

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Sparebanken Vest's long-term deposit ratings, outlook stable; affirms Sparebanken Sor's long-term deposit ratings and changes outlook to positive on planned merger

02 Sep 2024

Stockholm, September 02, 2024 -- Moody's Ratings (Moody's) today affirmed all ratings of Sparebanken Vest, including its long-term deposit and senior unsecured debt ratings at Aa3 as well as the Baseline Credit Assessment (BCA) and Adjusted BCA at a3. The outlook on the long-term deposit and senior unsecured debt ratings of Sparebanken Vest remained stable.

Concurrently, we also affirmed all ratings of Sparebanken Sor including its long-term deposit and issuer ratings at A1. The bank's BCA and Adjusted BCA were also affirmed at baa1. The outlook on the long-term deposit and issuer ratings for Sparebanken Sor was changed to positive from stable.

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

RATINGS RATIONALE

AFFIRMATION OF THE BASELINE CREDIT ASSESSMENT

The affirmation of Sparebanken Vest's BCA at a3 and Sparebanken Sor's BCA of baa1 follows their announcement on 28 August 2024 of the planned all-share merger between the two banks. The merger is subject to approvals from the general assemblies of both banks and regulatory authorities, including the Norwegian FSA and Competition Authority, with an aim to complete the legal merger by the end of the second quarter of 2025.

The combination of the two savings banks would create the largest savings bank in Norway with a pro forma gross lending book of NOK429 billion across retail (56%), Bulder (13%), a digital retail bank, and corporate (31%), at end June 2024.

The announcement continues the ongoing consolidation trend among the Norwegian

savings banks that has taken place in recent years, largely driven by increased regulatory demands and complexity.

We view the planned merger as supportive to the combined entity's credit profile, as it should deliver cost and capital synergies over the next 2-3 years once the transaction is concluded, with potential also for revenue synergies as the enlarged franchise will attract a higher share of larger corporate customers. The two banks estimate annual cost reductions in the range of NOK350-400 million by 2028, primarily related to natural attrition of staff, scale advantages in procurement and IT related costs. In addition, while capital requirements for the merged entity will likely rise as a larger and systemically important bank, capital synergies are also likely to emerge resulting from the application of Sparebanken Vest's Internal ratings-based (IRB) model to Sparebanken Sor's portfolio (currently under the standardised approach).

We expect recurring profitability for the combined entity to be sound supported by strong operating efficiency, improved geographical footprint in the western and southern parts of Norway, complemented by the nationwide coverage through the digital bank 'Bulder'. The capital levels of the merged entity will likely remain high, in line with the existing strong capital metrics of the two individual banks.

We view execution risk as manageable because Sparebanken Vest and Sparebanken Sor already collaborate closely through the Frende Group, which comprises companies which provide leasing, insurance and asset management products to member banks' customers. Furthermore, there is a strong emphasis on achieving a balanced mix in senior leadership positions between the two banks and headquarters in Bergen and Kristiansand, respectively.

The affirmation of Sparebanken Vest's Aa3 long-term deposit and senior unsecured debt ratings also reflects our expectation that following the merger, the combined entity's Loss Given Failure (LGF) analysis will remain broadly unchanged, resulting in the same assumed losses for each creditor class in a resolution scenario.

OUTLOOK

The stable outlook on Sparebanken Vest's long-term deposit and senior unsecured debt ratings reflects our expectation that the combined entity's financial profile following the merger will be consistent with the bank's current standalone credit profile.

The change in outlook to positive from stable for the long-term deposit and issuer ratings of Sparebanken Sor, reflects our view that the bank's credit profile and ratings would be gradually aligned with those of Sparebanken Vest, should the acquisition and subsequently the anticipated legal merger successfully conclude.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Sparebanken Vest's BCA could be achieved if the bank demonstrates several of the following characteristics: excellent asset quality through the cycle with sound geographical diversification, sustainable strong profitability, contained increase in market funding and improved liquidity.

The ratings on Sparebanken Vest could be downgraded if nonperforming loans (NPLs) increase to levels above those of similarly rated peers, if the bank significantly increases its level of market funding, or if liquid assets fall substantially. Furthermore, the long-term deposits and senior unsecured debt rating could be downgraded if the bank issues substantially lower volumes of loss absorbing instruments than we currently expect following the merger.

The ratings on Sparebanken Sor could be upgraded following the successful completion of the merger with Sparebanken Vest.

Given the positive long-term deposit and issuer ratings outlook, we are unlikely to downgrade Sparebanken Sor's ratings during the outlook period. However, failure to proceed with the merger would likely result in Sparebanken Sor's ratings outlook reverting to stable. The ratings could also be downgraded as result of a reduction in the volumes of loss absorbing liabilities protecting depositors and creditors in case of failure.

LIST OF AFFECTED RATINGS

..Issuer: Sparebanken Vest

..Outlook Actions

....Outlook, Remains Stable

Affirmations:

.... Adjusted Baseline Credit Assessment, Affirmed a3

.... Baseline Credit Assessment, Affirmed a3

.... LT Counterparty Risk Assessment, Affirmed Aa3(cr)

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

.... LT Counterparty Risk Rating (Foreign Currency), Affirmed Aa3

.... LT Counterparty Risk Rating (Local Currency), Affirmed Aa3

.... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

.... ST Counterparty Risk Rating (Local Currency), Affirmed P-1

- ST Bank Deposits (Foreign Currency), Affirmed P-1
- ST Bank Deposits (Local Currency), Affirmed P-1
- Junior Senior Unsecured (Local Currency), Affirmed A3
- Subordinate Medium-Term Note Program (Foreign Currency), Affirmed (P)Baa1
- Senior Unsecured Medium-Term Note Program (Foreign Currency), Affirmed (P)Aa3
- Senior Unsecured (Foreign Currency), Affirmed Aa3 STA
- LT Bank Deposits (Foreign Currency), Affirmed Aa3 STA
- LT Bank Deposits (Local Currency), Affirmed Aa3 STA

..Issuer: Sparebanken Vest Boligkreditt AS

..Outlook Actions

....Outlook, Remains Stable

Affirmations:

- LT Counterparty Risk Assessment, Affirmed Aa3(cr)
- ST Counterparty Risk Assessment, Affirmed P-1(cr)
- LT Counterparty Risk Rating (Foreign Currency), Affirmed Aa3
- LT Counterparty Risk Rating (Local Currency), Affirmed Aa3
- ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1
- ST Counterparty Risk Rating (Local Currency), Affirmed P-1
- LT Issuer Rating (Local Currency), Affirmed Aa3 STA

..Issuer: Sparebanken Sor

..Outlook Actions

....Outlook, Changed To Positive From Stable

Affirmations:

- Adjusted Baseline Credit Assessment, Affirmed baa1

.... Baseline Credit Assessment, Affirmed baa1

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

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

.... LT Counterparty Risk Rating (Foreign Currency), Affirmed A1

.... LT Counterparty Risk Rating (Local Currency), Affirmed A1

.... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

.... ST Counterparty Risk Rating (Local Currency), Affirmed P-1

.... LT Issuer Rating (Foreign Currency), Affirmed A1, Outlook changed to POS from STA

.... LT Issuer Rating (Local Currency), Affirmed A1, Outlook changed to POS from STA

.... ST Bank Deposits (Foreign Currency), Affirmed P-1

.... ST Bank Deposits (Local Currency), Affirmed P-1

.... Junior Senior Unsecured (Local Currency), Affirmed Baa1

.... Senior Unsecured Medium-Term Note Program (Foreign Currency), Affirmed (P)A1

.... Senior Unsecured Medium-Term Note Program (Local Currency), Affirmed (P)A1

.... LT Bank Deposits (Foreign Currency), Affirmed A1, Outlook changed to POS from STA

.... LT Bank Deposits (Local Currency), Affirmed A1, Outlook changed to POS from STA

..Issuer: Sparebanken SOR Boligkreditt AS

..Outlook Actions

....Outlook, Changed To Positive From Stable

Affirmations:

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

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

... LT Counterparty Risk Rating (Foreign Currency), Affirmed A1

... LT Counterparty Risk Rating (Local Currency), Affirmed A1

... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

... ST Counterparty Risk Rating (Local Currency), Affirmed P-1

... LT Issuer Rating (Foreign Currency), Affirmed A1, Outlook changed to POS from STA

... LT Issuer Rating (Local Currency), Affirmed A1, Outlook changed to POS from STA

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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