CREDIT OPINION
12 September 2024

Update

Send Your Feedback

RATINGS

Sparebanken Vest

Domicile	BERGEN, Norway
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa3
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 Vest

Update following rating affirmation, outlook stable

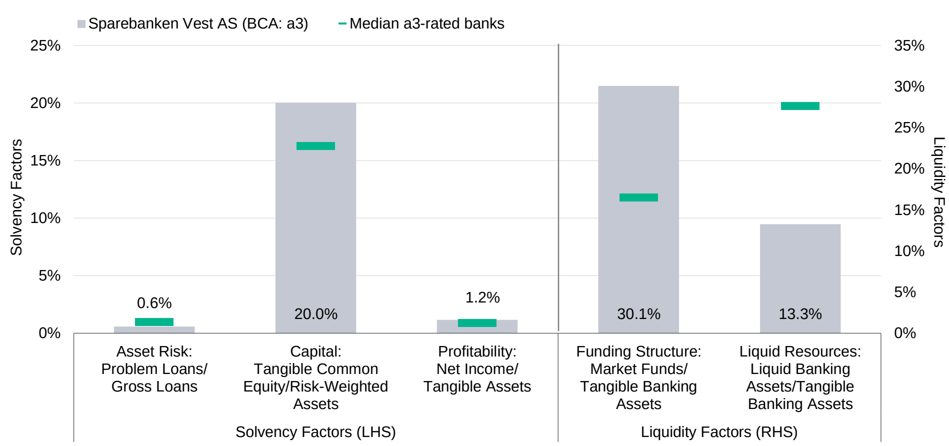
Summary

Sparebanken Vest's Aa3 long-term deposit and senior unsecured debt ratings are driven by the bank's Baseline Credit Assessment (BCA) of a3 and the application of our Advanced Loss Given Failure (LGF) analysis, resulting in a three-notch uplift from its BCA. Sparebanken Vest's ratings do not benefit from any government support.

The bank's BCA is driven by its solid regional franchise in western Norway and growing national coverage through its digital retail bank Bulder, which will be further strengthened assuming successful completion of the announced merger with Sparebanken Sor. The credit profile of the bank is further supported by its strong digital offering, operational efficiency, and resilient earnings, underpinning strong internal capital generation.

These strengths are balanced against moderate risks stemming from its still relatively narrow geographical focus; exposures to certain volatile sectors, such as commercial real estate and construction; and modest level of liquid assets.

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 Ratings

Credit strengths

- The bank's low level of impairments is driven by its retail focus and relatively low exposure to the oil and offshore sector.
- The bank's solid capital provides a good loss absorption buffer.
- Its strong regional retail franchise, with an increasing market share and a robust digital offering, supports core earnings.

Credit challenges

- Relatively narrow geographical credit concentrations, combined with exposures to certain cyclical sectors.
- Reliance on market funding, which could hurt the bank's liquidity in case of significant fluctuations in investor sentiment.
- A moderate level of available liquid assets.

Outlook

The stable outlook on Sparebanken Vest's long-term deposit and senior unsecured debt ratings reflects our expectation that the bank's financial profile will be consistent with the current BCA level also after the planned merger with Sparebanken Sor, which is expected to close by the end of the second quarter of 2025.

Factors that could lead to an upgrade

The BCA could be upgraded if the bank demonstrates several of the following characteristics: excellent asset quality through the cycle with sound geographical diversification, sustainable strong profitability, a contained increase in market funding and improved liquidity.

Factors that could lead to a downgrade

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

Key indicators

Exhibit 2
Sparebanken Vest (Consolidated Financials) [1]

	06-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	319.1	302.1	263.8	232.2	217.3	11.6[4]
Tangible Common Equity (NOK Billion)	21.7	21.3	19.9	18.1	16.7	7.8[4]
Problem Loans / Gross Loans (%)	0.5	0.6	0.6	0.7	0.9	0.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	20.0	19.7	20.3	19.6	20.0	19.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.9	6.5	6.7	7.6	9.4	7.2[5]
Net Interest Margin (%)	1.9	1.8	1.6	1.5	1.4	1.6[5]
PPI / Average RWA (%)	4.7	4.2	3.5	2.9	2.7	3.6[6]
Net Income / Tangible Assets (%)	1.4	1.1	1.0	1.1	0.8	1.1[5]
Cost / Income Ratio (%)	26.0	29.6	34.2	37.5	39.4	33.3[5]
Market Funds / Tangible Banking Assets (%)	29.9	30.1	28.3	30.3	31.8	30.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	12.7	13.3	12.1	10.6	13.7	12.5[5]
Gross Loans / Due to Customers (%)	203.4	207.6	200.7	224.5	221.0	211.5[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 Vest is a regional savings bank headquartered in Bergen and that operates mainly in western Norway, with consolidated assets of NOK322.8 billion (€28.2 billion) as of June 2024. It was the sixth-largest bank in Norway in terms of consolidated assets as of year-end 2023. The bank provides a range of retail banking, corporate banking, treasury and real estate agency services, including financing, savings and investment products; and advisory services. The bank also offers insurance products, securities brokerage, asset management and leasing services through its ownership in Frendegruppen, a platform for collaboration across several product companies, in which the bank is the largest owner.

The bank issues covered bonds to fund its operations through its wholly owned covered bond company Sparebanken Vest Boligkreditt AS (Aa3 stable).

Recent developments

On 28 August, Sparebanken Vest announced the agreement to merge with Sparebanken Sor (A1 positive, baa1) in forming the largest savings bank in Norway. The all-share 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 corporates (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.

The enlarged bank would hold consolidated assets of NOK517 million (on a pro forma basis at end June 2024), including the financing company Brage Finans, which will be majority-owned by the new entity. Ownership in other product companies in Frendegruppen would also increase.

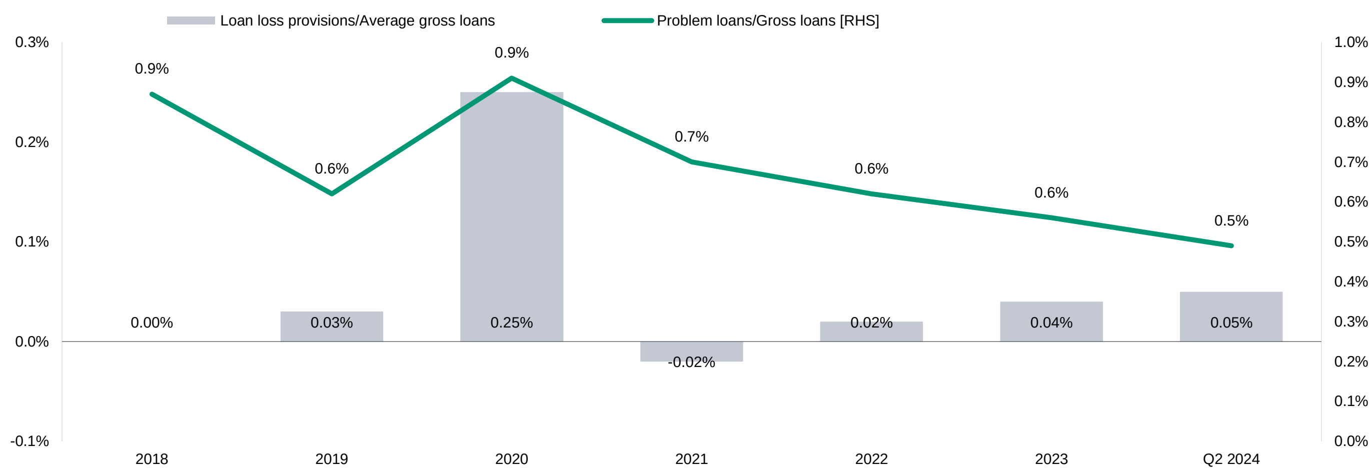
The two banks estimate annual cost reductions in the range of NOK350-400 million by 2028, primarily related to natural attrition of staff, scale advantages in procurement and IT related costs. In addition, while capital requirements for the merged entity will likely rise as a larger and systemically 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).

Detailed credit considerations

Loan book performance has been resilient

We expect Sparebanken Vest's asset risk to remain low for the next 12-18 months supported by a conservative retail oriented loan book combined with a resilient macro backdrop in Norway. As of June 2024, NPLs were 0.5% of gross loans, down from 0.6% as of year-end 2023 (see Exhibit 3). The provisioning coverage for problem loans reached 81% as of June 2024, limiting the risks to the bank's earnings and capital from its existing stock of NPLs.

Exhibit 3
Problem loans as a percentage of gross loans and the cost of risk evolution



Provisions and NPLs increased sharply in 2020 as a result of the implementation of a new definition of default; a model-based portfolio provisioning approach; and conservative front-loading provisioning in more cyclical sectors, primarily oil and offshore, in light of the pandemic and the resulting oil price decline. The changing trend from 2021 onwards reflects the reversal of front-loaded provision as a result of the portfolio's good performance and strengthening of the oil and offshore sector.
Sources: Bank's disclosures and Moody's Ratings

Retail loans, predominantly secured mortgages, continue to support the bank's asset quality in a downturn scenario, accounting for 76% of the total loan book. On the other hand, around 77% of the bank's stock of problem loans relates to the corporate market as of June 2024. The bulk of corporate NPLs stemmed from the bank's oil-related shipping exposure, with overall international shipping loans (including performing loans), together with transport loans, constituting around 3% of total gross loans as of June 2024.

As of June 2024, Sparebanken Vest's exposure to the commercial real estate and construction markets totaled around 10% of gross loans. Combined with a sizeable residential mortgage book, these exposures could render the bank vulnerable to significant property price declines in Norway, a risk commonly shared with its local peers. Norges Bank forecasts a moderate rise of about 3% in house prices for 2024 and an acceleration above 6% in 2025 after broadly stable price development in 2023.

The strength of the bank's growing residential mortgages in the last few years, with around 92% of the book having a loan-to-value ratio of less than 60% as of June 2024, continues to support its asset quality.

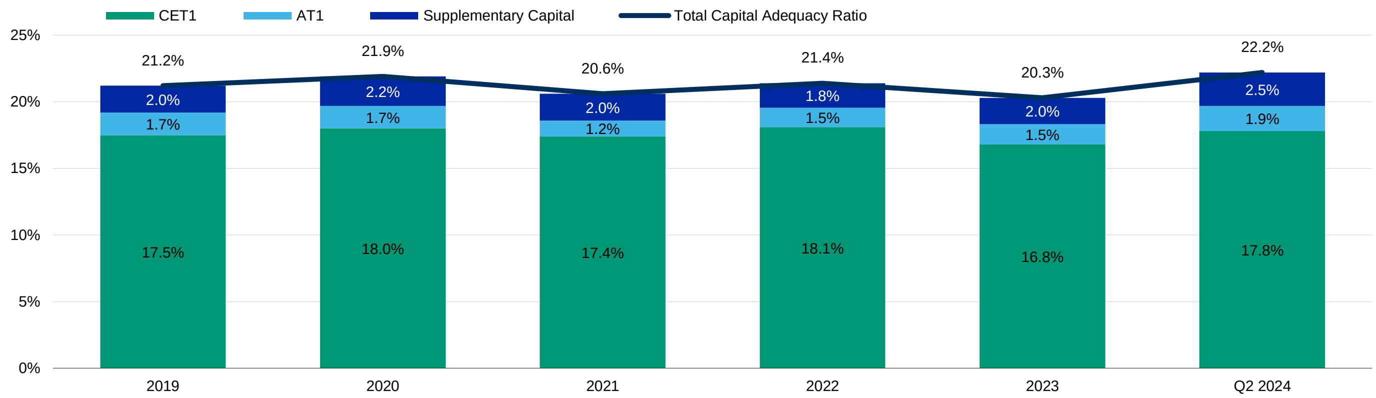
We make negative adjustments to the bank's Asset Risk factor in our scorecard to reflect the sector and geographical concentrations as the bank's assets are predominantly concentrated in western Norway (mainly in Vestland and Rogaland), with Bulder leading organic growth more broadly throughout Norway. Although its geographical footprint will improve following the planned merger with Sparebanken Sor, we expect asset quality to weaken slightly for the combined entity compared with that of Sparebanken Vest given a higher share of corporate loans in the combined portfolio at 31%.

Solid capital provides a good loss absorption buffer

Sparebanken Vest's BCA benefits from its robust capital position, illustrated by a tangible common equity (TCE)/risk-weighted assets (RWA) ratio of 20.0% and a Common Equity Tier 1 (CET1) capital ratio of 17.8% as of June 2024, up from 19.7% and 16.8%, respectively, as of December 2023. These strong metrics, combined with a leverage ratio of 6.2% as of June 2024, imply that the bank has a good loss absorption buffer in case of need.

The bank's applicable capital requirement was 14.8% as of June 2024, including a 0.8% Pillar 2 capital requirement set by the Financial Supervisory Authority (FSA) as part of its Supervisory Review and Evaluation Process (SREP). As of June 2024, Sparebanken Vest's Tier 1 capital ratio was a high 19.7% and its overall capital adequacy ratio was 22.2% (see Exhibit 4).

Exhibit 4
Sparebanken Vest's capital evolution



In June 2022, CRR2/CRD5 rules were implemented in Norway, leading to an expansion of the SME discount in the calculations for capital requirements.
Source: Bank's disclosures

We make a negative adjustment to the bank's Capital score to reflect the bank's equity certificate capital structure, with its equity certificate shareholders owning 41% of its total equity base, while the balance is in the form of primary capital. The bank's relatively low proportion of equity certificate ownership in its total equity could hinder the bank's ability to raise significant new capital during adverse conditions, in view of the potential dilution of its shareholding.

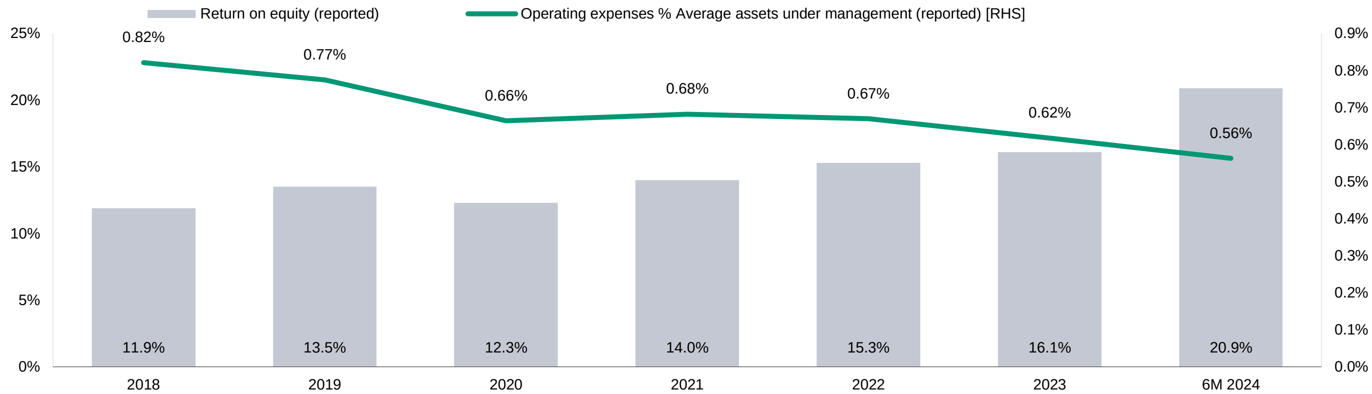
The planned merger is viewed as advantageous for the combined entity, supported by capital synergies generated by applying Sparebanken Vest's Internal ratings-based (IRB) model to Sparebanken Sor's portfolio (currently under the standardised approach). The banks have identified net NOK2 billion of capital synergies in addition to NOK2.1 billion stemming from the implementation of Basel IV. However, as the merger creates a larger and systemically important financial institution, capital requirements are likely to rise.

Relatively low impairments and strong underlying core earnings supported by an increasing market share and a robust digital offering

Sparebanken Vest's profitability has been supported by the higher interest rate environment and improved efficiency, with net income/ tangible assets reaching 1.4% in H1 2024, above the 1.1% in 2023. In nominal terms, the bank reported a net profit of NOK2,326 million for the first six months of 2024, up from NOK1,657 million during the year-earlier period, which translates into a return on equity (RoE) of 20.9% for H1 2024, compared with 16.1% in the year-earlier period (see Exhibit 5).

We expect the bank to continue to generate strong recurring core earnings, benefiting from its entrenched franchise, efficient organisation and scale advantages through the successful growth of Bulder, leveraging on its in-house digital expertise and robust IT platform and systems. We expect continued earnings contribution from Bulder, with the bank targeting a lending portfolio at Bulder of NOK60 billion by the end of 2024, compared to NOK 56 billion as of June 2024, accounting for about 27% of the retail portfolio.

Exhibit 5
Profitability metrics



Sources: Bank's disclosures and Moody's Ratings

Sparebanken Vest's cost-to-income ratio was 26.0% in H1 2024, improving from 31.7% in the year-earlier period. This performance is highly efficient compared with both local and global peers and reflects its rationalisation efforts through a reduced branch network, increased digitalisation and improved processes.

Cost synergies are likely to support profitability further assuming a successful closing of the merger, although the impact will be gradual, with the merging banks estimating annual cost savings of NOK350 million-NOK400 million by 2028, primarily because of natural staff turnover, scale advantages in procurement and IT-related costs.

Sparebanken Vest's reliance on market funding could hurt its liquidity because of fluctuations in investor sentiment

Similar to its local peers, Sparebanken Vest has a relatively high dependence on capital market funding, which was 29.9% of tangible banking assets as of June 2024. At the same time, the bank's gross loan-to-deposit ratio was relatively high at around 203%. However, we also recognise the bank's strong ability and track record of raising debt instruments in the market at favourable rates.

The bulk of the bank's outstanding debt consists of Norwegian krone- and euro-denominated covered bonds, and we take into account at a global level the relative stability of covered bonds compared with unsecured market funding through a standard adjustment in our scorecard. Around 58% of the bank's total deposits are from the retail sector, which are a more stable funding source, supporting the bank's funding profile.

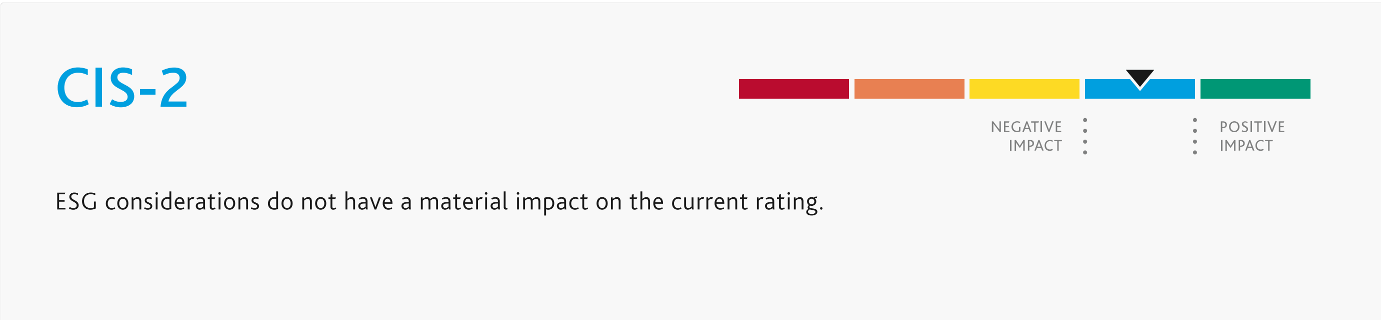
The bank reported a strong net stable funding ratio (NSFR) of 125% as of June 2024, comfortably above the 100% requirement. However, our assigned Funding Structure score of baa3 indicates that the overall funding profile remains a modest weakness for Sparebanken Vest because of the inherent confidence sensitivity of the wholesale markets, and the potential for disruption in the availability of low-cost market-based funding.

Sparebanken Vest maintains sufficient liquidity to cover its short-term financing needs, with its liquidity coverage ratio at a comfortable 182% as of June 2024, well above the regulatory requirement of 100%. However, although the level of liquid assets is adequate to cover upcoming maturities, it is relatively low compared with tangible banking assets and similarly rated global peers, with a Moody's-adjusted ratio of 12.7% as of June 2024 and a Baa3 assigned score. The bank's liquidity is primarily invested in highly rated governments, government-related bonds, and Nordic covered bonds.

ESG considerations

Sparebanken Vest's ESG credit impact score is CIS-2

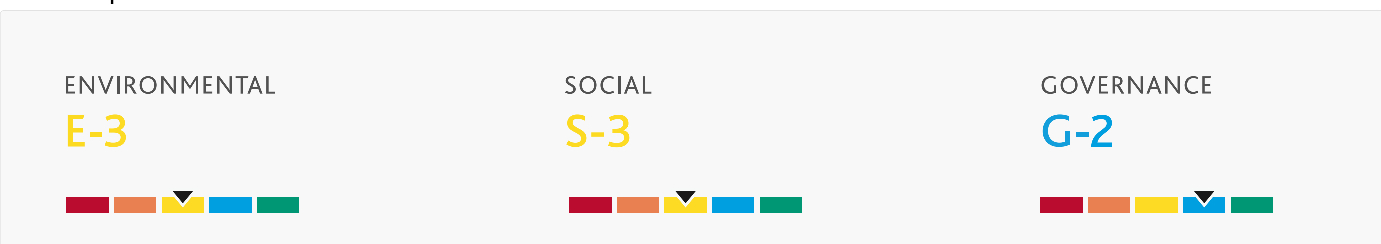
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Sparebanken Vest's **CIS-2** indicates that ESG considerations have no material impact on the current rating.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Sparebanken Vest 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

Sparebanken Vest 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. Sparebanken Vest is a digitally advanced bank in Norway, with a robust IT infrastructure and strong capabilities to mitigate cyber and personal data risks.

Governance

Sparebanken Vest faces not material 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, 60% of the bank is owned by the community foundation and 40% by private investors, in the form of listed equity certificates. The bank's Supervisory Board, comprises of representatives of EC holders, the foundation and employees. 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 (LGF) analysis

Norway implemented the EU's Bank Recovery and Resolution Directive (BRRD) on 1 January 2019, and BRRD2 was incorporated into Norwegian law on 1 June 2022, which results in lower subordination requirements for non-preferred senior volumes. For our resolution analysis, we apply our advanced Loss Given Failure (LGF) analysis, using our standard assumptions for a bank operating in an operational resolution regime (ORR) country.

Our Advanced LGF analysis includes a forward-looking approach on the bank's near-term bail-in-able debt issuance and indicates a very low loss given failure for junior depositors and senior unsecured creditors, resulting in a three-notch uplift of the relevant ratings from the bank's a3 Adjusted BCA. These ratings incorporate our forward-looking view on expected future debt issuance.

Government support considerations

Following the implementation of the BRRD law in Norway on 1 January 2019, we assume a low probability of government support for the bank's senior debt and deposits, resulting in no rating uplift.

Methodology and scorecard

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 8
Rating Factors

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	0.6%	aa1	↔	a3	Geographical concentration	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	20.0%	aa1	↔	aa2	Access to capital		
Profitability							
Net Income / Tangible Assets	1.2%	a2	↔	a3	Earnings quality		
Combined Solvency Score		aa2		a1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	30.1%	baa3	↔	baa3	Extent of market funding reliance		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	13.3%	baa3	↔	baa3	Quality of liquid assets		
Combined Liquidity Score		baa3		baa3			
Financial Profile				a3			
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				a2 - baa1			
Assigned BCA				a3			
Affiliate Support notching				0			
Adjusted BCA				a3			

Balance Sheet	**in-scope (NOK Million)**	**% in-scope**	**at-failure (NOK Million)**	**% at-failure**
Other liabilities	143,354	45.0%	157,039	49.3%
Deposits	134,175	42.1%	120,489	37.8%
Preferred deposits	99,290	31.1%	94,325	29.6%
Junior deposits	34,886	10.9%	26,164	8.2%
Senior unsecured bank debt	15,146	4.8%	15,146	4.8%
Junior senior unsecured bank debt	11,763	3.7%	11,763	3.7%
Dated subordinated bank debt	2,769	0.9%	2,769	0.9%
Preference shares (bank)	2,050	0.6%	2,050	0.6%
Equity	9,565	3.0%	9,565	3.0%
Total Tangible Banking Assets	318,821	100.0%	318,821	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	21.2%	21.2%	21.2%	21.2%	3	3	3	3	0	aa3
Counterparty Risk Assessment	21.2%	21.2%	21.2%	21.2%	3	3	3	3	0	aa3 (cr)
Deposits	21.2%	8.2%	21.2%	13.0%	3	3	3	3	0	aa3
Senior unsecured bank debt	21.2%	8.2%	13.0%	8.2%	3	2	3	3	0	aa3
Junior senior unsecured bank debt	8.2%	4.5%	8.2%	4.5%	0	0	0	0	0	a3
Dated subordinated bank debt	4.5%	3.6%	4.5%	3.6%	-1	-1	-1	-1	0	baa1

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	aa3	0	Aa3	Aa3
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3(cr)	
Deposits	3	0	aa3	0	Aa3	Aa3
Senior unsecured bank debt	3	0	aa3	0		Aa3
Junior senior unsecured bank debt	0	0	a3	0	A3	
Dated subordinated bank debt	-1	0	baa1	0		(P)Baa1

[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 9

Category	Moody's Rating
SPAREBANKEN VEST	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured	Aa3
Junior Senior Unsecured -Dom Curr	A3
Subordinate MTN	(P)Baa1
SPAREBANKEN VEST BOLIGKREDITT AS	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating -Dom Curr	Aa3

Source: Moody's Ratings

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454