

Rating Action: Moody's assigns A2 issuer ratings to SpareBank 1 BV; stable outlook

04 Sep 2018

Limassol, September 04, 2018 -- Moody's Investors Service, (Moody's) has today assigned A2 foreign and local currency long term issuer ratings to the Norwegian bank SpareBank 1 BV, with a stable outlook. Issuer ratings express an opinion of the ability of the bank to honor senior unsecured debt and debt like obligations. SpareBank 1 BV's issuer ratings are in line with the bank's existing A2 long term deposit ratings. All other ratings and rating inputs of SpareBank 1 BV are unaffected by today's action.

The complete list of assigned ratings can be found at the end of this press release.

RATINGS RATIONALE

The primary driver for the A2 long term issuer ratings assigned to the bank is its robust asset quality, sound capital levels and resilient profitability in the context of intense competition in the mortgage business, balanced against a high reliance on confidence sensitive market funding. These credit characteristics translate into a standalone baseline credit assessment (BCA) of baa1 for the bank.

SpareBank 1 BV's long term issuer ratings of A2 are also underpinned by the substantial cushion of loss-absorbing debt issued by the bank, as reflected in Moody's advanced loss given failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes in the event of a failure. The LGF analysis for SpareBank 1 BV's issuer ratings indicates a very low loss-given-failure, leading to two notches of rating uplift from the bank's baa1 adjusted BCA.

We assume a low probability of government support for SpareBank 1 BV's issuer ratings, reflecting the upcoming implementation of the EU's bank recovery and resolution directive (BRRD) in Norway (effective as of 1 January 2019) and the bank's fairly limited systemic importance to the national payment system.

OUTLOOK

The ratings outlook on SpareBank 1 BV is stable as Moody's expects the bank to be able to offset expected margin pressure with improving efficiency, and to be able to maintain its solid capital base and sound asset quality, over the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE/DOWNGRADE

Upward rating momentum could develop if SpareBank 1 BV demonstrates (1) sustained low level of problem loans in both its retail and corporate books, combined with reduced sector concentration to commercial real estate; (2) continued good access to capital markets and improved liquidity; and/or (3) stronger earnings generation without compromising its risk profile.

Future downward rating pressure would emerge if (1) SpareBank 1 BV's problem loan ratio was to deteriorate materially; (2) financing conditions were to become more difficult; (3) its risk profile were to increase, for example as a result of increased exposure to more volatile sectors such as commercial real estate; and/or (4) macroeconomic environment were to deteriorate more than estimated, leading to adverse developments in the Norwegian real-estate market. Also a reduction in the rating uplift as a result of our LGF analysis could lead to downward rating pressure.

The ratings assigned today to SpareBank 1 BV are as follows:

Assignments:

..Issuer: SpareBank 1 BV

.... Long-term Issuer Rating, Assigned A2, stable

PRINCIPAL METHODOLOGY

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

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