations, due to its limited reach, the bank benefits from strong underwriting standards which mitigate some of these concerns. The bank has a track record of sound capital and liquidity management and earnings stability while losses have been low, even at times of market turbulence. Being a regional savings bank it is fully owned by two community foundations in the form of listed equity certificates. The bank's Supervisory Board, comprises of representatives of EC holders, customer representatives and employees representatives. Related governance risks are however mitigated by Norway's developed institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure

The European Union's BRRD has been transposed into Norwegian law, applicable from 1 January 2019, which confirmed our current assumptions regarding the LGF analysis. We assume a residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred over senior unsecured debt. These metrics are in line with our standard assumptions.

For Sparebanken SSF's short-term and long-term deposit ratings, we consider the likely impact of loss-given-failure, reflecting the combination of debt and deposit volumes and the amount of debt subordinated to them. We also take into consideration the expected level of MREL eligible debt issuance until the end of 2023. This has resulted in a Preliminary Rating Assessment of three notches above the BCA for the bank's deposit and senior unsecured ratings, reflecting very low loss-given-failure.

Government support

We do not incorporate government support uplift to SSF's deposit and issuer ratings as a result of the expected implementation of resolution legislation in Norway. SSF is a regional savings bank with a strong market position in the region of Sogn og Fjordane (Western Norway), where we estimate that it commands a market share of around 48% in retail lending and around 35% in the corporate/SME market. Despite its dominant local position, the bank lacks geographical diversification and its national franchise is limited. We therefore consider the probability of government support for Sparebanken Sogn og Fjordane's debt and deposits to be low (in line with similarly-sized domestic peers), resulting in no ratings uplift.

Counterparty Risk (CR) Assessment

SSF's CR Assessment is positioned at A1(cr)/P-1(cr)

SSF's CR Assessment is positioned at A1(cr)/P-1(cr), three notches above the bank's Adjusted BCA of baa1, based on the cushion against default provided by junior deposits, senior unsecured, subordinated debts and preference shares. The bank's CR Assessment does not benefit from any government support, in line with deposits and senior unsecured debt ratings.

Counterparty Risk Ratings (CRRs)

SSF's CRRs are positioned at A1/P-1

The CRR is positioned three notches above the Adjusted BCA of baa1 and at the same level as the counterparty risk assessment, reflecting the buffer against default provided by more junior instruments to the CRR liabilities.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 8

Sparebanken Sogn og Fjordane

Macro Factors							
Weighted Macro Profile	**Very Strong -**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.6%	aa3	↑	baa2	Geographical concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.0%	aa2	↔	aa3	Access to capital	
Profitability						
Net Income / Tangible Assets	0.8%	baa1	↔	baa2	Earnings quality	
Combined Solvency Score		a1		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	27.3%	baa2	↔	baa2	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	11.2%	baa3	↔	baa3		
Combined Liquidity Score		baa2		baa2		
Financial Profile				baa1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		

Balance Sheet	**in-scope (NOK Million)**	**% in-scope**	**at-failure (NOK Million)**	**% at-failure**
Other liabilities	26 494	37.6%	30 031	42.6%
Deposits	34 675	49.2%	31 138	44.2%
Preferred deposits	25 660	36.4%	24 377	34.6%
Junior deposits	9 016	12.8%	6 762	9.6%
Senior unsecured bank debt	4 336	6.2%	4 336	6.2%
Junior senior unsecured bank debt	1 900	2.7%	1 900	2.7%
Dated subordinated bank debt	600	0.9%	600	0.9%
Preference shares (bank)	350	0.5%	350	0.5%
Equity	2 114	3.0%	2 114	3.0%
Total Tangible Banking Assets	70 469	100.0%	70 469	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	22.8%	22.8%	22.8%	22.8%	3	3	3	3	0	a1
Counterparty Risk Assessment	22.8%	22.8%	22.8%	22.8%	3	3	3	3	0	a1 (cr)
Deposits	22.8%	7.0%	22.8%	13.2%	2	3	2	3	0	a1
Senior unsecured bank debt	22.8%	7.0%	13.2%	7.0%	2	1	2	3	0	a1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	3	0	a1	0	A1	A1
Senior unsecured bank debt	3	0	a1	0	A1	A1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
SPAREBANKEN SOGN OG FJORDANE	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1

Source: Moody's Investors Service

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