MOODY'S INVESTORS SERVICE

CREDIT OPINION
21 January 2021

Update

Rate this Research

RATINGS

SpareBank 1 SMN

Domicile	Trondheim, 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.

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SpareBank 1 SMN

Update to credit analysis following assignment of junior senior rating

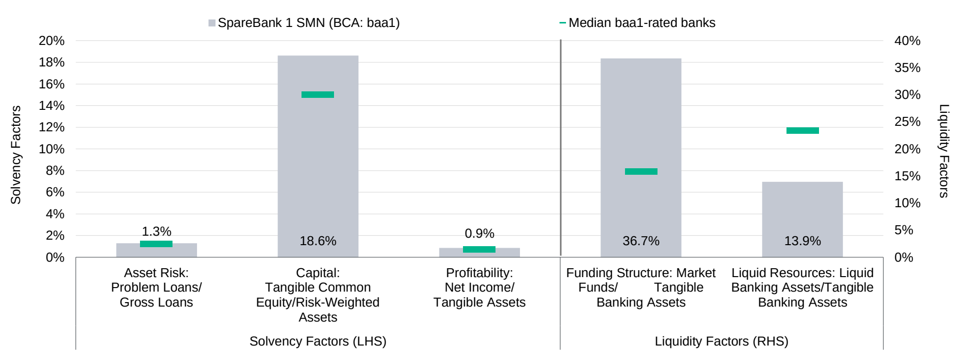
Summary

SpareBank 1 SMN's long-term deposit and senior unsecured debt ratings of A1 take into account the bank's baseline credit assessment (BCA) of baa1, but also our loss given failure (LGF) analysis which results in three notches of rating uplift from its BCA.

SpareBank 1 SMN's BCA of baa1 reflects its resilience through the economic cycle, coupled with Moody's expectation of steady profitability and low levels of asset risk. This is supported by our view of the bank's strong retail franchise in central Norway, which delivers robust core earnings and its solid capital metrics with a CET 1 capital ratio of 17.6% at end-September 2020. These are balanced against the bank's high reliance on market funding, a common feature among all local savings banks, its relatively narrow geographic focus and downside credit risks stemming from its oil-related exposures. Nonetheless, the bank has been able to maintain sound asset quality metrics with stage 3 loans at 1.3% of total gross loans (including covered bond loans) in September 2020, at the same level as in September 2019, despite the recent coronavirus pandemic and oil price drop.

The bank's A1 deposit and senior unsecured debt ratings take into account our forward-looking LGF analysis taking into consideration the MREL-eligible securities that it is likely to issue by the end of 2023, with NOK2.5 billion of senior non-preferred (SNP) debt issued so far. This results in three notches of rating uplift from the bank's BCA.

Exhibit 1
Rating Scorecard - Key Financial Ratios



These are our Banks methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average and latest annual figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year end figures.
Source: Moody's Financial Metrics

Credit strengths

» SpareBank 1 SMN's BCA is supported by its Very Strong- Macro Profile, despite the economic challenges from the pandemic

» Solid capital metrics provide a buffer against potential future credit losses

» Resilient earnings benefit from a strong regional retail franchise

» Large volume of deposits and junior debt resulting in deposit ratings benefiting from a very low loss-given-failure rate

Credit challenges

» Credit concentrations from operating in more limited geographic areas than many international peers

» Downside risks from the bank's oil-related exposure, although problem loans are low

» Dependence on market funding renders it vulnerable to fluctuations in investor sentiment, but liquidity is comfortable

Outlook

The stable outlook on the bank's deposit and debt ratings reflect the robust positioning, when compared to local and international peers. In addition, the stable outlook also reflects the bank's resilient core earnings, loan growth and asset quality through the cycle balanced by challenges induced by the coronavirus and reduced oil prices.

Factors that could lead to an upgrade

Over time, upward rating pressure could develop if the bank demonstrates (1) it can effectively manage with low credit losses its exposure to more volatile sectors such as commercial real estate and oil/offshore; (2) strong asset quality with a low level of problem loans and credit impairments relative to its similarly-rated peers; (3) strong recurring earnings generation without an increase in its risk profile, combined with an improved non-interest income; and (4) continued good access to capital markets combined with strong liquidity.

Factors that could lead to a downgrade

Future downward rating pressure would emerge if (1) SpareBank 1 SMN's problem loan ratio increases to levels significantly above its similarly-rated peers; (2) its profitability deteriorates from weakening revenues or high credit costs; (3) the bank fails to sustain its leading market position in its home region; (4) the macroeconomic environment deteriorates more than currently anticipated, leading to a lower Macro Profile; (5) a lower than expected issue of junior securities, including senior non-preferred (SNP) debt potentially as a result of the implementation of BRRD2, which will result in a lower rating uplift in our Advanced forward-looking LGF analysis.

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.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2
SpareBank 1 SMN (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)	232.7	208.2	199.9	188.6	171.8	8.4[4]
Total Assets (USD Million)	24,868.2	23,689.0	23,080.4	23,052.1	19,963.2	6.0[4]
Tangible Common Equity (NOK Billion)	17.7	17.3	16.0	15.0	14.1	6.3[4]
Tangible Common Equity (USD Million)	1,893.3	1,969.2	1,847.6	1,838.0	1,638.1	3.9[4]
Problem Loans / Gross Loans (%)	1.3	1.3	1.0	1.0	1.2	1.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.6	18.8	15.8	15.9	15.9	17.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	12.2	11.5	10.0	9.1	11.2	10.8[5]
Net Interest Margin (%)	1.4	1.5	1.5	1.5	1.5	1.5[5]
PPI / Average RWA (%)	2.7	2.4	2.3	2.3	2.2	2.4[6]
Net Income / Tangible Assets (%)	0.9	1.2	1.0	1.0	0.9	1.0[5]
Cost / Income Ratio (%)	52.4	53.7	53.8	52.5	51.9	52.9[5]
Market Funds / Tangible Banking Assets (%)	38.4	36.7	38.1	38.7	39.5	38.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	14.7	13.9	14.1	15.5	13.6	14.4[5]
Gross Loans / Due to Customers (%)	188.1	195.3	198.9	194.5	204.8	196.3[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

SpareBank 1 SMN is a leading regional savings bank in central Norway. It provides a range of retail banking, corporate banking and capital markets related products and services. Furthermore, through its subsidiaries and associated companies, it offers real estate agency, investment, asset management and other financial services. As of end-September 2020, its consolidated assets (including loans transferred to covered bond companies) totaled NOK233 billion (€21 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. While the direct negative credit impact on the on Norwegian banking sector is expected to be limited, a failure to contain the virus 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 drop 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

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 is deteriorating as a result of the global outbreak of 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.

SpareBank 1 SMN 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.

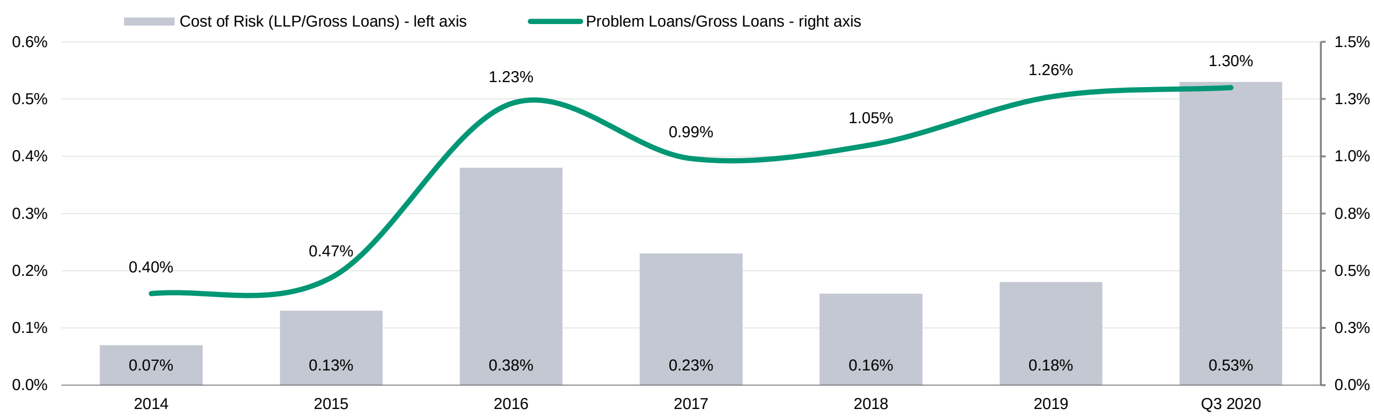
Nonetheless, we expect the Norwegian mainland economy (excluding any oil-related activity) to contract significantly in 2020 (-3.5%), and recover to around +3.8% in 2021. Unemployment rose to around 10.6% as of March 2020 (although it has significantly fallen since then), which combined with the low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

Downside risks from the bank's oil-related exposure, although problem loans are low

SpareBank 1 SMN's stage 3 gross loans as a percentage of total loans, including loans transferred to the jointly-owned and non-consolidated SpareBank 1 Boligkreditt and Naeringskreditt) was at 1.3% in September 2020, at the same as in September 2019. The bank's problem loans mainly originate from the challenges that it faces in its oil and offshore sector exposures as well as other oil dependent industries and services, which face difficulties mainly due to drop in oil price since the coronavirus outbreak and also due to some historical overcapacity of older offshore service vessels (OSVs).

Exhibit 3

SpareBank 1 SMN's problem loans % gross loans and cost of risk evolution



Note: Gross loans include covered bond loans.
Source: Moody's Financial Metrics and bank's reports

We note that the bank's exposure at default (EAD) to oil-related activity accounted for around NOK4.7 billion (including around NOK3.6 billion of corporate loans) at end-September 2020, which comprised around 2.4% of the bank's total credit risk (including loans transferred to the covered bond companies), while total write-downs related to the offshore portfolio amounted to 18.9% of the overall EAD as of September 2020. We also note that some of these borrowers fall within the bank's top 20 group loans, elevating the bank's credit risk profile. At end-September 2020, the bank's exposure to the more risky sub-sea vessel segment constituted around 44% of the total exposure to the offshore industry.

We understand that any restructurings are time consuming since the companies' debt structure involves several banks with special lending facilities along with bond debt outstanding. The solutions recommended include injection of fresh equity by shareholders or new investors, deferment of installment payments and renegotiation/extinction/conversion of bond debt. SpareBank 1 SMN booked credit losses of NOK709 million in the first nine months of 2020, of which NOK296 million related to the offshore industry. We believe that OSV exposures, despite restructurings in recent years, continue to pose downside risks for the bank.

Looking at the coronavirus-related defaults and impairments, we understand that the negative effects on the bank's borrowers have moderated and that the bank has received significantly less applications for payment holidays and deferrals compared to other

European banks. In addition, corporate customers with only around NOK1.5 billion of EAD, or approximately 0.8% of the bank's total EAD, have received support through the government's compensation arrangement, which will assist their longer-term viability.

However, the bank's overall asset quality is favourable and comparable to its similarly-rated peers both locally and internationally. SpareBank 1 SMN's well-diversified loan book (including loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Naeringskreditt), of which around 68% comprises loans to retail customers (mainly in the form of mortgages), and strong risk management practices counterbalance to some degree any negative effects from its oil-related exposures. The strong performance of the bank's retail banking business continues in the first nine months of 2020, with only NOK77 million of impairments (out of NOK709 million in total) linked to retail customers (including the bank's finance subsidiary).

Our assigned asset risk score incorporates negative adjustments, indicating the downside risks the bank still faces as stated above. In addition, our adjustments take into account the bank's relatively limited geographical diversification, but also its vulnerability to a potential material reduction in property prices given its exposure to commercial real-estate (8.5% of total gross loans at end-September 2020) and residential mortgages (68% of total gross loans at end-September 2020).

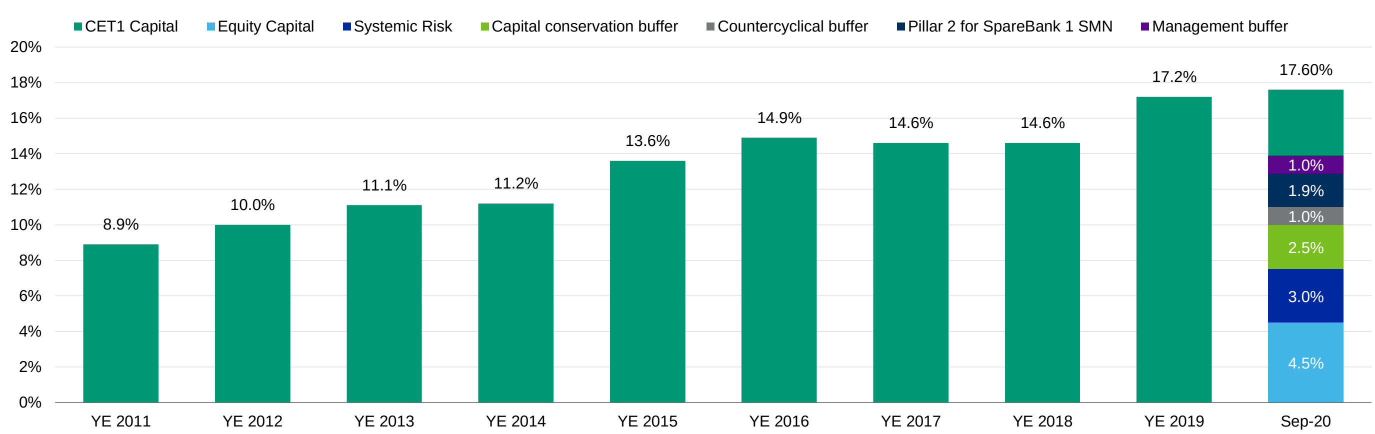
Solid capital metrics provide a buffer against potential future credit losses

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 has been lowered by 150 basis points to allow more flexibility, while banks were requested to reconsider their dividend payments for 2019.

SpareBank 1 SMN's ratings are supported by its solid capital position, with its common equity Tier 1 (CET1) ratio of 17.6% at end-September 2020 from 15.1% reported in September 2019. We note that the FSA has set a Pillar 2 requirement of 1.9% with effect from first quarter of 2019 for SpareBank 1 SMN, which combined with other regulatory requirements result in a CET1 minimum of 14.4% (including a systemic risk buffer of 4.5% for IRB banks). The bank aims for a management buffer of 1% above its regulatory requirement (see Exhibit 4).

Exhibit 4

Development in SpareBank 1 SMN's CET1 ratio



Source: Source: Company reports and presentations

The bank's tangible common equity has strengthened in recent years, as good earnings generation has supported its capital levels. We note that SpareBank 1 SMN's hybrid debt (NOK1.2 billion) and subordinated debt (NOK1.8 billion) contributed to the strong Tier 1 ratio of 19.2% and overall capital adequacy ratio of 21.4% at end-September 2020. Such solid capital levels provide a buffer against potential future credit losses, driving the bank's BCA and ratings.

Going forward, we expect the bank to maintain a payout ratio of around 50%, and retain sufficient profit in order to continue meeting its internal CET1 targets. Our assigned capital score reflects this strength, as well as the bank's reported leverage ratio of 7.1% at end-September 2020, which although high by international standards it is marginally lower than the average for similarly-rated local peers.

Resilient earnings benefit from a strong regional retail franchise

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 SpareBank 1 SMN's net interest margin and profitability metrics in 2020.

SpareBank 1 SMN's reported net profit for the first nine months of 2020 declined to around NOK1.5 billion from NOK2.2 billion in the same period in 2019, with a reported return on equity (RoE) of 10.4% compared to 16% a year earlier. The lower net profit was mainly driven by increased loan losses booked to account for uncertainty of the impact of coronavirus outbreak and drop in oil price, as well as lower return on financial investments due to losses since the outset of the pandemic.

The bank has recorded NOK709 million in loan losses during the first nine months of 2020, compared with just NOK198 million a year earlier, which corresponds to credit losses of 0.55% of gross loans (including transferred loans) from 0.16% the year before. However, we note that the bank reported most of its impairments in the first quarter compared to the rest of the year, and anticipates significantly lower levels in 2021.

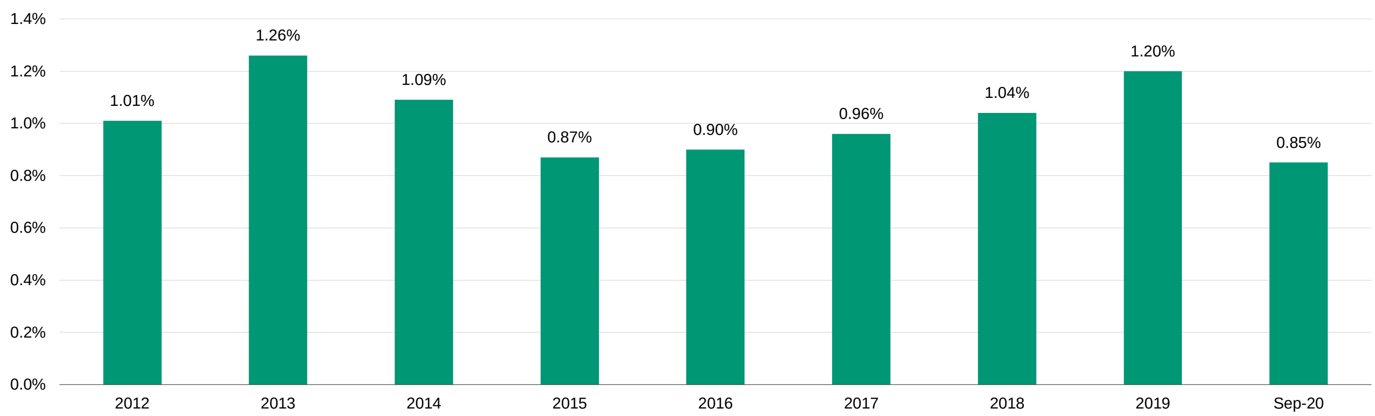
SpareBank 1 SMN's reported net interest income increased year-on-year by around 4% as of September 2020, on the back of margin pressure. After a period of rising rates during 2019, net interest income was affected in 2020 by the sharp fall in key policy rate from Norges Bank.

The bank reported a cost-to-income ratio of 45% as of September 2020, from 43% in the same period in 2019. Operating costs for the group were kept broadly in line over past 12 months, although we note that the bank is committing substantial digitalisation investments as a step towards enhancing the customer experience and improving efficiencies.

Our profitability score for the bank takes into account our adjusted return on tangible assets (including assets transferred to covered bond companies) that was at 0.9% in the first nine months of 2020 (see Exhibit 5), but also our forward-looking view on the bank's resilient recurring pre-provision earnings. Despite lower interest rates and intense competition for retail mortgages, we expect the bank to maintain its satisfactory profitability metrics in the coming 12-18 months.

Exhibit 5

Moody's adjusted Net income / Tangible assets ratio evolution
(including assets transferred to covered bond companies)



Source: Moody's Financial Metrics

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

SpareBank 1 SMN's deposits accounted for around 45% of total liabilities (including covered bonds issued through the covered bond companies) at end-September 2020, which have proven to be resilient and growing over many years. The year-on-year growth in total deposits was a high 14% at end-September 2020, with retail deposits increasing by a high 14.7% and corporate deposits by 13.6%. Retail deposits, which we consider to be more stable, represented 43% of the bank's total deposits at the end-September 2020.

SpareBank 1 SMN uses covered bonds as an important funding source, which is done off-balance sheet through specialised companies it jointly owns together with other savings banks of the SpareBank 1 Alliance (SpareBank 1 Boligkreditt for residential mortgages and SpareBank 1 Næringskreditt for commercial mortgages). At end-September 2020 the bank had transferred loans worth NOK45.8 billion to these vehicles, or around a quarter of its gross loan book including the transferred loans. While we view positively the diversification benefit of covered bond funding, its extensive use increases the amount of pledged assets unavailable for unsecured bondholders, including depositors in liquidation.

As per our methodology, we globally reflect the relative stability of covered bonds compared to unsecured market funding through a standard adjustment in our scorecard. Our Funding Structure Score reflects our view that SpareBank 1 SMN's reliance on market funding - a common feature at Nordic banks - is of sufficient scale (market funds comprised around 38% of tangible banking assets at end-September 2020) to represent a source of vulnerability because, in times of market stress, market funding can become more expensive and/or restricted.

...although liquidity is comfortable

Risk related to market funding is mitigated somewhat as SpareBank 1 SMN maintains a sizeable liquidity buffer of NOK32 billion and funding that can cover needs for three years without any new external financing. The bank's liquid assets as a percent of total banking assets (a Moody's scorecard ratio) amounted to a high 14.7% at end-September 2020. We also note that this ratio does not take into account the liquid assets held by SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, the bank's covered bond vehicles.

The liquid reserves mainly consists of covered bonds from other Norwegian banks; most of it is useable as collateral for loans from Norges Bank, municipal bonds and balances with central banks. Accordingly, we believe that the covered bond holdings increase the interconnection among local banks, a common feature among all rated banks, which also raises the vulnerability and contagion risks of the banking system. SpareBank 1 SMN reported a commendable liquidity coverage ratio (LCR) of 140% at end-September 2020, compared to 100% requirement.

Environmental, social and governance considerations

In line with our general view of the banking sector, SpareBank 1 SMN has low exposure to Environmental risks and moderate exposure to Social risks. See our Environmental and Social risk heatmaps for further information.

SMN's exposure to oil and off-shore sector is a source of environmental risk for the bank in the face of eventual transition to low-carbon economy. However, the bank's exposure is relatively low at around 2.5% of the bank's total portfolio (including loans transferred to the covered bond companies), and considered manageable. Furthermore, Norway, similarly to the European Union, has policies in place that ensure new housing constructed is energy-efficient, which enables banks to gather mortgages for asset pools for green bond issuances. Such policies also help limit environmental risks for Norwegian banks with large retail exposure and primarily mortgage lending activity. SpareBank 1 SMN issued its first green covered bond worth €500 million in September 2019 with a seven year term and capital earmarked for green loan portfolios, including sustainable fisheries and fish farming. In addition, we note that in September 2019 SpareBank 1 SMN was one of the five Norwegian banks that signed the UN's principles for responsible banking, aiming to transition to a low-emision economy and meet UN's sustainability goals. In December new products were launched for retail: green residential loans, green loans for energy projects and green consumer loans.

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.

Governance is highly relevant for SpareBank 1 SMN, as it is to all players in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Corporate governance remains a key credit consideration and requires ongoing monitoring. However, we currently do not have any governance related concerns over SpareBank 1 SMN, noting the smooth transition at the top management with a new CEO (former CEO of SpareBank 1 Nord-Norge) taking over earlier in the year.

Support and structural considerations

Loss Given Failure and additional notching

Norwegian banks are subject to the EU's Bank Recovery and Resolution Directive (BRRD). In our advanced LGF 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 SpareBank 1 SMN's long term deposits and senior unsecured debt ratings, we consider the likely impact of loss-given-failure, reflecting the combination of debt and deposit volumes and the amount of debt subordinated to them. We also take into consideration the expected level of MREL eligible debt issuance of around NOK12 billion by the end of 2023. We note that the bank has already issued NOK2 billion of senior non-preferred (SNP) debt, which qualifies as MREL instrument. This has resulted in a Preliminary Rating Assessment of three notches above the BCA for the bank's deposit and senior unsecured ratings, reflecting very low loss-given-failure. For junior senior securities (SNP) issued by SpareBank 1 SMN, our LGF analysis indicates a moderate loss level, positioning the rating at the same level as its BCA (baa1).

We believe that there is a low likelihood that the implementation of revisions to the BRRD (BRRD2) in Norway will result in a significantly lower level of junior senior issuance by the bank. In particular the agency does not expect the application of the directive's subordination cap (equivalent to 27% of risk weighted assets) to significantly reduce the level of subordination for Norwegian banks currently in receipt of a recapitalisation requirement. This is because the framework includes a number of potential exceptions to the cap, particularly in the case of larger banks, or for those banks where there is an assumption that use of resolution funding would be required to facilitate resolution.

Accordingly, we expect the bank's funding plans to likely remain substantially unchanged and continue to be driven by the initial implementation of the BRRD rules. However, the ability of authorities to apply such exceptions to a broad range of banks remains untested, and clarity depends on the incorporation of BRRD2 in the EEA agreement, implementation in Norwegian law and finally the setting of individual requirements by the Norwegian FSA (the resolution authority). Should the final implementation of BRRD2 result in lower subordination requirements for SpareBank 1 SMN, and therefore lower volumes of junior senior debt, this could lead to a negative rating action.

Government support

SpareBank 1 SMN has a well-established regional franchise in central Norway, where we estimate it commands market shares of around 22% for lending (including the loans transferred to covered bond companies), although its national market share is limited at around 4%. The implementation of BRRD framework in Norway on 01.01.2019, which is aligned with the EU's bank recovery and resolution directive, has caused us to revise our government support assumptions for the bank. In line with other banks under these frameworks, we recently changed our government support assumptions to low from moderate for debt and deposits, resulting in no additional notches of rating uplift above their PRA, positioning them at A1.

For junior securities, we consider that potential government support is low and therefore these ratings do not include any related uplift. Junior securities also include additional downward notching from the BCA, reflecting coupon suspension risk ahead of a potential failure.

Counterparty Risk 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.

SpareBank 1 SMN's CR Assessment is positioned at A1(cr)/Prime-1(cr)

SpareBank 1 SMN's CR Assessment is positioned at A1(cr)/Prime-1(cr), three notches above the bank's 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 Ratings

Moody's Counterparty Risk Ratings (CRRs) are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. We believe that CRR liabilities have a lower probability of default than the bank's deposit and senior unsecured debt as they will more likely be preserved in order to minimise banking system contagion, minimise losses and avoid disruption of critical functions.

SpareBank 1 SMN's CRR's are positioned at A1/Prime-1

The CRR is positioned three notches above the adjusted BCA of baa1, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

Foreign currency deposit rating

SpareBank 1 SMN's foreign-currency deposit rating of A1 is unconstrained given that Norway has no country ceiling.

Foreign currency debt rating

SpareBank 1 SMN's senior unsecured foreign-currency debt rating of A1 is unconstrained given that Norway has no country ceiling.

Rating methodology and scorecard factors

Exhibit 6

SpareBank 1 SMN

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		1.3%	aa2	↔	baa1	Geographical concentration	Sector concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		18.6%	aa1	↔	aa2	Risk-weighted capitalisation	
Profitability							
Net Income / Tangible Assets		0.9%	baa1	↔	baa1	Expected trend	
Combined Solvency Score			aa3		a2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		36.7%	ba2	↔	ba2		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		13.9%	baa3	↔	baa2	Stock of liquid assets	
Combined Liquidity Score			ba1		ba1		
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	81,078	35.0%	90,808	39.2%
Deposits	95,391	41.2%	85,661	37.0%
Preferred deposits	70,589	30.5%	67,060	28.9%
Junior deposits	24,802	10.7%	18,601	8.0%
Senior unsecured bank debt	44,341	19.1%	44,341	19.1%
Junior senior unsecured bank debt	1,000	0.4%	1,000	0.4%
Dated subordinated bank debt	1,793	0.8%	1,793	0.8%
Preference shares (bank)	1,244	0.5%	1,244	0.5%
Equity	6,954	3.0%	6,954	3.0%
Total Tangible Banking Assets	231,801	100.0%	231,801	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	31.9%	31.9%	31.9%	31.9%	3	3	3	3	0	a1
Counterparty Risk Assessment	31.9%	31.9%	31.9%	31.9%	3	3	3	3	0	a1 (cr)
Deposits	31.9%	4.7%	31.9%	23.9%	2	3	2	3	0	a1
Senior unsecured bank debt	31.9%	4.7%	23.9%	4.7%	2	2	2	3	0	a1
Junior senior unsecured bank debt	4.7%	4.3%	4.7%	4.3%	-1	-1	-1	0	0	baa1
Dated subordinated bank debt	4.3%	3.5%	4.3%	3.5%	-1	-1	-1	-1	0	baa2

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		A1
Junior senior unsecured bank debt	0	0	baa1	0	Baa1	
Dated subordinated bank debt	-1	0	baa2	0		Baa2 (hyb)

[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
SPAREBANK 1 SMN	
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
Subordinate	Baa2 (hyb)

Source: Moody's Investors Service

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