

**Rating Action: SpareBank 1 SR-Bank**

**Moody's downgrades SpareBank 1 SR-Bank to A1/C- from Aa3/C+**

**P-1 short-term rating affirmed**

London, 17 March 2009 -- Moody's Investors Service today downgraded SpareBank 1 SR-Bank's long-term debt and deposit ratings to A1 from Aa3 and its bank financial strength rating (BFSR) to C- from C+. The Prime-1 short-term rating was affirmed. The outlook on SpareBank 1 SR-Bank's long-term ratings is negative. The outlook on the BFSR is stable.

The downgrade of the BFSR to C- reflects the bank's weakened financial result, relatively low capital adequacy and the poorer prospects of the Norwegian economy. On the one hand, core operating income has been supported by improved margins and profitability in 2008 was positively affected by goodwill profit in relation to the acquisition of Glitnir Bank ASA (in which SpareBank 1 SR-Bank has 20% ownership). However, on the other, Moody's cautions that, given the more challenging operating environment, further impairments in the loan portfolio are expected, which would adversely affect the bank's financials.

The increased credit risk is reflected in higher problem loans -- at the end of 2008, problem loans (defined as non-performing and other problem commitments) doubled to 1.6% of gross loans from 0.8% at the end of 2007. Based on Moody's loss expectations for SpareBank 1 SR-Bank's loan portfolio, the rating agency believes that the bank's financial strength will likely erode to levels more consistent with a C- BFSR when also considering the current capitalisation. Moody's also expects that the ownership of SpareBank 1 SR-Bank in SpareBank 1 Gruppen continues to lead to volatility in the bank's earnings.

SpareBank 1 SR-Bank has continued to exhibit very strong loan growth in the corporate sector resulting in a less seasoned loan book -- in 2008, the corporate loan book expanded by 30% and growth was even stronger in 2007. Although retail loans still account for over 50% of the total loan portfolio, Moody's notes that growth has been significantly higher among the corporates (particularly in the real estate business and offshore shipping activities), which could display a higher risk profile in the downturn.

Regarding the bank's capitalisation, its Tier 1 ratio was 6.4% at the end of 2008, which is a weaker ratio than that of many of its peers. The rating agency cautions that low capital levels constrain a bank's capability to absorb additional losses. As a potential mitigating factor, Moody's notes the support measures proposed by the Norwegian government including a recapitalisation package. All solvent Norwegian commercial and savings banks are eligible to apply for the capital injection, which would be in the form of hybrid capital or preference shares.

SpareBank 1 SR-Bank's A1 long-term deposit rating incorporates a three-notch uplift from the bank's Baa1 baseline credit assessment (which maps from its C- BFSR, Moody's measure of standalone financial strength). This takes into account the rating agency's assessment of a very high probability of systemic support for the bank if required, which in turn reflects SpareBank 1 SR-Bank's importance to the Norwegian banking system given its market shares of about 40% in retail lending and over 20% in corporate lending in its main operating region in south-western Norway.

Based on Moody's global bank financial strength rating methodology, a C- BFSR can be mapped to a Baa1 or a Baa2. In light of the weakened Norwegian economy potential further impairments in financial strength exceeding Moody's base stress assumptions may lead to a reassessment of the BFSR mapping. Lowering of the bank's baseline credit assessment to Baa2 from Baa1 would result in a downgrade of the deposit rating. Therefore, a negative outlook has been assigned to the A1 deposit rating.

The last rating action on SpareBank 1 SR-Bank was implemented on 23 October 2008 when the outlook on the bank's BFSR and long-term ratings was changed to negative from stable following the announcement of SpareBank 1 banks' acquisition of Glitnir Bank ASA in Norway.

The principal methodologies used in rating SpareBank 1 SR-Bank are "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", which can be found at [www.moody.com](http://www.moody.com) in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered in the process of rating SpareBank 1 SR-Bank can also be found in the Credit Policy & Methodologies directory.

Headquartered in Stavanger, Norway, SpareBank 1 SR-Bank reported total assets of NOK126 billion (EUR13 billion) at the end of December 2008.

London  
Reynold R. Leegerstee  
Managing Director  
Financial Institutions Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

London  
Eeva Antila  
Analyst  
Financial Institutions Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

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