

Credit Rating Announcement

19 January 2024

Scope affirms Totens Sparebank's issuer rating of A- and changes Outlook to Positive

Positive Outlook reflects material potential upside to business model following proposed merger with SpareBank 1 Ostlandet

Rating action

Scope Ratings UK Limited (Scope) has today affirmed the ratings of Totens Sparebank and changed the Outlooks to Positive:

- Issuer rating of A-
- Senior unsecured debt rating of A-
- Senior unsecured (subordinated) debt rating of BBB+. This category includes debt statutorily issued as non-preferred senior.

Scope has also affirmed the A- issuer rating of the bank's covered bond funding entity, Totens Sparebank Boligkreditt, and changed the Outlook to Positive.

Rating rationale

On 15 January 2024, the boards of Totens Sparebank and SpareBank 1 Ostlandet approved a plan for merging the two banks. This follows announcements in early January on the intention to merge. The completion of the merger will require the respective supervisory boards of the banks to make the necessary resolutions at meetings on 22 February 2024. Regulatory approvals are also pending.

With NOK 175bn in assets as of Q3 2023, SpareBank 1 Ostlandet, will act as the acquiring bank, and will acquire all the assets, rights and obligations of Totens Sparebank (NOK 22bn in assets, Q3 2023) upon completion of the merger. The merged bank will continue under the name of SpareBank 1 Ostlandet and be part of the SpareBank 1 Alliance, the largest banking alliance in Norway. The banks aim to complete the merger in Q3 2024.

Scope considers the proposed merger to be credit positive for Totens Sparebank. Geographic and business diversification would increase, strengthening its business model. Further, the merged bank would be the fourth largest savings bank in the country, with a leading position in the Inland region. The merged bank would be better placed to manage increasing competition and address growing regulatory requirements. Further, the two banks share a common goal to support the regional economy and community in the Inland

region.

Outlook and rating-change drivers

The Positive Outlook reflects the material potential upside to Totens Sparebank's business model following the proposed merger with SpareBank 1 Ostlandet.

What could move the rating up:

- Completion of proposed merger as planned, with the bank benefitting from a significantly strengthened business model

Given the Positive Outlook, what could lead to a revision of the Outlook to Stable:

- Proposed merger does not proceed

Overview of rating construct

Operating environment: Very supportive

Business model: Focused

Initial mapping refinement: High

Initial mapping: bbb/bbb+

Long-term sustainability (ESG-D): Developing

Adjusted anchor: bbb

Earnings capacity and risk exposures: Supportive

Financial viability management: Comfortable

Additional rating factors: Neutral factor

Stand-alone assessment: a-

External support: Not applicable

Issuer rating: A-

Totens Sparebank Boligkreditt

The A-/Positive issuer rating on Totens Sparebank Boligkreditt is aligned with that of Totens Sparebank reflecting Scope's expectation that the covered bond funding entity would benefit from full support from its parent in case of need.

Scope would upgrade Totens Sparebank Boligkreditt's issuer rating in the case of an upgrade of the parent's

issuer rating. Conversely, the issuer rating could be downgraded in the case of a downgrade of the parent's issuer rating or if in Scope's view the expectation of parental support diminished.

Stress testing & cash flow analysis

No stress testing was performed. No cash flow analysis was performed.

Methodology

The methodology used for these Credit Ratings and Outlooks, (Financial Institutions Rating Methodology, 7 February 2023), is available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions - Credit Ratings, Ancillary and Other Services', published on <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://scoperatings.com/governance-and-policies/regulatory/uk-regulation>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting these Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and Outlooks and the principal grounds on which the Credit Ratings and Outlooks are based. Following that review, the Credit Ratings and Outlooks were not amended before being issued.

Regulatory disclosures

These Credit Ratings and Outlooks are issued by Scope Ratings UK Limited at 52 Grosvenor Gardens, London, United Kingdom, SW1W 0AU, Tel +44 20 7824 5180. The Credit Ratings and Outlooks are EU-endorsed.

Lead analyst: Pauline Lambert, Executive Director

Person responsible for approval of the Credit Ratings: Nicolas Hardy, Executive Director

The Totens Sparebank issuer Credit Rating/Outlook was first released by Scope Ratings on 30 October 2018. The Credit Rating/Outlook was last updated on 21 August 2023.

The Totens Sparebank senior unsecured debt Credit Rating/Outlook was first released by Scope Ratings on 30 October 2018. The Credit Rating/Outlook was last updated on 21 August 2023.

The Totens Sparebank senior unsecured (subordinated) debt Credit Rating/Outlook was first released by Scope Ratings on 28 September 2021. The Credit Rating/Outlook was last updated on 21 August 2023.

The Totens Sparebank Boligkreditt AS issuer Credit Rating/Outlook was first released by Scope Ratings on 30 October 2018. The Credit Rating/Outlook was last updated on 21 August 2023.

Potential conflicts

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