MOODY'S

Rating Action: Moody's affirms Sparebanken Sor's deposit ratings at A1; Outlook changed to stable

23 Jan 2024

Paris, January 23, 2024 -- Moody's Investors Service (Moody's) today affirmed Sparebanken Sor's deposit ratings at A1/P-1 and its long-term issuer ratings at A1. Furthermore, the rating agency affirmed the Baseline Credit Assessment (BCA) and Adjusted BCA at baa1. The rating agency also affirmed Sparebanken Sor's Counterparty Risk Ratings (CRR) at A1/P-1, its Counterparty Risk Assessment (CRA) at A1(cr)/P-1(cr), its junior senior unsecured debt rating at Baa1 and its senior unsecured MTN programme ratings at (P)A1. The outlooks on the long-term deposit and issuer ratings were changed to stable from positive.

Moody's also affirmed the A1 long-term issuer ratings, A1/P-1 Counterparty Risk Ratings and A1(cr)/P-1(cr) Counterparty Risk Assessments of Sparebanken Sor Boligkreditt AS (SSB). The outlook on the long-term issuer ratings was changed to stable from positive.

RATINGS RATIONALE

The affirmation of Sparebanken Sor's baa1 BCA reflects the bank's strong asset-quality metrics, with nonperforming loans (NPLs)/gross loans (Moody's definition) of around 0.7% at end September 2023. Sparebanken Sor's loan book is dominated by retail mortgages which have been historically resilient with low default levels. The bank's corporate book is however exposed to risks stemming from (i) high single-borrower concentration, making it vulnerable in the event of a potential default of one of its large customers, and (ii) the bank's sizable exposure to commercial real estate (exposure to property management amounted to 157% of Common Equity Tier 1 Capital (CET1) at end-September 2023), where borrowers could struggle with the combination of higher refinancing rates and lower collateral values.

The bank's BCA of baa1 also captures its strong capital buffers, with a CET1 ratio of 17.2% as of September 2023, well above its regulatory minimum of 14.2%. The bank's leverage ratio of 9.8% at end September 2023 (Moody's calculations) compares favorably to similar sized peers, in part due to the bank's use of the standardized approach to calculating its risk-weighted assets (RWAs).

Sparebanken Sor has also improved its profitability, with the net income to tangible assets ratio increasing to 1.1% in the first nine months of 2023 from 0.8% in 2022 (Moody's calculations, annualized), supported by higher interest rates. The bank's cost-efficient structure and set-up will continue to support its core pre-provision income, in Moody's view. However, the bank's profitability is more reliant than peers on net interest income, which, in combination with the high share of floating rate loans, results in higher sensitivity to changes in interest rates.

Finally, a large part of Sparebanken Sor's sizeable deposit base are deposits from corporates and municipalities (34% and 19% respectively), which are more sensitive to confidence and pricing as they are typically larger and uninsured, although deposits from municipalities benefit from multi-years agreements about operational relationship enhancing their stickiness. The bank also remains reliant on market funding, which accounted for 29% of tangible banking assets as of September 2023, and which renders the bank susceptible to changes in investor sentiment.

The affirmation of Sparebanken Sor's A1 long-term deposit and issuer ratings reflects Moody's Advanced Loss Given Failure analysis, indicating an extremely low loss given failure for junior depositors and senior unsecured creditors, resulting in a three-notch uplift for the relevant ratings from the bank's baa1 Adjusted BCA. These ratings incorporate the rating agency's forward-looking view on expected future debt issuance.

RATING OUTLOOK

The outlook on Sparebanken Sor's long-term deposit and issuer ratings was changed to stable from positive, balancing the bank's robust capital, good asset quality, and improving pre-provision profitability, against Moody's view that risks from (i) credit concentrations and high exposure to sectors vulnerable to knock-on effects of elevated interest rates and core inflation, and (ii) the bank's confidence-sensitive funding dependence, limit the upside pressure on its BCA compared to higher rated local peers

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

An upgrade of the BCA could be achieved if the bank demonstrates several of the following characteristics: excellent asset quality through the cycle with higher geographical diversification, reduced borrower and sector concentrations in relation to its capitalization, sustainably strong profitability and earnings diversification from non-interest income, combined with improved deposit quality.

The ratings could be downgraded if 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 deposit and issuer ratings could be downgraded if the bank issues lower volumes of senior non-preferred (SNP) debt than we currently expect.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/rmc-documents/71997. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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