

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings upgrades SpareBank 1 Helgeland's long-term deposit ratings; changes outlook to stable**

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21 Oct 2024

Stockholm, October 21, 2024 -- Moody's Ratings (Moody's) has today upgraded SpareBank 1 Helgeland's long-term deposit and issuer ratings to A2 from A3. At the same time, we upgraded the Baseline Credit Assessment (BCA) and Adjusted BCA to baa1 from baa2, its short-term deposit ratings to P-1 from P-2, and its long-term Counterparty Risk Ratings (CRR) and Counterparty Risk Assessment (CR Assessment) to A1 and A1(cr), from A2 and A2(cr), respectively. The short-term CRRs and CR Assessment were affirmed at P-1 and P-1(cr), respectively.

The outlook on the long-term deposit and issuer ratings has been changed to stable from positive.

#### RATINGS RATIONALE

##### UPGRADE OF BASELINE CREDIT ASSESSMENT

The upgrade of the bank's BCA to baa1 from baa2, reflects its very high capitalisation, and improved profitability and funding profile, which benefits from access to covered bond funding through SpareBank 1 Boligkreditt AS (Spabol) after the bank's successful integration into the SpareBank 1 Alliance. These improvements are balanced against still sizable credit concentrations in northern Norway and the real estate sector, and significant reliance on market sensitive funding.

SpareBank 1 Helgeland's solvency is underpinned by its very high tangible common equity ratio of 19.3% as of June 2024. While this ratio is down slightly from 21.2% as of December 2022, we expect it to remain above 18% going forward. The bank's capitalisation is supported by its improved profitability and organic capital generation, benefiting from economies of scale due to the transaction and cooperation with SpareBank 1 Nord-Norge (SNN), as well as access to IT and risk solutions through the broader SpareBank 1 Alliance. Its core income and profitability has also risen due to elevated interest rates in recent years, which we expect to moderate over the next

12-18 months.

The bank's asset risk profile is constrained by very high geographic concentration in the district of Helgeland in northern Norway, comprising most of its lending, as well as sizable exposure to the cyclical real estate and construction sectors. The bank's non-performing loans ratio which trended down in recent years to 0.9% as of December 2022, aided by the transfer of lower-risk residential mortgages from SNN, has reverted to historical levels to 1.8% as of June 2024. This has been driven by several impaired corporate loans, highlighting the credit concentration risks in the bank's relatively small size loan book.

Concurrently, SpareBank 1 Helgeland's market funding reliance renders the bank vulnerable to any adverse changes in investor sentiment, although this has improved as the bank increasingly uses Spabol to access a broader set of covered bond investors. The bank's funding profile benefits from a sizable deposit base, made largely of retail customers. However, the bank's deposit base includes some concentration to individual depositors and local municipalities, posing some downside risks to its overall credit profile.

#### ADVANCED LOSS GIVEN FAILURE (LGF) ANALYSIS

According to our Advanced LGF analysis, SpareBank 1 Helgelands' depositors and senior debt creditors are likely to face very low potential losses in a resolution scenario because of the bank's high volume of junior deposits, meaning that losses would be spread over a large depositor base. As a result, the long-term deposit and issuer ratings of A2 incorporate two notches of rating uplift due to our LGF analysis.

Likewise, the long-term CRRs and CR Assessment are positioned at A1 and A1(cr) respectively, reflecting three notches of uplift from the baa1 Adjusted BCA.

#### OUTLOOK

The stable outlook on the bank's long-term deposit and issuer ratings reflects the bank's very high capitalisation and sound profitability, balanced against asset risks stemming from credit concentrations and still sizable market funding reliance.

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

SpareBank 1 Helgeland's BCA could be upgraded if the bank is able to materially lower its share of non-performing loans while increasing its geographical diversification and maintaining its very high capitalisation. The bank's deposit and issuer ratings could be upgraded if its liability structure changes to include substantially higher amounts of more junior debt.

The BCA could be downgraded if (1) the bank's problem loan ratio increases significantly, or its cost of risk rises sustainably above the historical average; (2) if

there is a significant increase in single-borrower, geographic or sector concentration levels; or (3) the bank increases its reliance on confidence-sensitive market funding.

There could also be downward pressure on the bank's ratings in case its liability structure changes, such that it increases the expected loss given failure for deposits and senior debt.

## 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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