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INVESTORS SERVICE

CREDIT OPINION
26 August 2020

Update

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SpareBank 1 SR-Bank ASA

Update to credit analysis

RATINGS

SpareBank 1 SR-Bank ASA

Domicile	Stavanger, Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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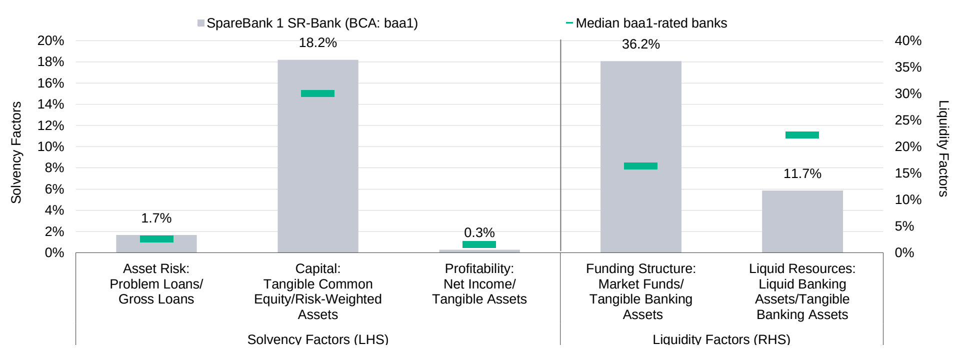
Summary

SpareBank 1 SR-Bank's long-term deposit and senior unsecured debt ratings of A1 take into account the bank's baseline credit assessment (BCA) of baa1, but also our forward-looking loss given failure (LGF) analysis which results in three notches of rating uplift from its BCA.

SpareBank 1 SR-Bank's BCA of baa1 reflects the bank's good long-term financial perfomannce through the cycle, in addition to its solid regional market position, strong capital buffers (Common Equity Tier 1 capital ratio of 18.3% at end-June 2020), and robust liquidity position. These strengths are balanced against the bank's limited geographic reach, which results in some credit-risk concentrations in more volatile sectors, such as oil/offshore and commercial real estate. The bank's exposure to the offshore sector combined with the reduced oil prices has elevated recently its stage 3 loans ratio (including financial commitments and covered bond loans sold to SpareBank 1 Boligkreditt) to 1.8% at end-June 2020 from 1.2% in June 2019.

Despite the challenges in certain oil-related exposures, the bank's BCA also reflects its resilient underlying financial fundamentals, as well as Moody's forward-looking expectation that the bank's asset quality, recurring pre-provision earnings and capitalization will remain robust in the next 12-18 months. Concurrently, the BCA considers the bank's relatively high dependence on market funding, and more specifically on covered bonds, a common feature among Norwegian banks that leaves them vulnerable to changes in investor sentiment.

Exhibit 1
Rating Scorecard - Key financial ratios



These are our Banks methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average and latest annual figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year end figures.
Source: Moody's Financial Metrics

Credit strengths

» SpareBank 1 SR-Bank's BCA is supported by its Very Strong- Macro Profile, despite the deterioration in economic conditions this year

» A comfortable capital buffer provides protection from current and future credit losses

» A robust liquidity position that mitigates any market funding concerns

Credit challenges

» Exposures to the more volatile oil and offshore sectors pose risks and increase NPLs and impairments, although the bank's overall asset quality is still strong

» Weakening bottom-line in 2020, but recurring pre-provision income will remain relatively resilient

» Reliance on market funding renders the bank vulnerable to fluctuations in investor sentiment

Outlook

The outlook on SpareBank 1 SR-Bank's deposit and senior debt ratings remains stable balancing the bank's still resilient core earnings and strong capital metrics against some asset quality challenges and downside risks stemming from its oil-related exposure.

Factors that could lead to an upgrade

Upward rating momentum could develop if SpareBank 1 SR-Bank shows: (1) improvements in its asset quality trends, especially in the more volatile segments such as oil/offshore and commercial real estate, with a problem loans ratio to be more in line with local peers; (2) continued good access to capital markets and strong liquidity on a sustainable basis; and/or (3) strong earnings generation without an increase in its risk profile.

Factors that could lead to a downgrade

Future downward rating pressure would emerge if (1) SpareBank 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) the macroeconomic environment weakens significantly, leading to a lower Macro Profile; (5) a reduction in the rating uplift as a result of our LGF analysis.

Key indicators

Exhibit 2
SpareBank 1 SR-Bank ASA (Consolidated Financials) [1]

	03-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	282.9	260.1	243.4	231.2	218.1	8.3[4]
Total Assets (USD Million)	26,938.6	29,603.9	28,103.8	28,266.4	25,338.0	1.9[4]
Tangible Common Equity (NOK Billion)	22.9	22.7	20.9	19.6	18.1	7.4[4]
Tangible Common Equity (USD Million)	2,178.8	2,584.5	2,411.3	2,396.3	2,108.2	1.0[4]
Problem Loans / Gross Loans (%)	1.7	1.5	1.5	1.1	1.2	1.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.2	18.7	16.0	16.3	15.6	16.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	14.5	13.4	13.3	10.1	11.4	12.5[5]
Net Interest Margin (%)	1.6	1.6	1.5	1.5	1.5	1.5[5]
PPI / Average RWA (%)	1.7	2.3	2.3	2.3	2.1	2.1[6]
Net Income / Tangible Assets (%)	0.3	1.2	0.8	0.9	0.7	0.8[5]
Cost / Income Ratio (%)	52.3	44.0	43.6	44.1	45.0	45.8[5]
Market Funds / Tangible Banking Assets (%)	38.4	36.1	35.2	36.4	38.1	36.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	16.2	11.7	13.4	14.9	12.4	13.7[5]
Gross Loans / Due to Customers (%)	205.0	205.0	203.8	196.2	212.2	204.5[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

SpareBank 1 SR-Bank is the leading financial group in southern and western Norway and the fifth-largest bank in Norway in terms of consolidated assets. The financial group provides a range of products and services, including traditional banking services such as loans, insurance and savings products, as well as securities trading, accounting services and estate agency services for retail as well as corporate customers. As of end-June 2020, its adjusted consolidated total assets (including loans transferred to the covered bond companies of the SpareBank 1 Alliance) was around NOK283 billion (€26 billion).

Recent developments

We have revised our growth forecasts downward for 2020 as the coronavirus pandemic is causing an unprecedented shock to the global economy. Business activity will likely fall sharply across advanced economies, and we expect global economic recovery to be delayed. We expect a gradual recovery beginning in the second half of the year, but that outcome will depend on whether governments can reopen their economies while also safeguarding public health. A rebound in demand will determine the ability of businesses and labour markets to recover from the shock. We now expect real GDP for the global economy to contract in 2020, followed by a recovery in 2021.

We note that since 13 March 2020, Norway's central bank, the Ministry of Finance and the Norwegian FSA have taken a number of actions aiming to alleviate the impact on the economy from both the coronavirus lockdown and the oil price drop. These measures include the reduction of the key policy rate by 150 basis points (bps), reducing banks' countercyclical buffer requirement by 150 bps, providing special F-loans to banks to help manage any funding and liquidity stress, as well as extension of unemployment benefits and various social policy schemes to support individuals. We believe these measures will help alleviate the negative impact stemming from the coronavirus outbreak, and will largely sustain borrowers' solvency in the longer term.

Nonetheless, the inevitable negative impact on both the economy and banks in the next 12-18 months, have triggered on 16 April 2020 the change of our Banking System Outlook (BSO) for Norway to negative from stable. The outlook change was also driven by our expectation that sectors such as tourism, hospitality and transportation are more vulnerable to the pandemic, and by the fact that very low oil prices have historically strained Norway's oil/offshore industry that remains a significant pillar of the economy.

Detailed credit considerations

A deteriorating operating environment will likely pressure the bank's financial fundamentals in 2020, although overall strength of the Norwegian government finances remain supportive to the banking system

Although Norway's operating environment is deteriorating as a result of the global outbreak of Coronavirus and the plunge in oil prices, we believe that the banking system still benefits from the government's generally strong fiscal flexibility and countercyclical buffers available through its sovereign oil fund to respond to economic shocks.

SpareBank 1 SR-Bank operates only in Norway and thus its operating environment is reflected through the 'Very Strong -' Macro Profile we assign for Norway. Norwegian banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as a very low susceptibility to event risk. Norway has a diversified and growing economy, which demonstrated resilience to the last weakening in the oil sector in 2014-15.

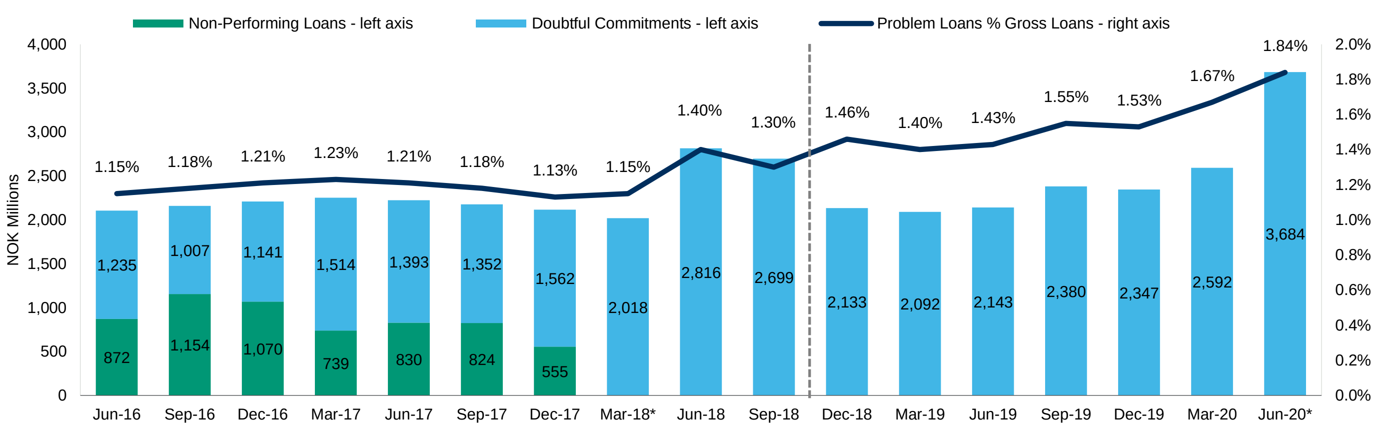
The main risks to the banking system stem from the high level of household debt, elevated real estate prices and domestic banks' extensive use of market funding. However, these risks are mitigated by the strength of households' ability to service debt, banks' adequate capitalisation and the relatively small size of the banking system compared with the total size of the economy.

Nonetheless, we expect the Norwegian mainland economy (excluding any oil-related activity) to contract significantly in 2020 (-3.5%), and recover to around +3.8% in 2021. Unemployment rose to around 10.6% as of March 2020 (although it has fallen since then), which combined with the low economic activity will inevitably impact banks' credit growth, asset quality and earnings that will be strained from elevated credit costs this year.

Exposures to the more volatile oil and offshore sectors pose risks and increase NPLs and impairments, although the bank's overall asset quality is still strong

We consider the SpareBank 1 SR-Bank's asset quality to be strong, despite some marginal deterioration in 2019-20 (see Exhibit 4) mainly due to the implementation of IFRS 9 in Norway and some re-newed challenges in the oil and offshore industry. Reported problem loans (or stage 3 loans classified under IFRS 9 and excluding financial commitments) accounted for 1.8% of gross loans (including covered bond loans of NOK4.2 billion sold to SpareBank1 Boligkreditt) at end-June 2020, up from 1.5% at end-December 2019.

Exhibit 3
SpareBank 1 SR-Bank's problem loans



Note: 2018 onwards numbers are Stage 3 gross loans under IFRS 9, while previous years are under IAS 39. June 2020 are figures reported by the bank.
Source: Company reports and presentations, Moody's Investors Service

SpareBank 1 SR-Bank is one of Norwegian banks with a relatively high exposure to the oil & gas and shipping sectors, with related exposures (including oil services, oil and gas, and offshore shipping) at end-June 2020 comprising in total around 4.5% of its total gross loan book (including covered bond loans sold to SpareBank1 Boligkreditt). We believe that these exposures, and especially around NOK9.2 billion exposure at default (EAD) linked to offshore shipping companies, will continue to expose the bank to some degree of earnings volatility, given the dependence to oil prices of the relative performance of the respective clients.

We also note that the bulk of the bank's loan losses in 2020 are largely affected by these offshore-related exposures/commitments, which include some of the bank's largest borrowers. Despite the increased activity in the oil sector since 2015, the recent coronavirus-induced oil price crisis and depreciation of the Norwegian Krone against USD has increased the bank's credit losses. A big part of the bank's accumulated credit losses so far are linked to legacy exposures mainly due to oversupply of older offshore service vessels (OSVs) with depleted secondary value.

Nonetheless, we consider the bank's decision to take a substantial loss in the first half of the year (annualised credit loss ratio of 1.53%) as a prudent move to strengthen its balance sheet, and we expect the second half of the year to be significantly less painful. Some of the largest problematic offshore exposures have now a provisioning coverage up to 62%, while the overall provisioning coverage for all stage 3 loans has increased to around 44% in June 2020 from 28% in December 2019.

...while geographical concentration in certain regions elevates the bank's credit profile, although the bank aims to expand further in Southern Norway

In addition, the bank is also exposed to the commercial real estate sector (around 14.6% of gross loans at end-June 2020, including covered bond loans sold to SpareBank1 Boligkreditt), a significant part of which is located in the county of Rogaland, where vacancy rates are vulnerable to oil prices and investments. This exposure combined with its sizeable mortgage loan book (around 60.9% of total gross loans in Q2 2020), could leave the bank vulnerable to any unexpected material decrease in property prices, a feature shared with other Norwegian savings banks. However, we note that over 87% of the bank's mortgage exposures have a loan-to-value (LTV) ratio of lower than 85%, which means that the bank can withstand a significant decline in house prices before its credit profile is materially impacted.

Our assigned Asset Risk Score reflects the challenges the bank faces in a distressing oil-sector, taking also into account the bank's relatively limited geographical diversification and concentration to vulnerable sectors, such as commercial real estate sector. That said, we view positively the bank's Southern Norway expansion strategy, demonstrated by opening up a branch on Oslo in 2018, which will gradually improve its regional and sectoral diversification. We note that the bank's exposure to the Oslo and Viken region has increased by 61% from June 2018 to June 2020, comprising now around 9% of its total loans.

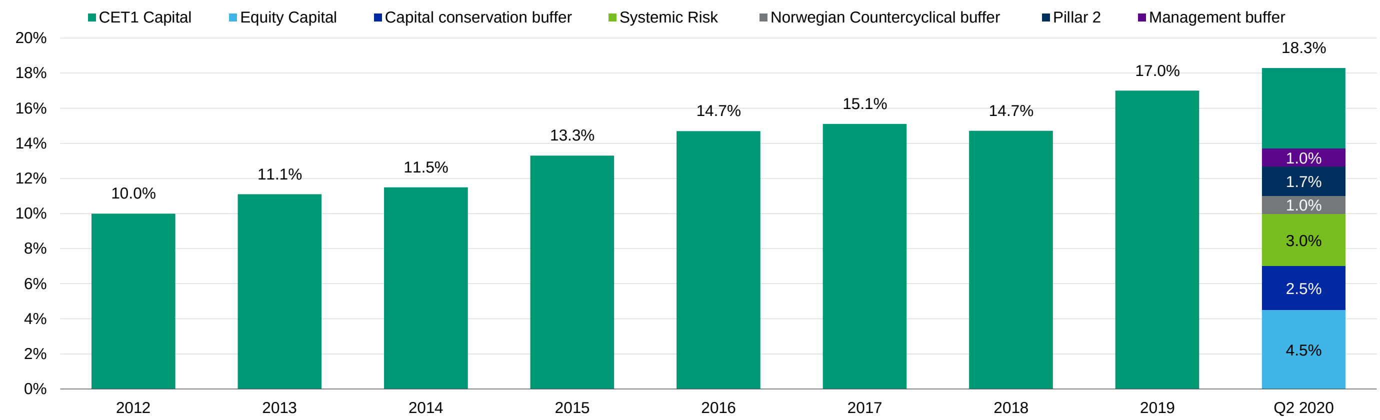
A comfortable capital buffer provides protection from current and future credit losses

SpareBank 1 SR-Bank's Common Equity Tier 1 (CET1) ratio was 18.3% at end-June 2020 up from 17% at end-December 2019 (see Exhibit 3), well above the regulatory requirement of 12.7%. The increase in CET1 ratio during 2019-20 was mainly attributed to the removal of Basel I floor and an introduction of a discount for SME exposures based on EU's CRD IV directive, for which the positive effect for the bank's CET1 ratio was around 200 basis points. However, going forward this will be likely counterbalanced by the Ministry of Finance's decision to concurrently increase the systemic risk buffer to 4.5% from 3% for all IRB-based banks from December 2020 onwards.

In response to the global coronavirus outbreak and resulting economic stress, the Norwegian FSA has revised banks' capital requirements during the first quarter of 2020. Accordingly, the countercyclical capital buffer requirement has been lowered by 150 basis points (to 1% from 2.5%) to allow more flexibility, while banks were requested to reconsider their dividend payments for 2019.

SpareBank 1 SR-bank's CET1 internal target was accordingly revised to 13.7% including 1% of management buffer for 2020 (see Exhibit 4), and this was met with a comfortable headroom in June 2020. The bank has managed to accumulate capital through increased profitability in the last few years, through conservative growth and modest dividend payout (dividend policy of around 50% of annual profit). Consequently, we believe that the bank has significant loss absorption buffers, and is well positioned and capitalised to continue developing its leading position in South-Western Norway, and expand further in the Oslo region based on its strategic direction.

Exhibit 4
SpareBank 1 SR-Bank CET1 development



Source: Company reports and presentations, Moody's Investors Service

The bank's Tangible Common Equity (TCE) has been supported by good earnings generation and retained earnings in recent years, while the bank's Tier 1 capital ratio was 19.9% and the total capital adequacy ratio was 21.8% at end-June 2020. Moreover, its leverage ratio was a high 7.8% at end-June 2020, significantly higher than both international and Norwegian requirements. Such capital metrics compare favourably with other Nordic banks, as the capital rules in Norway continue to be more conservative with SpareBank 1 SR-Bank having a RWAs density of around 44% of total assets in June 2020.

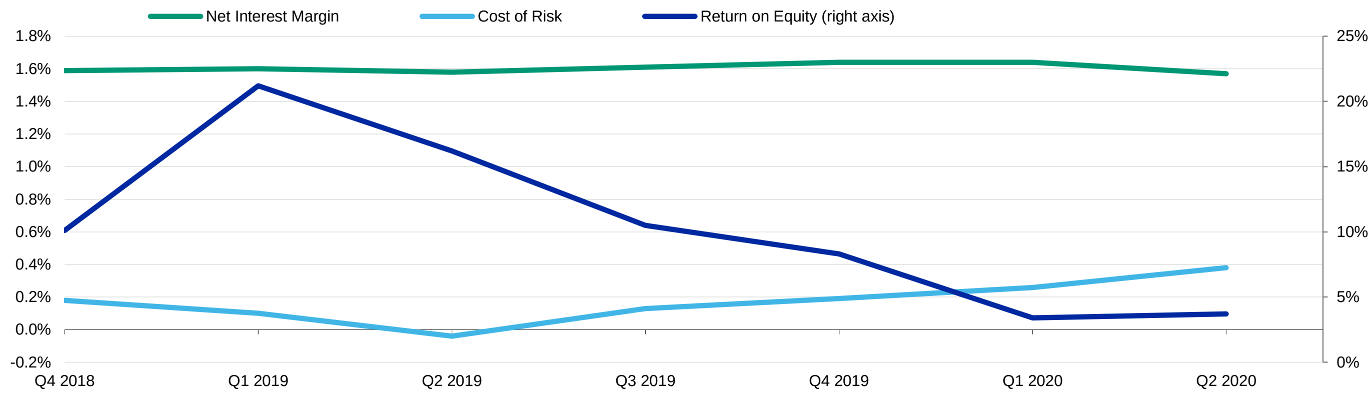
Weakening bottom-line in 2020, but recurring pre-provision income will remain relatively resilient

In response to the economic stress from the coronavirus outbreak the Norges Bank has carried out three rate cuts totaling 150 basis points since March 2020, while prior to this period the key policy rate was on a rising trend. Low loan rates (interest rate adjustment was implemented quicker than the usual 6 weeks notice) coupled with an already fierce competition among Norwegian banks will put pressure on SpareBank 1 SR-Bank's retail net interest margin (NIM) and profitability metrics in 2020.

However, SpareBank 1 SR-Bank's net interest income in the first six months was around 10.5% higher as of end-June 2020 compared to end-June 2019, mainly on the back of expanding NIM on corporate loans and loan growth of around 5.4% in the last 12 months (including covered bond loans sold to SpareBank 1 Boligkreditt). The bank's net interest margin (NIM) was marginally lower at 1.57% in Q2 2020 from 1.64% in Q4 2019 that benefited from rising interest rates in Norway during 2019.

The bank's profitability in Q2 2020 was affected by a large increase in credit costs of NOK831 million, bringing the total impairments taken so far in 2020 to NOK1,391 million, as well as losses on financial instruments and lower income form investments in associates. Its reported quarterly credit loss ratio was a high 0.38% in Q2 2020, compared to a negative 0.04% (write-backs) in Q2 2019, signifying the sizeable loan losses the bank had to take. However, we expect the bank's loan loss provisions to reduce and remain modest in the second half of 2020, as a significant volume of problematic exposures has already been provisioned to account for any potential further deterioration in the offshore sector. Accordingly the bank's return on equity in Q2 2020 was only 4%, from a high 16.2% in Q2 2019 (see Exhibit 5).

Exhibit 5
SpareBank 1 SR-Bank's NIM, CoR and RoE evolution



Note: June 2020 are figures reported by the bank.
Source: Company reports and presentations

SR-Bank's cost efficiency remained favorable with one of the lowest reported cost-to-income ratios among the large Norwegian Savings Banks at 38% as of end-June 2020, as its operating expenses reduced by 1.9% year-on-year on the back of lower bonus provisions. We note that the bank has ambitious plans in new technology and development in order to improve its product offering and customer experience, which to some degree could exert upward pressure on its IT-related expenses.

Our Profitability Score for SpareBank 1 SR-Bank reflects our view that the bank's oil-related exposure and restructured loans will continue to pose downside risks to its bottom line, although we expect it to normalise in the second half of 2020 and in 2021.

Reliance on market funding renders it vulnerable to fluctuations in investor sentiment...

While SpareBank 1 SR-Bank benefits from solid access to domestic and international capital markets, with a stronger footing than its local peers, providing a good funding diversification, its reliance on wholesale funding remains high. Market funds accounted for around 36% of tangible banking assets (including covered bond loans sold to SpareBank1 Boligkreditt), which we believe renders the bank susceptible to potential shifts in investor sentiment.

SpareBank 1 SR-Bank also benefits from a good deposit base, which represented around 43% of total liabilities (including covered bonds issued through SpareBank 1 Boligkreditt) at end-June 2020, which has proven to be resilient and stable over many years. Deposits from customers increased by around 8.3% year-on-year as of June 2020. The bank's gross loans-to-deposits ratio, including transferred loans, was relatively high at around 197% as of end-June 2020.

We reflect the relative stability of covered bonds compared to unsecured market funding through a standard adjustment in our scorecard. Covered bonds have become an increasingly important source of funding for the bank, which issues covered bonds through the wholly owned covered bond company SR-Boligkreditt AS and specialised companies owned jointly with other members of the SpareBank 1 Alliance. Funding through the jointly owned covered bond company SpareBank 1 Boligkreditt (residential mortgages) is carried out off-balance-sheet, since the bank does not consolidate this entity.

As of June 2020, the bank had transferred around NOK 4.2 billion to Sparebank 1 Boligkreditt, or around 2% of gross loans including transferred loans, reducing significantly in the last couple of years. In 2015 the bank set up SR-Boligkreditt as a wholly owned covered bond company, to diversify and optimise its funding by gradually shifting its cover bond activity to this entity instead. While we view positively the diversification benefit of covered bond funding, extensive use of covered bond funding increases the amount of pledged assets unavailable for unsecured bondholders, including depositors in liquidation.

We estimate that SpareBank 1 SR-Bank will also need to raise around NOK20 billion of senior non-preferred (SNP) debt by 1 January 2024, in order to meet its minimum requirement for own funds and eligible liabilities (MREL) that was set by the FSA at NOK33.7 billion. At the end of Q2 2020, the bank was carrying eligible senior debt due after 30 June 2021 that can be phased out for MREL purposes of around NOK 37.9 billion, and thus its requirement was met by a good margin.

Our Funding Structure Score reflects our view that although SpareBank 1 SR-Bank has benefitted from strong access to domestic and international capital markets, its high reliance on market funding - a common feature of Nordic banks - is a source of risk. We believe that in times of market stress, market funding can become more expensive and/or restricted.

...although a robust liquidity position mitigates any market funding concerns

A mitigating factor to the bank's reliance on market funds is its robust liquidity buffer, which stood at NOK 33.3 billion or around 12% of total assets at end-June 2020 consisting mainly of cash, short-term repos, and covered bonds rated Aaa. This liquidity buffer could cover the bank's normal operations for around 25 months, in the event of closed markets that would not allow the bank to refinance its maturing debt. In addition to the liquidity buffer, the bank has NOK 17.3 billion in home mortgages ready to be transferred to a covered bond company, while it reported a commendable liquidity coverage ratio (LCR) of 159% at end-June 2020, combined with a net stable funding ratio (NSFR) of 122%.

Environmental, social and governance considerations

In line with our general view of the banking sector, Sparebank 1 SR-Bank's has relatively low exposure to Environmental risks and moderate exposure to Social risks. See our Environmental and Social risk heatmaps for further information.

SR-Bank's exposure to oil and off-shore sector is a source of environmental risk for the bank, in the face of eventual transition to a low-carbon economy. However, the bank's oil-related exposure, although higher than local peers, is considered manageable at 4.5% of gross lending (including covered bond entities) as of June 2020. Furthermore, Norway, similar to other countries in the European Union, has policies in place that ensure new housing constructed is energy-efficient, which enables banks to gather mortgages for asset pools for green bond issuances. Such policies also help limit environmental risks for Norwegian banks that have large mortgage lending portfolios. SpareBank 1 SR-Bank issued a green covered bond of €500 million in October 2019 maturing in seven years through SR-Boligkreditt, indicating the bank's appetite for sustainable banking.

We believe banks face moderate social risks. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. In addition, we regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. See our social risk heat map for further information.

Governance is highly relevant for SpareBank 1 SR-Bank, as it is to all players in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Corporate governance remains a key credit consideration and requires ongoing monitoring. However, we currently do not have any governance related concerns over SpareBank 1 SR-Bank.

Support and structural considerations

Loss Given Failure analysis

The EU Bank Recovery and Resolution Directive (BRRD) has entered into force as of 1 January 2019 in Norway, which confirms our current assumptions regarding LGF analysis. For our resolution analysis, we assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

For SpareBank 1 SR-Bank's long-term deposit rating and senior unsecured debt rating, our LGF analysis considers the combination of the bank's junior deposits, its outstanding debt volume and the amount of debt subordinated to this. The assigned LGF notchings for long-term deposit and senior unsecured bank debt are positioned one notch higher than the correspondent LGF notching guidance (two notches above the adjusted BCA). This reflects our expectation that the bank will issue non-preferred senior debt in order to comply with its MREL requirement.

Moody's expects that the bank will issue MREL-eligible senior non-preferred (SNP) debt over the coming 2-3 years, estimated at around NOK20 billion. This has resulted in a Preliminary Rating Assessment (PRA) of three notches above the BCA, reflecting very low loss-given-failure. For junior securities issued by SpareBank 1 SR-Bank, our LGF analysis confirms a high level loss-given-failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity.

Government support considerations

SpareBank 1 SR-Bank has a sound franchise in the county of Rogaland, south-west Norway, with a 35% market share. The bank has also expanded into neighbouring counties, but its national market share in lending is around 4-5%. As a result of the implementation of the BRRD legal framework in Norway from 1 January 2019, which is aligned with that of the EU, we revised our government support assumption for the bank's senior preferred debt and deposits to low from moderate. This has resulted in no rating uplift from its PRA, positioning the ratings at A1.

For the bank's junior securities, we continue to consider that potential government support is also low with no rating uplift. Junior securities also include additional downward notching from the BCA reflecting coupon suspension risk ahead of a potential failure.

Counterparty Risk Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

SpareBank 1 SR's CR Assessment is positioned at A1(cr)/Prime-1(cr)

SpareBank 1 SR-Bank's CR Assessment is positioned at A1(cr)/Prime-1(cr), three notches above the bank's adjusted BCA of baa1, based on the substantial cushion against default provided to the senior obligations represented by the CRA by subordinated instruments. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CRA captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

Counterparty Risk Ratings (CRR)

Counterparty Risk Ratings are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

SpareBank 1 SR-Bank's CRR is positioned at A1/Prime-1

The CRR is positioned three notches above the adjusted BCA of baa1, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

Foreign currency debt rating

SpareBank 1 SR-Bank's foreign-currency debt rating of A1 is unconstrained given that Norway has a country ceiling of Aaa.

About Moody's bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our rating committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 6

SpareBank 1 SR-Bank ASA

Macro Factors							
Weighted Macro Profile	**Very Strong -**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		1.7%	aa3	←→	baa1	Geographical concentration	Sector concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		18.2%	aa1	←→	aa1	Risk-weighted capitalisation	
Profitability							
Net Income / Tangible Assets		0.3%	ba2	↑↑	baa3	Expected trend	
Combined Solvency Score			a1		a2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		36.1%	ba2	←→	ba1	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		11.7%	baa3	←→	baa3	Stock of liquid assets	
Combined Liquidity Score			ba1		ba1		
Financial Profile					baa1		
Qualitative Adjustments					Adjustment		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint					Aaa		
BCA Scorecard-indicated Outcome - Range					a3 - baa2		
Assigned BCA					baa1		
Affiliate Support notching					0		
Adjusted BCA					baa1		

Balance Sheet	**in-scope (NOK Million)**	**% in-scope**	**at-failure (NOK Million)**	**% at-failure**
Other liabilities	118,735	42.0%	129,500	45.8%
Deposits	105,545	37.3%	94,779	33.5%
Preferred deposits	78,103	27.6%	74,198	26.3%
Junior deposits	27,442	9.7%	20,581	7.3%
Senior unsecured bank debt	45,794	16.2%	45,794	16.2%
Dated subordinated bank debt	2,202	0.8%	2,202	0.8%
Preference shares (bank)	1,850	0.7%	1,850	0.7%
Equity	8,478	3.0%	8,478	3.0%
Total Tangible Banking Assets	282,604	100.0%	282,604	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	27.9%	27.9%	27.9%	27.9%	3	3	3	3	0	a1
Counterparty Risk Assessment	27.9%	27.9%	27.9%	27.9%	3	3	3	3	0	a1 (cr)
Deposits	27.9%	4.4%	27.9%	20.6%	2	3	2	3	0	a1
Senior unsecured bank debt	27.9%	4.4%	20.6%	4.4%	2	2	2	3	0	a1
Dated subordinated bank debt	4.4%	3.7%	4.4%	3.7%	-1	-1	-1	-1	0	baa2
Junior subordinated bank debt	3.7%	3.7%	3.7%	3.7%	-1	-1	-1	-1	-1	baa3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	3	0	a1	0	A1	A1
Senior unsecured bank debt	3	0	a1	0	A1	A1
Dated subordinated bank debt	-1	0	baa2	0		Baa2 (hyb)
Junior subordinated bank debt	-1	-1	baa3	0		(P)Baa3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
SPAREBANK 1 SR-BANK ASA	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
Subordinate	Baa2 (hyb)
Jr Subordinate MTN	(P)Baa3

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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