

## Press Release

# Moody's assigns A2 issuer rating to SpareBank 1 Boligkreditt AS; Negative Outlook

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Moody's Investors Service, ("Moody's") has today assigned a first time A2 issuer rating, long- and short-term Counterparty Risk Assessment (CRA) of A1(cr) and Prime-1(cr) respectively, as well as long- and short-term Counterparty Risk Rating (CRR) of A1 and Prime-1 respectively to SpareBank 1 Boligkreditt AS, a specialized covered bond issuer owned by an alliance of 14 Norwegian savings banks.

The assigned ratings reflect Moody's view of the weighted-average credit profile of the larger individual banks forming the SpareBank 1 alliance as reflected in the ratings assigned, as well as the agency's assessment of the likelihood that these banks will support SpareBank 1 Boligkreditt in case of need. The assigned outlook on the issuer rating is negative, in line with the rating outlook assigned to the four largest owner banks reflecting potential downward rating pressure due to the implementation of a bank resolution regime in Norway from 1 January 2019.

SpareBank 1 Boligkreditt's primary business purpose is to provide access to the international covered bond markets to the 14 Norwegian savings banks belonging to the SpareBank 1 alliance, the second largest banking group in Norway with around 21.2% combined market share in residential mortgages as of June 2018. These banks have a collective legally-binding agreement to provide liquidity and capital support to SpareBank 1 Boligkreditt in case of need, the rating agency said. Although individual members operate independently from each other, Moody's takes into account in its assessment the various benefits that the SpareBank 1 alliance provides such as a shared information technology infrastructure, marketing and common non-core banking products/services through affiliate companies, which act as incentives for member banks to remain members of the SpareBank 1 alliance and support SpareBank 1 Boligkreditt.

A full list of affected ratings can be found at the end of this press release.

### RATINGS RATIONALE

The key drivers for SpareBank 1 Boligkreditt's long-term issuer rating of A2 are: 1) the relatively strong credit profiles of the larger banks that form the alliance, which is reflected in their assigned issuer ratings and the high quality assets they transfer to SpareBank 1 Boligkreditt; and 2) Moody's assessment of the probability that member banks would provide support to the covered bond entity, taking into account the balance of their obligations and incentives to do so under the SpareBank 1 structure.

- The anchor point for SpareBank 1 Boligkreditt reflects the larger owner banks' issuer ratings

SpareBank 1 Boligkreditt's A2 long-term issuer rating is mainly underpinned by the five largest member banks' issuer ratings (indicating a weighted-average issuer rating of A1), which collectively own 71.3% of SpareBank 1 Boligkreditt as of December 2018. Similarly, the CRA and CRR assigned to SpareBank 1 Boligkreditt, are also driven by the respective ratings assigned to the top five banks of the alliance, which are as follows including their shareholding based on the assets they transferred to SpareBank 1 Boligkreditt:

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- SpareBank 1 Østlandet (Issuer Rating of A1 negative, CRA of Aa3(cr)/P-1(cr), CRR of Aa3/P-1, shareholding of 21.6%)
- SpareBank 1 SMN (Issuer Rating of A1 negative, CRA of Aa3(cr)/P-1(cr), CRR of Aa3/P-1, shareholding of 20.7%)
- SpareBank 1 Nord-Norge (Issuer Rating of A1 negative, CRA of Aa3(cr)/P-1(cr), CRR of Aa3/P-1, shareholding of 17.8%)
- SpareBank 1 BV (Issuer Rating of A2 stable, CRA of A1(cr)/P-1(cr), CRR of A1/P-1, shareholding of 6.4%)
- SpareBank 1 SR-Bank ASA (Issuer Rating of A1 negative, CRA of Aa3(cr)/P-1(cr), CRR of Aa3/P-1, shareholding of 4.8%)

The credit profiles of the top five alliance banks constitute the anchor point that drives the ratings assigned to SpareBank 1 Boligkreditt. These alliance banks maintain relatively strong financial fundamentals, with limited variations in overall credit quality amongst individual members. While most of them focus on residential mortgages and commercial real-estate lending in a relatively small geographic area, which typically translate in high concentration levels, they also tend to feature similar strengths, such as strong overall asset quality metrics and robust capital buffers. Accordingly, all five banks have currently an outstanding baseline credit assessment (BCA) of baa1, reflecting their relatively solid financial position.

Moody's assessment of the member banks' credit risk profiles also incorporates an analysis of individual banks' liability waterfalls in line with the rating agency's Loss Given Failure (LGF) analysis. The results of the banks' respective LGF analysis are similar, indicating two notches uplift for banks' issuer ratings from their BCA, driven by the relatively high volume of senior debt and deposits that could absorb losses in a potential resolution scenario.

Moody's also notes that the four larger banks' credit profiles, with the exception of SpareBank 1 BV, also benefit from one notch of rating uplift due to government support, reflecting the agency's assumption of a moderate likelihood of support from the government in case of need. However, the implementation of the resolution framework in Norway from 1 January 2019 will likely induce Moody's to revise downwards its government support assumptions for these banks, as indicated by the negative outlook attached to their issuer ratings.

- Moody's view of the likelihood owner banks will support SpareBank 1 Boligkreditt in case of need

The ratings assigned to SpareBank 1 Boligkreditt incorporate Moody's view of the likelihood that the owner banks will support SpareBank 1 Boligkreditt and its creditors, which translates into a long-term Issuer rating of A2 and a long-term CRA of A1(cr) and CRR of A1. While there is no explicit commitment/guarantee from the banks to directly support SpareBank 1 Boligkreditt's obligations vis-à-vis its bondholders, the agency notes that legal and publicly-available agreements currently in place between the alliance banks and SpareBank 1 Boligkreditt safeguard its own access to adequate liquidity and capital.

Specifically, the owner banks have agreed to maintain SpareBank 1 Boligkreditt's common equity Tier 1 (CET1) capital ratio (13.1% as of December 2018) above its regulatory requirement (currently at 12.8%), and to subscribe to any new covered bond issues in case there is a disruption in the covered bond

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market. Moreover, in case one or more of owner banks are not able to provide their share of capital or liquidity, the remaining banks may be required by SpareBank 1 Boligkreditt to increase their contribution up to a maximum of twice their initial allocation.

Additionally, the agency's view also reflects other factors that contribute in its assessment such as the absence of any provision to avoid payment under the agreement, SpareBank 1 Boligkreditt's strategic fit and strong operational integration with the alliance banks, as well as the reputational and operational risks associated to the sharing of a common brand and a common technology platform.

### OUTLOOK

The negative outlook assigned to SpareBank 1 Boligkreditt's issuer rating is in line with the negative outlook assigned to the four larger banks' issuer ratings, and reflects Moody's expectation that it will revise downwards its government support assumptions for these banks, which will likely exert negative rating pressure to both the owner banks and SpareBank 1 Boligkreditt.

### WHAT WOULD MOVE THE RATINGS UP/DOWN

Positive pressure would develop on the ratings following improvements in the risk profile of a significant proportion of the owner banks, as evidenced by improving asset quality and profitability metrics and reduced concentration levels. A full guarantee of SpareBank 1 Boligkreditt's obligations by the owner banks would also result in an upgrade.

The ratings would be downgraded if the credit profile of a significant portion of the banks weakens significantly, as evidenced by worsening financial fundamentals or a reduced likelihood of the banks supporting SpareBank 1 Boligkreditt, as indicated by a loosening in the support agreements between SpareBank 1 Boligkreditt and the banks that are currently in place. SpareBank 1 Boligkreditt's ratings will also be downgraded in case the owner banks' ratings are downgraded due to the revision of our government support assumptions.

### LIST OF AFFECTED RATINGS

Issuer: SpareBank 1 Boligkreditt AS

Assignments:

....LT Issuer Rating, Assigned A2, Outlook assigned Negative

....LT Counterparty Risk Assessment, Assigned A1(cr)

....ST Counterparty Risk Assessment, Assigned P-1(cr)

....LT Counterparty Risk Rating, Assigned A1

....ST Counterparty Risk Rating, Assigned P-1

Outlook

...Outlook assigned Negative

SpareBank 1 Boligkreditt AS is based in Stavanger, Norway and had total assets of NOK245.5 billion as of December 2018 (€24.6 billion).

### PRINCIPAL METHODOLOGY

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

### REGULATORY DISCLOSURES

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