

Rating Action: Moody's affirms Sparebanken Sor's A1 deposit ratings; Outlook changed to positive

26 Sep 2022

Stockholm, September 26, 2022 -- Moody's Investors Service ("Moody's") has today affirmed Sparebanken Sor's (Sor) A1/Prime-1 (P-1) deposit and A1 long-term issuer ratings. Furthermore, the rating agency affirmed the Baseline Credit Assessment (BCA) and Adjusted BCA of baa1. The outlooks on the long-term deposit and issuer ratings were changed to positive from stable.

The affirmation of Sor's baa1 BCA reflects the bank's stable, through the cycle performance, demonstrated by its maintenance of strong levels of capital.

The positive outlook reflects the bank's improving fundamentals, including expected reductions in asset risk and continued stable profitability.

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

RATINGS RATIONALE

Sor's problem ratio remained at a relatively low level at 0.7% of gross loans both at end June 2022 and at year end 2021, down from 0.9% at end of 2020. Sor also benefits from very strong capital levels, with a ratio of tangible common equity (TCE) to risk weighted assets of 18.3% and a common equity tier 1 ratio of 17.4% at the end June 2022 while TCE in relation to Tangible Banking Assets (TBA) was 9.3%. Both Pre-provision income and net income to TBA remained resilient throughout the pandemic and net income fell only marginally to 0.7% in 2020 before recovering to 0.8% in 2021. These strengths are balanced against the bank's lending concentration towards the commercial real-estate sector, some single name concentration risk, and a high level of capital markets funding.

RATING OUTLOOK

Sor's positive outlook reflects its improved ratios and fundamentals in terms of asset risk and capital which, if sustained, creates positive rating pressure.

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

The bank's ratings could be upgraded if it sustains

- Sound asset quality metrics with problem loans ratio in line with local peers; and
- Strong capital ratios, both in relation to risk weighted assets and in relation to TBA
- A stable profitability

While the positive outlook implies that a downgrade is unlikely, the outlook could be stabilised should

- The bank's NPLs increase significantly;
- Its profitability was to deteriorate materially from its current level;
- Lower than expected issuance of non-preferred senior (SNP) securities leading to a reduction in the rating uplift through Moody's Advanced Loss Given Failure analysis.

LIST OF AFFECTED RATINGS

Issuer: Sparebanken Sor

..Affirmations:

....Adjusted Baseline Credit Assessment, Affirmed baa1

...Baseline Credit Assessment, Affirmed baa1
...Long-term Counterparty Risk Assessment, Affirmed A1(cr)
...Short-term Counterparty Risk Assessment, Affirmed P-1(cr)
...Long-term Counterparty Risk Ratings, Affirmed A1
...Short-term Counterparty Risk Ratings, Affirmed P-1
...Long-term Issuer Ratings, Affirmed A1, Outlook Changed To Positive From Stable
...Long-term Bank Deposit Ratings, Affirmed A1, Outlook Changed To Positive From Stable
...Short-term Bank Deposit Ratings, Affirmed P-1
...Junior Senior Unsecured Regular Bond/Debenture, Affirmed Baa1
...Senior Unsecured Medium-Term Note Program, Affirmed (P)A1
..Outlook Action:
...Outlook, Changed To Positive From Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997> . Alternatively, please see the Rating Methodologies page on <https://ratings.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 on <https://ratings.moodys.com/rating-definitions>.

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