

## CREDIT OPINION

6 November 2020

Update

✓ Rate this Research

### RATINGS

#### Sparebanken Sogn og Fjordane

Domicile	Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2
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.

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# Sparebanken Sogn og Fjordane

## Update to Credit Analysis

### Summary

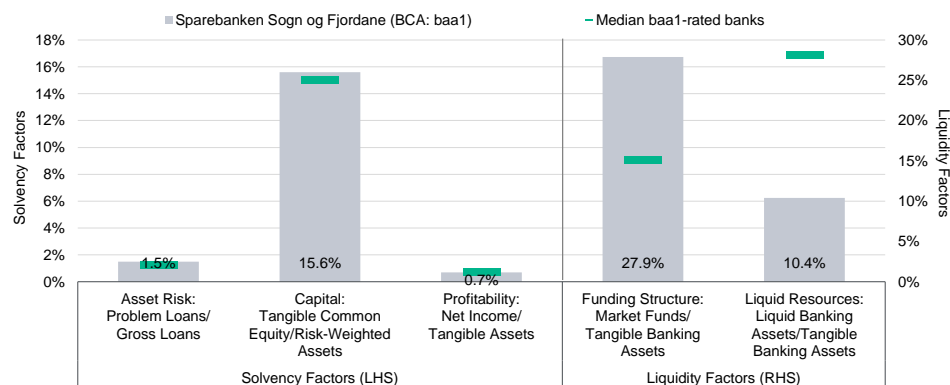
Sparebanken Sogn og Fjordane's (SSF) baseline credit assessment (BCA) of baa1 and long-term deposit and issuer ratings of A2, are driven by the bank's relatively strong financial fundamentals on the back of its expanding retail regional franchise (mainly in the county of Sogn og Fjordane), but also by the adequate protection provided to the bank's senior creditors.

SSF's standalone BCA of baa1 reflects the bank's Very Strong - operating environment, with problem loans at relatively low levels (equivalent to 1.6% of gross loans at end-September 2020), comfortable capital metrics with a Common Equity Tier 1 (CET1) ratio of 15%, but also its relatively high reliance on the domestic capital markets. Our assessment of the bank also incorporates some single name, geographic and real estate credit concentrations, which could result in higher provisioning requirements in a deteriorating operating environment, although we expect SSF's large residential mortgage portfolio (comprising around 74% of total loans) to remain resilient.

The bank's A2 long-term deposit and issuer ratings incorporate two notches of rating uplift from the bank's baa1 standalone BCA based on our Advanced Loss Given Failure (LGF) analysis. LGF takes into account the risks faced by the different debt and deposit classes across the liability structure should the bank enter into resolution. In SSF's case, depositors and senior creditors are protected from sufficiently subordinated funding resulting in the two notches rating uplift.

Exhibit 1

### Rating Scorecard - Key Financial Ratios



Note: \*average of other Moody's rated Norwegian savings banks  
Source: Moody's Financial Metrics

## Credit strengths

- » Sparebanken Sogn og Fjordane's BCA is supported by its Very Strong- Macro Profile
- » Capital levels are comfortable
- » Problem loans are relatively low
- » Sound recurring profitability supports the bank's BCA

## Credit challenges

- » Asset quality could be vulnerable to some single name, geographic and real estate credit concentrations
- » Market funding reliance renders the bank vulnerable to fluctuations in investor sentiment, despite a large deposit base
- » Higher capital requirements in the future could be a challenge

## Outlook

The stable outlook on the bank's ratings reflects our view that its underlying financial fundamentals will remain broadly resilient over the next 12-18 months, supporting its current ratings.

## Factors that could lead to an upgrade

- » Upward rating pressure could develop if SSF demonstrates (1) sustained strong asset quality in its retail and corporate loan books, including in the more volatile segments, and further reduction in credit concentrations; (2) stronger earnings generation without an increase in its risk profile; and (3) broader shareholder base and capital structure that will improve its capacity to raise new capital if needed.

## Factors that could lead to a downgrade

- » Future downward rating pressure would emerge if (1) SSF's risk profile increases as a result of increased concentration, for example if construction and real-estate concentration or top-20 client concentration as a percent of Core Tier 1 Capital exceeds 150% or if the problem loan ratio increases significantly higher than its domestic peers' average; (2) financing conditions become more difficult locally, from where the bank raises most of its funding;

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Sparebanken Sogn og Fjordane (Consolidated Financials) [1]

	06-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	12-17 <sup>2</sup>	12-16 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (NOK Billion)	61.3	57.7	54.2	51.8	49.3	6.4 <sup>4</sup>
Total Assets (USD Million)	6,357.7	6,569.9	6,256.6	6,338.9	5,727.8	3.0 <sup>4</sup>
Tangible Common Equity (NOK Billion)	4.8	4.7	4.4	4.1	3.7	7.6 <sup>4</sup>
Tangible Common Equity (USD Million)	502.5	536.3	509.1	496.6	435.3	4.2 <sup>4</sup>
Problem Loans / Gross Loans (%)	1.5	1.6	1.3	1.1	0.7	1.2 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	15.5	16.3	15.3	15.2	14.4	15.4 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.3	16.4	13.0	11.6	7.4	12.7 <sup>5</sup>
Net Interest Margin (%)	1.5	1.6	1.6	1.7	1.6	1.6 <sup>5</sup>
PPI / Average RWA (%)	2.4	2.5	2.0	2.2	2.0	2.2 <sup>6</sup>
Net Income / Tangible Assets (%)	0.7	0.9	0.8	0.7	0.6	0.7 <sup>5</sup>
Cost / Income Ratio (%)	39.8	40.4	43.8	44.5	44.8	42.7 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	27.8	27.9	27.7	27.8	28.4	27.9 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	11.6	10.4	9.6	11.4	11.9	11.0 <sup>5</sup>
Gross Loans / Due to Customers (%)	183.6	190.5	188.6	177.6	172.3	182.5 <sup>5</sup>

[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 Sogn og Fjordane (SSF) is the largest bank in the county of Sogn og Fjordane and offers retail and corporate customers products in banking, financing, insurance, savings, pensions and payment services. SSF's main geographical market is Sogn og Fjordane in western Norway, but the bank has expanded the scope of its retail operations to include several larger cities around Norway. The bank has been growing its market share in its home region having a strong positioning among SMEs, and was ranked second among all banks nationally in a customer satisfaction index (EPSI) in 2019. As of 30 September 2020, the bank reported total consolidated assets of around NOK62.1 billion (approximately €5.6 billion).

## Recent developments

We have revised our 2020 baseline growth forecast for all G-20 economies because of the coronavirus outbreak. The full extent of the economic costs will be unclear for some time but global recession risks have risen. In Europe, Coronavirus outbreak adds to late-cycle risks for European banks. Under Moody's baseline scenario, the direct negative credit impact on the European banking sector would be limited. A prolonged outbreak, however, would have a more severe outcome, weighing on the banks' loan quality and profitability. We expect fiscal policy measures, as already announced by a variety of European nations to mitigate the economic contraction caused by the outbreak.

We note that since 13 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.

Nonetheless, the inevitable negative impact on both the economy and banks in the next 12-18 months, have triggered on 16 April 2020 the change of our Banking System Outlook (BSO) for Norway to negative from stable. The outlook change was also driven by our expectation that sectors such as tourism, hospitality and transportation are more vulnerable to the pandemic, and by the fact that very low oil prices have historically strained Norway's oil/offshore industry that remains a significant pillar of the economy.

## Detailed credit considerations

### **A deteriorating operating environment will likely pressure the bank's financial fundamentals in 2020, although overall strength of the Norwegian government finances remain supportive to the banking system**

Although Norway's operating environment has deteriorated this year as a result of the global outbreak of the coronavirus and the plunge 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 Sogn og Fjordane operates only in Norway and thus its operating environment is reflected through the 'Very Strong -' Macro Profile we assign for Norway. Norwegian banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as a very low susceptibility to event risk. Norway has a diversified and growing economy, which demonstrated resilience to the last weakening in the oil sector in 2014-15.

The main risks to the banking system stem from the high level of household debt, elevated real estate prices and domestic banks' extensive use of 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 with the total size of the economy.

Nonetheless, we expect the Norwegian mainland economy (excluding any oil-related activity) to contract significantly in 2020 (-3.5%), and recover to around +3.8% in 2021. Unemployment rose to around 10.6% in March 2020 although it has partly recovered since then (3.7% in September 2020), which combined with the low economic activity will inevitably impact banks' credit growth, asset quality and earnings that will be strained from elevated credit costs this year and potentially next year as well.

### **Problem loans are relatively low, although vulnerable to some single name, geographic and real estate credit concentrations**

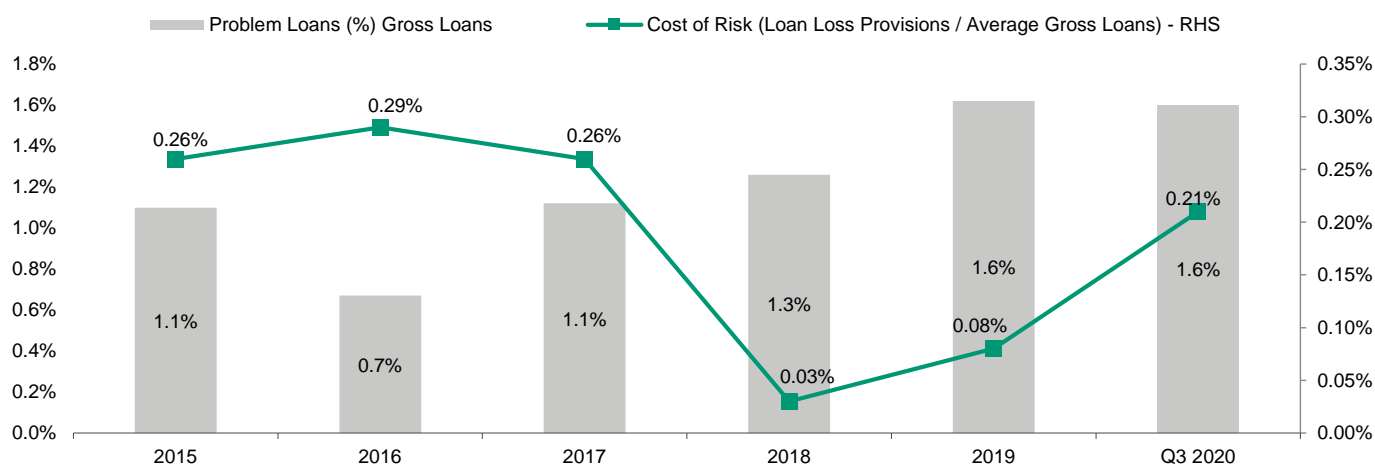
We expect SSF's asset quality to remain broadly resilient in the next twelve months, supported by the increased granularity and lower top client concentration in the bank's loan book stemming from its high allocation to mortgages (approximately 74% of gross lending was to the retail market as of end-September 2020), a market segment with low delinquencies and losses historically. SSF has been growing its retail book more actively outside its home county (in Hordaland and Oslo/Akershus) driven by lower population growth in Sogn og Fjordane compared to other regions. Despite the risks of managing this more diverse portfolio, the bank's expanding loan book outside its home region confers some benefits to its credit risk profile in terms of geographical diversification.

The bank's problem loans as a percentage of gross loans were at 1.6% at end-September 2020 at the same level as in December 2019 (see Exhibit 3), which is relatively low in the global context although marginally higher than domestic similarly-rated peers. The bank's problem loans coverage ratio was 43% at end-September 2020, while credit costs (impairment loss as a percentage of gross loans) increased sharply to 0.21% in the first nine months of 2020 compared to only 0.03% in the same period in 2019, due to increased model-based provisioning on the back of the coronavirus outbreak.

Exhibit 3

**SSF's Asset Quality Evolution**

The bank's problem loans are somewhat elevated relative to peers



Source: Moody's Banking Financial Metrics

The bank's retail portfolio, mainly comprising of mortgages with a loan-to-value (LTV) of less than 80% for 85% of the book as of June 2020, has performed well in the past and we expect it to remain resilient, we note a decrease in defaults to 0.25% of gross loans in September 2020 from 0.32% in September 2019. Despite the risks stemming from an elevated level of household indebtedness in Norway, we expect households to continue to service their debts as unemployment, after initial spike in March 2020, has come back down and interest rates are at record low levels supporting borrowers' debt affordability.

SSF's corporate credit risk profile is higher, with loans in default at 0.96% in September 2020 from 0.82% in September 2019, while exposure to the more volatile real-estate and construction sectors stood at around 10% of total loans as of end-September 2020. We note that around half of nonperforming loans to corporates are related to the construction and real estate sectors. Similar to some of its Nordic peers, the bank exhibits certain single-name concentrations, which could heighten the pace and the extent of any deterioration in asset quality in a potentially worsening operating environment.

Our baa1 score for the bank's asset risk takes into account the relatively low level of problem loans, but also the slightly higher level of problem loans than its domestic peers and some single name, geographic and real estate credit concentrations.

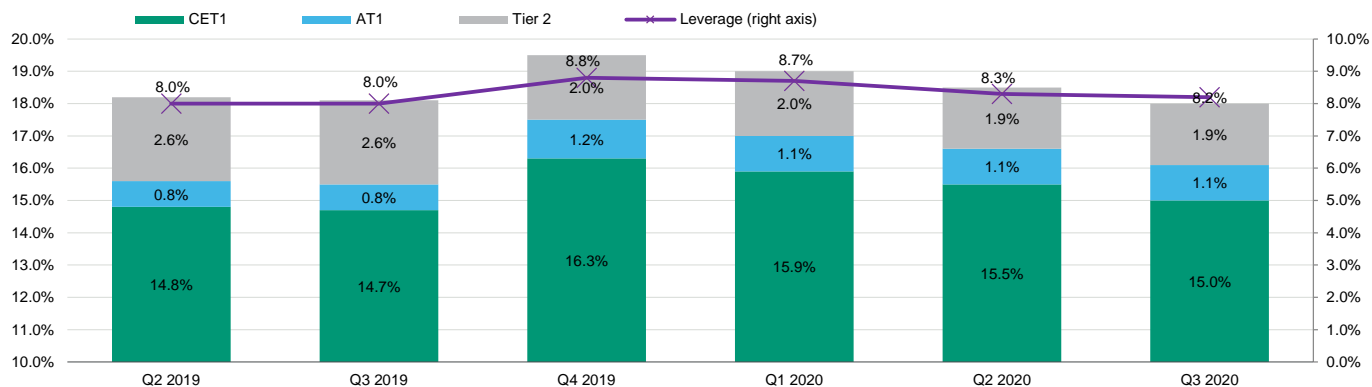
**Capital levels are comfortable, although higher requirements in the future could be a challenge for the bank**

SSF's capital levels are comfortable given its risk profile and broadly in line with its Nordic peers, although marginally lower compared to some of the larger Norwegian savings banks. In response to the global coronavirus outbreak and resulting economic stress, the Ministry of Finance (following advice by the central bank - Norges Bank) has revised banks' capital requirements during the first quarter of 2020. Accordingly, the countercyclical capital buffer requirement has been lowered by 150 basis points to allow more flexibility, while banks were requested to reconsider their dividend payments for 2019.

SSF reported a CET1 ratio of 15% at end-September 2020 (see Exhibit 4), although the ratio including the profit up to Q3 2020 less a proportionate share of expected dividends is estimated at around 15,8%. The bank's regulatory minimum CET1 capital requirement is 12.7%, comprising of Pillar 1 of 11% and Pillar 2 of 1.7%, suggesting that the bank comfortably meets the requirement in addition to the 1% management buffer that banks usually set internally. The reduction in the bank's CET1 ratio this year, is mainly driven by the bank's robust corporate loan growth of 9% year-on-year as of September 2020, and also due to the increased ownership in the insurance company Frende Holding.

Exhibit 4

## SSF's regulatory capital ratios evolution



Source: SSF's Q2 2020 investor presentation

Nonetheless, we note that the bank could be challenged to meet the increasing capital requirements that are likely to be implemented in the next 2-3 years, and maintain its current dividend payment policy (of up to 35%) and capital management buffer of 1%. At the end of 2020, the systemic risk buffer will increase to 4.5% from 3% and the countercyclical buffer is likely to gradually increase over the coming years as well back to 2.5% from 1% currently. This could potentially mean an increase in the bank's CET1 requirement to 16.7%, including the Pillar 2 Guidance (P2G) of 1% suggested by the FSA.

Mitigating these challenges would be the fact that the bank has reduced its dividend payment to only 16% this year, with an average payout of around 21% in the last five years, and that SSF's long-term CET1 target has been revised to 16.5% with an intention to adjust its dividend policy in order to reach this. In addition, the bank's risk-weighted assets (RWAs) could potentially reduce going forward, in view of the SME discount and the implementation of the new standardised approach that will be more risk-sensitive from 2023. It should be noted that SSF is on the standardised model in calculating its RWAs and has no intention to start an internal ratings based (IRB) process.

Our assigned Capital score of aa3 reflects the bank's comfortable capital metrics and strong leverage ratio of 8.2% in September 2020, but also its limited shareholder investor base and capital structure that contains its ability and capacity to raise new capital if needed during periods of market volatility.

### Sound recurring profitability supports the bank's BCA in challenging times

In response to the economic stress from the coronavirus outbreak the Norges Bank has carried out three rate cuts totaling 150 basis points since March 2020, while prior to this period the key policy rate was on a rising trend. Low loan rates (interest rate adjustment was implemented quicker than the usual 6 weeks notice) coupled with an already fierce competition among Norwegian banks will put pressure on SSF's net interest margin (NIM decreased to 1.5% in September 2020 from 1.67% in September 2019) and profitability metrics in 2020.

SSF's recurring profitability is sound although marginally lower year-on-year as of September 2020, driven mainly by strong competition among Norwegian savings banks. SSF has historically generated high net interest income, but during 2020 credit costs have increased significantly. The bank's annualised reported Return on Equity (ROE) decreased to 8.6% in the first nine months of 2020 from 11.2% in the same period last year, while its return on average assets was 0.72% in September 2020 compared to 0.93% in September 2019, a trend we expect to continue by the end of the year.

In the first nine months of 2020, the bank's core revenues were supported by robust loan growth, with lending to retail clients growing year-on-year by 6.6% and to the corporate market by 9% at end-September 2020. That said, we note the relatively low contribution of net fees and commissions to the bank's profitability, comprising only around 8.5% of its total revenues in the first nine months of 2020. The launch of the bank's credit card is likely to provide some traction in this regard.

In recent years IT-related expenses were increasing due to the bank's ambitious investments in new digital solutions in order to offer competitive products to its customers. However, operating expenses were slightly lower as of end-September 2020 compared to end-

September 2019. The NOK350 million operating expenses incurred in the first nine months of 2020 translated into a reported cost to income ratio (including income from financial instruments) of 40.6%, in line with the 40.5% in the first nine months of 2019. We note that the bank has started a cost cutting programme with the ambition to reduce annual operating expenses in 2021-22.

Credit costs for the bank are elevated in 2020 compared to prior years, mainly due to the coronavirus related provisions, but are still at relatively low levels by international standards and compared to other Norwegian banks. Impairments as a percentage of gross loans ratio was at 0.21% in the first nine months of 2020, compared to 0.03% in September 2019.

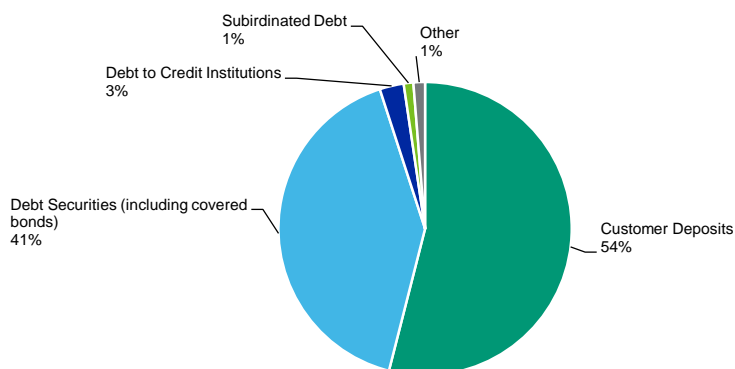
The baa3 score we assign to profitability in the bank's scorecard, takes into consideration the likely pressure in its performance this year but also the relatively low level of earnings diversification with a very high dependence on net interest income.

### Market funding reliance renders the bank vulnerable to fluctuations in investor sentiment, despite a large deposit base

SSF's funding profile benefits from a sizeable deposit base constituting 54% of non-equity funding at end-September 2020 (see Exhibit 5), while around 62% of the bank's deposits come from retail customers and have been stable over the years. However it is also significantly reliant on market funding (around 42% of total non-equity funding), rendering it vulnerable to swings in investor sentiment. The bank draws most of this funding in the form of domestically-issued senior debt and covered bonds. Covered bonds are issued through the bank's wholly-owned covered bond company Bustadkreditt Sogn og Fjordane AS that was established in 2009.

Exhibit 5

#### SSF's Funding Profile (excluding equity) as of September 2020



Source: SSF's quarterly results as of September 2020

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 banking assets ratio and our adjusted ratio for the bank is 27.9% at end-2019. Although SSF's size limits somewhat its ability to undertake large benchmark issuances, we view the bank's larger issuances positively, due to their eligibility as liquid assets under the liquidity coverage ratio rules which extends the bank's investor base.

The bank expects to issue senior non-preferred (SNP) bonds that qualify for MREL purposes and are recognised as Tier 3 from 2021 onwards, as the bank will likely receive its MREL requirements before the end of the 2020. Accordingly, it will gradually shift from senior preferred bond issues towards SNP bonds going forward, in the context of the grandfathering principles by replacing senior bonds with MREL-eligible bonds when the former fall due.

We consider the bank's stock of liquid banking assets as broadly adequate. Liquid assets mainly comprised government securities and covered bonds. We note that the bank's holdings are mostly Norwegian covered bonds, which leads to some concentration risk. At the year-end 2019 SSF's liquid banking assets totaled 10.4% of tangible banking assets, which is incorporated in our scorecard. Concurrently, the bank reported a Liquidity Coverage Ratio (LCR) of 137% at end-September 2020, down from 160% at year-end 2019.

### Environmental, Social, and Governance (ESG) Considerations

In line with our general view for the banking sector, SSF has a low exposure to Environmental risks and low exposure to Social risks. See our Environmental and Social risks [Environmental heatmap](#) for further information.

SSF recently obtained an environmental certification under the Eco-Lighthouse scheme, which is Norway's most widely used certification scheme for enterprises that wish to document their environmental credentials and show corporate social responsibility. The bank believes that the newly developed digital systems will allow it to work systematically and will improve their environmental performance with respect to the working environment, waste management, energy consumption, purchasing and transport. SSF was one of the first few banks to issue an unsecured green bond (NOK300 million in August 2019) in Norway and has hired an individual to lead its ESG-related initiatives, indicating its commitment to sustainable banking.

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 is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. 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.

We also note that SSF has a close relationship to local communities in the county. The Bank returns significant amounts of money to the local community through gifts and sponsorship agreements, which over the years has strengthened its competitive position locally and its client loyalty.

Corporate governance is highly relevant to all banks creditworthiness. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven. We do not have any concerns around SSF's governance and there is no corporate behaviour adjustment in the ratings.

#### Source of facts and figures cited in this report

Unless noted otherwise, bank specific figures originate from bank's reports and Moody's Banking Financial Metrics. Moody's Banking Financial Metrics figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document: "[Financial Statement Adjustments in the Analysis of Financial Institutions](#)" published on 09 August 2018.

### Support and structural considerations

#### Loss Given Failure

Norway is in the process of transposing the EU Bank Resolution and Recovery Directive (BRRD) into local legislation and as such we consider the country an Operational Resolution Regime. In accordance with our methodology we therefore apply our Advanced LGF analysis, considering the risks faced by different debt and deposit classes across the liability structure should the bank enter resolution.

In our LGF analysis for the bank we use our standard assumptions and assume residual tangible common equity of 3%, losses post-failure of 8% of tangible banking assets, a 25% runoff in "junior" wholesale deposits, and a 5% run-off in preferred deposits. We assign a 25% probability to deposits being preferred to senior unsecured debt.

Under these assumptions, SSF's deposits and senior unsecured debt are likely to face very low loss-given-failure, due to the volume of the deposits and senior debt themselves and the amount of debt subordinated to them. This results in a Preliminary Rating Assessment (PRA) of two notches above the BCA for both the deposit and issuer ratings of the bank.

#### Government support

We do not incorporate government support uplift to SSF's deposit and issuer ratings as a result of the expected implementation of resolution legislation in Norway. SSF is a regional savings bank with a strong market position in the county of Sogn og Fjordane (Western Norway), where we estimate that it commands a market share of around 47% in retail lending and around 40% in the corporate/SME market. Despite its dominant local position, the bank lacks geographical diversification and its national franchise is limited. We therefore consider the probability of government support for Sparebanken Sogn og Fjordane's debt and deposits to be low (in line with similarly-sized domestic peers), resulting in no ratings uplift.

#### Counterparty Risk (CR) Assessment

We assign long- and short-term CR assessments of A1(cr) and Prime-1 (cr) respectively to SSF. 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.

**SSF's CR Assessment is positioned at A1(cr)/P-1(cr)**

SSF's CR Assessment is positioned at A1(cr)/P-1(cr), three notches above the bank's Adjusted BCA of baa1, based on the cushion against default provided by junior deposits, senior unsecured, subordinated debts and preference shares. The bank's CR Assessment does not benefit from any government support, in line with deposits and senior unsecured debt ratings.

**Counterparty Risk Ratings (CRRs)**

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 agreement.

**SSF's CRRs are positioned at A1/P-1**

The CRR is positioned three notches above the Adjusted BCA of baa1 and at the same level as the counterparty risk assessment, reflecting the buffer against default provided by more junior instruments to the CRR liabilities.

**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 6

### Sparebanken Sogn og Fjordane

<b>Macro Factors</b>							
<b>Weighted Macro Profile</b>		<b>Very Strong -</b>	<b>100%</b>				
<b>Factor</b>	<b>Historic Ratio</b>	<b>Initial Score</b>	<b>Expected Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	1.5%	aa2	↔	baa1	Geographical concentration	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.5%	aa2	↔	aa3	Access to capital		
Profitability							
Net Income / Tangible Assets	0.7%	baa2	↔	baa3	Earnings quality		
Combined Solvency Score		aa3		a3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	27.9%	baa2	↔	baa3	Extent of market funding reliance		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	10.4%	baa3	↔	baa3			
Combined Liquidity Score		baa2		baa3			
Financial Profile							
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			
<b>Balance Sheet</b>							
		<b>in-scope (NOK Million)</b>		<b>% in-scope</b>	<b>at-failure (NOK Million)</b>	<b>% at-failure</b>	
Other liabilities		23,873		39.0%	27,016	44.1%	
Deposits		30,807		50.3%	27,665	45.1%	
Preferred deposits		22,797		37.2%	21,657	35.3%	
Junior deposits		8,010		13.1%	6,007	9.8%	
Senior unsecured bank debt		3,822		6.2%	3,822	6.2%	
Dated subordinated bank debt		600		1.0%	600	1.0%	
Preference shares (bank)		350		0.6%	350	0.6%	
Equity		1,839		3.0%	1,839	3.0%	
Total Tangible Banking Assets		61,291		100.0%	61,291	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	20.6%	20.6%	20.6%	20.6%	3	3	3	3	0	a1
Counterparty Risk Assessment	20.6%	20.6%	20.6%	20.6%	3	3	3	3	0	a1 (cr)
Deposits	20.6%	4.5%	20.6%	10.8%	2	3	2	2	0	a2
Senior unsecured bank debt	20.6%	4.5%	10.8%	4.5%	2	0	1	2	0	a2

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	2	0	a2	0	A2	A2
Senior unsecured bank debt	2	0	a2	0	A2	A2

[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 7

Category	Moody's Rating
<b>SPAREBANKEN SOGN OG FJORDANE</b>	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2

Source: Moody's Investors Service

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REPORT NUMBER 1246606