

Rating Action: Moody's downgrades SpareBank 1 SR-Bank's Junior Senior ratings to Baa1

28 Apr 2022

Stockholm, April 28, 2022 -- Moody's Investors Service ("Moody's") today downgraded SpareBank 1 SR-Bank ASA's (SpareBank 1 SR-Bank or SR-Bank) Junior Senior unsecured ratings to Baa1 from A3. This rating action concludes the review for downgrade on SpareBank 1 SR-Bank's Junior Senior ratings initiated on 26 January 2022 following the Norwegian Financial Supervisory Authority's (FSA)'s introduction of a subordination cap when calculating Minimum Requirements for Eligible Liabilities and Own Funds (MREL). The cap will result in Norwegian banks needing to issue lower levels of additional loss-absorbing debt (SNP). The review for downgrade considered the degree to which the lower regulatory requirement will lead to a reduction in volume of SNP debt that SR-Bank will issue over the next 2 years. The rating action also takes into account the bank's current capital and funding plan.

A full list of affected ratings is at the end of this press release.

RATINGS RATIONALE

The downgrade of the bank's junior senior ratings follows revisions to the FSA's approach to calculating MREL subordination requirements, which reflect the incorporation of the amended Bank Recovery and Resolution Directive (BRRD2) into Norwegian law in June 2022.

In light of the updated requirements, Moody's expects a reduced volume of SNP debt to be issued by SpareBank 1 SR-Bank and that that junior senior debt holders are likely to face moderate losses following a failure. This is reflected in the Baa1 rating, which is in-line with the bank's BCA.

OUTLOOK

Junior Senior ratings do not carry an outlook.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward rating momentum impacting on the bank's Baseline Credit Assessment (BCA) and ratings could develop if SR-Bank shows: (1) improvements in its asset quality with a problem loans ratio more in line with more highly rated local peers, a reduction in lending to more volatile sectors such as oil and offshore, or through reduced geographical or sector concentration; (2) reduced market funding and strong liquidity, on a sustained basis; and/or (3) stronger or more stable earnings generation without an increase in its risk profile.

Downward rating pressure would emerge if (1) SR-Bank's problem loans ratio increases well above the average of its similarly-rated peers; (2) financing conditions become more difficult; (3) the bank's risk profile increases, for example as a result of increased exposures to more volatile sectors or if the quality of the oil-related portfolio deteriorates; (4) a reduction in the rating uplift due to lower volumes of loss absorbing liabilities protecting creditors and depositors in case of failure.

LIST OF AFFECTED RATINGS

..Issuer: SpareBank 1 SR-Bank ASA

Downgrades, previously placed on review for downgrade:

....Junior Senior Unsecured Regular Bond/Debenture, Downgraded to Baa1 from A3

....Junior Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa1 from (P)A3

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please

see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1288235.

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