

Rating Action: Moody's affirms SpareBank 1 SR-Bank's A1 deposit ratings; outlook changed to positive

26 Sep 2022

Stockholm, September 26, 2022 -- Moody's Investors Service ("Moody's") has today affirmed SpareBank 1 SR-Bank ASA's (SR-Bank) A1/Prime-1 (P-1) deposit and A1 senior unsecured debt ratings. Furthermore, the rating agency affirmed the Baseline Credit Assessment (BCA) and Adjusted BCA of baa1. The outlooks on the long term deposit and senior unsecured ratings were changed to positive from stable.

The affirmation and positive outlook reflect the bank's improving fundamentals, in particular its reduced exposure to the oil and offshore sectors which have lowered the bank's asset risk and should stabilise its profitability.

The full set of the affected ratings can be found at the end of this press release.

RATINGS RATIONALE

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

The bank's problem ratio has improved over the past year, falling to 1.3% of gross loans at end June 2022, down from 1.7% at end 2020. SR-Bank also benefits from very strong capital levels, with a ratio of tangible common equity (TCE) to risk weighted assets (RWA) of 19.3% and a common equity tier 1 ratio of 17.9% at end June 2022. The bank's leverage is also low, with TCE equalling 7.1% of tangible banking assets (TBAs). Pre-provision income remained robust throughout the pandemic while net income to TBAs recovered to about 1% in 2021 and the first half of 2022 after falling to 0.55% in 2020. These strengths are balanced against the bank's high level of capital markets funding, its remaining exposure to the oil and offshore sectors, and some credit concentrations towards the commercial real-estate sector.

RATING OUTLOOK

SR-Bank's positive outlook reflects its improving fundamentals in terms asset risk through a reduced exposure to the oil and offshore sectors which will improve the bank's asset risk and stabilise its profitability. The outlook also reflects the bank's increased focus on using deposits as a funding source which reduce the bank's dependence on market funding. If sustained, this creates positive rating pressure.

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

The bank's ratings could be upgraded if it sustains

- Improvements in its asset quality with a problem loans ratio in line with local peers, a low level in lending to more volatile sectors such as oil and offshore, or through increased geographical or sector diversification;
- Its deposit funding franchise and strong liquidity; and
- A stable earnings generation

While the positive outlook implies that a downgrade is unlikely, the outlook could be stabilised should

- SR-Bank's problem loans ratio increase, well above the average of its similarly-rated peers; or the bank's risk profile increases, for example as a result of increased exposures to more volatile sectors
- Financing conditions become more difficult
- A reduction in the volumes of loss absorbing liabilities protecting creditors and depositors in case of failure

LIST OF AFFECTED RATINGS

Issuer: SpareBank 1 SR-Bank ASA

..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 Bank Deposit Ratings, Affirmed A1, Outlook Changed To Positive From Stable
-Short-term Bank Deposit Ratings, Affirmed P-1
-Long-term Issuer Rating, Affirmed A1, Outlook Changed To Positive From Stable
-Senior Unsecured Regular Bond/Debenture, Affirmed A1, Outlook Changed To Positive From Stable
-Senior Unsecured Medium-Term Note Program, Affirmed (P)A1
-Junior Senior Unsecured Regular Bond/Debenture, Affirmed Baa1
-Junior Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa1
-Subordinate Regular Bond/Debenture, Affirmed Baa2
-Subordinate Medium-Term Note Program, Affirmed (P)Baa2
-Junior Subordinate Medium-Term Note Program, Affirmed (P)Baa3

..Outlook Action:

-Outlook, Changed To Positive From Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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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>.

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Mattias Eric Frithiof
Asst Vice President - Analyst
Financial Institutions Group
Moody's Investors Service (Nordics) AB
Norrandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Simon Ainsworth
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service (Nordics) AB
Norrandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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