MOODY'S

Rating Action: **Moody's upgrades the deposit and senior unsecured ratings of SpareBank 1 SR-Bank to Aa3 from A1; outlook stable**

13 Oct 2023

The bank's Baseline Credit Assessment was also upgraded to a3 from baa1

Paris, October 13, 2023 -- Moody's Investors Service ("Moody's) has today upgraded SpareBank 1 SR-Bank ASA's (SR-Bank) Baseline Credit Assessment (BCA) and Adjusted BCA to a3 from baa1, long-term (LT) deposit ratings to Aa3 from A1, LT issuer and senior unsecured debt ratings to Aa3 from A1, senior unsecured Euro Medium-Term Note (MTN) programme ratings to (P)Aa3 from (P)A1, junior senior unsecured debt and junior senior unsecured Euro MTN programme ratings to A3 from Baa1 and to (P)A3 from (P)Baa1 respectively, LT Counterparty Risk Ratings (CRRs) to Aa3 from A1, subordinated debt and subordinated MTN programme ratings to Baa1 from Baa2 and to (P)Baa1 from (P)Baa2 respectively, junior subordinated MTN programme ratings to (P)Baa2 from (P)Baa3, and the LT Counterparty Risk Assessment (CRA) to Aa3(cr) from A1(cr). The short-term (ST) CRRs and deposits ratings were affirmed at Prime-1 and the ST CRA was affirmed at Prime-1(cr). The outlooks on the LT deposit, issuer and senior unsecured debt ratings have been changed to stable from positive.

As part of the same rating action, Moody's has upgraded SR-

Boligkreditt AS's LT CRRs and issuer rating to Aa3 from A1, upgraded the LT CRA to Aa3(cr) from A1(cr), and affirmed the ST CRRs at Prime-1 and the ST CRA at Prime-1(cr). The outlook on the LT issuer rating has been changed to stable from positive.

RATINGS RATIONALE

--------- UPGRADE OF STANDALONE ASSESSMENT

The upgrade of SR-Bank's BCA to a3 from baa1 reflects the bank's improving asset quality and capitalisation, as well as its resilient profitability, but also its relatively high reliance on market funding. Concurrently, the BCA upgrade takes into account Moody's expectation that the bank will continue its strong underlying financial performance in the foreseeable future.

SR-Bank's asset quality is sound and continued to improve in the last year, with its problem loans ratio decreasing to a low 0.96% of gross at end-June 2023 from 1.3% at end-June 2022, with a cost of risk of 58 basis points in the first half of 2023, down from 67 basis point reported in the first half of 2022. The bank has been able to contain its exposure to the offshore and oil and gas sector, which was a source of asset quality problems in the past, reducing it to around 2.9% of total gross loans in June 2023 from 3.2% in June 2022. Retail mortgages, which comprised the bulk (59%) of the bank's loan book in June 2023, have a moderate loan-to-value ratio (less than 70% for 70.8% of total mortgages) and a low potential loss, pointing to a solid and resilient portfolio amid rising interest rates and potential pressure on house prices in Norway. In addition, the rating agency believes that some concentration that the bank has in the commercial real estate sector in Norway (comprising around 15% of gross loans in June 2023) is manageable.

SR-Bank showed consistent ability to generate solid returns in recent years, generating a net return on assets of around 1% in the first half of 2023, stable from one year earlier. The performance was primarily driven by good net interest income benefitting from the high interest rate environment and a robust loan growth of 9.1% year-on-year as of June 2023, combined with a low cost of risk and an efficient cost structure (reported cost-to-income ratio of 39.6% in June 2023).

Capitalisation is sound, with a ratio of tangible common equity (TCE) to risk weighted assets (RWA) of 19.3% and a common equity tier 1 ratio (CET1) of 17.8% at end June 2023, both stable from one year earlier. The bank's CET1 regulatory requirement is 17.35% (including a 0.5% temporary Pillar 2 buffer), but from 30 September 2024 SR-Bank will have an additional capital requirement of 1% as a consequence of having been considered a systemically important financial institution (SIFI). SR-Bank plans to increase its CET1 ratio to meet the higher regulatory requirement through internal capital generation, which Moody's expects the bank to achieve, underpinning the BCA upgrade.

Reliance on market funding moderately increased in the last year and is expected to increase further as the bank is issuing relatively high amounts of both junior senior unsecured and senior unsecured debt to meet its minimum requirement for own funds and eligible liabilities (MREL) requirements. Market funds at end-June 2023 increased to 36% of tangible banking assets from 32% one year earlier. However the bank benefits from a good retail deposit franchise and its liquidity position is strong with a liquidity coverage ratio (LCR) above 200% in June 2023.

--------- UPGRADE OF LONG-TERM RATINGS

The upgrade of SR-Bank's LT deposit and senior unsecured debt and LT issuer ratings to Aa3 from A1 primarily reflects the upgrade of its BCA to a3 from baa1. The bank's LT ratings are also underpinned by the unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis, based on the bank's funding plans. This results in a three-notch uplift from the BCA for deposits and senior unsecured debt ratings indicating an extremely low loss-given-failure.

The upgrade of SR-Bank's LT ratings also factors in an unchanged low probability of support from the Government of Norway (Aaa stable), which results in no further rating uplift.

OUTLOOK

The stable outlooks on SR-Bank's LT deposit and senior unsecured debt ratings reflect Moody's view that the bank will continue to generate strong earnings allowing it to strengthen its capitalization to meet tighter regulatory requirements, while keeping low asset risk and good liquidity. These are balanced by some credit concentrations and the bank's high reliance on market funding.

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

The bank's LT ratings could be upgraded if it significantly strengthened its capitalization well-above regulatory minimum requirements; further improved its asset quality whilst reducing single name and sector concentration; strengthened its profitability; and reduced reliance on market funding with a wider retail deposit base.

The ratings could be downgraded if the bank failed to meet its regulatory capital requirements; reported material capital-eroding losses; experienced material deterioration in asset quality; or weakens its liquidity.

The ratings could also be downgraded as a result of a reduction in the volumes of loss absorbing liabilities protecting creditors and depositors in case of failure.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/rmc-documents/71997. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.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 on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

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

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Fabio Ianno
VP - Senior Credit Officer
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Nondas Nicolaides
VP - Senior Credit Officer
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS

96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

(“ASSESSMENTS”), AND OTHER OPINIONS INCLUDED IN MOODY’S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY’S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY’S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY’S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD

rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.