

**Rating Action: Moody's affirms OBOS Banken's ratings; outlook remains stable**

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04 Jul 2018

London, 04 July 2018 -- Moody's Investors Service, ("Moody's") has today affirmed OBOS-banken AS' baseline credit assessment of baa3, the long-term deposit and issuer ratings of Baa1, the long-term counterparty risk rating of A3, the long-term counterparty risk assessment (CRA) of A3(cr), and maintained the stable outlook on all the long-term deposit and issuer ratings.

The ratings affirmation mainly reflects the resilient performance of OBOS-banken and Moody's forward-looking expectation that asset quality and capitalization will remain robust despite the banks above-market loan growth, supported by the overall improving economic environment in Norway. The rating agency said that the ratings affirmation is also driven by the unchanged loss given failure (LGF) analysis.

The full list of the affected ratings can be found at the end of this press release.

**RATINGS RATIONALE**

The affirmation of OBOS-banken's ratings reflects the bank's resilient performance over the past 24 months, in addition to Moody's expectation that such performance will remain intact over the next 12-18 months as the operating environment in Norway gradually improves in 2017-18.

OBOS Banken's baa3 BCA reflects its strong asset quality metrics, supported by a low problem loan ratio, a strong capital base as well as a comfortable liquidity position. These strengths are balanced against OBOS-banken's (i) high historical and expected future loan growth, amid an increasingly competitive environment; (ii) geographical concentration in Oslo and Akershus; (iii) limited ability to raise capital outside the OBOS Group; and (iv) a monoline business model resulting in moderate profitability with high reliance on wholesale funding.

Moody's expect OBOS-banken's asset quality to remain broadly unchanged over the next 12-18 months, supported by the bank's low risk operations which represent the largest part of the lending book. Nevertheless, OBOS-banken continues to exhibit high loan growth as well as geographical concentration in the high growth areas of Oslo and Akershus. Furthermore, OBOS-banken's increased risk appetite as evident by their entrance in the fast growing credit card space could in combination limited track record in risk management as a bank-licensed institution could lead to marginal increases in the currently very low reported problem loan ratio of 0.09%.

Moody's expects OBOS-banken's capitalization to remain adequate in the context of the bank's growth ambitious. The bank's capital ratio compares well with its rated Nordic peer group, with a Common Equity Tier 1 capital (CET1) ratio of 15.41% at end-March 2018 already above the regulatory minimum of 14.7%. The rating agency expects

OBOS-banken's capital ratios to decline as its RWA and balance sheet grow, but still remain compliant with regulatory requirements and the bank's risk profile. Moody's considers OBOS-banken to be central to OBOS Group's core strategy and expects the parent company to support its banking subsidiary in its expansion plan as it has in the past through capital injections.

OBOS-banken's high reliance on market funding, representing 30.8% of total tangible banking assets at end March 2018, is mitigated by a sound liquidity position. Liquid assets stood at 16.4% of tangible banking assets as of first quarter 2018 and compare favourably to rated Nordic peers. The bank's liquidity reserve primarily composed of cash with the central bank and highly-rated covered bonds. Despite some volatility, Moody's expect the stock of liquid assets held on balance sheet to remain broadly unchanged over the outlook period.

**RATIONALE FOR THE AFFIRMATION OF DEPOSITS, ISSUER AND COUNTERPARTY RISK RATINGS**

The affirmation of OBOS-banken's long-term deposit and issuer ratings of Baa1, take into account the group's consolidated balance sheet structure at end-December 2017 and its near-term funding plan. Moody's Advanced Loss Given Failure (LGF) analysis indicates that OBOS-banken's deposits are likely to face very low loss-given-failure, due to the loss absorption provided by subordinated debt and, potentially, by senior

unsecured debt should deposits be treated preferentially in a resolution, as well as the substantial volume of deposits and senior debt themselves. This results in two notches uplift.

Moody's assumption of a low probability of government support for OBOS-banken's issuer and deposits ratings provide no further uplift, leading to long-term deposit and issuer ratings of Baa1.

The counterparty risk rating of A3 reflects the adjusted BCA of Baa3, and three notches of uplift due to the very high volumes of subordinated loss absorbing obligations protecting counterparties in case of failure, as indicated by LGF.

#### RATIONALE FOR THE CR ASSESSMENT

As part of today's action, Moody's also affirmed OBOS-banken's long-term CR Assessment of A3(cr), and short-term CR Assessment at P-2(cr). The CR Assessment is driven by the banks' standalone assessment based on the substantial cushion against default provided to the senior obligations represented by subordinated instruments, accounting for three notches of uplift relative to the BCA.

#### WHAT COULD CHANGE THE RATINGS UP/DOWN

OBOS-banken's BCA of baa3, could be upgraded if the bank demonstrates a sustainable improvement in profitability, reduced reliance on market funding; and/or (iii) a longer track record of successfully operating as a bank-licensed entity. A higher BCA would likely lead to an upgrade of the long-term ratings.

Future downward rating pressure would emerge if due to (i) unexpected deterioration in asset quality metrics; (ii) weakening of the capital position beyond our expectations; or (iii) reduced liquid assets held on balance sheet. A downward movement in OBOS-banken's BCA would likely result in a downgrade of the long-term ratings. A downgrade to the bank's deposit and issuer ratings could also be triggered by increased expected loss-given-failure. Although the current and forecasted liability structure supports a very low loss-given-failure, balance sheet growth exceeding our expectations, combined with an increasing proportion of covered bonds in favour of senior unsecured debt, could lead us to reassess our LGF analysis.

#### LIST OF AFFECTED RATINGS

Issuer: OBOS-banken AS

..Affirmations:

....Adjusted Baseline Credit Assessment, affirmed baa3

....Baseline Credit Assessment, affirmed baa3

....Long-term Counterparty Risk Assessment, affirmed A3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-2(cr)

....Long-term Counterparty Risk Ratings, affirmed A3

....Short-term Counterparty Risk Ratings, affirmed P-2

....Short-term Issuer Ratings, affirmed P-2

....Long-term Issuer Ratings, affirmed Baa1 Stable

....Short-term Bank Deposits, affirmed P-2

....Long-term Bank Deposits, affirmed Baa1 Stable

..Outlook Action:

....Outlook remains Stable

The principal methodology used in these ratings was Banks published in June 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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