

Banks Ratings Navigator		
Navigator date:	09 Nov 2016	
Last rating action:	21 Oct 2016	
Sector Details:		
Bank sector:	Retail	
Region:	DM Europe	
Country:	Norway	
Country IDR:	AAA Stable	
Last action:	07 Oct 16 Affirmed	
Country ceiling:	AAA	
Macro prudential indicator:	2	
Bank systemic indicator:	a	
Bank Rating History		
Viability Rating (VR)		
21 Oct 16	a-	Affirmed
04 Nov 15	a-	Affirmed
19 Nov 14	a-	Affirmed
Issuer Default Rating (IDR)		
21 Oct 16	A- Stable	Affirmed
04 Nov 15	A- Stable	Affirmed
19 Nov 14	A- Stable	Affirmed
Support Rating Floor (SRF)		
21 Oct 16	BB+	Affirmed
04 Nov 15	BB+	Affirmed
19 May 15	BB+	Affirmed
Bar Chart Legend:		
Vertical bars = VR range of Rating Factor		
Bar Colors = Influence on final VR		
■	Higher Influence	
■	Moderate Influence	
■	Lower Influence	
Bar Arrows = Rating Factor Outlook		
↑	Positive	↓ Negative
↕	Evolving	□ Stable
Peer Ratings bars = Count of banks		
74	DM Europe Retail	
6	Norway Retail	
Relevant Criteria & References		
Global Bank Rating Criteria (Jul 2016)		
Macro-Prudential Risk Monitor (May 2016)		
Analysts		
Bjorn Norrman (+44 20 3530 1330)		
David Bengtsson (+44 203 530 1664)		

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Financial Profile			Viability Rating	Support Rating Floor	Issuer Default Rating
							Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity			
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A- Stable
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc										ccc	CCC	CCC
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Support Rating Floor				
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A+ to A-	
Actual country D-SIB SRF			BBB-	
Support Rating Floor:			BB+	
Support Factors		Positive	Neutral	Negative
Sovereign ability to support system				
Size of banking system relative to economy				✓
Size of potential problem		✓		
Structure of banking system				✓
Liability structure of banking system			✓	
Sovereign financial flexibility (for rating level)			✓	
Sovereign propensity to support system				
Resolution legislation with senior debt bail-in				✓
Track record of banking sector support			✓	
Government statements of support			✓	
Sovereign propensity to support bank				
Systemic importance				✓
Liability structure of bank			✓	
Ownership			✓	
Specifics of bank failure			✓	
Policy banks				
Policy role				
Funding guarantees and legal status				
Government ownership				

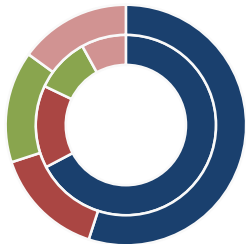
Drivers & Sensitivities	
Strong Franchise, Regional Concentration	SpareBank 1 SR-Bank's (SR) ratings reflect its strong regional franchise in south-western Norway. However, its geographical concentration is a negative rating consideration.
Good Profitability	Revenue generation is supported by its strong regional franchise. Cost efficiency is acceptable. Fitch expects higher loan impairment charges in 2016 and 2017, mainly from offshore service vessel (OSV) lending, but these should remain easily absorbable for the bank.
Focus on Retail and SMEs	Fitch expects SR to maintain its conservative risk appetite and focus on retail and SME customers. Fitch also expects the bank to continue to reduce concentration risk relating to large exposures.
Resilient Asset Quality	We expect impaired loans to stay low, supported by prudent underwriting. Oil-related asset-quality problems should be constrained to the OSV portfolio, where SR had restructured NOK5.7bn (3.6% of gross loans) at end-September 2016, but a contagion effect is a sensitivity.
Reliance on Wholesale Funding	SR relies heavily on wholesale funding. It has retained good access to both domestic and international funding markets. Fitch expects SR to maintain strong liquidity buffers to mitigate refinancing risks.
Sound Capitalisation	SR's risk-weighted capital adequacy ratios compare well with both European and domestic peers. Leverage is low in a European context.
Upgrade Unlikely	An upgrade is unlikely due to the already high ratings in the context of the company profile and geographical and lending concentration. The structural reliance on wholesale funding means any unmitigated weakening of access to capital markets would be negative for the ratings.
Ratings Sensitive to Asset-Quality Deterioration	SR's ratings are primarily sensitive to deteriorating asset quality, if the bank is unable to absorb losses via earnings. This scenario would probably be followed by difficulties in obtaining competitively priced funding.

Key Financial Ratios (08 Nov 2016)	SB1 SR-Bank				Direct Peers Median				Region Sector Median							
	Number of Banks: Statement:				8	8	8	8	FYE15	FYE14	FYE13	FYE12	FYE15	FYE14	FYE13	FYE12
Size (USDbn)																
Total assets	21.80	23.54	25.82	25.41	16.66	17.95	18.70	17.83	44.35	46.84	56.88	56.86				
Risk weighted assets (RWA)	13.52	16.18	18.60	19.97	7.16	7.68	8.34	8.11	17.98	19.83	23.58	24.08				
Total equity	1.92	2.07	2.31	2.27	1.20	1.24	1.37	1.26	2.88	3.00	2.97	2.59				
Fitch core capital (FCC)	1.91	2.07	2.30	2.26	1.17	1.21	1.33	1.22	2.37	2.62	2.65	2.19				
Asset Quality																
Impaired loans/gross loans	0.9%	0.7%	1.3%	1.1%	1.0%	1.0%	1.4%	1.6%	3.5%	4.4%	4.6%	4.5%				
Growth of gross loans	9.6%	18.2%	9.4%	8.0%	7.5%	9.5%	6.3%	7.3%	0.4%	1.5%	-1.5%	0.8%				
Reserves for impaired loans/impaired loans	59.5%	74.5%	49.2%	60.6%	64.3%	54.3%	49.5%	48.8%	53.8%	54.2%	50.6%	50.3%				
Loan impairment charges/avg gross loans	0.3%	0.2%	0.1%	0.1%	0.2%	0.2%	0.2%	0.1%	0.4%	0.4%	0.7%	0.8%				
Earnings and Profitability																
Operating profit/risk weighted assets	1.8%	2.2%	1.7%	1.6%	1.9%	2.1%	1.8%	1.5%	1.6%	1.3%	1.2%	0.6%				
Net interest income/average earning assets	1.5%	1.5%	1.5%	1.3%	1.6%	1.7%	1.7%	1.5%	1.5%	1.6%	1.5%	1.5%				
Non-interest expense/gross revenues	46.5%	46.6%	54.5%	53.6%	53.2%	48.9%	53.5%	56.1%	62.8%	60.9%	61.2%	61.9%				
Loans & secs imp charges/pre-imp op. profit	16.4%	9.0%	6.5%	7.2%	13.4%	18.4%	10.8%	10.3%	23.5%	33.5%	41.2%	54.3%				
Operating profit/average total assets	1.2%	1.6%	1.3%	1.3%	0.9%	0.8%	0.9%	0.9%	0.6%	0.6%	0.4%	0.3%				
Net income/average total equity	10.8%	14.2%	14.1%	12.3%	10.8%	13.7%	11.8%	8.9%	6.9%	5.9%	3.8%	2.9%				
Capital and Leverage																
FCC/FCC-adjusted risk weighted assets	14.1%	12.8%	12.4%	11.3%	15.2%	13.9%	13.6%	11.5%	13.9%	13.3%	11.6%	9.4%				
Basel leverage ratio	6.3%	n.a.	n.a.	n.a.	6.0%	5.6%	4.5%	3.3%	5.4%	5.4%	4.6%	3.3%				
Tangible common equity/tangible assets	8.8%	8.8%	8.9%	8.9%	6.9%	6.6%	6.4%	6.3%	6.4%	6.0%	5.7%	5.3%				
CET1 capital ratio	13.3%	11.5%	11.1%	10.0%	13.8%	12.4%	12.0%	10.9%	13.6%	12.3%	12.1%	10.6%				
Internal capital generation	8.1%	10.3%	10.3%	7.7%	8.2%	10.9%	9.9%	7.6%	5.2%	4.2%	2.4%	2.0%				
Imp loans less reserves for imp Loans/FCC	3.4%	1.6%	5.5%	3.9%	6.0%	10.7%	12.7%	13.9%	18.5%	20.8%	32.1%	29.3%				
Funding and Liquidity																
Loans/customer deposits	173.5%	173.8%	167.1%	162.0%	139.9%	141.7%	135.6%	134.3%	109.5%	108.3%	117.0%	125.3%				
Liquidity coverage ratio	128.0%	94.0%	n.a.	n.a.	123.0%	145.0%	n.a.	n.a.	151.0%	181.5%	151.3%	n.a.				
Customer deposits/total funding excl derivs	52.6%	53.0%	51.9%	54.4%	62.0%	60.7%	61.6%	60.9%	70.0%	71.1%	66.1%	63.5%				

Business Mix

(by profit or revenue)

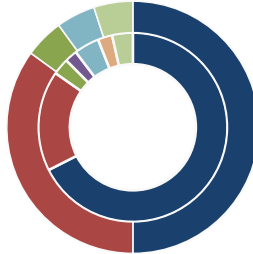
- Retail banking (55%)
- SME banking (15%)
- Corporate banking (15%)
- Investment banking (0%)
- Transaction banking (0%)
- Asset management (0%)
- Insurance (0%)
- Other (15%)



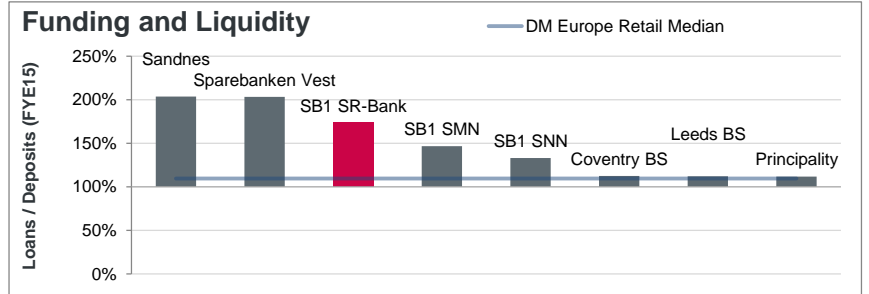
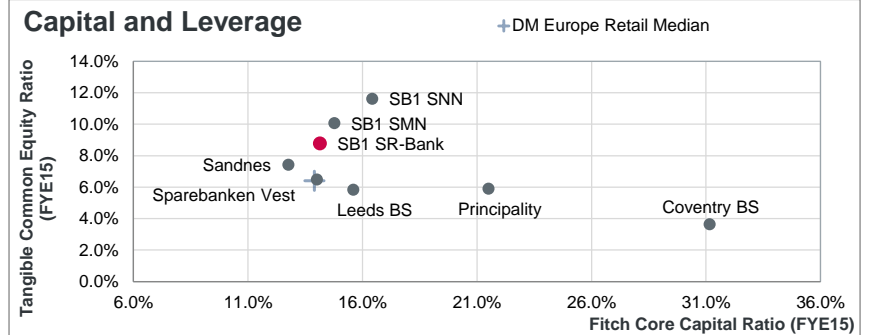
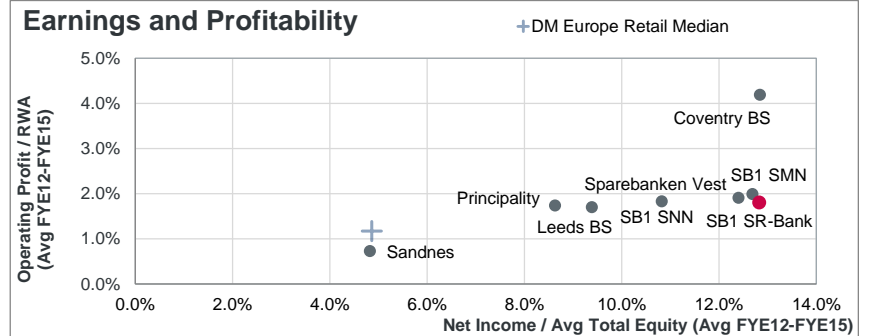
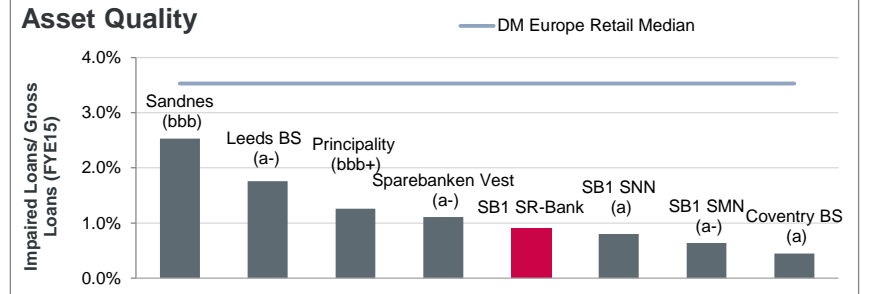
Outer: SB1 SR-Bank
Inner: Direct Peers Average

Lending Type

- Resi mortgages (50%)
- Comm mortgages (35%)
- Asset finance (5%)
- Other secured (0%)
- Personal unsecured (5%)
- Comm unsecured (0%)
- Fls & Sovs (0%)
- High yield (0%)
- Other unsecured (5%)



Outer: SB1 SR-Bank
Inner: Direct Peers Average



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