

**Rating Action: Moody's Affirms Sparebanken Sor's A1 Deposit and Issuer Ratings, Changes Outlook to Stable**

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Global Credit Research - 04 Nov 2016

Limassol, November 04, 2016 -- Moody's Investors Service has today affirmed Sparebanken Sor's A1 long-term local- and foreign-currency deposit and issuer ratings, and changed the outlook to stable from negative. The bank's Prime-1 short term deposit ratings, baa1 Baseline Credit Assessment (BCA) and Aa3(cr) Counterparty Credit Assessment were also affirmed.

The affirmation of Sparebanken Sor's BCA reflects the bank's resilient asset quality profile despite a difficult environment, its strengthened capital as well as its mixed funding profile. The affirmation of the bank's A1 long-term deposit and issuer ratings also reflect the application of Moody's Loss Given Failure analysis and the rating agency's view of a "Moderate" likelihood of government support in case of need.

The change in outlook to stable from negative reflects Moody's view that Sparebanken Sor's financial performance will remain resilient over the next 12-18 months, maintaining the steady performance it has delivered in the first nine months of 2016 despite the softening of the operating environment in Norway.

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

**RATINGS RATIONALE**

**AFFIRMATION OF THE RATINGS**

A key driver for the affirmation of Sparebanken Sor's ratings is the soundness of its asset quality profile, supported by the strength of its mortgage book. The bank's ratio of NPLs improved to 1.13% as of September 2016, from 1.48% at December 2015. The solid performance of Sor's loan book is supported by the bank's mortgage book (accounting for around 59% of total loans as of September 2016), which is well buffered, with around 80% of loans having a loan-to value ratio below 75%, and provides a stable core of earnings. This strength is balanced against the bank's concentrated exposure to the construction and real estate sector, which accounts for around 23% of gross loans.

The ratings affirmation also reflects Sparebanken Sor's recently increased capitalisation, which positions the bank well relative to the regulatory minimum ahead of the 1 January 2017 implementation update. Sparebanken Sor's Common Equity Tier 1 (CET 1) capital ratio increased to 13.6% at the end of September 2016 from 12.7% in December 2015. In addition, the bank's reported a leverage ratio of 7.7% as of September 2016, which compares favorably with similarly-rated local peers.

Although Sparebanken Sor's funding is predominantly made of deposits (accounting for around 54% of non-equity funding as of September 2016), the bank's ratings also capture its high exposure to confidence sensitive market funding at around 27% of total liabilities as of September 2016.

The ratings affirmation also captures the bank's resilient profitability in the first nine months of 2016 despite the softening in the operating environment. Sparebanken Sor's credit costs declined to 0.04% of gross loans in the first nine months of 2016, supporting a 51% annual increase in profit despite flat core income. The bank's bottom line also benefitted from strong growth in profit from financial assets as well as by one-off gains relating to the sale of Visa Europe to Visa Inc in the second quarter of 2016 and the sale of the payment service provider NETS in 2014.

Sparebanken Sor's long-term deposit and issuer ratings of A1 continue to benefit from a very low probability of default, as per Moody's assessment of the bank's liability structure under the rating agency's loss given failure (LGF) analysis, resulting in a two-notch uplift from its BCA. The rating agency's expectation of a moderate probability of government support also continues to result in one additional notch of rating uplift, also contributing to the affirmation of the bank's deposit and issuer ratings.

**THE CHANGE IN THE OUTLOOK TO STABLE FROM NEGATIVE**

The change in outlook to stable from negative reflects Moody's view that Sparebanken Sor's financial performance will remain resilient over the next 12-18 months, maintaining the steady performance it has delivered in the first nine months of 2016 despite the softening of the operating environment in Norway.

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

Over time, upward pressure could develop if the bank demonstrates a combination of: (1) reduced exposure to more volatile sectors such as construction and real estate sectors; (2) sustained strong asset quality and (3) a strengthening in core earnings generation.

Downward rating pressure would develop on Sparebanken Sor's ratings if: (1) the bank's NPLs were to be expected to increase substantially; (2) its profitability were to deteriorate materially from its current level and/or (3) the macroeconomic environment weakens meaningfully. Also, any change in the liability structure of the bank that would cause a reduction in the rating uplift under Moody's LGF analysis or, similarly, a revision of the government support assumptions, could lead to downward rating pressure.

#### LIST OF AFFECTED RATINGS

Issuer: Sparebanken Sor

##### Affirmations:

- ...LT Issuer Rating (Local & Foreign Currency), Affirmed A1, Outlook Changed To Stable From Negative
- ...LT Bank Deposits (Local & Foreign Currency), Affirmed A1, Outlook Changed To Stable From Negative
- ...ST Bank Deposits (Local & Foreign Currency), Affirmed P-1
- ...Senior Unsecured MTN (Local & Foreign Currency), Affirmed (P)A1
- ...Adjusted Baseline Credit Assessment, Affirmed baa1
- ...Baseline Credit Assessment, Affirmed baa1
- ...LT Counterparty Risk Assessment, Affirmed Aa3(cr)
- ...ST Counterparty Risk Assessment, Affirmed P-1(cr)

##### Outlook Actions:

- ...Outlook, Changed To Stable From Negative

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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