

**Rating Action: Moody's assigns long-term A1 Issuer Ratings to Sparebanken Sor**

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Global Credit Research - 13 Jan 2016

London, 13 January 2016 -- Moody's Investors Service has today assigned long-term A1 issuer ratings to Sparebanken Sor with a stable outlook. The ratings are in line with the bank's A1 long-term deposit ratings.

All other ratings and rating inputs of Sparebanken Sor are unaffected by today's action.

**RATINGS RATIONALE**

The A1 issuer ratings to Sparebanken Sor take into account the bank's "Very High --" Macro Profile, its baa1 baseline credit assessment (BCA), the analysis of the bank's balance sheet structure through Moody's Advanced Loss Given Failure (LGF) framework, and the rating agency's assessment of the probability of government support. Norwegian banks benefit from operating in an affluent and developed country with very high economic, institutional and government financial strength, as well as low susceptibility to event risk.

The bank's BCA reflects 1) its continuously improved asset quality through a comprehensive review of the corporate portfolio which will limit future losses, and 2) Moody's expectation that the bank will realise further synergies and will be better positioned to service larger companies in its core market following the merger between Sparebanken Sor and Sparebanken Pluss in 2013. The issuer ratings also take into account Moody's LGF analysis of the bank's own volume of deposits and senior unsecured debt, as well as the volume of securities subordinated to them. This results in an assessment of very low loss given failure and leads to two notches of rating uplift for the issuer ratings which is the same uplift afforded for the bank's deposit ratings. Finally, Moody's assessment of a moderate probability of government support in case of need adds one notch of rating uplift.

The stable outlook on the bank's issuer ratings reflects our view that the bank's financials will remain broadly resilient in the face of a modest slowdown in Norway's still strong economic performance.

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

An upgrade of Sparebanken Sor's ratings could be triggered by (1) a sustainable improvement in the bank's profitability metrics without an increase in its risk profile; (2) a reduction in the bank's loan-book concentrations; (3) a bolstered liquidity position and continued good access to capital markets.

Future downward ratings pressure could follow (1) an increase in the problem loans ratio significantly above Moody's system-wide expectation of approximately 2%; (2) an increase of top-20 exposure concentration above 150% of Core Tier 1 Capital; (3) a reduction in the bank's profitability, with net profits falling below 0.5% of tangible assets; and/or (4) a more than currently anticipated deterioration in the macroeconomic environment, leading to a weaker Macro Profile. Also, a reduction in uplift as a result of Moody's LGF analysis or a revision of government support assumptions could lead to downward rating pressure.

**PRINCIPAL METHODOLOGY**

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

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