

CREDIT OPINION

3 February 2021

Update

✓ Rate this Research

RATINGS

SpareBank 1 BV

Domicile	Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2 , Possible Upgrade
Type	LT Bank Deposits - Fgn Curr
Outlook	Rating(s) Under Review

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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SpareBank 1 BV

Update to credit analysis following placement of ratings on review for upgrade

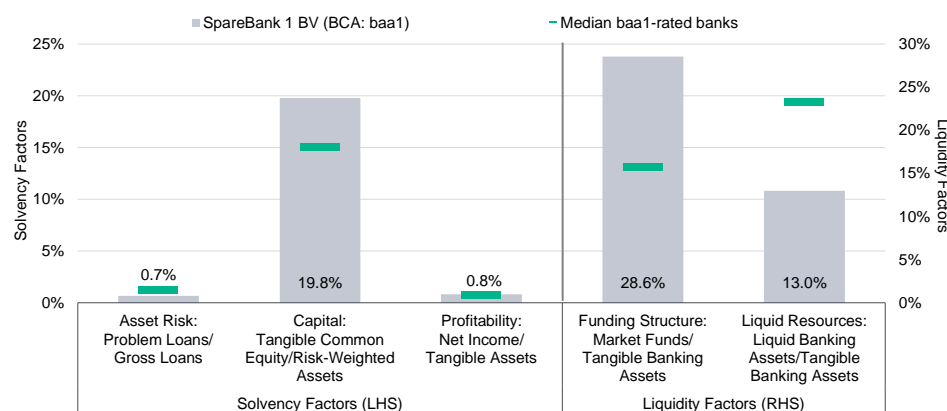
Summary

SpareBank 1 BV's foreign and local currency deposit ratings of A2/P-1 and issuer rating of A2 are placed on review for upgrade due to upward pressure following the application of our Advanced Loss Given Failure (LGF) analysis on the bank's baa1 Baseline Credit Assessment (BCA). The review will focus on the degree that the bank will issue additional loss-absorbing instruments, mainly in the form of senior non-preferred debt, following the assignment of minimum requirements for own funds and eligible liabilities (MREL), which may reduce loss severity for junior depositors and senior unsecured creditors. The review will also consider the likely increase in the bank's tangible banking assets which would follow the previously announced merger with SpareBank 1 Telemark (expected to complete in 2021 subject to regulatory approvals).

The bank's BCA of baa1 reflects its strong asset quality and relatively stable retail operations and earnings, as well as robust capitalisation combined with a solid retail deposit base. These strengths are balanced against the bank's significant exposure to mortgages and the real estate sector that makes it vulnerable to property price fluctuations, and concentration in the counties of Buskerud and Vestfold. The bank's BCA also considers its relatively high level of market funding, although mitigated by strong liquidity.

Exhibit 1

Rating Scorecard – Key financial ratios



These represent our [Banks methodology](#) Scorecard ratios, whereby asset risk and profitability reflect the weaker of the latest reported or average of last three year-end and latest reported ratios. Capital is the latest reported figure. Funding and liquidity ratios reflect the latest year-end figures.

Source: Moody's Financial Metrics

Credit strengths

- » SpareBank 1 BV's BCA benefits from Norway's [Very Strong - Macro Profile](#)
- » Capitalisation is robust, although capacity to raise new equity capital could prove challenging if needed
- » Good profitability and diversified earnings benefit from some one-off gains
- » Sound asset quality with low level of problem loans

Credit challenges

- » Credit concentration in the counties of Buskerud and Vestfold and exposure to Commercial Real Estate somewhat elevates asset risk
- » High reliance on confidence-sensitive market funding, which is partly mitigated by access to a resilient covered bond market and a sizeable deposit base
- » Elevated risks in the Norwegian housing market and household sector, mitigated by conservative underwriting standards, high wealth levels and a very strong repayment culture

Outlook

The outlooks on SpareBank 1 BV's deposit and senior unsecured rating are currently under review. The rating review for upgrade indicates that SpareBank 1 BV's compliance with MREL and the subordination requirement as well as the likely scale of increase in the bank's tangible assets which would follow the bank's previously announced merger with Sparebank 1 Telemark later this year, could result in the bank issuing sufficient additional loss-absorbing instruments to reduce the losses faced by senior creditors.

Factors that could lead to an upgrade

During the review period, SpareBank 1 BV's long-term bank deposit and long-term issuer ratings could be upgraded by one notch. The rating upgrade is subject to 1) the merged bank's future funding plans in combination with the application of Moody's advanced forward-looking LGF analysis on the bank's liability structure and 2) the combined bank's continued strong performance demonstrated by a sustained low level of problem loans, good access to capital markets and sustained robust earnings without compromising its risk profile.

Factors that could lead to a downgrade

Given the review for upgrade, Moody's is unlikely to downgrade SpareBank 1 BV's ratings during the review period. However, future downward rating pressure would emerge if (1) SpareBank 1 BV's problem loan ratio was to deteriorate materially as a result of the Coronavirus outbreak; (2) financing conditions were to become more difficult; (3) its risk profile were to increase, for example as a result of an increasing exposure to more volatile sectors such as commercial real estate; and/or (4) macroeconomic environment were to deteriorate leading to adverse developments in the Norwegian real-estate market.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

SpareBank 1 BV (Consolidated Financials) [1]

	09-20 ²	12-19 ²	12-18 ²	12-17 ²	12-16 ²	CAGR/Avg. ³
Total Assets (NOK Billion)	53.5	51.7	48.9	45.7	32.6	14.1 ⁴
Total Assets (USD Million)	5,714.9	5,884.1	5,647.6	5,585.4	3,787.6	11.6 ⁴
Tangible Common Equity (NOK Billion)	5.1	4.9	4.6	4.1	2.8	17.0 ⁴
Tangible Common Equity (USD Million)	547.6	556.7	526.9	504.0	330.5	14.4 ⁴
Problem Loans / Gross Loans (%)	0.5	0.6	0.8	0.7	0.7	0.7 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	19.8	19.7	18.3	23.1	21.0	20.4 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	4.1	5.1	6.8	6.5	6.1	5.7 ⁵
Net Interest Margin (%)	1.5	1.5	1.4	1.6	1.4	1.5 ⁵
PPI / Average RWA (%)	2.3	2.1	2.5	2.7	2.4	2.4 ⁶
Net Income / Tangible Assets (%)	0.8	1.0	1.0	0.9	0.9	1.0 ⁵
Cost / Income Ratio (%)	49.6	51.6	49.3	56.8	56.7	52.8 ⁵
Market Funds / Tangible Banking Assets (%)	27.3	28.6	30.6	29.9	29.9	29.2 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	12.3	13.0	13.3	13.9	14.1	13.3 ⁵
Gross Loans / Due to Customers (%)	170.8	173.9	177.6	178.1	184.8	177.1 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

SpareBank 1 BV is a Norwegian local savings bank that provides retail and corporate financial products and services, from loans and deposit facilities to insurance, pension, payment, leasing, real estate brokerage and accounting services. As of 30 September 2020, the bank had total consolidated assets of around NOK53.5 billion (including assets transferred to jointly own covered bond companies). SpareBank 1 BV is the 8th largest savings bank and 11th largest commercial bank in Norway, but also the fifth largest bank in the SpareBank 1 Alliance, which constitutes of 14 independent regional savings banks. The purpose of the SpareBank 1 Alliance is to provide competitive financial services while exploiting economies of scale in terms of both low costs and high quality products and services. In addition, the alliance helps secure the member banks' value creation for the benefit of their own region and the banks' owners.

Recent developments

The nascent global economic recovery is under threat from rising COVID-19 cases and even with a gradual recovery, we expect 2021 real GDP in most advanced economies to be below pre-coronavirus levels, and we assume that difficulty in controlling the virus will hinder the gradual process of recovery in the short term. But over time, we expect better pandemic management and the availability of an effective vaccine or treatments to reduce the importance of the virus as a macroeconomic variable.

Our forecasts assume that an effective vaccine is unlikely to be available widely before the middle of 2021. Thus, the recovery path is still uncertain and will remain highly dependent on: (1) the development and distribution of a vaccine, (2) effective pandemic management, and (3) government policy support.

We note that since March 2020, Norway's central bank, the Ministry of Finance and the Norwegian FSA have taken a number of actions aiming to alleviate the impact on the economy from both the coronavirus lockdown and the plunge in oil prices. These measures include the reduction of the key policy rate by 150 basis points (bps), reducing banks' countercyclical buffer requirement by 150 bps, providing special F-loans to banks to help manage any funding and liquidity stress, as well as extension of unemployment benefits and various social policy schemes to support individuals. We believe these measures will help alleviate the negative impact stemming from the coronavirus outbreak, and will largely sustain borrowers' solvency in the longer term. We also expect Norway's central bank to raise rates before its Nordic and European peers.

On 30 November 2020, SpareBank 1 BV announced its intention to merge with SpareBank 1 Telemark, subject to regulatory approvals from both the Norwegian Financial Authority and Competition Authority. The size of the transaction will have a material impact

on SpareBank 1 BV's liability structure and subsequently the amounts of loss-absorbing instruments required to fulfill regulatory requirements. The review will consider whether the bank's future funding plans will deliver sufficient volumes of additional loss-absorbing instruments to reduce loss severity for depositors and senior unsecured creditors by end 2023 according to Moody's Advanced LGF analysis. It is anticipated that deposit and issuer ratings could benefit from an additional notch of support to the current two notched above the Adjusted BCA.

Detailed credit considerations

Norway's 'Very Strong-' Macro Profile remains supportive towards the bank's stand alone credit profile, despite economic challenges expected in 2020-21

Although Norway's operating environment is deteriorating as a result of the global outbreak of Coronavirus and the plunge in oil prices in 2020, we believe that the banking system still benefits from the government's generally strong fiscal flexibility and countercyclical buffers available through its sovereign oil fund to respond to economic shocks.

SpareBank 1 BV 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 contracted in 2020, although we anticipate it will rebound in 2021. Unemployment peaked in March 2020 at 10.6% according to the Norwegian Labour and Welfare Administration and most recently stood at 3.8% as of year-end 2020 from 2.2% as of year-end 2019¹, which combined with the low economic activity will inevitably impact banks' credit growth, asset quality and earnings that will be strained from elevated credit costs.

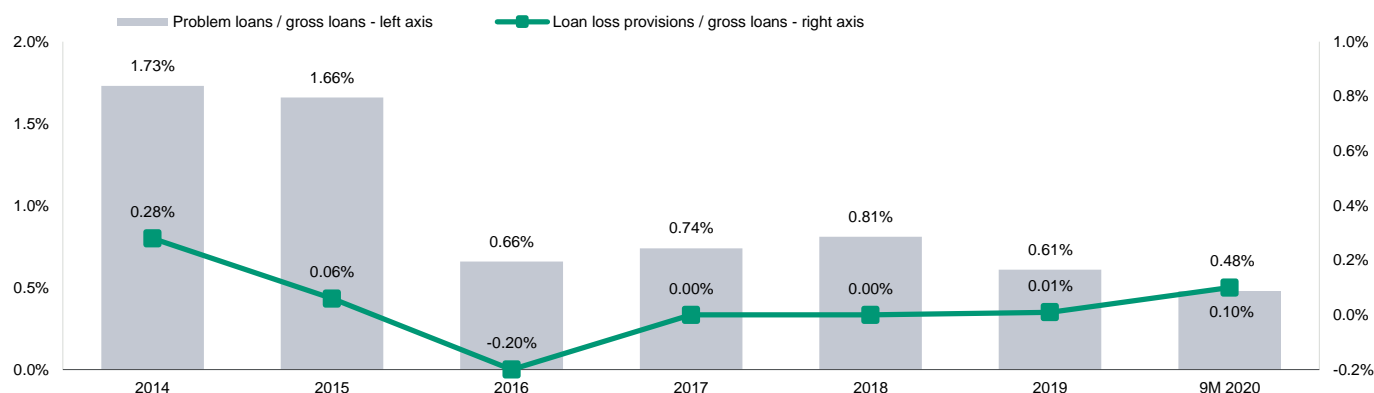
Sound asset quality with low level of problem loans, although credit concentration and exposure to Commercial Real Estate elevate asset risk

SpareBank 1 BV's operations are geographically concentrated in the counties of Vestfold and Buskerud (around 89% of gross loans at year-end 2019), located in south-eastern Norway. The bank is deeply entrenched in the local community (around a quarter of the population are public servants), a common feature among the Norwegian savings banks, as the business model entails a social responsibility and commitment to the community.

SpareBank 1 BV's reported problem loans ratio (Stage 3 loans according to IFRS 9 as a percentage of gross loans, including loans transferred to the covered bond companies) of 0.5% as of end-September 2020, a slight decrease from 0.6% as of year-end 2019. The strong credit quality of the bank's loan book reflects its refined credit processes with an increasingly sophisticated risk management framework, but also the consistent decline in the average probability of default (PD) in its corporate book.

The sound credit quality of the bank translates into very low credit costs, with the annual loan loss provisions amounting to only 0.03% on average between 2014 and 2019, with a peak in credit costs in 2014, reaching 0.28% of gross loans (Exhibit 3). However, provisioning has increased as a result of the coronavirus outbreak and increased economic uncertainty and stood at 0.10% of gross loans for the first nine months of 2020, which is still considered low in an international context and compares well with similarly-rated peers.

Exhibit 3

Sound asset quality of retail-dominated loan book translates into low loan losses

Note: From 1 January 2018 and onwards, problem loans are defined as IFRS 9 Stage 3 loans.

Source: Moody's Financial Metrics, Company reports

The healthy asset quality of the bank is supported by a loan book dominated by retail exposures, as Norwegian retail mortgages have historically entailed low risk. Retail loans at SpareBank 1 BV accounted for 82% of gross loans (including loans transferred to the covered bond companies) at end-September 2020.

The relative stability of housing prices in Vestfold and Buskerud in the past few years mitigates the risk of asset quality deterioration, and we expect Norwegian households to continue servicing their debt without difficulties despite the coronavirus induced economic disruption which resulted in an increased level of provisioning for all banks. In contrast to Oslo, house prices in the bank's areas of operations have been below the Norwegian average and experienced a stable growth without peaks or significant corrections. Nonetheless, given the bank's material exposure to mortgage loans, a potential serious slowdown in the Norwegian economy is likely to leave it vulnerable to house price fluctuations and impaired loan affordability by borrowers.

Furthermore, SpareBank 1 BV's substantial exposure within its corporate book to the cyclical real estate and construction sectors (approximately 82% of its corporate book and 15% of total gross loans at end-September 2020) poses a downside risk, potentially rendering the bank vulnerable to changes in interest rates and real estate prices in the region.

Accordingly, we assign SpareBank 1 BV an Asset Quality Score of baa1, which includes negative adjustments to better capture risks stemming from the bank's geographical and sector concentrations.

Capitalisation is robust, although capacity to raise new equity capital could prove challenging if needed

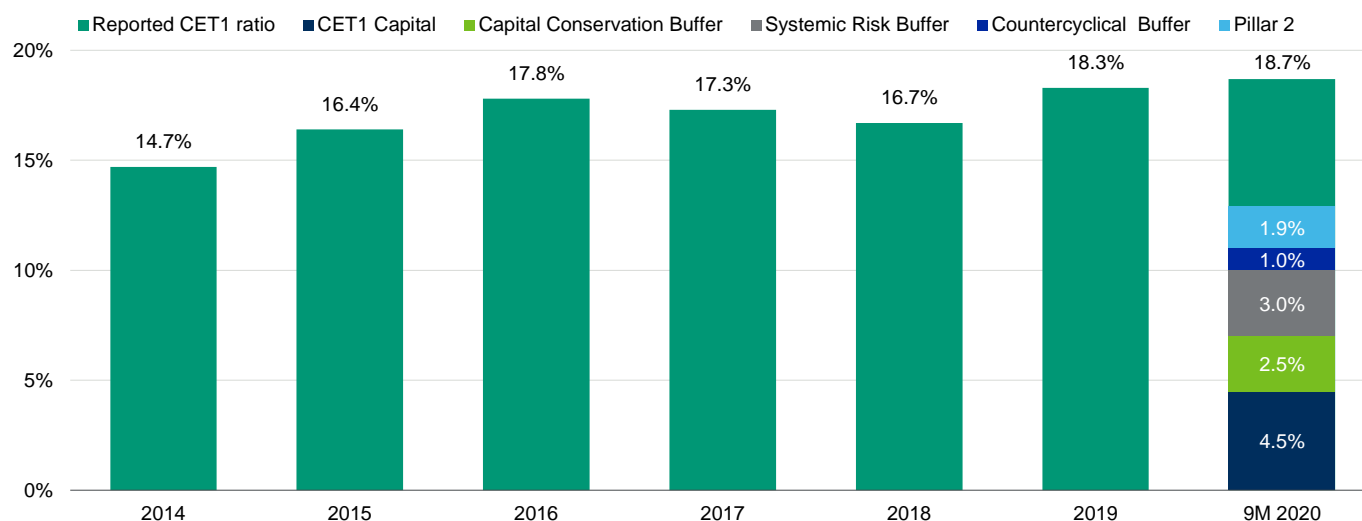
In response to the global coronavirus outbreak and resulting economic stress, the Norwegian FSA has revised banks' capital requirements during the first quarter of 2020. Accordingly, the countercyclical capital buffer requirement has been lowered by 150 basis points to 1% to allow more flexibility, while banks were requested to keep total dividend distributions within a maximum of 30% of cumulative annual profits for the years 2019 and 2020, until 30 September 2021.

SpareBank 1 BV's capitalisation is robust, as evidenced by its Common Equity Tier 1 (CET1) ratio of 18.7% and total capital ratio of 21.9% at end-September 2020, comparing favourably globally and with its similarly-rated local peers. The bank comfortably fulfills its regulatory CET1 capital requirement of 12.9% (including a pillar 2 requirement of 1.9%) with a sizeable headroom as of end-September 2020. The bank's sound solvency is also demonstrated in its unweighted capital metrics. The bank reported a leverage ratio of 8.5% as of end-September 2020, which is high by international standards and well above the regulatory minimum requirement of 5% in Norway.

SpareBank 1 BV applies the standardised approach for calculating its regulatory capital requirements, meaning that its assets are assigned higher risk weights than under the Internal Ratings Based (IRB) approach. With the implementation of the EU capital adequacy rules into the EEA agreement the Basel I floor was removed in Norway from January 2020 onwards, but had no real impact on SpareBank 1 BV's capital metrics as it uses the standard method for calculating credit risk. However, the introduction of a discount for SME exposures based on EU's CRD IV directive, will confer around 40 basis points benefit to the bank's CET1 ratio. We also note that,

following a decision by the Ministry of Finance on 11 December 2019, the bank will have to comply with an increase in the systemic risk buffer to 4.5% (from 3%) by the end of 2022, which will bring its pro-forma CET1 requirement to 14.4%. We expect the bank to be able to comfortably comply with its regulatory requirements.

Exhibit 4

SpareBank 1 BV's reported CET 1 ratio and required capital buffers

Source: Issuer reports

Equity certificates are an important part of SpareBank 1 BV's capital base (equity certificate fraction of 54.7% relative to the bank's total equity in September 2020), a common feature among Norwegian savings banks. The balance of the bank's equity base consists of primary capital (no owners). Raising capital in case of need during difficult economic periods could prove challenging for SpareBank 1 BV, given its ownership structure in view of the potential dilution effect.

This limits the bank's flexibility in terms of dividend payments (target of at least 50%) and capital retention, and could make it difficult for the bank to access new capital. The two foundations, SpareBank 1 Stiftelsen BV and Sparebankstiftelsen Nøtterøy – Tønsberg, are the two largest stakeholders in the bank having a joint stake of around 39%. We note that these foundations are considered long-term and financially strong owners, with its bylaws stating that it shall maintain its interest through participation in equity certificate issues.

Considering our assessment of SpareBank 1 BV's capitalisation, we assign a Capital Score of aa2 to the bank, incorporating a negative adjustment to reflect the potential challenges in accessing new capital if need be.

Good profitability and diversified earnings but a more challenging operating environment will pressure margins

In response to the economic stress from the coronavirus outbreak the Norges Bank has carried out three rate cuts totaling 150 basis points since March 2020, while prior to this period the key policy rate was on a rising trend. Low loan rates (interest rate adjustment was implemented quicker than the usual 6 weeks notice) coupled with an already fierce competition among Norwegian banks will put pressure on SpareBank 1 BV's net interest margin and profitability metrics in 2020.

The bank reported a strong annualised Return on Equity (ROE) of 10.5% in the first nine months of 2020, although we note that the normalised ROE excluding one-off items is around 9.1%. The bank's results in 2020 were affected by increased provisioning costs and losses on financial investments booked during Q1 as a result of coronavirus outbreak and introduction of lockdown measures. Losses on loans stood at NOK33.3 million as of September 2020, compared with just NOK5.8 million a year earlier. The bank's results were also positively affected by gains of around NOK53.0 million from the Fremtind insurance merger transaction in 2020 and NOK71.9 million in 2019.

The bank generally exhibits good profitability metrics (see Exhibit 5). Stable retail banking operations supported SpareBank 1 BV's profitability, with net interest income (including net interest income from the covered bond companies booked as commission income)

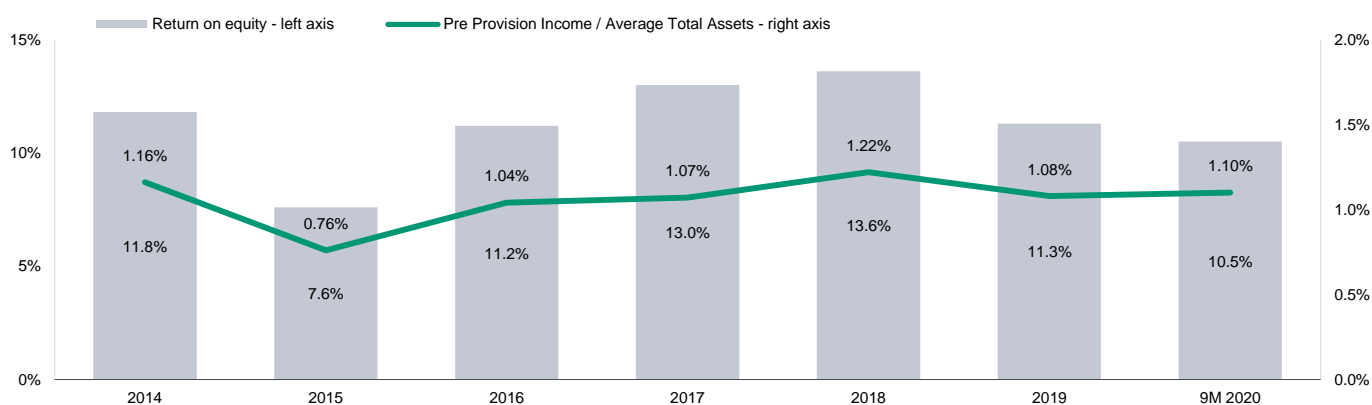
being its most important source of income. As of September 2020, net interest income constituted around 69% of operating income (excluding gains from financial investments).

Net commission and other operating income reflects income from associated companies jointly owned within the SpareBank 1 Alliance and the bank's own subsidiaries. In addition, the wide range of products offered by the bank and its subsidiaries creates valuable opportunities for cross-selling to the acquired customers from SpareBank 1 Nøtterøy-Tønsberg, and enables the bank to strengthen its operating income.

Competition is intense in the bank's area of operations, and the bank has a limited pricing power compared to the largest national players, which usually reprice their loan books before smaller banks do. Accordingly, we expect that the lower lending rates combined with intense competition will put further pressure on the bank's net interest income and margins going forward.

Exhibit 5

SpareBank 1 BV exhibits sound profitability metrics



Source: Moody's Investors Service, Issuer reports

SpareBank 1 BV's cost base has been elevated relative to peers, with a reported cost-to-income ratio (excluding financial investments) of 50.8% as of end-September 2020, down from 53.2% in September 2019, although the reported ratios include the one-time positive effects relating to Fremtind transaction.

As a member of the SpareBank 1 Alliance, the bank benefits from its economies of scale and access to digitalisation solutions which will enable it to operate with a lighter cost base. We note that in order for the bank to remain competitive it has implemented various digitalisation innovations, including the initiation of 76% of all mortgage loans through digital channels, the development of a client profit analysis application and the new digital real estate broker, which will go some way in improving its efficiencies.

High reliance on confidence-sensitive market funding, which is partly mitigated by access to a resilient covered bond market and a sizeable deposit base

SpareBank 1 BV's funding profile is dominated by deposits and covered bonds, similar to other Norwegian savings banks. As of end-September 2020, customer deposits accounted for around 54% of the bank's non-equity funding (on a Moody's adjusted basis, including covered bonds issued by the jointly owned covered bond companies). Total bank's customer deposits increased robustly by around 6% year-on-year as of end-September 2020, while retail market deposits constituted around 62% of total deposits. This strengthens SpareBank 1 BV's funding profile as we consider retail deposits to be a more stable source of funding compared to corporate deposits.

The bank is also highly dependent on confidence-sensitive market funding to finance its operations. Our market funding ratio (market funds to tangible banking assets including covered bond loans) for the bank was a relatively high 27.3% as of end-September 2020. We view this as a weakness in the bank's funding profile, as we do for most Norwegian banks, because market funding can become more expensive and/or restricted in times of market stress.

The majority of the banks market funding is in the form of covered bonds issued through covered bond companies jointly owned with other members of the SpareBank 1 Alliance (SpareBank 1 Boligkreditt for residential mortgages and SpareBank 1 Næringskreditt for commercial mortgages). At end-September 2020 the bank had transferred retail mortgages worth NOK12.7 billion and commercial real estate loans worth NOK0.7 billion to these vehicles, constituting together around 29% of its gross loan book including the transferred loans.

While we view positively the diversification benefit of covered bond funding, its extensive use increases the amount of pledged assets unavailable for unsecured bondholders, including depositors in liquidation. As reflected in our methodology, we globally reflect the relative stability of covered bonds compared to unsecured market funding through a standard adjustment. In addition, we expect that the bank's MREL requirement will induce the bank to refinance around NOK2-3 billion of maturing senior preferred debt (total outstanding of NOK7.5 billion in September 2020) with senior non-preferred debt (Tier 3 capital).

SpareBank 1 BV's sizeable liquid reserves, constituting 12.3% of the bank's tangible banking assets as of end-September 2020, partly mitigate risks associated with its high reliance on market funding. However, we note that this ratio understates the core liquidity of the bank, given that it does not take into account the liquid assets held by SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Accordingly, we incorporate a positive adjustment in the assigned Liquid Resources score to reflect the additional source of liquidity stemming from the covered bond companies.

The main components of the bank's liquidity reserves are highly-rated covered bonds, sovereign and municipality bonds. The bank's high Liquid Coverage Ratio (LCR) of 153% as of end-September 2020 is in line with Norwegian banks average of 153% and well above the regulatory minimum requirement of 100%. We expect the bank to maintain a relatively conservative liquidity in order to curb any refinancing risks, while its net stable funding ratio (NSFR) is also comfortably above 100%.

ESG considerations

In line with our general view of the banking sector, Sparebank 1 BV's has low exposure to Environmental risks and moderate exposure to Social risks. See our [Environmental](#) and [Social](#) risk heatmaps for further information.

Norway, similarly to the European Union, has policies in place that ensure new housing to be energy-efficient, which enables banks to gather mortgages for asset pools to issue green bonds. Such policies also help limit environmental risks for Norwegian banks with large retail exposure and primarily mortgage lending activity, which should help strengthen the bank's credit profile. The bank is taking various initiatives to promote and integrate in its business the UN's sustainable development goals, including those related to 'decent work and economic growth' and 'sustainable cities and communities'.

We believe banks face moderate social risks. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. In addition, we regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. See our [social risk heat map](#) for further information.

Governance is highly relevant for Sparebank 1 BV, as it is to all players in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Corporate governance remains a key credit consideration and requires ongoing monitoring. However, we currently do not have any governance related concerns over SpareBank 1 BV.

Support and structural considerations

Loss Given Failure analysis

The EU Bank Recovery and Resolution Directive (BRRD) has entered into force as of 1 January 2019 in Norway, which confirms our current assumptions regarding LGF analysis. For our resolution analysis, we assume residual tangible common equity of 3% and losses post-failure 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 to senior unsecured debt. These are in line with our standard assumptions.

For SpareBank 1 BV's long-term deposit ratings, we have considered the likely impact on loss-given-failure of the volume of deposits and the amount of debt subordinated to them. This has resulted in a Preliminary Rating Assessment of two notches above the Adjusted BCA, reflecting very low loss-given-failure.

The review for upgrade on SpareBank 1 BV's long-term bank deposit and long-term issuer ratings will consider the degree to which meeting MREL and the subordination requirement will result in the bank issuing sufficient additional loss-absorbing instruments to reduce the losses faced by senior creditors following its expected merger with SpareBank 1 Telemark later this year.

Moody's believes that there is a low likelihood that the implementation of revisions to the Bank Recovery and Resolution Directive (BRRD2) in Norway will result in a significantly lower level of junior senior issuance by the bank. In particular the agency does not expect the application of the directive's subordination cap (equivalent to 27% of risk weighted assets) to significantly reduce the level of subordination for Norwegian banks currently in receipt of a recapitalisation requirement. This is because the framework includes a number of potential exceptions to the cap, particularly in the case of larger banks, or for those banks where there is an assumption that use of resolution funding would be required to facilitate resolution.

Government support considerations

SpareBank 1 BV benefits from a well-established market position in the counties of Buskerud and Vestfold. Whilst the bank's market share in this region is significant, it is small in a national context. We also note that the close proximity of the bank's home region to Oslo means that a number of other Norwegian banks are present in the area. We therefore assume a low probability of government support for SpareBank 1 BV's deposits, CRA, and CRR ratings resulting in no rating uplift. Moreover, our government support assumptions are driven by the recent implementation of the EU's BRRD in Norway (effective as of 1 January 2019).

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

SpareBank 1 BV's CR Assessment is positioned at A1(cr)/Prime-1(cr)

SpareBank 1 BV's CR Assessment is positioned at A1(cr)/Prime-1(cr), three notches above the bank's Adjusted BCA of baa1, based on the substantial cushion against default provided to the senior obligations represented by the CRA by subordinated instrument. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CRA captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

Counterparty Risk Rating (CRR)

Moody's Counterparty Risk Ratings are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

SpareBank 1 BV's CRR is positioned at A1/Prime-1

The CRRs are positioned three notches above the Adjusted BCA of baa1, reflecting the extremely low loss-given-failure from the high volume of instruments that are subordinated to 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 6

SpareBank 1 BV

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		0.7%	aa1	↔	baa1	Geographical concentration	Sector concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		19.8%	aa1	↔	aa2	Access to capital	
Profitability							
Net Income / Tangible Assets		0.8%	baa1	↔	baa3	Expected trend	
Combined Solvency Score			aa2		a3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		28.6%	baa2	↔	baa2	Extent of market funding reliance	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		13.0%	baa3	↔	baa2	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			17,919		33.5%	20,562	38.5%
Deposits			25,914		48.5%	23,270	43.5%
Preferred deposits			19,176		35.9%	18,217	34.1%
Junior deposits			6,738		12.6%	5,053	9.5%
Senior unsecured bank debt			7,361		13.8%	7,361	13.8%
Dated subordinated bank debt			400		0.7%	400	0.7%
Preference shares (bank)			250		0.5%	250	0.5%
Equity			1,603		3.0%	1,603	3.0%
Total Tangible Banking Assets			53,447		100.0%	53,447	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned	Additional	Preliminary
	Instrument	Sub-	Instrument	Sub-	De Jure	De Facto	Notching	LGF		
	volume +	ordination	volume +	ordination			Guidance	notching	Notching	Rating
	subordination		subordination				vs.			Assessment
							Adjusted			
							BCA			
Counterparty Risk Rating	27.4%	27.4%	27.4%	27.4%	3	3	3	3	0	a1
Counterparty Risk Assessment	27.4%	27.4%	27.4%	27.4%	3	3	3	3	0	a1 (cr)
Deposits	27.4%	4.2%	27.4%	18.0%	2	3	2	2	0	a2
Senior unsecured bank debt	27.4%	4.2%	18.0%	4.2%	2	2	2	2	0	a2

Instrument Class	Loss Given		Additional	Preliminary Rating	Government		Local Currency	Foreign
	Failure	notching			Support	notching	Rating	Currency
				Assessment				Rating
Counterparty Risk Rating	3		0	a1		0	A1	A1
Counterparty Risk Assessment	3		0	a1 (cr)		0	A1(cr)	
Deposits	2		0	a2		0	A2 RUR Possible Upgrade	A2 RUR Possible Upgrade
Senior unsecured bank debt	2		0	a2		0	A2 RUR Possible Upgrade	A2 RUR Possible Upgrade

[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 7

Category	Moody's Rating
SPAREBANK 1 BV	
Outlook	Rating(s) Under Review
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1 ¹
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2 ²

[1] Rating(s) within this class was/were placed on review on January 29 2021 [2] Placed under review for possible upgrade on January 29 2021

Source: Moody's Investors Service

Endnotes

1 Norwegian Labour and Welfare Administration (NAV): Registered Unemployed - December 2020

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