

16 DEC 2020

Fitch Upgrades Sparebank 1 SR-Bank's Senior Preferred Debt to 'A'

Fitch Ratings - Paris - 16 Dec 2020: Fitch Ratings has upgraded Sparebank 1 SR-Bank's (SR-Bank) senior preferred debt rating to 'A' from 'A-'. Fitch has also assigned long- and short-term deposit ratings of 'A'/F1' to SR Bank.

The bank's other ratings are unaffected by this rating action.

The upgrade reflects the protection that could accrue to senior preferred debt holders from an expected build-up of junior bank resolution debt and equity buffers at the bank. It follows the bank's first issue of senior non-preferred debt in November 2020 (NOK400 million).

The long-term deposit rating is one notch above the bank's Long-Term Issuer Default Rating (IDR; A-/Negative), because deposits benefit from the same level of protection as senior preferred creditors from the planned build-up of bank resolution debt and equity buffers.

Key Rating Drivers

The long-term rating of senior preferred notes is one notch above the bank's Long-Term IDR, reflecting Fitch's expectation that SR-Bank will meet its resolution buffer requirements with senior non-preferred and junior debt and equity instruments. The short-term senior preferred debt rating is the lower of the two ratings mapping to an 'A' long-term rating and reflects our assessment of SR-Bank's funding and liquidity, which we score 'a-'.

The Norwegian resolution authority set minimum requirement for own funds and eligible liabilities (MREL) for SR-Bank at 32.9% of risk-weighted assets (RWAs). The bank currently meets its MREL, including senior preferred bonds, while senior non-preferred or junior debt will only be MREL-eligible in Norway from 2024. We estimate that the bank will need to raise almost NOK20 billion senior non-preferred or junior debt to fulfil its subordination requirement by end-2023.

The enactment of the finalised second Bank Recovery and Resolution Directive (BRRD 2) into Norwegian legislation will introduce a cap on subordination requirements, which will make the senior preferred debt MREL-eligible. We estimate that the introduction of this subordination requirement (27.4% of RWAs) would lower SR-Bank's buffer of subordinated resolution debt to about NOK16 billion (about 13% of RWAs at end-September 2020).

Under our rating criteria SR-Bank will need to hold a resolution buffer (comprising junior and senior non-preferred debt) of at least 10% of its RWAs to maintain the one-notch uplift for deposits and senior preferred debt.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-The long- and short-term debt and deposits ratings are primarily sensitive to changes to SR-Bank's Long-Term and Short-Term IDRs, respectively, which are sensitive to changes to the bank's Viability Rating. The debt and deposit ratings would be upgraded if the bank's IDRs are upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-The debt and deposit ratings would be downgraded if the bank's IDRs are downgraded.

The long-term senior preferred and deposit ratings could also be downgraded if the bank's current plan not to use senior preferred debt to meet its resolution buffer from 2024 changes or if the buffer of senior non-preferred debt and junior debt is lower than 10% of RWAs.

-The long-term senior preferred and deposit ratings could also be downgraded if Fitch does not consider the revised resolution buffer for SR-Bank, to be set by the Norwegian resolution authority, to be sufficient to recapitalize the bank in a resolution without causing losses to senior preferred creditors.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

| ENTITY/DEBT | RATING | | RECOVERY | PRIOR |
|------------------------|--------|----|------------|-------|
| SpareBank 1 SR-Bank | | | | |
| • senior unsecured | LT | A | Upgrade | A- |
| • long-term deposits | LT | A | New Rating | |
| • senior unsecured | ST | F1 | Upgrade | F2 |
| • short-term deposits | ST | F1 | New Rating | |

RATINGS KEY OUTLOOK WATCH**POSITIVE****NEGATIVE****EVOLVING****STABLE****Applicable Criteria**[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)**Additional Disclosures**[Solicitation Status](#)[Endorsement Status](#)**Disclaimer**

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