MOODY'S
INVESTORS SERVICE

Rating Action: Moody's confims all Sparebanken Sor's ratings; stable outlook

Global Credit Research - 05 Mar 2014

London, 05 March 2014 -- Moody's Investors Service has today confirmed Sparebanken Sor's A2/ P-1 long-term/short-term deposit ratings. Concurrently, Moody's has affirmed the bank's C- standalone bank financial strength rating (BFSR) equivalent to a baseline credit assessment (BCA) of baa1. The bank's BFSR and long-term ratings carry a stable outlook.

Following the merger between Sparebanken Pluss and Sparebanken Sor, effective on 2 January 2014, Moody's withdrew the ratings of Sparebank Sor and kept the A2/P-1 ratings of Sparebanken Pluss (the continuing entity, subsequently renamed as Sparebanken Sor) on review for downgrade. The review for downgrade reflected the old Sparebanken Sor's, deposit ratings of A3/P-2 and Moody's view that the two banks ratings would converge as the merger was implemented.

Audited consolidated 2013 numbers are not yet available and Moody's confirmation of the ratings is based on pro-forma consolidated 2013 financials as well as information about the status of the merger process.

RATINGS RATIONALE

Today's confirmation of the rating reflects the rating agency's view that (1) the synergies from the merger, largely resulting from an enlarged franchise in southern Norway, outweigh the implementation risk associated with the merger, and (2) a stable and supportive operating environment in Norway both underpins credit quality and supports pre-provision profitability as evidenced by the merged banks' 2013 financials.

The merged bank is headquartered in Kristiansand, Norway, and is the 4th largest savings bank in Norway (excluding DNB) with total assets of NOK 94 billion at year end 2013. Moody's estimate that the combined entity's market share in its core region of Aust-Agder and Vest-Agder is around 30% with a national market share of around 2%. The two banks previously operated in adjacent areas in southern Norway but with a limited amount of overlap in terms of customers and branches.

The rating on the merged bank is underpinned by adequate capital levels and a strong franchise in a region of Norway which is benefitting from growth in industry sectors related to the oil industry. With the increased size, Moody's believe that synergies could result from the merged bank being better able to service larger companies in its core area, cost synergies resulting from a gradual restructuring of the cost base reflecting the larger scale of the operations, and lower initial borrower concentration levels.

The A2 rating benefits from a 2 notch uplift from its baa1 standalone credit assessment given our assessment of a high probability of systemic support from the Aaa rated Norwegian sovereign to the merged group which is on the FSA list of banks recommended to be designated as Norwegian SIFIs.

WHAT COULD MOVE THE RATINGS UP/DOWN

An upgrade of Sparebanken Sor's A2 rating 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 group's loan-book concentration; and/or (3) bolstered liquidity position and continued good access to capital markets.

Downward pressure on the ratings could follow (1) indications that the merger is negatively impacting the group's franchise and/or financial strength (2) a deterioration in asset quality and/ or capitalisation to levels not commensurate with the current rating level.

In addition, we believe that downward pressure could be exerted on the ratings due to external factors, such as a less supportive macroeconomic environment and/or substantially adverse developments in the Norwegian real-estate market.

The principal methodology used in this rating was Global Banks published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Kim Bergoe
VP - Senior Credit Officer
Financial Institutions Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Simon Harris
MD - Financial Institutions
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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