

ISSUER COMMENT

14 November 2018

 Rate this Research

RATINGS

SpareBank 1 Ostlandet

LT Senior Unsecured	A1 negative
LT Deposits	A1 negative
Baseline Credit Assessment	baa1
CR Assessment (LT/ST)	Aa3(cr) / P-1(cr)
Counterparty Risk Rating (LT/ST)	Aa3 / P-1

Source: Moody's Investors Service

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SpareBank 1 Ostlandet

SpareBank 1 Ostlandet's NOK700 million capital raise is credit positive

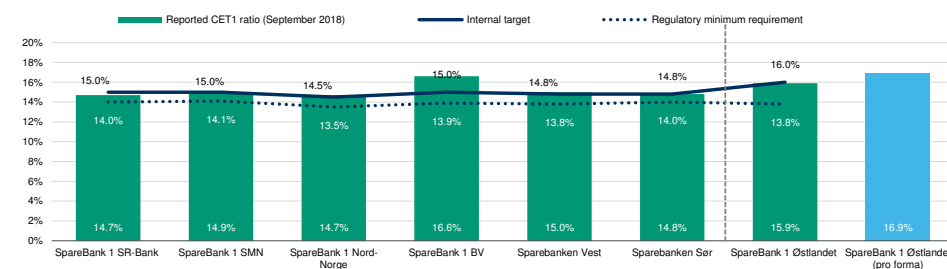
On 9 November, [SpareBank 1 Ostlandet](#) (A1/A1 negative, baa1¹) [said](#) that it had raised NOK700 million of new capital through a private placement of 8,139,534 equity capital certificates at a subscription price of NOK86. The capital raise is credit positive because it enhances the bank's capital metrics and loss-absorption buffer. It will also allow it to maintain profitable growth and its dividend policy into 2019 without compromising its capital target.

The bank's capital raise maintains its strategic goal of being the best capitalised bank among local peers, rather than because of a need to meet regulatory capital requirements. We estimate that the new capital will increase its Common Equity Tier 1 (CET1) capital ratio by around 100 basis points from 15.9% in September 2018.

As the exhibit shows, SpareBank 1 Ostlandet will have the highest CET1 capital ratio among the other SpareBank 1 Alliance banks pro forma for the increase, along with [Sparebanken Vest](#) (A1/A1 negative, baa1) and [Sparebanken Sor](#) (A1/A1 negative, baa1).

Exhibit 1

SpareBank 1 Ostlandet is one of Norway's highest capitalised savings banks Large Norwegian savings banks' CET1 ratio



Note: The regulatory minimum requirement for SpareBank 1 BV is effective from 31 December 2018.

Source: Banks' third-quarter 2018 results

The capital increase will also enhance the bank's loss absorption buffer, which is credit positive for its standalone credit profile. Its excess common capital of around NOK2.3 billion will be more than 4x its problem loans, which were NOK502 million, or 0.4% of gross loans (including covered bond loans), at the end of September 2018. It also increases capital above the internal CET1 target of 16%, even though SpareBank 1 Ostlandet has one of the lowest regulatory CET1 capital requirements among local peers.

Main shareholder Sparebankstiftelsen Hedmark, which owned 54.7% of the equity capital certificates, contributed around NOK150 million to the capital increase, marginally diluting its shareholding to 52.4% and facilitating the allocation of the equity capital certificates to new investors. To some extent, this reflects SpareBank 1 Ostlandet's ability, as well as the capacity of its main shareholder, to raise new capital from existing shareholders and new investors when needed.

The bank will use the new capital to sustain profitable growth into 2019, driven mainly by increased lending. The growth reflects positive underlying demographic growth and job creation in its region and the bank's wide small and medium-size enterprise client base. Gross loans excluding covered bond loans grew by 10.5% year on year in September 2018 compared with 9.4% a year earlier, and return on equity grew 11.1% compared with 10.1% for the same periods. A higher capital base will also allow SpareBank 1 Ostlandet to retain its 50% dividend payout policy without compromising its capital target.

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.

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