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INVESTORS SERVICE

CREDIT OPINION
26 June 2023

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 following the assignment of ratings to the bank's subsidiary Bustadkreditt Sogn og Fjordane AS

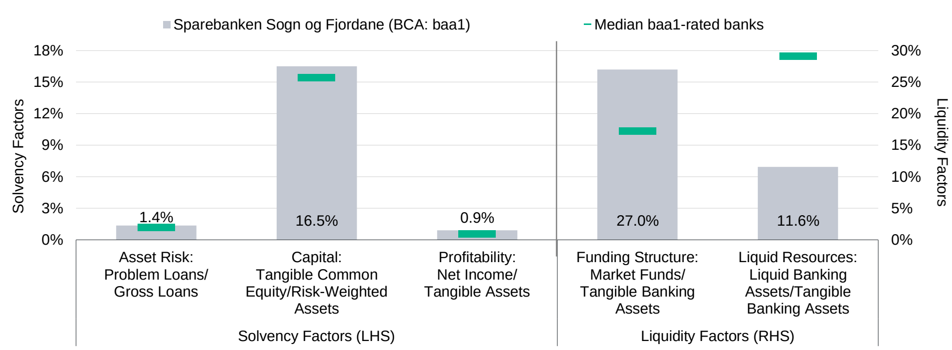
Summary

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% of gross loans as of March 2023 and its strong capital metrics with a tangible common equity (TCE) ratio of 16.5%. We expect the bank's core profitability to remain strong over the next 12-18 months, supported by higher net interest margins. The BCA also reflects SSF's relatively high reliance on the domestic capital markets, and incorporates potential downside risks from the bank's geographical and real estate sector credit concentrations. We expect SSF's large residential mortgage portfolio (accounting for around 64% of total loans as of March 2023) to remain stable.

SSF'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



These ratios are calculated based on our Banks Methodology scorecard. The bank's problem loan and profitability ratios are the weaker of the average of the latest three year-end ratios and the latest reported ratio. The bank's capital ratio is the latest reported figure. The bank's funding structure and liquid resources ratios are the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Strong capital levels, which are broadly in line with those of its Nordic peers

» Stable asset quality, with retail-focused lending and improved problem loan 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

» Vulnerability to fluctuations in investor sentiment because of the bank's reliance on market funding, despite a large deposit base

» Limited diversification of operating income

Outlook

The bank's deposit and issuer ratings have a stable outlook, balancing its robust financial performance with risks stemming from its dependence on market funding and real estate and home prices in its home region. The outlook also reflects our 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 maintains strong asset quality in its retail and corporate loan books, including in the more volatile segments, and further reduces credit concentrations; stronger earnings generation without an increase in its risk profile; and a 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 SSF's concentration, for example, in real estate or in its top 20 clients increases; the problem loan ratio rises significantly higher than that of its peer average; local financing conditions become more difficult; or the bank issues a significantly lower-than-expected volume of junior senior securities.

Key indicators

Exhibit 2
Sparebanken Sogn og Fjordane (Consolidated Financials) [1]

	03-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	71.7	70.8	65.8	62.7	57.7	6.9[4]
Tangible Common Equity (NOK Billion)	5.7	5.7	5.4	5.0	4.7	5.8[4]
Problem Loans / Gross Loans (%)	1.0	1.0	1.9	1.6	1.6	1.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.5	16.8	16.1	15.4	15.9	16.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.3	10.0	18.7	16.5	16.4	14.4[5]
Net Interest Margin (%)	1.9	1.6	1.4	1.5	1.6	1.6[5]
PPI / Average RWA (%)	3.1	2.4	2.4	2.1	2.5	2.5[6]
Net Income / Tangible Assets (%)	1.1	0.8	1.0	0.7	0.9	0.9[5]
Cost / Income Ratio (%)	32.2	38.4	38.4	43.0	40.4	38.5[5]
Market Funds / Tangible Banking Assets (%)	26.9	27.0	27.3	29.4	29.7	28.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	11.7	11.6	11.2	11.0	10.4	11.2[5]
Gross Loans / Due to Customers (%)	183.7	184.5	182.9	188.4	190.5	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 has been a part of Vestland county since 2020) 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, with a strong position among small and medium-sized enterprise (SMEs), and was ranked third among all banks nationally in a customer satisfaction index (in particular, the European Performance Satisfaction Index) in 2022. As of 31 March 2023, the bank reported total consolidated assets of around NOK71.7 billion (around €6.3 billion).

Recent developments

On April 26 2023 SSF announced it will invest NOK630 million in SamSpar and join the Sparebank1 alliance. The motivation is to widen the SSF's product offering while save costs, primarily within IT and IT development, and to be able to access cost and capital efficient covered bond funding through Sparebank1 Boligkreditt.

To curb inflation, the central bank of Norway, namely Norges Bank, has been gradually increasing its reference rate since September 2021; the rate was raised to 3.75% in June 2023, with the expectation of a further increase in 2023. The countercyclical capital buffer (CCyB) requirement increased to 2.5% effective from the end of March 2023.

We expect Norway's real GDP growth to slow to 1.5% in 2023 from an 3.3% last year, still outperforming an average projected contraction of 0.7% in Europe. Substantial oil industry investment and activities related to climate transition will support economic growth into 2024. However, we expect consumption to fall this year as higher interest rates and inflation erode household incomes, with falling house prices adding further pressure. Norway's inflation rate of 6.3% in February 2023 was above the central bank's 2% target, but below the European average of 9.9%. Norway's relatively low inflation reflects the central bank's decision to start raising interest rates in September 2021, compared with July 2022 for the European Central Bank. Government energy subsidies for primary residences has also helped curb price growth.

Detailed credit considerations

Norway's Very Strong- macro profile remains supportive of the bank's standalone credit profile

SSF 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. The Norwegian banking system further benefits from the government's generally strong fiscal flexibility and CCyBs available through its sovereign oil fund, the Government Pension Fund Global, to respond to economic shocks.

The main risks to the banking sector stem from its extensive use of market funding, and high household debt and increased real estate prices in Norway. However, the household sector's strong debt-servicing ability, the Norwegian government's well-coordinated monetary and regulatory policies, and the country's sizeable sovereign wealth fund mitigate these risks.

A significant increase in the rate of household debt accumulation, combined with high house price inflation, or a significant house price decline, could strain Norway's macro profile.

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

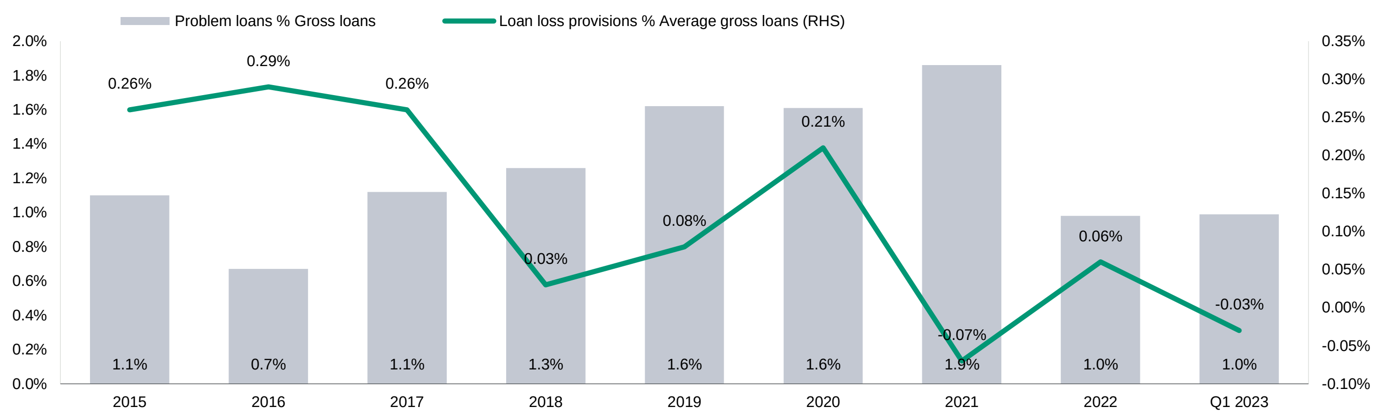
We expect SSF's asset quality to remain broadly resilient in the next 12-18 months, supported by the high proportion of lending to mortgages (around 75% of gross lending was to the retail market as of March 2023), a market segment with low delinquencies and losses historically. Despite the risks stemming from a high level of household debt in Norway, we expect households to continue to service their debt as low unemployment and high oil prices lead to benign macroeconomic conditions.

The bank's problem loans represented 1.0% of gross loans as of March 2023, the same level as in 2022 level (see Exhibit 3), which is relatively low in the global context, although marginally higher than similarly rated domestic peers. Following an increase over 2018-21 because of a change in the definition of loan defaults in 2021, the problem loan ratio returned to its historical levels. As of March 2023, the bank's problem loan coverage ratio was 50%, down slightly from 52% in 2022. Cost of risk, measured as loan loss provisions/average gross loans, decreased to -0.03% in the first three months of 2023 from 0.12% in the year-earlier period.

Exhibit 3

SSF's asset-quality evolution

The bank's problem loans are somewhat high relative to that of its peers



The increase in problem loans in 2021 was primarily driven by the implementation of new definitions of default.
Sources: Bank's disclosures and Moody's Investors Service

Exposure to the more volatile real estate and construction sectors accounted for 8.3% of total loans as of March 2023, with a notable exposure of half of the nonperforming loans to corporates to the construction and real estate sectors. Similar to some of its Nordic peers, the bank has certain single-name concentrations, which could increase 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) because of the slower population growth in Sogn og Fjordane than in other regions. The shift has led to an increase in the bank's geographical diversification, as well as increased granularity and lower top client concentration, which benefits the risk profile.

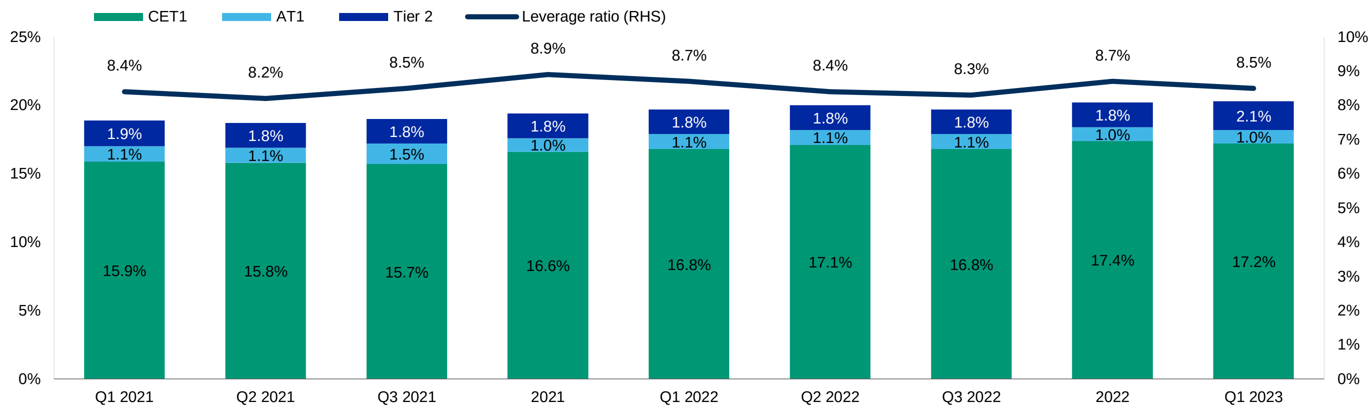
Our baa1 score for the bank's Asset Risk takes into account the relatively low level of problem loans in a global context, but also the slightly higher level of problem loans than its domestic peers and some single-name, geographic, and real estate credit concentrations.

Capital levels will remain strong because of higher requirements

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

SSF reported a Common Equity Tier 1 (CET1) capital ratio of 17.2% as of March 2023 (see Exhibit 4). The bank's regulatory minimum CET1 capital requirement was 13.7%, including a Pillar 2 requirement of 1.7%, as of December 2022. Provided the Pillar 2 requirement stays the same, the CET1 capital requirement will increase to 15.7% by year-end 2023 because of an increase in the systemic risk buffer by 1.5%-4.5% and a higher CCyB. The bank will retain earnings in 2022 and 2023 to comfortably meet the requirement in addition to the 1.5% management buffer the bank has set internally.

Exhibit 4
SSF's regulatory capital ratio evolution
Reported metrics



Source: Bank's disclosures

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 (RWA) could decrease, with lower requirements being applied to SME exposures and a more risk-sensitive approach to retail mortgages. However, the implementation has been delayed to 2025 from 2023. It should be noted that SSF remains on the standardised model in calculating its RWA.

Our assigned Capital score of aa3 reflects the bank's strong leverage ratio of 8.5% as of March 2023, 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 difficult times

The bank's net income increased to 1.1% of tangible assets in the first three months of 2023, slightly above pre-pandemic levels. The bank's reported return on equity (ROE) increased to 13.3% in the first three months of 2023 from 10.0% in the year-earlier period. The recent interest rate hikes by Norges Bank are likely 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 improved efficiency, a more favourable interest rate environment and moderate loan growth, with lending to retail clients growing year on year by 5.8% and the corporate market by 9.9%. SSF's net interest income increased to NOK350 million in the first three months of 2023 from NOK257 million in the year-earlier period. We also note the relatively low contribution of net fees and commission income to the bank's profitability, comprising only around 7.7% of its total revenue in the first three months of 2023.

In recent years, IT-related expenses were increasing because of the bank's ambitious investments in new digital solutions to offer competitive products to its customers. The NOK127 million operating expenses incurred in the first three months of 2023 translated into a reported cost-to-income ratio of 31.7%, considerably lower than 36.7% in the first three months of 2022 (full-year 2022: 38%).

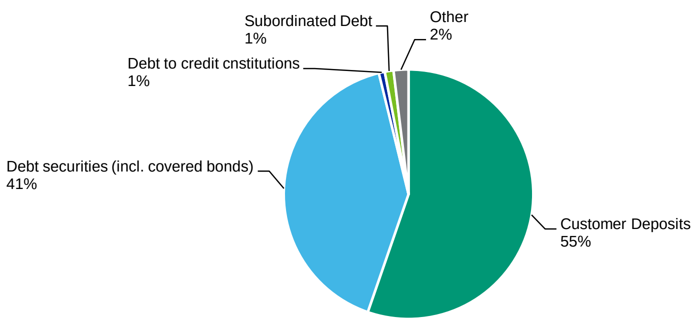
The increase in the ratio in 2022 was mainly because of the negative result from the revaluation of bank's financial instruments. Cost of risk was low at -0.03% in the first three months of 2023, but up from 0.12% in the year-earlier period.

The baa2 score we assign to Profitability in the bank's scorecard takes into consideration the likely strong performance on the back of higher interest rates 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 55% of non-equity funding as of March 2023 (see Exhibit 5), while around 59% 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 41% of total non-equity funding as of March 2023), 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 March 2023



Source: Bank's disclosures

Based on our Banks methodology, we reflect the stability of covered bonds relative to unsecured market funding through an adjustment to market funds/tangible banking assets and our adjusted ratio for the bank was 26.9% as of March 2023. Although SSF's size somewhat limits its ability to undertake large benchmark issuances, we view the bank's larger issuances positively because of their eligibility as liquid assets under the liquidity coverage ratio (LCR) rules, which extend the bank's investor base. The bank reported a net stable funding ratio of 123% as of March 2023.

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

The bank's stock of liquid banking assets is adequate, with liquid assets mainly comprising government securities and covered bonds. The bank's holdings are mostly Norwegian covered bonds, which lead to some concentration risk, similar to regional peers. As of March 2023, SSF's liquid banking assets totalled 11.7% of tangible banking assets, broadly in line with 11.6% in 2022, which is incorporated in our scorecard. The bank's LCR was 153% as of March 2023, down from 165% as of year-end 2022.

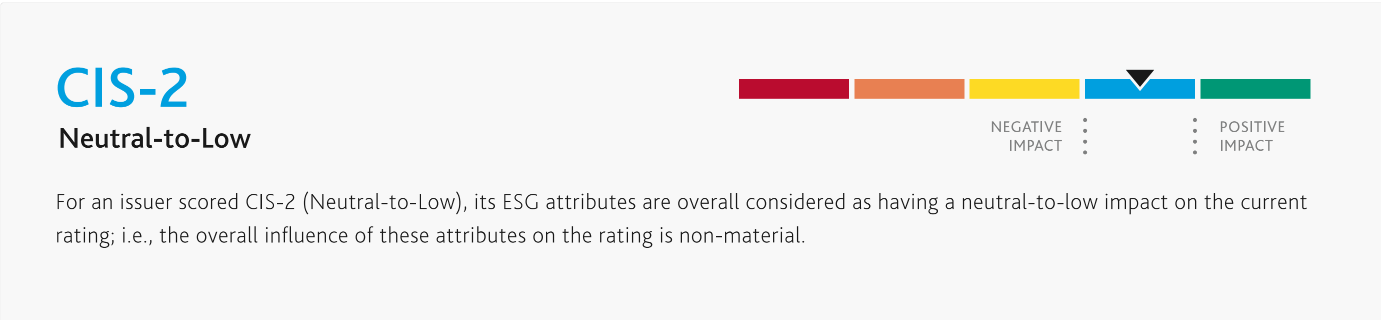
Source of facts and figures cited in this report

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 9 August 2018.

ESG considerations

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

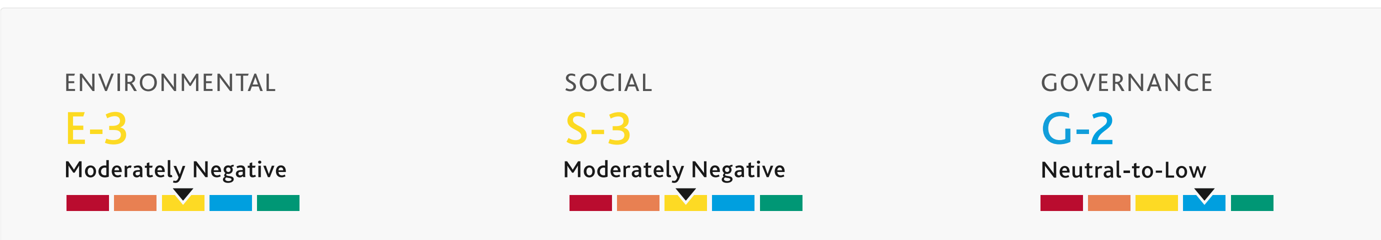
Exhibit 6
ESG Credit Impact Score



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 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 EU's Bank Recovery and Resolution Directive has been transposed into Norwegian law, applicable from 1 January 2019, which confirmed our current assumptions regarding the LGF analysis. We assume a residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and 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 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 year-end 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 49% in retail lending and around 37% in the corporate/SME market as of March 2023. 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 SSF's debt and deposits low (in line with that of similarly sized domestic peers), resulting in no rating uplift.

Counterparty Risk (CR) Assessment

SSF's CR Assessment is 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 buffer against default provided by junior deposits, senior unsecured, subordinated debt 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 A1/P-1

The CRR is positioned three notches above the Adjusted BCA of baa1 and at the same level as the CR 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 judgement. When read in conjunction with our research, a fulsome presentation of our judgement 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		1,4%	aa2	↑	baa1	Geographical concentration	Sector concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		16,5%	aa2	↔	aa3	Access to capital	
Profitability							
Net Income / Tangible Assets		0,9%	baa1	↑	baa2	Earnings quality	
Combined Solvency Score			aa3		a3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		27,0%	baa2	↔	baa2	Extent of market funding reliance	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		11,6%	baa3	↔	baa3	Stock of liquid assets	
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	27 141	37,8%	30 815	43,0%
Deposits	36 020	50,2%	32 346	45,1%
Preferred deposits	26 655	37,2%	25 322	35,3%
Junior deposits	9 365	13,1%	7 024	9,8%
Senior unsecured bank debt	3 127	4,4%	3 127	4,4%
Junior senior unsecured bank debt	2 200	3,1%	2 200	3,1%
Dated subordinated bank debt	735	1,0%	735	1,0%
Preference shares (bank)	350	0,5%	350	0,5%
Equity	2 152	3,0%	2 152	3,0%
Total Tangible Banking Assets	71 725	100,0%	71 725	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	21,7%	21,7%	21,7%	21,7%	3	3	3	3	0	a1
Counterparty Risk Assessment	21,7%	21,7%	21,7%	21,7%	3	3	3	3	0	a1 (cr)
Deposits	21,7%	7,6%	21,7%	11,9%	2	3	2	3	0	a1
Senior unsecured bank debt	21,7%	7,6%	11,9%	7,6%	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
BUSTADKREDITT SOGN OG FJORDANE AS	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1

Source: Moody's Investors Service

REPORT NUMBER 1369489

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