

**Rating Action: Moody's assigns Baa1 rating to SpareBank 1 SMN's NOK1 billion senior non-preferred unsecured notes**

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19 Jan 2021

Limassol, January 19, 2021 -- Moody's Investors Service ("Moody's") has today assigned a local currency Baa1 rating to the recent issuance of NOK1 billion senior non-preferred (SNP) notes by SpareBank 1 SMN. The SNP notes, which are classed as "junior senior" unsecured notes by Moody's are ranked junior to other senior unsecured obligations, including senior unsecured debt, and senior to subordinated debt issuances of the bank.

A full list of affected ratings is provided at the end of the press release.

**RATINGS RATIONALE**

**ASSIGNMENT OF JUNIOR SENIOR NOTES RATING INCORPORATES THE LIKELY MODERATE LOSS SEVERITY FOR THIS TYPE OF INSTRUMENT**

The Baa1 junior senior rating assigned to the bank's senior non-preferred notes reflects: (1) SpareBank 1 SMN's adjusted Baseline Credit Assessment (BCA) of baa1; and (2) Moody's advanced forward-looking loss given failure (LGF) analysis of the bank's likely liability structure at the end of 2023 when the bank needs to fully meet its minimum requirement for own funds and eligible liabilities (MREL). The rating agency's analysis indicates likely moderate loss severity for this instrument in the event of the bank's failure, leading to a positioning at the same level as the bank's adjusted BCA. Moody's assumption of a low probability of government support for this new instrument, results in no additional rating uplift.

SpareBank 1 SMN is subject to the Norwegian operational resolution regime based on Norway's implementation of the Bank Recovery and Resolution Directive (BRRD). Under this regime the bank has been set MREL requirement of 34.8% of adjusted risk-weighted assets on 18 December 2020, which must be met from capital and other eligible liabilities, including the senior non-preferred class of debt introduced in Norway to facilitate loss-absorption and recapitalisation via a debt conversion or write-down of the junior senior notes in resolution. Based on the bank's issuance plans and assuming a likely gradual increase in the countercyclical buffer towards pre-coronavirus levels, Moody's expects that the bank is likely to issue approximately NOK12 billion of SNP debt by the end of 2023 including the NOK1 billion it issued back in September 2020.

**IMPLEMENTATION OF BRRD2 IN NORWAY UNLIKELY TO MATERIALLY CHANGE THE VOLUME OF JUNIOR SENIOR ISSUANCE BY THE BANK**

Moody's believes that there is a low likelihood that the implementation of revisions to the BRRD (BRRD2) in Norway will result in a significantly lower level of junior senior issuance by the bank. In particular the agency does not expect the application of the directive's subordination cap (equivalent to 27% of risk weighted assets) to significantly reduce the level of subordination for Norwegian banks currently in receipt of a recapitalisation requirement. This is because the framework includes a number of potential exceptions to the cap, particularly in the case of larger banks, or for those banks where there is an assumption that use of resolution funding would be required to facilitate resolution.

Accordingly, the rating agency expects that Norwegian banks' funding plans will most likely remain substantially unchanged and continue to be driven by the initial implementation of the BRRD rules. However, the ability of authorities to apply such exceptions to a broad range of banks remains untested, and clarity depends on the incorporation of BRRD2 in the EEA agreement, implementation in Norwegian law and finally the setting of individual requirements by the Norwegian FSA (the resolution authority). Should the final implementation of BRRD2 result in lower subordination requirements for SpareBank 1 SMN, and therefore lower volumes of junior senior debt, this could lead to a negative rating action.

Please see the report "Banks - Nordic Countries: FAQ: Nordic banks' new non-preferred senior debt instruments" ([https://www.moodys.com/research/--PBC\\_1122335](https://www.moodys.com/research/--PBC_1122335)) for additional details on the junior senior notes and the risks they pose to creditors.

## STABLE OUTLOOK ON LONG-TERM DEPOSIT AND SENIOR UNSECURED DEBT RATINGS DRIVEN BY THE BANK'S RESILIENT CORE EARNINGS PERFORMANCE

Although ratings assigned to junior senior securities do not carry an outlook, Moody's notes that the bank's deposit and debt ratings carry a stable outlook reflecting its robust positioning, when compared to local and international peers. In addition, the stable outlook also reflects the bank's resilient core earnings, loan growth and asset quality through the cycle balanced by challenges induced by the coronavirus and reduced oil prices on the back of its oil-related exposures.

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

SpareBank 1 SMN's junior senior rating could be upgraded or downgraded in response to an upgrade or downgrade of its BCA.

Over time, upward pressure on the BCA could develop if the bank demonstrates (1) it can effectively manage with low credit losses its exposure to more volatile sectors such as commercial real estate and oil/offshore; (2) sustained strong asset quality with a low level of problem loans and credit impairments relative to its similarly-rated peers; (3) resilient recurring earnings generation without an increase in its risk profile, combined with an improved non-interest income; and (4) continued good access to capital markets with strong liquidity.

Future downward BCA pressure would emerge if (1) SpareBank 1 SMN's problem loan ratio increases to levels significantly above its similarly-rated peers; (2) its profitability deteriorates from weakening revenues or high credit costs; (3) the bank fails to sustain its leading market position in its home region; and (4) the macroeconomic environment deteriorates more than currently anticipated, leading to a lower Macro Profile for Norway.

SpareBank 1 SMN's ratings could also be downgraded in case the BRRD2 is implemented in a way that the bank issues significantly lower than expected MREL-eligible securities or in case Moody's base case assumptions do not materialise.

## LIST OF AFFECTED RATINGS

..Issuer: SpareBank 1 SMN

Assignment:

....Junior Senior Unsecured Regular Bond/Debenture, Assigned Baa1

## PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Banks Methodology published in November 2019 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1147865](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.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 at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1243406](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1243406).

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