CREDIT OPINION

13 June 2024

Update

Send Your Feedback

RATINGS

Sparebanken Sogn og Fjordane

Domicile	Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Sparebanken Sogn og Fjordane

Update following the affirmation of ratings

Summary

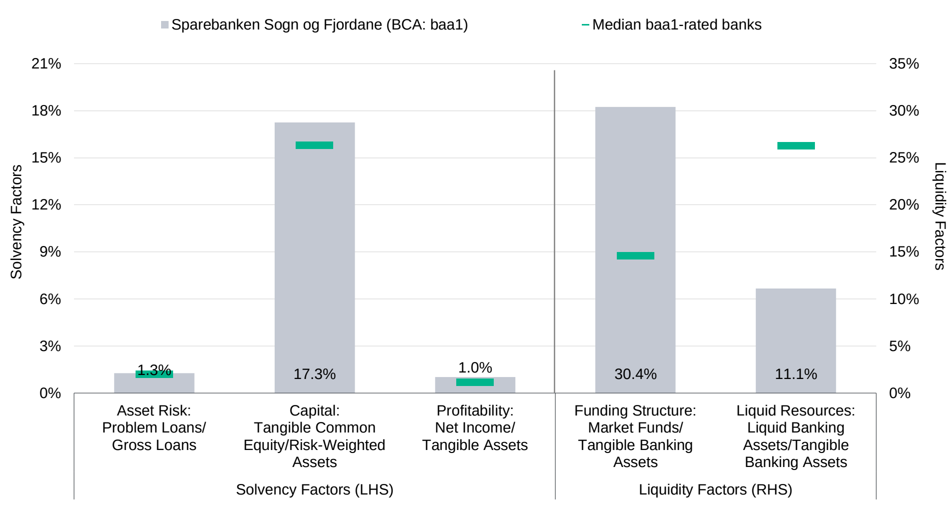
Sparebanken Sogn og Fjordane's (SSF) Baseline Credit Assessment (BCA) of baa1 and long-term deposit and issuer ratings of A1 are driven by the bank's strong financial fundamentals supported by its strong retail franchise in the Sogn og Fjordane region.

SF's standalone BCA of baa1 reflects a low level of problem loans and strong capital metrics, as well as expected benefits from joining the Sparebank 1 Alliance in late-2024. The BCA balances the bank's relatively high reliance on domestic capital markets, and incorporates potential downside risks from the bank's geographical and real estate sector credit concentrations.

SSF's A1 deposit and issuer ratings take into account our Loss Given Failure (LGF) analysis of the bank's large volume of deposits and substantial layers of subordination, resulting in three notches of rating uplift from its BCA. SSF's ratings do not benefit from any government support uplift.

Exhibit 1

Rating Scorecard - Key financial ratios



These ratios are calculated based on our Banks Methodology scorecard. The bank's problem loan and profitability ratios are the weaker of the average of the latest three year-end ratios and the latest reported ratio. The bank's capital ratio is the latest reported figure. The bank's funding structure and liquid resources ratios are the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Strong capital levels, which are broadly in line with those of its Nordic peers

» Stable asset quality, with retail-focused lending and improved problem loan ratio

» Sound recurring profitability, driven by efficient cost structure

Credit challenges

» High concentrations in its lending to the bank's home region, especially to the real estate sector

» Vulnerability to fluctuations in investor sentiment because of the bank's reliance on market funding, despite a large deposit base

» Limited diversification of operating income

Outlook

The bank's deposit and issuer ratings carry a stable outlook balancing its robust financial performance and expected cost efficiencies when joining the Sparebank 1 Alliance in late-2024, with downside risks stemming from its dependence on market funding and geographic lending concentration to its home region, and sectoral concentration to primary industries and real-estate.

The outlook also reflects Moody's expectation that the bank will issue sufficient volumes of junior senior debt to support the issuer rating.

Factors that could lead to an upgrade

The ratings and assessments of SSF and BSF could be upgraded if the bank demonstrates (1) sustained strong asset quality in its retail and corporate loan books, including in the more volatile segments, and further reduction in credit concentrations; (2) stronger earnings generation without an increase in its risk profile; and (3) broader shareholder base and capital structure that will improve its capacity to raise new capital if needed.

Factors that could lead to a downgrade

The ratings and assessments of SSF could be downgraded if (1) SSF's risk profile increases as a result of increased concentration, for example in real-estate or top-20 client concentration, (2) or if the problem loan ratio increases significantly higher than its peers' average; (3) financing conditions become more difficult locally, or (4) the bank issues a significantly lower volume than expected of junior senior securities.

The ratings and assessments of BSF could be downgraded if i) the parent entity's ratings and assessments are downgraded, or ii) if there was any loosening as to the degree of integration between SSF and BSF.

Key indicators

Exhibit 2
Sparebanken Sogn og Fjordane (Consolidated Financials) [1]

	03-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	76.5	73.6	70.8	65.8	62.7	6.3[4]
Tangible Common Equity (NOK Billion)	6.1	6.4	5.7	5.4	5.0	6.4[4]
Problem Loans / Gross Loans (%)	1.0	1.2	1.0	1.9	1.6	1.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.3	18.2	16.8	16.1	15.4	16.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	9.8	11.9	10.0	18.7	16.5	13.4[5]
Net Interest Margin (%)	2.0	2.0	1.6	1.4	1.5	1.7[5]
PPI / Average RWA (%)	3.3	3.2	2.4	2.4	2.1	2.7[6]
Net Income / Tangible Assets (%)	1.2	1.1	0.8	1.0	0.7	1.0[5]
Cost / Income Ratio (%)	35.6	33.3	38.4	38.4	43.0	37.7[5]
Market Funds / Tangible Banking Assets (%)	31.5	30.4	27.0	27.3	29.4	29.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	14.4	11.1	11.6	11.2	11.0	11.9[5]
Gross Loans / Due to Customers (%)	193.6	198.9	184.5	182.9	188.4	189.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

Sparebanken Sogn og Fjordane (SSF) is the largest bank in the region of Sogn og Fjordane (which has been a part of Vestland county since 2020) and offers retail and corporate customers products in banking, financing, insurance, savings, pensions and payment services. SSF's main geographical market is Sogn og Fjordane in western Norway, but the bank has expanded the scope of its retail operations to include several larger cities around Norway. The bank has been growing its market share in its home region, with a strong position among small and medium-sized enterprise (SMEs). As of 31 March 2024, the bank reported total consolidated assets of around NOK76.5 billion (around €6.6 billion). The bank's fully-owned covered bond issuer, Bustadkreditt Sogn og Fjordane AS (A1/stable, issuer rating/outlook), represents approximately 40% of SSF's total loans as of March 2024.

Recent developments

On 19 March 2024 SSF announced that Norwegian FSA has completed their SREP review and increased bank's Pillar 2 requirement slightly to 1.8% from previous 1.7%. Pillar 2 guidance was set at 1%.

On April 26 2023 SSF announced it will invest NOK630 million in SamSpar and join the SpareBank1 alliance. The motivation is to widen the SSF's product offering while save costs, primarily within IT and IT development, and to be able to access cost and capital efficient covered bond funding through SpareBank1 Boligkreditt.

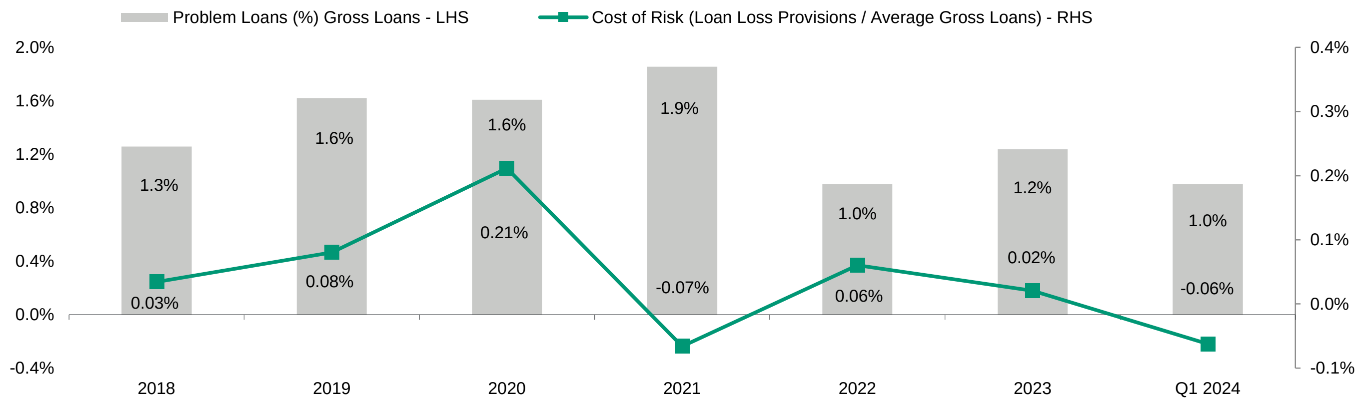
Detailed credit considerations

Problem loans are relatively low, although vulnerable to some single-name, geographic and real estate credit concentrations

We expect SSF's asset quality to remain broadly resilient in the next 12-18 months, supported by its high proportion mortgage lending (around 76% of gross lending was to the retail market as of March 2024), a market segment with historically low delinquencies and losses. Despite risks stemming from the high level of household debt in Norway, we expect benign macroeconomic conditions, with low unemployment and modest economic growth to continue supporting households repayment ability, supporting asset quality.

The bank's problem loans represented 1.0% of gross loans as of March 2024, a lower level when compared to 2023 (see Exhibit 3), which is relatively low in the global context, although marginally higher than similarly rated domestic peers.

Exhibit 3
SSF's asset-quality evolution
The bank's problem loans are somewhat high relative to that of its peers



The increase in problem loans in 2021 was primarily driven by the implementation of new definitions of default.
Sources: Bank's disclosures and Moody's Ratings

Exposure to the more volatile real estate and construction sectors accounted for 10.3% of total loans as of March 2024, and two-thirds of it's non-performing corporate loans. Similar to some of its Nordic peers, the bank has some single-name lending concentrations, which could increase the pace and the extent of any deterioration in asset quality in a potentially worsening operating environment.

SSF has been growing its retail book more actively in areas outside its home region (specifically Hordaland and Oslo/Akershus) partly due to slower population growth in Sogn og Fjordane. The shift has led to an increase in the bank's geographical diversification, as well as increased granularity and lower top client concentration, benefitting its risk profile.

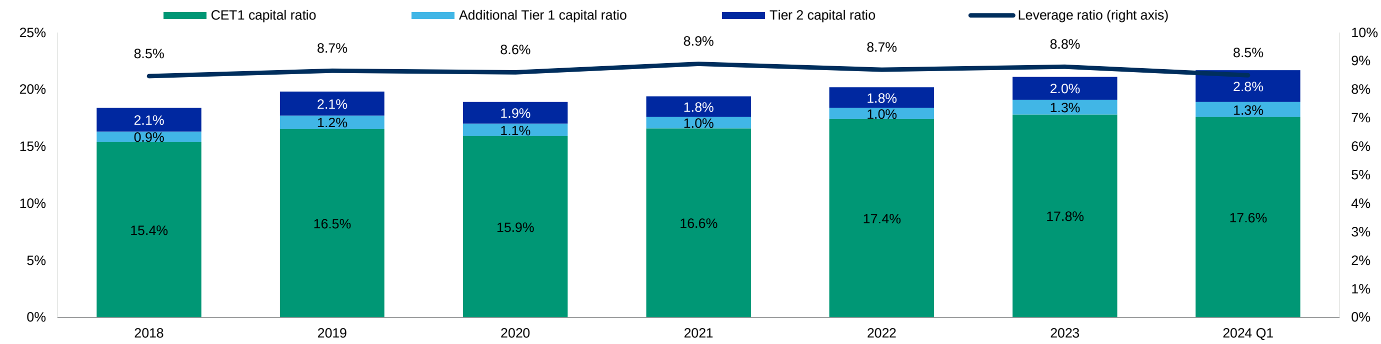
Our baa1 score for the bank's Asset Risk takes into account the relatively low level of problem loans in a global context, but also the slightly higher level of problem loans than its domestic peers and some single-name, geographic, and real estate credit concentrations.

Capital levels will remain strong because of higher requirements

SSF's capital levels are strong given its risk profile and broadly in line with that of its Nordic peers, although marginally lower than those of some of the Norwegian savings banks.

SSF's maintains strong core capital levels particularly when compared to its lower-risk lending focus, reporting a Common Equity Tier 1 (CET1) capital ratio of 17.6% as of March 2024 and a similarly high leverage ratio of 8.5%. The bank's regulatory minimum CET1 capital requirement was 15.2%, including a Pillar 2 requirement of 1.7%, as of December 2023, however, the bank received updated Pillar 2 requirement of 1.8% and a Pillar 2 guidance of 1% in March 2024, applicable from May 2024. SSFs internal target for CET1 ratio is 17% while the bank aims to distribute at least 50% of its annual profit in dividends and gifts.

Exhibit 4
SSF's regulatory capital ratio evolution
Reported metrics



Source: Bank's disclosures

Following the implementation of finalised EU bank capital rules in 2025 (which have yet to be fully agreed), the bank's risk-weighted assets (RWA) could decrease, with lower requirements being applied to SME exposures and a more risk-sensitive approach to retail mortgages. It should be noted that SSF remains on the standardised model in calculating its RWA, although this may change for part of its RWA balance after joining the Sparebank 1 Alliance, as the Sparebank 1 Boligkreditt uses the internal ratings based approach.

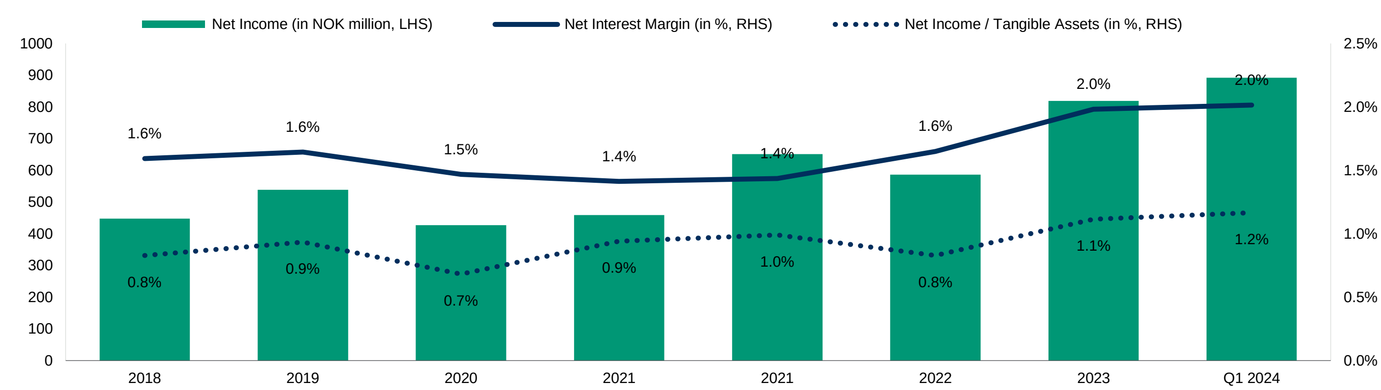
Our assigned Capital score of aa3 reflects the bank's strong leverage ratio of 8.5% as of March 2024, but also its limited shareholder investor base and capital structure that constrains its ability and capacity to raise new capital if needed during periods of market volatility.

Sound recurring profitability supports the bank's BCA amid high IT investment

SSF's recurring profitability is sound and has improved as a result of improved efficiency, a more favourable interest rate environment and moderate loan growth (see Exhibit 5). We expect elevated interest rates to continue supporting SSF's net interest margin, although competition among Norwegian banks will continue to challenge the bank in key markets over the next 12 months.

Lending to retail clients grew 4.9% year on year, as lending to corporate clients fell by 0.9%. Overall lending growth supported SSF's net interest income which rose to NOK387 million in the first quarter of 2024, up 11% on the prior corresponding period. We also note the relatively low contribution of net fees and commission income to the bank's profitability, comprising only around 11% of its total revenue in the end of March 2024.

Exhibit 5
SSF operates with strong margins



Source: Bank's disclosures, Moody's Ratings

In recent years, IT-related expenses were increasing because of the bank's ambitious investments in new digital solutions to offer competitive products to its customers. The NOK157 million operating expenses incurred in the first three months of 2024 translated into a cost-to-income ratio of 36%, moderately higher than 33% in 2023. We expect the elevated investment spend to persist over the next 12 months as SSF prepares to join the Sparebank 1 Alliance, weighing on earnings in the short-term.

The baa2 score we assign to Profitability in the bank's scorecard takes into consideration the likely strong performance on the back of higher interest rates but also the relatively low level of earnings diversification, a very high dependence on net interest income and integration costs as the bank joins the SpareBank 1 Alliance.

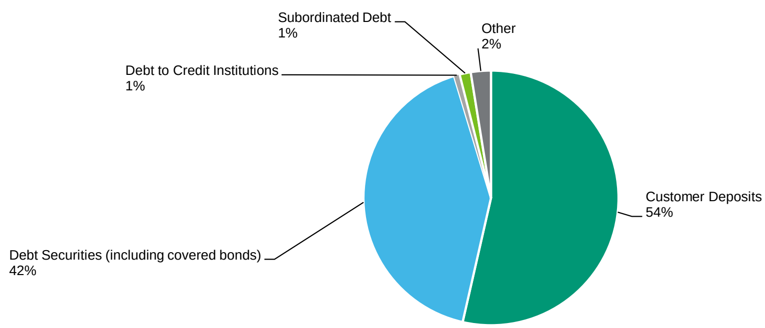
Market funding reliance renders the bank vulnerable to fluctuations in investor sentiment, despite a large deposit base

SSF's funding profile benefits from a sizeable deposit base constituting 54% of non-equity funding as of March 2024, with around 59% of the bank's deposits come from retail customers. However, the bank is also significantly reliant on market funding, rendering it vulnerable to swings in investor sentiment. The bank issues a sizable share of senior debt, though most of its wholesale funding is in the form of domestically issued covered bonds. We reflect the stability of covered bonds relative to unsecured market funding through an adjustment to market funds/tangible banking assets, which remains high relative to the median baa1 BCA at 31.5% as of March 2024.

Covered bonds are issued through the bank's wholly owned covered bond company Bustadkreditt Sogn og Fjordane AS (BSF) that was established in 2009. Once the bank has fully integrated into SpareBank 1 Alliance, SSF will use SpareBank 1 Boligkreditt to issue new covered bonds which we expect to result in slightly cheaper funding costs. As such, utilization of BSF-sourced funding will decline as it begins using SpareBank 1 Boligkreditt.

Exhibit 6

SSF's funding profile (excluding equity) as of March 2024



Source: Bank's disclosures

Although SSF was able to issue LCR eligible bonds before joining the Alliance using its own covered bonds entity, we view the bank's transition to SpareBank 1 Boligkreditt positively as it will further extend the bank's investor base by allowing it to participate in larger benchmark issuances.

The bank's stock of liquid banking assets is adequate, with liquid assets mainly comprising government securities and covered bonds. The bank's holdings are mostly Norwegian covered bonds, which lead to some concentration risk, similar to regional peers. As of March 2024, SSF's liquid banking assets totaled 14.4% of tangible banking assets, a temporary rise from 11.1% in 2023 as a result of increase in liquidity portfolio for the bank. The bank's LCR was 210% as of March 2024, significantly higher than the year-prior period.

Source of facts and figures cited in this report

Unless noted otherwise, bank-specific figures originate from bank's reports and Moody's Banking Financial Metrics. Moody's Banking Financial Metrics figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions, published on 8 April 2024.

ESG considerations

Sparebanken Sogn og Fjordane's ESG credit impact score is CIS-2

Exhibit 7
ESG credit impact score

CIS-2

ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

Sparebanken Sogn og Fjordane's (SSF) ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects the limited credit impact of environmental and social risk factors on the rating to date, and neutral-to-low governance risks.

Exhibit 8
ESG issuer profile scores

ENVIRONMENTAL
E-3

SOCIAL
S-3

GOVERNANCE
G-2

Source: Moody's Ratings

Environmental

SSF faces moderate environmental risks primarily because of its portfolio exposure to carbon transition. These risks are primarily related to its corporate portfolio, however, exposures to the oil, offshore and shipping business are limited. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, the bank is developing its climate risk and portfolio management capabilities.

Social

SSF faces moderate social risks related to customer relations and associated regulatory and litigation risks, requiring high compliance standards. The exposure to customer relation risks is lower than its international peers, given the bank's untarnished customer conduct track record supported by the social mandate of the Savings Bank's model. SSF is a digitally advanced bank in Norway, with a robust IT infrastructure and strong capabilities to mitigate cyber and personal data risks.

Governance

SSF faces low governance risks, and its risk management, policies and procedures are in line with industry practices. Despite sectoral and geographical concentrations, due to its limited reach, the bank benefits from strong underwriting standards which mitigate some of these concerns. The bank has a track record of sound capital and liquidity management and earnings stability while losses have been low, even at times of market turbulence. Being a regional savings bank it is fully owned by two community foundations in the form of listed equity certificates. The bank's Supervisory Board, comprises of representatives of EC holders, customer representatives and employees representatives. Related governance risks are however mitigated by Norway's developed institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure

The EU's Bank Recovery and Resolution Directive has been transposed into Norwegian law, applicable from 1 January 2019, which confirmed our current assumptions regarding the LGF analysis. We assume a residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred over senior unsecured debt. These metrics are in line with our standard assumptions.

For SSF's short-term and long-term deposit ratings, we consider the likely impact of loss given failure, reflecting the combination of debt and deposit volumes and the amount of debt subordinated to them. We also take into consideration the expected level of MREL-eligible debt issuance until year-end 2024. This has resulted in a Preliminary Rating Assessment of three notches above the BCA for the bank's deposit and senior unsecured ratings, reflecting very low loss given failure.

Government support

We do not incorporate government support uplift to SSF's deposit and issuer ratings as a result of the expected implementation of resolution legislation in Norway. SSF is a regional savings bank with a strong market position in the region of Sogn og Fjordane (Western Norway), where we estimate that it commands a market share of approximately half of retail lending and just over one-third in the corporate/SME market as of December 2023. Despite its dominant local position, the bank lacks geographical diversification and its national franchise is limited. We therefore consider the probability of government support for SSF's debt and deposits low (in line with that of similarly sized domestic peers), resulting in no rating uplift.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 9

Sparebanken Sogn og Fjordane

Macro Factors							
Weighted Macro Profile	**Very Strong -**	**100%**					

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.3%	aa2	↔	baa1	Geographical concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.3%	aa2	↔	aa3	Access to capital	
Profitability						
Net Income / Tangible Assets	1.0%	a2	↓	baa2	Earnings quality	Expected trend
Combined Solvency Score		aa3		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	30.4%	baa3	↔	baa3	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	11.1%	baa3	↔	baa3	Stock of liquid assets	
Combined Liquidity Score		baa3		baa3		
Financial Profile				baa1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		

Balance Sheet	in-scope (NOK Million)	% in-scope	at-failure (NOK Million)	% at-failure
Other liabilities	26 779	35.0%	30 575	40.0%
Deposits	37 220	48.7%	33 424	43.7%
Preferred deposits	27 543	36.0%	26 166	34.2%
Junior deposits	9 677	12.6%	7 258	9.5%
Senior unsecured bank debt	5 534	7.2%	5 534	7.2%
Junior senior unsecured bank debt	3 250	4.2%	3 250	4.2%
Dated subordinated bank debt	975	1.3%	975	1.3%
Preference shares (bank)	450	0.6%	450	0.6%
Equity	2 295	3.0%	2 295	3.0%
Total Tangible Banking Assets	76 503	100.0%	76 503	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	25.8%	25.8%	25.8%	25.8%	3	3	3	3	0	a1
Counterparty Risk Assessment	25.8%	25.8%	25.8%	25.8%	3	3	3	3	0	a1 (cr)
Deposits	25.8%	9.1%	25.8%	16.3%	3	3	3	3	0	a1
Senior unsecured bank debt	25.8%	9.1%	16.3%	9.1%	3	3	3	3	0	a1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	3	0	a1	0	A1	A1
Senior unsecured bank debt	3	0	a1	0	A1	A1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 10

Category	Moody's Rating
SPAREBANKEN SOGN OG FJORDANE	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1
BUSTADKREDITT SOGN OG FJORDANE AS	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1

Source: Moody's Ratings

REPORT NUMBER 1406060

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