

Rating Action: Moody's assigns Baa1 rating to Sparebanken Sor's NOK1 billion senior non-preferred unsecured notes

01 Jul 2020

Limassol, July 01, 2020 -- Moody's Investors Service (Moody's) has today assigned a local currency Baa1 junior senior unsecured rating to the recently issued NOK1 billion senior non-preferred notes of Sparebanken Sor. The senior non-preferred 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.

RATINGS RATIONALE

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

The Baa1 rating assigned to the bank's NOK1 billion junior senior notes reflects (1) Sparebanken Sor's adjusted baseline credit assessment (BCA) of baa1; (2) Moody's forward-looking Advanced Loss Given Failure (LGF) analysis of the bank's liability structure by the end of 2023 when the bank needs to fully meet its Minimum Requirements for own funds and Eligible Liabilities (MREL) with such junior senior notes, which 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; and (3) Moody's assumption of a low probability of government support for this new instrument, resulting in no rating uplift.

Moody's considers Norway to be an Operational Resolution Regime. Sparebanken Sor is subject to the Norwegian implementation of the Bank Recovery and Resolution Directive (BRRD). Therefore, Moody's applies its Advanced LGF analysis to determine the loss-given-failure of the junior senior notes. Moody's forward looking analysis is based upon the volume of MREL qualifying liabilities that the Norwegian Financial Supervisory Authority has specified the bank must issue by 1 January 2024, alongside the bank's own funding plan. Sparebanken Sor needs to issue in total around NOK9.8 billion of junior senior notes.

This is the first issuance of junior senior debt by a Norwegian savings bank. Please see the report "Banks - Nordic Countries: FAQ: Nordic banks' new non-preferred senior debt instruments" (https://www.moody's.com/researchdocumentcontentpage.aspx?docid=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 EXPECTED RESILIENT PERFORMANCE

Junior senior ratings do not carry an outlook. The stable outlook on the bank's long-term deposit and issuer ratings reflects our view that the bank's credit profile will remain broadly resilient over the next 12-18 months, despite the challenges posed on the economy by the coronavirus pandemic and reduced oil prices. We believe that the bank has the earnings and capital buffers to shield its solvency during this difficult period.

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

Sparebanken Sor's junior senior ratings could be upgraded or downgraded in response to an upgrade or downgrade of its BCA.

Upward BCA momentum 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 and diversification without significantly raising its credit risk profile.

Downward BCA pressure would develop if: (1) the bank's nonperforming loans were to increase significantly above its similarly rated peers; (2) its profitability were to deteriorate materially from its current level; (3) the macroeconomic environment weakens significantly for a sustained period, leading to a lower Macro Profile.

Sparebank Sor's junior senior ratings could also be downgraded following lower than expected issuance of

MREL-eligible securities leading to a reduction in the rating uplift through our advanced forward-looking LGF analysis.

LIST OF AFFECTED RATINGS

..Issuer: Sparebanken Sor

Assignments:

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 . Alternatively, please see the Rating Methodologies page on 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.

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The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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