

**Rating Action: Moody's places SpareBank 1 SR-Bank's Junior Senior ratings of A3 on review for downgrade and affirms all other ratings**

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26 Jan 2022

Stockholm, January 26, 2022 -- Moody's Investors Service ("Moody's") today placed SpareBank 1 SR-Bank ASA's (SR-Bank) junior senior unsecured ratings of A3 on review for downgrade. The rating agency also affirmed the Baseline Credit Assessment (BCA) and Adjusted BCA of baa1 and all ratings including its long-term deposit ratings, issuer rating and senior unsecured ratings of A1. The outlook on the long-term deposits and senior unsecured ratings remains stable.

The decision to place the A3 junior senior ratings on review for downgrade takes into account Norway's adoption of a subordination cap when calculating Minimum Requirement for own funds and Eligible Liabilities (MREL). The review for downgrade will consider 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, which could lower the level of protection for creditors in the case of failure.

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

#### RATINGS RATIONALE

##### BASELINE CREDIT ASSESSMENT

The affirmation of the bank's baa1 BCA reflects the bank's performance throughout the pandemic as demonstrated by its sound asset quality, strong capitalization, and resilient profitability.

The bank's problem ratio remained at a relatively low level at 1.6% of gross loans at end September 2021 from 1.7% at end 2020. SpareBank 1 SR-Bank ASA also benefits from very strong capital levels, with a ratio of tangible common equity to risk weighted assets of 19.0% and a common equity tier 1 ratio of 17.6% at end September 2021. Pre-provision income remained resilient throughout the pandemic while net income to tangible banking assets recovered to about 1% in the first nine months of 2021 after falling to 0.55% in 2020.

These strengths are balanced against the bank's high level of capital markets funding, its exposure to the oil and offshore sectors, and some credit concentrations towards the commercial real-estate sector.

##### LOSS GIVEN FAILURE

Moody's assessment is that there is a substantial risk that the lower subordination requirements will also significantly reduce the volumes of senior non-preferred that the bank will issue.

During the review period we will consider whether the bank's future funding and capital plans will deliver sufficient volumes of subordinated loss-absorbing instruments to justify the assumption of a low loss severity of junior senior creditors by the end 2023.

The affirmation of the deposit and senior unsecured ratings reflects Moody's view that although the MREL subordination cap will lower the minimum volumes of senior non-preferred debt, our expectation is that SR-Bank will in nonetheless issue sufficient volumes of senior preferred and SNP debt as to support these ratings.

##### OUTLOOK

The bank's long-term deposit and debt ratings carry a stable outlook balancing its robust financial performance with downside risks stemming from its exposure to the oil sector and to the CRE sector. The outlook also reflects Moody's expectation that the bank will issue sufficient volumes of junior senior debt to support the senior unsecured rating, despite lower mandatory subordination requirements.

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

A near term upgrade of the junior senior ratings is unlikely given the review for downgrade.

Upward rating momentum impacting on the bank's 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.

The junior senior rating could be downgraded should the bank be expected to issue lower volume of SNP, leading to a reduction in creditor protection.

Furthermore 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 for other rating classes 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

On Review for Downgrade:

....Junior Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently A3

....Junior Senior Unsecured Medium-Term Note Program, Placed on Review for Downgrade, currently (P)A3

Affirmations:

....Adjusted Baseline Credit Assessment, Affirmed baa1

....Baseline Credit Assessment, Affirmed baa1

....Long-term Counterparty Risk Assessment, Affirmed A1(cr)

....Short-term Counterparty Risk Assessment, Affirmed P-1(cr)

....Long-term Counterparty Risk Ratings, Affirmed A1

....Short-term Counterparty Risk Ratings, Affirmed P-1

....Long-term Issuer Rating, Affirmed A1, Outlook Remains Stable

....Long-term Bank Deposit Ratings, Affirmed A1, Outlook Remains Stable

....Short-term Bank Deposit Ratings, Affirmed P-1

....Senior Unsecured Medium-Term Note Program, Affirmed (P)A1

....Junior Subordinate Medium-Term Note Program, Affirmed (P)Baa3

....Subordinate Medium-Term Note Program, Affirmed (P)Baa2

....Subordinate Regular Bond/Debenture, Affirmed Baa2

....Senior Unsecured Regular Bond/Debenture, Affirmed A1, Outlook Remains Stable

Outlook Action:

....Outlook, Remains Stable

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1269625](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625) . Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.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 at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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