MOODY'S
INVESTORS SERVICE

CREDIT OPINION

8 December 2020

Update

Rate this Research

RATINGS

Sparebanken Sor

Domicile	Kristiansand, Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Mattias Eric Frithiof +46.8.5179.1264
AVP-Analyst
mattias.frithiof@moodys.com

Nondas Nicolaides +357.2569.3006
VP-Sr Credit Officer
nondas.nicolaides@moodys.com

Katarzyna Szymanska +44.20.7772.1047
Associate Analyst
katarzyna.szymanska@moodys.com

Simon James Robin Ainsworth +44.20.7772.5347
Associate Managing Director
simon.ainsworth@moodys.com

» Contacts continued on last page

Sparebanken Sor

Update to credit analysis

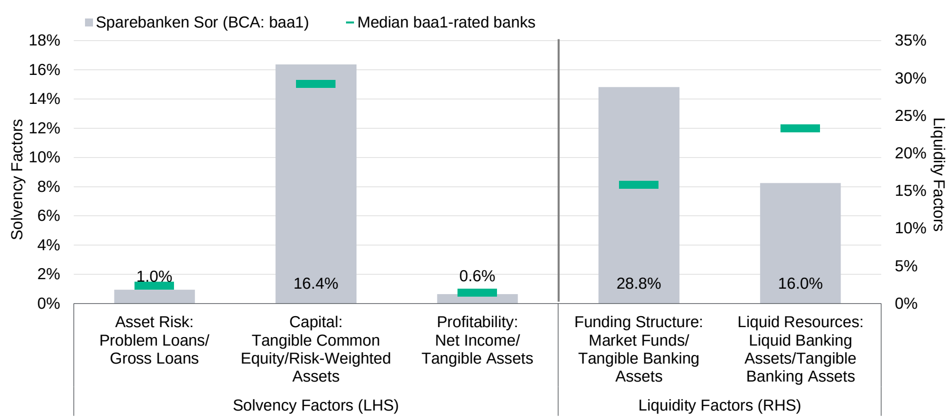
Summary

Sparebanken Sor's A1 deposit and senior unsecured debt ratings take into account its baseline credit assessment (BCA) of baa1, but also our forward-looking Loss Given Failure (LGF) analysis of its liability structure.

The bank's BCA of baa1 reflects its resilient asset quality metrics, with ratios of non-performing loans (NPLs) to gross loans of around 0.9% and Loan Loss Reserves (LLRs) to NPLs of around 44% as of September 2020. The bank's BCA of baa1 also captures its strong capital buffers with a tangible common equity ratio of 16.4% combined with a robust leverage ratio of 8.4% and a moderate profitability with a net income to average tangible banking assets of around 0.6%, with relatively low earnings diversification. The bank's stand-alone credit profile also incorporates its high reliance on market funding, a common attribute of Norwegian banks.

The bank's A1 deposit and senior unsecured debt ratings take into account our forward looking advanced LGF analysis of the bank's liability structure, which positions them three notches above its BCA. Sparebanken Sor benefits from a large volume of deposits and substantial layers of subordination (including upcoming MREL-eligible instruments of approximately NOK9.8 billion), resulting in very low potential losses for senior creditors.

Exhibit 1
Rating Scorecard- Key Financial Ratios



These represent our Banks rating methodology scorecard ratios, whereby asset risk and profitability reflect the weaker of either the three-year average and the latest annual figure. The capital ratio is the latest reported figure. The funding structure and liquid resources ratios reflect the latest fiscal year-end figures.
Source: Moody's Banking Financial Metrics

Credit strengths

- Resilient asset quality, although some limited deterioration expected in the short-term, with ⅔ of lending to private mortgages and close to zero exposure to oil and offshore sectors
- Strong capital levels with a robust leverage ratio
- Large volume of deposits and debt combined with upcoming MREL eligible securities, result in three notches uplift to the deposit and issuer ratings

Credit challenges

- Some single borrower and sector loan concentrations increase asset risk
- Reliance on market funding renders the bank vulnerable to fluctuations in investor sentiment
- Modest profitability, with low earnings diversification, on the back of some net interest margin pressure

Rating outlook

The stable outlook on the bank's long-term deposit and senior unsecured debt ratings reflects our view that the bank's credit profile will remain broadly resilient over the next 12-18 months, despite the macroeconomic challenges ahead. We believe that the bank has the earnings and capital buffers to shield its solvency during this period.

Factors that could lead to an upgrade

Upward rating 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.

Factors that could lead to a downgrade

Downward rating pressure would develop on Sparebanken Sor's ratings if: (1) the bank's NPLs 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; and (4) lower than expected issuance of non preferred senior (SNP) securities leading to a reduction in the rating uplift through our LGF analysis.

Key indicators

Exhibit 2
Sparebanken Sor (Consolidated Financials) [1]

	09-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	146.2	129.5	121.1	114.3	105.5	9.1[4]
Total Assets (USD Million)	15,628.2	14,737.1	13,988.1	13,975.4	12,251.2	6.7[4]
Tangible Common Equity (NOK Billion)	12.3	11.7	10.7	10.0	9.2	8.1[4]
Tangible Common Equity (USD Million)	1,317.1	1,329.0	1,241.1	1,224.5	1,069.4	5.7[4]
Problem Loans / Gross Loans (%)	0.9	1.0	1.0	0.9	1.0	1.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.4	16.4	15.3	15.3	14.8	15.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	8.2	8.9	8.8	8.4	9.3	8.7[5]
Net Interest Margin (%)	1.3	1.5	1.4	1.5	1.5	1.4[5]
PPI / Average RWA (%)	1.7	1.9	1.7	1.9	2.0	1.8[6]
Net Income / Tangible Assets (%)	0.6	0.8	0.7	0.8	0.9	0.8[5]
Cost / Income Ratio (%)	42.3	40.9	43.8	39.5	40.1	41.3[5]
Market Funds / Tangible Banking Assets (%)	32.4	28.8	26.8	28.2	28.2	28.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	19.5	16.0	13.5	13.5	12.6	15.0[5]
Gross Loans / Due to Customers (%)	183.5	184.1	182.9	176.5	177.5	180.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

Sparebanken Sør is a regional Norwegian bank, which provides retail and corporate banking services to individuals, companies and public authorities in the counties of Agder, Telemark, Vestfold, and Rogaland. Its products include financing, savings facilities, placements, insurance, pensions and payment facilities. Sparebanken Sør is currently the sixth largest savings bank in Norway with total consolidated assets of NOK146 billion (€13.2 billion) as of September 2020.

Recent Developments

Nascent global economic recovery is under threat from rising COVID-19 cases and even with a gradual recovery, we expect 2021 real GDP in most advanced economies to be below pre-coronavirus levels, and we assume that difficulty in controlling the virus will hinder the gradual process of recovery in the short term. But over time, we expect better pandemic management and the availability of an effective vaccine or treatments to reduce the importance of the virus as a macroeconomic variable.

Our forecasts assume that an effective vaccine is unlikely to be available widely before the middle of 2021. Thus, the recovery path is still uncertain and will remain highly dependent on: (1) the development and distribution of a vaccine, (2) effective pandemic management, and (3) government policy support.

We note that since March 2020, Norway's central bank, the Ministry of Finance and the Norwegian FSA have taken a number of actions aiming to alleviate the impact on the economy from both the coronavirus lockdown and the plunge in oil prices. These measures include the reduction of the key policy rate by 150 basis points (bps), reducing banks' countercyclical buffer requirement by 150 bps, providing special F-loans to banks to help manage any funding and liquidity stress, as well as extension of unemployment benefits and various social policy schemes to support individuals. We believe these measures will help alleviate the negative impact stemming from the coronavirus outbreak, and will largely sustain borrowers' solvency in the longer term.

Detailed credit considerations

Norway's 'Very Strong-' Macro Profile remains supportive towards the bank's stand alone credit profile, despite economic challenges expected in 2020-21

Although Norway's operating environment is deteriorating as a result of the global outbreak of coronavirus and the fall in oil prices, we believe that the banking system still benefits from the government's generally strong fiscal flexibility and countercyclical buffers available through its sovereign oil fund to respond to economic shocks.

Sparebanken Sor's operations are entirely in Norway. As a result we apply the Very Strong- Macro Profile we have assigned to banks operating in Norway. Norwegian banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength as well as very low susceptibility to event risk. Norway has a diversified and growing economy, which demonstrated resilience to the past weakening in the oil sector.

The main risks to the system stem from a high level of household indebtedness, elevated real estate prices and domestic banks' reliance on market funding. However, these risks are mitigated by the strength of households' ability to service debt, banks' adequate capitalisation, and the relatively small size of the banking system compared to the total size of the economy.

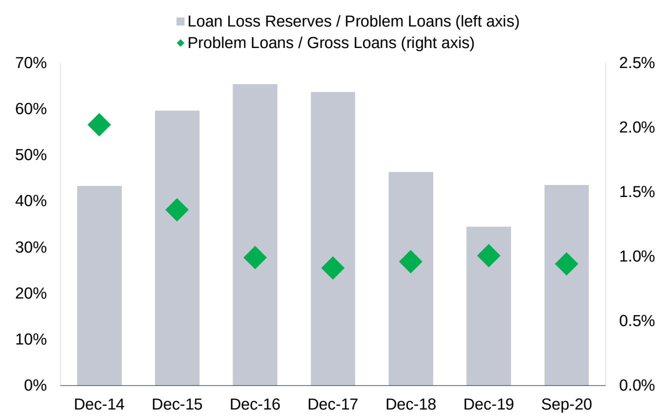
We expect the Norwegian mainland economy (excluding any oil-related activity) to contract (-2.0%) in 2020, before rebounding by 3.8% in 2021. Unemployment peaked in March 2020 at 10.6% according to the Norwegian Labour and Welfare Administration. With the easing of restrictions and re-opening of the economy in the Summer, the unemployment rate declined to 3.5% in October, but new restriction measures to tackle the second wave of the coronavirus pandemic pose a downside risk to the labour market.

Resilient asset quality metrics, although some limited deterioration expected in the short-term and some concentrations risk

Sparebanken Sor's problem loans, defined as stage 3 loans, were at 0.9% of gross loans as of September 2020, slightly lower than the 1% as of December 2019 (stage 3 loans decreased to NOK1,047 million in September 2020 from NOK1,073 million in December 2019), which is comparable with other large Norwegian savings banks and in line with the average of similarly-rated banks globally. The bank has taken a strategic decision to maintain a good credit quality and limit future losses reflected in a low and stable level of problem loans over the past five years (see Exhibit 3). Sparebanken Sor's loan loss provisions increased during 2020 and stood at NOK114 million as of September 2020, resulting in increase in total provisioning coverage for problem loans to around 44% as of September 2020 (see Exhibit 4).

Exhibit 3

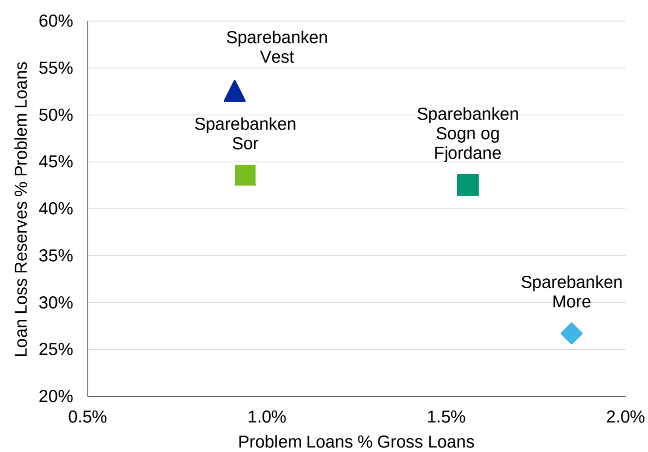
Sparebanken Sor's problem loans ratio came down in recent years...



Sources: Moody's Financial Metrics, Sparebanken Sor

Exhibit 4

..and comparable with similarly rated domestic peers



Note: Based on Q3 2020 Moody's adjusted data
Source: Moody's Financial Metrics

Sparebanken Sor's loan book is dominated by retail loans, mostly in the form of mortgages, which represent around 66% of the gross loan book as of September 2020, an asset class that has been more resilient historically with lower default levels. We consider the bank's low average loan-to-value (LTV) of approximately 57% for mortgages to be a mitigating factor to a potential fall in house prices.

However, the bank has also significant concentration to the real-estate and construction sectors at around 22% of gross loans as of September 2020, which poses downside risks to future loan book performance in case there is any material reduction in property prices in the region. We note that majority of the bank's total outstanding impairments come from its corporate exposures, of which over half relate to either the real estate development and building & construction sectors, or to the property management sector, indicating their inherently higher credit risk profile.

Furthermore, the bank's corporate book has certain single-borrower concentration, especially to commercial real estate (CRE) clients, making it vulnerable to a potential default of one of its large customers. Our downward adjustment to the bank's asset risk score to baa1 captures these concentration risks, in addition to the limited geographical diversification compared to larger Nordic commercial banks, as Sparebanken Sor is mainly exposed to the southern Norwegian region.

Going forward, we expect some limited deterioration in the bank's asset quality due to the coronavirus-induced measures in the country, although the government support framework introduced will likely mitigate the negative effects on borrowers. Specifically, Sparebanken Sor was allocated around NOK3 billion of government guarantees for SME loans that are 90% guaranteed by the government to companies affected by the pandemic, of which only around NOK530 million has been utilised so far. We also expect that the bank's increased credit losses reported in Q1 2020, incorporating model-based proactive provisions, and the principal monthly installment relief up to six months provided to affected borrowers will go some way in alleviating its income statement for the full year 2020.

Modest profitability with low earnings diversification, on the back of some net interest margin pressure and higher impairment charges

In response to the economic stress from the coronavirus outbreak Norges Bank has since March 2020 carried out three rate cuts, totaling 150 basis points, leaving the reference rate at zero. Decreasing rates has depressed margins so far in 2020, especially in the second and beginning of the third quarter, which coupled with increasing competition among Norwegian banks in the retail market and elevated credit losses will challenge Sparebanken Sor's profitability in 2020 and 2021.

Sparebanken Sor reported a 7.8% return on equity (after tax) as of September 2020, compared to 9.5% a year earlier and a 9% on-going target. Net interest income and income from associated companies increased 3% and 84% year-on-year respectively, but the bottom line decreased overall by 9% year-on-year as of September 2020. The decrease in net profit was mainly driven by the bank's losses on loans and guarantees as a result of the coronavirus pandemic that increased significantly to NOK114 million compared to write-backs of NOK14 million as of the end of September 2019.

Sparebanken Sor relies predominantly on stable income from lending, with net interest income representing around 81% of its revenues, constraining its earnings diversification. The bank reported an annualised net interest margin of 1.75% for retail loans and 2.36% for corporate loans in September 2020, down from 2.15% and 2.49% respectively the year before. Looking ahead over the next 12-18 months, we expect the bank to continue experiencing some margin pressure counterbalanced by higher loan growth (4.6% year-on-year as of September 2020), while earnings diversification will likely remain limited.

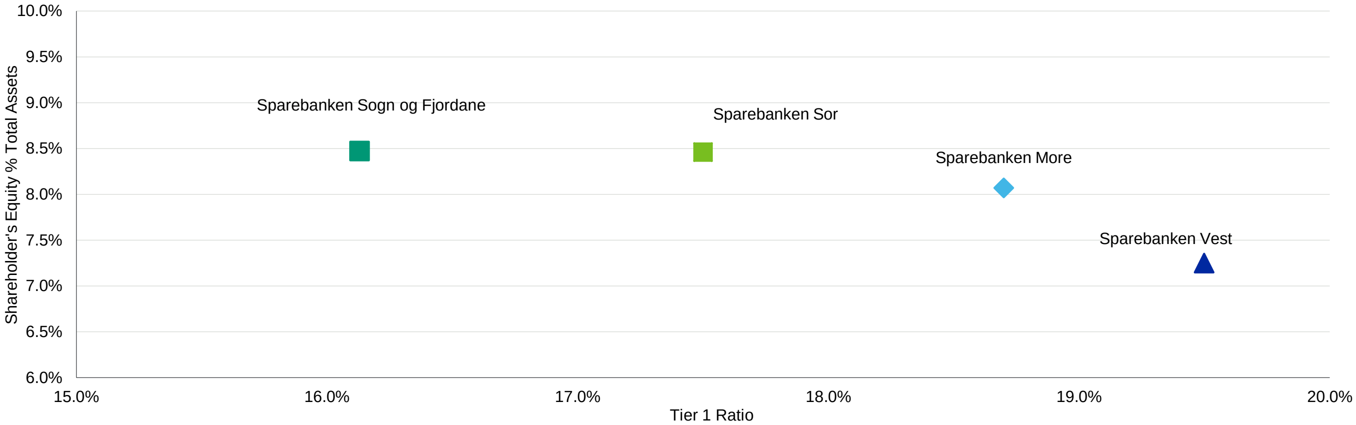
However, the bank's cost efficient structure and set-up, despite spending on digitalisation and channel interaction, should continue to support its core pre-provision income and bottom-line during times of stress. The bank has reported a cost-to-income ratio of 39.2% (excluding net income from financial instruments), in line with the reported ratio as of 2019 and below its 42% target.

Strong capital levels with a robust leverage ratio

In response to the global coronavirus outbreak and resulting economic stress, the Norwegian FSA has revised banks' capital requirements during the first quarter of 2020. Accordingly, the countercyclical capital buffer requirement was lowered by 150 basis points to allow more flexibility, while banks were requested to reconsider their dividend payments for 2019. In line with many Norwegian banks, Sparebanken Sor has increased its capital ratios by postponing any dividend payments until a later stage. If the circumstances allow, the bank's Board of Directors will convene an extraordinary Board of Trustees meeting to consider the distribution of dividends.

Sparebanken Sor's capitalisation is sound relative to its risk profile with a CET1 ratio of 15.7% as of September 2020, well above its regulatory minimum of 13% and above its target of 15.3%. Concurrently, Sparebanken Sor’s total regulatory capital ratio was 19.6% and its Tier 1 ratio at 17.5% as of September 2020, compared to 18.7% and 16.6% as of September 2019 respectively. We note that the bank is the only one of the large regional banks in Norway that still applies the standard method in its risk-weighted assets (RWAs) calculations. Accordingly it has one of the highest RWAs-density and leverage ratios among Norwegian savings banks at 8.8% in September 2020, although down from 9.3% in December 2019. The bank’s is currently in the process to apply to the Financial Supervisory Authority for an approval to use the Internal Ratings-based (IRB) approach to calculate RWAs. However, timing of the implementation is uncertain due to the complexity of the process.

Exhibit 5
Sparebanken Sor's capital levels are comparable to its similarly-rated peers



Note: Based on Q3 2020 Moody's adjusted data, Sparebanken Sor and Sparebanken Sogn og Fjordane use the standard method while Sparebanken More and Sparebanken Vest use the Internal Ratings Based Approach for their risk weighted assets and capital calculation.
Source: Moody's Financial Metrics, Sparebanken Sor

On 5 November 2020, Norway's Ministry of Finance notified relevant European Union and European Economic Area authorities of changes it was making to the systemic risk buffer requirement that it currently applies to all Norwegian banks. To ensure that all Norwegian banks maintain high capital levels the systemic risk buffer will increase by 150 basis points to 4.5% on 31 December 2020 from 3% currently. For banks using advanced internal risk-based (AIRB) models for calculating their RWAs, the change will apply from the end of this year. For the other banks using mainly the standardised approach, including Sparebanken Sor, there will be a phase-in period until year-end 2022. The phase-in period will give the Norwegian regulator time to adjust its Pillar 2 requirements for these banks to calibrate the full effect of the changes.

The proposal to increase the buffer aims to counterbalance the RWAs benefit that the banks will receive from the implementation of CRD IV (removal of the 80% Basel I floor and SME discount). The bank estimated an immediate SME discount benefit of around 40 basis points (total effect when the next stage of the SME discount is implemented in a few years is 110 basis points), which combined with the eventual adoption of the IRB approach going forward, will strengthen its regulatory capital metrics. This will allow the bank to continue growing its RWAs and meet its dividend payout policy of 50-70% over the longer term.

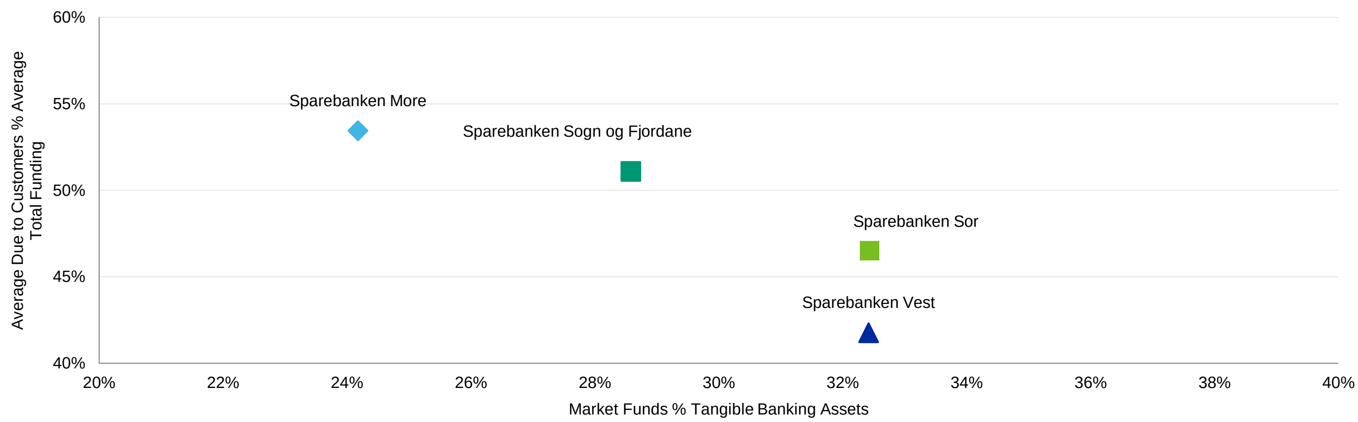
Our capital score for the bank in our scorecard is adjusted downwards to reflect the bank's relatively low equity certificates (EC) capital structure, with the EC holders owning only 17.3% of the bank's total capital. We believe that this structure could challenge the bank to raise new capital if needed, especially during periods of financial distress, compared to other local savings banks that are either fully listed or have an EC ownership ratio of more than 60%. Nonetheless, we believe that the bank has good capital buffers to withstand the current pressures resulting from the global outbreak of coronavirus.

Reliance on market funding renders the bank vulnerable to fluctuations in investor sentiment

Sparebanken Sor's funding is underpinned by a strong deposit base, which amounts to roughly 45% of non-equity funding. Nevertheless, the bank remains reliant on market funding, which accounted for 32% of tangible banking assets as of September 2020 (see Exhibit 6), and which renders the bank susceptible to changes in investor behaviour. While Sparebanken Sor has good access to the domestic capital markets, we expect that the bank will continue accessing the international markets in order to expand its investor base beyond the more limited and concentrated domestic market. We also expect the bank to replace part of its preferred senior debt maturing over the next 2-3 years, with MREL-eligible senior non-preferred (SNP) securities estimated at around NOK9.8 billion. We note that the bank has already raised NOK2 billion of SNP debt, being the first Norwegian bank to tap the markets for such an instrument.

Exhibit 6

Reliance on market funding remains a fundamental weakness for the bank, a common attribute of Norwegian banks



Note: Based on Q2 2020 Moody's adjusted data.
Source: Moody's Financial Metrics

A sizeable (73% of market funding as of Q3 2020) and growing portion of market funds is in the form of covered bonds, which provide the bank with an important source of funding. Based on our methodology, we reflect the stability of covered bonds relative to unsecured market funding through an adjustment to our market funds to tangible assets ratio. We believe the bank will benefit from the depth of the markets, increasing its potential investor base and mitigating its refinancing risk. Nonetheless, our Funding Structure score reflects our view that the bank's overall funding profile remains a weakness relative to the other scorecard metrics.

We note that the bank has made use of the short-term F-loans provided from the central bank (Norges Bank), as part of its measures to support the banking system's liquidity during this period of the coronavirus. The Norwegian FSA also extended the period for all banks to fully meet their MREL by one year (until 1 January 2024). Since then funding levels have returned to more normal levels and we view Sparebanken Sor to have good access to the funding markets.

Sparebanken Sor also maintains sizeable buffers of high quality liquid assets. As of September 2020, liquid assets accounted for around 19% of tangible assets, comprising cash and deposits with the central bank and the securities portfolio that is in a vast majority Aaa-rated instruments in the form of Norwegian covered bonds, bonds from the government and other public entities and other issuers.

We note that these holdings are mostly Norwegian securities and covered banks of other local banks, which could be a source of vulnerability from a concentration-risk perspective and in case of a systemic liquidity crunch, but reduces the bank's currency exposure. The bank reported a consolidated liquidity coverage ratio (LCR) of 152 % as of September 2020, well above the regulatory requirement and mitigating to a some extent the market funding dependence concerns that we have.

Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to system-wide trends and market shares from the central bank. Bank specific figures originate from banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions published on 9 August 2018.

ESG considerations

In line with our general view on the banking sector, Sparebanken Sor has a low exposure to environmental risks. See our environmental risk heat map for further information.

We believe banks face moderate social risks. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology cost, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas translating into regulations that affect banks' revenue base.

In addition, we regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. See our social risk heat map for further information.

Governance is highly relevant for Sparebanken Sor, as it is to all entities in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven. For Sparebanken Sor, we do not have any particular governance concern. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Loss Given Failure

The EU Bank Recovery and Resolution Directive (BRRD) has entered into force as of 1 January 2019 in Norway, which support our current assumptions regarding the LGF analysis. For our resolution analysis, we assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions. For Sparebanken Sor's long-term deposit rating and senior unsecured debt rating, our LGF analysis considers the combination of the bank's junior deposits, its outstanding debt volume and the amount of debt subordinated to this.

The assigned LGF notchings for long-term deposit and senior unsecured bank debt are positioned one notch higher than the correspondent LGF notching guidance (two notches above the adjusted BCA). This reflects our expectation that the bank will issue non-preferred senior (SNP) debt, estimated at around NOK9.8 billion, over the coming 3-4 years in order to comply with its MREL requirement. This has resulted in a Preliminary Rating Assessment (PRA) of three notches above the BCA, reflecting very low loss given-failure. Accordingly, the assigned notching for the SNP rating is '0' compared to the '-1' guidance in our scorecard.

We note that the implementation of BRRD2 in Norway could potentially reduce the bank's need to issue SNP going forward. However, at this stage it is uncertain what the final requirement will look like and whether any reduction in required subordination would have a significant impact on the banks's liability structure.

For junior securities issued by Sparebanken Sor, our LGF analysis confirms a high level loss-given-failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity.

Government support

Sparebanken Sor is a regional savings bank with a sound market position on the southern coast of Norway, in the counties of Agder, Telemark and Vestfold, and Rogaland, where we estimate it commands combined market shares of around 24% for lending and around 34% for deposits. As a result of the implementation of the BRRD legal framework in Norway from 1 January 2019, which is aligned with that of the EU, we revised our government support assumption for the bank's preferred senior debt and deposits to low from moderate. This has resulted in no rating uplift from its PRA, positioning the ratings at A1.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default; and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

Sparebanken Sor's CR Assessment is positioned at A1(cr)/P-1(cr).

The CRA is positioned three notches above the Adjusted BCA of baa1, based on the substantial cushion against default provided to the senior obligations represented by the CRA by subordinated instruments. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CRA captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

Counterparty Risk Rating (CRR)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

Sparebanken Sor's CRRs are positioned at A1/P-1.

The CRRs are positioned three notches above Sparebanken Sor's Adjusted BCA of baa1, reflecting extremely low loss-given-failure from the high volume of instruments that are subordinated to CRR liabilities.

Foreign currency deposit rating

The bank's foreign-currency deposit ratings are unconstrained, because Norway has no country ceiling. Sparebanken Sor's foreign-currency deposit rating is A1.

Methodology and scorecard

About Moody's bank scorecard

Our Scorecard is designed to capture, express and explain in summary form our rating committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 7

Sparebanken Sor

Macro Factors							
Weighted Macro Profile	**Very Strong -**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		1.0%	aa2	↔	baa1	Geographical concentration	Sector concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		16.4%	aa2	↔	aa3	Access to capital	
Profitability							
Net Income / Tangible Assets		0.6%	baa2	↔	baa3	Earnings quality	Expected trend
Combined Solvency Score			aa3		a3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		28.8%	baa2	↔	baa2		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		16.0%	baa2	↔	baa2		
Combined Liquidity Score			baa2		baa2		
Financial Profile					baa1		
Qualitative Adjustments					Adjustment		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint					Aaa		
BCA Scorecard-indicated Outcome - Range					a3 - baa2		
Assigned BCA					baa1		
Affiliate Support notching					0		
Adjusted BCA					baa1		

Balance Sheet	**in-scope (NOK Million)**	**% in-scope**	**at-failure (NOK Million)**	**% at-failure**
Other liabilities	62,006	42.4%	68,176	46.6%
Deposits	60,494	41.4%	54,324	37.2%
Preferred deposits	44,766	30.6%	42,527	29.1%
Junior deposits	15,728	10.8%	11,796	8.1%
Senior unsecured bank debt	14,269	9.8%	14,269	9.8%
Junior senior unsecured bank debt	2,000	1.4%	2,000	1.4%
Dated subordinated bank debt	1,650	1.1%	1,650	1.1%
Preference shares (bank)	1,375	0.9%	1,375	0.9%
Equity	4,385	3.0%	4,385	3.0%
Total Tangible Banking Assets	146,179	100.0%	146,179	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	24.3%	24.3%	24.3%	24.3%	3	3	3	3	0	a1
Counterparty Risk Assessment	24.3%	24.3%	24.3%	24.3%	3	3	3	3	0	a1 (cr)
Deposits	24.3%	6.4%	24.3%	16.2%	2	3	2	3	0	a1
Senior unsecured bank debt	24.3%	6.4%	16.2%	6.4%	2	2	2	3	0	a1
Junior senior unsecured bank debt	6.4%	5.1%	6.4%	5.1%	-1	-1	-1	0	0	baa1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	3	0	a1	0	A1	A1
Senior unsecured bank debt	3	0	a1	0	(P)A1	A1
Junior senior unsecured bank debt	0	0	baa1	0	Baa1	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
SPAREBANKEN SOR	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
Junior Senior Unsecured -Dom Curr	Baa1

Source: Moody's Investors Service

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Contacts

Sean Marion +44.20.7772.1056
MD-Financial Institutions
sean.marion@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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