CREDIT OPINION

23 September 2024

Update

Send Your Feedback

SpareBank 1 SR-Bank ASA

Update following rating affirmation

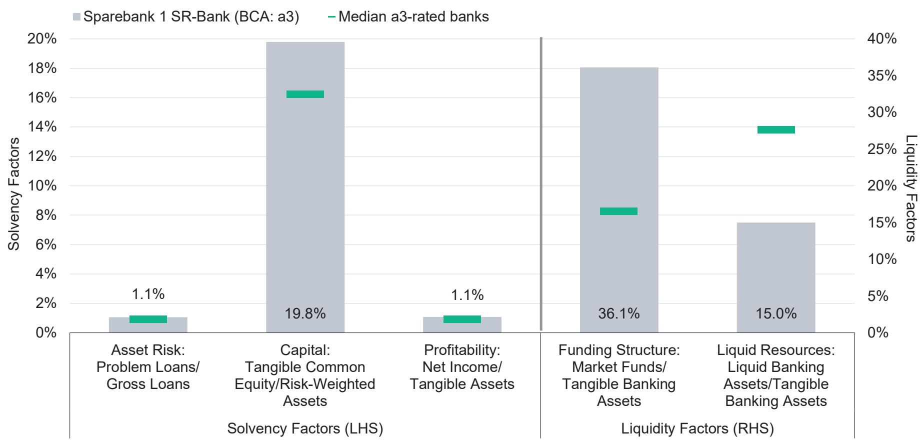
Summary

SpareBank 1 SR-Bank ASA's (SR-Bank) Aa3 long-term deposit and senior unsecured debt ratings reflect its Baseline Credit Assessment (BCA) of a3 and our forward-looking Advanced Loss Given Failure (LGF) analysis, resulting in a three-notch uplift from its BCA. SR-Bank's ratings do not benefit from any uplift because of government support.

SR-Bank's BCA of a3 reflects its resilient financial performance through the cycle, solid regional market position and asset quality, that will be further strengthened following the merger with SpareBank 1 Sorost-Norge (SB1 SOON; Aa3 stable, a3[1]) in October 2024, creating the largest savings bank in Norway, SpareBank1 Sor-Norge (SB1NO), with a market share of close to 7% based on lending volume. We expect the bank to display strong recurring profitability that will underpin continued robust capitalisation levels, comfortably above regulatory requirements over the coming 12 to 18 months. These strengths are balanced against a high reliance on market funding, in line with many Norwegian peers, and some exposure to more volatile and cyclical sectors.

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

RATINGS

SpareBank 1 SR-Bank ASA

Domicile	Stavanger, Norway
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa3
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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Credit strengths

» Strong asset quality with a contained exposure to the oil and offshore sector

» Sound capitalisation comfortably above regulatory requirements

» Strong recurring profitability and internal capital generation capacity

Credit challenges

» Exposure to more volatile sectors, such as commercial real estate, and oil and offshore, which poses risks to profitability and asset quality

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

Outlook

The stable outlooks on SR-Bank's long-term deposit, issuer and senior unsecured debt ratings reflect our expectation that the combined entity's financial profile following the merger will be broadly consistent with the bank's current BCA level.

Factors that could lead to an upgrade

An upgrade of SR-Bank's BCA and ratings could be achieved if the enlarged bank demonstrates several of the following characteristics: excellent asset quality through the cycle with sound geographical diversification, sustainable strong profitability and contained increase in market funding.

Factors that could lead to a downgrade

The BCA and ratings on SR-Bank could be downgraded if the bank experienced a material deterioration in asset quality, for example in the commercial real estate or oil and offshore portfolios, failed to meet its regulatory capital requirement or reported weakened liquidity. Furthermore, the long-term deposits and senior unsecured debt ratings could be downgraded as result of a reduction in the volumes of loss absorbing liabilities protecting depositors and creditors in case of failure.

Key indicators

Exhibit 2

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

	06-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	382.7	362.2	345.7	304.4	287.0	8.6[4]
Tangible Common Equity (NOK Billion)	30.3	30.1	26.5	24.9	24.2	6.6[4]
Problem Loans / Gross Loans (%)	0.8	0.9	1.2	1.3	1.7	1.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	19.8	20.5	19.8	19.4	20.0	19.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	7.3	8.1	11.0	10.9	14.1	10.3[5]
Net Interest Margin (%)	1.8	1.7	1.4	1.4	1.5	1.6[5]
PPI / Average RWA (%)	3.7	3.3	2.8	2.6	2.5	3.0[6]
Net Income / Tangible Assets (%)	1.2	1.1	1.0	1.0	0.5	1.0[5]
Cost / Income Ratio (%)	37.5	41.8	43.3	45.1	43.1	42.2[5]
Market Funds / Tangible Banking Assets (%)	35.6	36.1	35.3	31.7	35.1	34.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	19.0	15.0	16.3	17.9	16.2	16.9[5]
Gross Loans / Due to Customers (%)	183.7	182.5	170.8	167.3	185.5	177.9[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 Ratings and company filings

Profile

SpareBank 1 SR-Bank ASA (SR-Bank) is a financial group in the southern and western parts of Norway, with consolidated assets of NOK382 billion (€33 billion) as of June 2024. It was the third-largest bank in Norway in terms of consolidated assets as of year-end 2023 and the largest among the SpareBank 1 alliance banks. The bank is classified as a systemically important financial institution (SIFI) in the country by the Norwegian Financial Supervisory Authority (FSA).

The SR-Bank financial group provides a range of products and services, including traditional banking services such as loans, insurance and savings products, and securities trading, accounting services and estate agency services to retail and corporate customers.

Recent developments

On 16 September 2024, Inge Reinertsen, became the new CEO of SR-Bank following the departure of Benedicte Schilbred Fasmer and he will also assume this role at the merged entity. The current CFO of SB1 SOON, Roar Snippen will become acting CFO of SB1NO from October 1st, with the process initiated to find a permanent CFO.

On 20 June 2024, the FSA of Norway and the Ministry of Finance issued the permits necessary for the completion of the merger between SR-Bank and SB1 SOON to form SpareBank 1 Sor-Norge ASA (SB1NO), subject to certain conditions. The planned date for implementing the legal merger is 1 October 2024. This follows the notification from the Norwegian Competition Authority on 17 April 2024, announcing that it had no comments on the merger plan and had completed its review of the application.

The merger was initially announced on 26 October 2023. At the time of the agreement, the new entity was projected to become the largest savings bank in Norway. However, because of recent developments, the merger between Sparebanken Vest and Sparebanken Sor is likely to form the largest bank if it goes ahead.

Detailed credit considerations

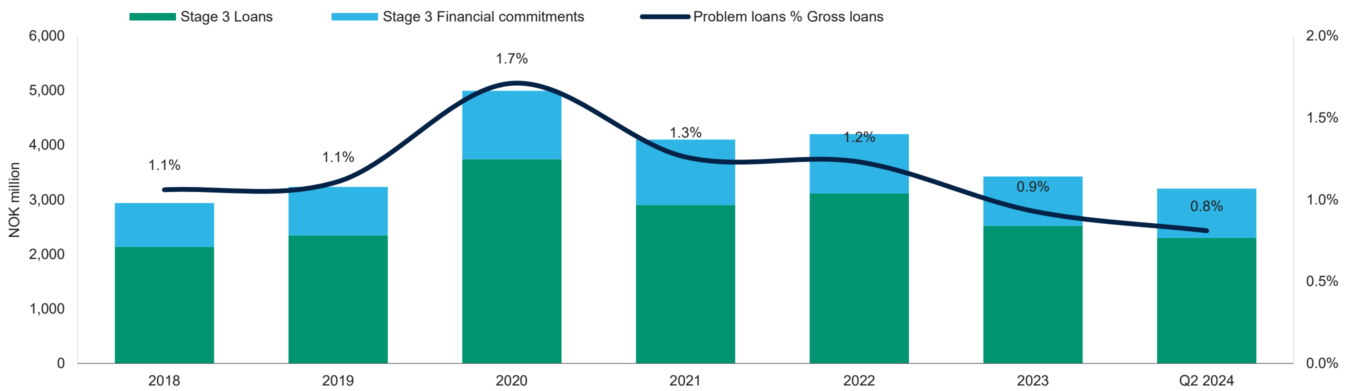
Strong asset quality, although with exposure to the volatile oil and offshore sector

We assign an Asset Risk score of baa1, which captures the low level of problem loans, reduced exposure to the oil and offshore sector, still somewhat limited geographical diversification and concentration in the commercial real estate sector.

SR-Bank's asset quality is strong and improving, with its Moody's-adjusted non-performing loan (NPL) ratio having declined to a low 0.8% as of June 2024 (2023: 0.9%), in line with SB1 SOON's 0.7% (2023: 0.7%) (see Exhibit 3). NPLs have declined considerably from the peak during the coronavirus pandemic because activity in the oil and offshore sector — a sector with a historically high NPL ratio — has picked up.

Exhibit 3

SR-Bank's reported problem loans and commitments



The problem loans % gross loans ratio reflects Moody's adjusted metric.
Sources: Company filings and Moody's Ratings

SR-Bank has gradually decreased its exposure to the oil and gas, and shipping sectors, but this exposure remains higher than that of most Norwegian banks. Exposures to oil services, oil and gas, and shipping constituted 6% of its total gross loan book as of June 2024. These exposures, especially to offshore shipping companies, will continue to make the bank's earnings somewhat volatile.

In addition, the bank's exposure to the commercial real estate sector accounts for around 12.8% of its gross loans as of June 2024. This ratio will increase to around 14% when SB1 SOON's portfolio is taken into account. A significant part of the CRE exposure will remain located in the county of Rogaland, where vacancy rates are vulnerable to oil sector-related activity and investments. This exposure, combined with the sizeable mortgage loan book (around 60% of total gross loans), leaves the bank vulnerable to any significant decrease in property prices, a feature it shares with other Norwegian savings banks.

We expect SR-Bank's asset quality to remain sound over the next 12-18 months.

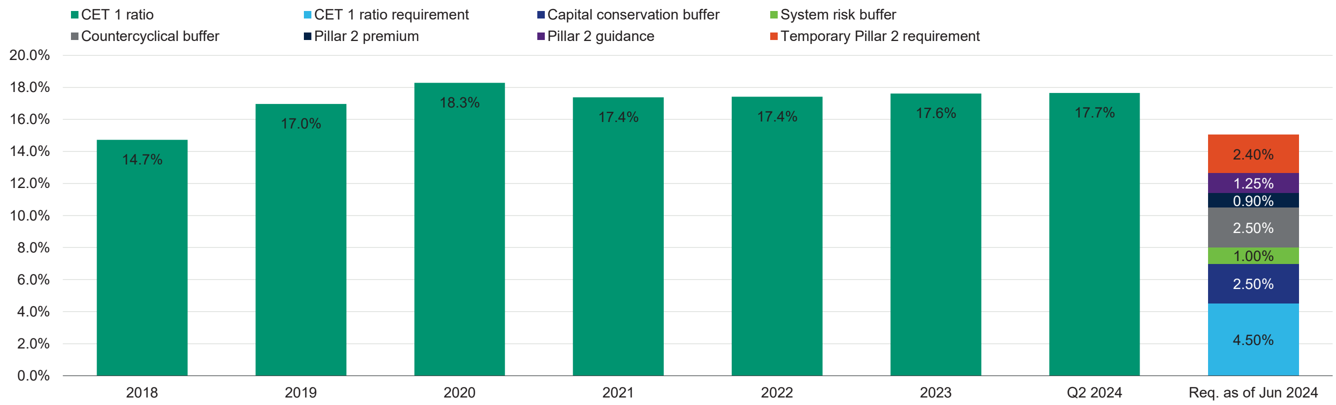
Solid capitalisation, likely to strengthen to meet higher regulatory requirements

We assign a Capitalisation score of aa2 to reflect our expectation that the merged bank will have solid capitalisation supported by robust internal capital generation.

SR-Bank's Common Equity Tier 1 (CET1) capital ratio and tangible common equity (TCE) ratio were 17.7% and 19.8%, respectively, as of the end of June 2024. The corresponding ratios for SB1 SOON were 19.2% and 20.1%. Moreover, the leverage ratio was high at 7.3% for SR-Bank and 8.6% for SOON as of June 2024. The resulting bank's capital metrics will continue to compare favourably with those of other Nordic banks and are higher than the regulatory requirement for the CET1 ratio of 16.40% as of June 2024. The CET1 regulatory requirement will increase by 1pp to 17.40% from 30 September 2024 because SR-Bank is designated as SIFI in Norway. We expect the bank to comply with this higher regulatory capital requirements through internal capital generation.

On 26 October 2023, SR-Bank raised its capital base by NOK1 billion following the potential merger announcement with SB1 SOON, which translates into an increase of around 0.7% in its CET1 ratio based on the bank's risk-weighted assets as of September 2023. The bank also expects to realise capital synergies by applying its Internal ratings-based (IRB) model on SB1 SOON's portfolio, estimated at around NOK2.5 billion.

Exhibit 4
SR-Bank's CET1 ratio evolution



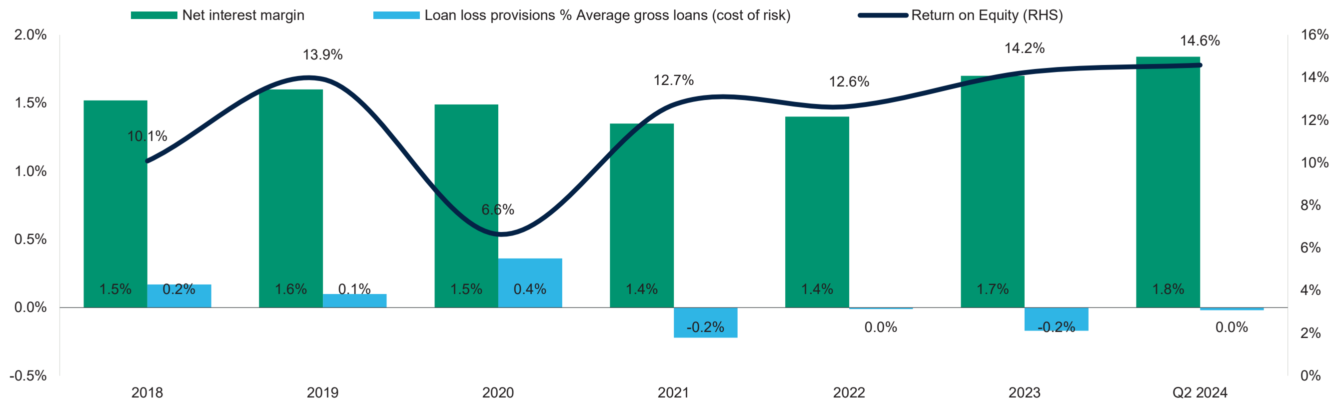
Sources: Company filings and Moody's Ratings

Strong recurring profitability and capital generation capacity

Our Profitability Score of a3 reflects SR-Bank's expected resilient recurring profitability despite its exposure to the energy and offshore shipping sectors, which will continue to pose risks to the bank's income generation, although performance in this segment has improved.

SR-Bank's net interest margin (NIM) increased to 1.84% in the first half of 2024 from 1.63% over the year-earlier period (see Exhibit 5), benefiting from higher interest rates. The corresponding change for SB1 SOON was an increase to 1.8% from 1.7% over the same period. SR-Bank's net interest income in H1 2024 was 21% higher than the year-earlier period. Norges Bank began hiking interest rates in September 2021, with the current rate at 4.5%. Over H1 2024, the bank's return on equity (RoE) reached 14.7%, down from 15.3% as of year-end 2023 (for SB1 SOON, this was 11.5% in H1 2024, up from 10.4% in 2023).

Exhibit 5
SpareBank 1 SR-Bank's NIM, Cost of risk and RoE evolution



Sources: Company filings and Moody's Ratings

SR-Bank's cost efficiency remained favourable, with a low reported cost-to-income ratio of 34.9% for H1 2024 (Moody's-adjusted ratio was 37.5% for SR-Bank and 42.3% for SB1 SOON).

We expect the combined entity to benefit from a stronger franchise by becoming the largest savings bank in Norway and to report sound profitability, benefiting from significant cost synergies. However, merger-related costs and ongoing inflationary pressure on IT and staff expenses are likely to lead to a higher cost-to-income ratio before the full realisation of merger synergies.

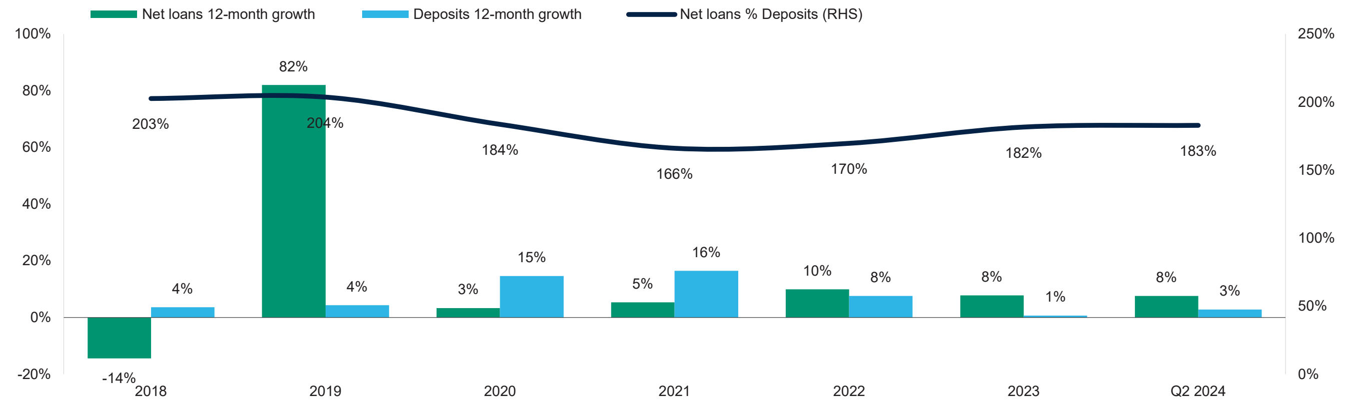
Reliance on market funding renders it vulnerable to fluctuations in investor sentiment ...

The Funding Structure score of ba1 reflects the expected solid deposit franchise for SB1 SOON and our view that although SR-Bank has benefited from strong access to domestic and international capital markets, its high reliance on market funding is a source of risk, because in times of market stress, market funding can become more expensive or restricted, or both.

Although SR-Bank benefits from solid access to domestic and international capital markets, providing a level of funding diversification, its reliance on wholesale funding remains high. Market funds accounted for around 35.6% of tangible banking assets as of June 2024, which renders the bank susceptible to potential shifts in investor sentiment. In relation to the merger, we expect the resulting entity to continue to have high reliance on market funding as the bank is issuing relatively high amounts of both junior senior unsecured and senior unsecured debt to meet its minimum requirement for own funds and eligible liabilities (MREL) requirements.

SR-Bank also benefits from a solid deposit base, which represented around 44% of its total liabilities as of June 2024 (52% for SB1 SOON). Customer deposits increased by 2.8% in the 12 months that ended in June 2024, with most of the growth coming from the small and medium-sized enterprise (SME) and corporate segments.

Exhibit 6
Growth in net loans and deposits in recent years



Sources: Company filings and Moody's Ratings

Covered bonds have become an increasingly important source of funding for SR-Bank. The bank issues covered bonds through its wholly owned covered bond company SR-Boligkreditt AS (Aa3 stable) and no longer uses the specialised companies owned jointly with other members of the SpareBank 1 alliance. SB1 SOON will gradually transition its covered bonds to SR-Boligkreditt as well.

... though sound liquidity mitigates market funding risks

A mitigating factor to SR-Bank's reliance on market funds is its robust liquidity buffer, that we expect to be maintained following the merger with SB1 SOON, reflected in the assigned baa2 Liquidity score. The merging banks reported that the buffer amounted to NOK67.3 billion for SR-Bank and NOK15.1 billion for SOON, corresponding to around 18% and 12.2% of their tangible banking assets respectively, as of June 2024. The buffer mainly comprised cash, short-term repurchase agreements and Aaa-rated covered bonds.

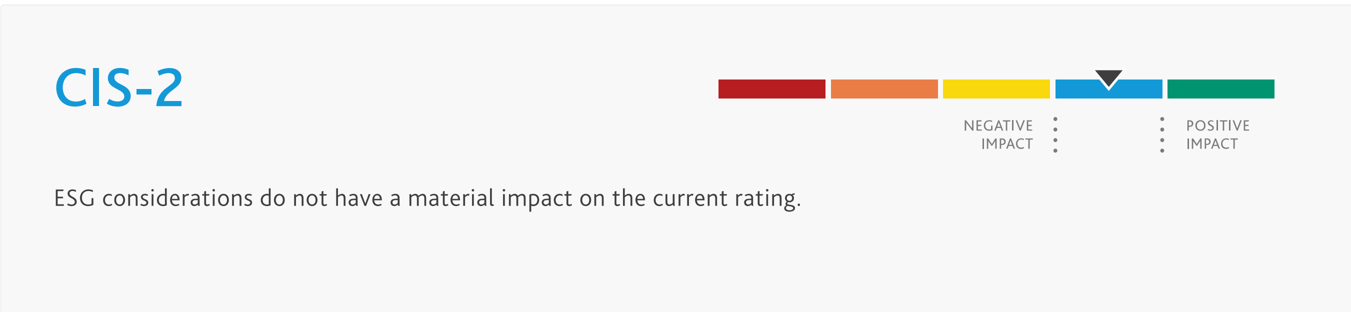
This liquidity buffer could cover the bank's normal operations for around 36 months, per the bank's estimations, in the event of the market closing. In addition to the liquidity buffer, the bank has NOK35.7 billion in home mortgages available for securitisation and issuance in the covered bond market.

The bank reported a liquidity coverage ratio of 204% as of June 2024 (SB1 SOON: 225%) and a net stable funding ratio of 136% (SB1 SOON: 126%), both well above regulatory requirements.

ESG considerations

SpareBank 1 SR-Bank ASA's ESG credit impact score is CIS-2

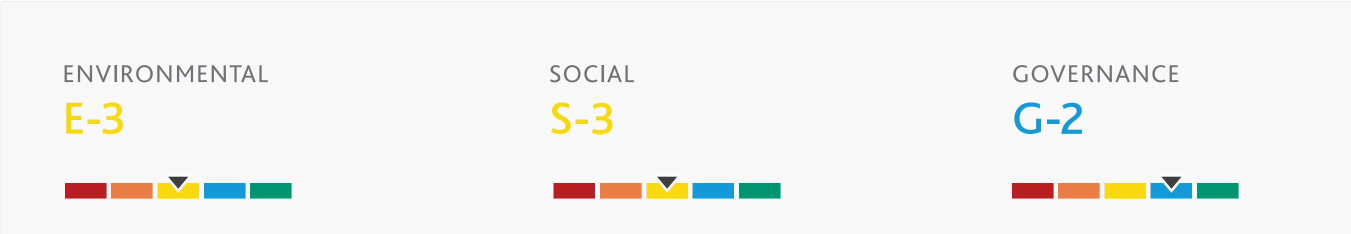
Exhibit 7
ESG credit impact score



Source: Moody's Ratings

SR-Bank's **CIS-2** indicates that ESG considerations do not have a material impact on current ratings.

Exhibit 8
ESG issuer profile scores



Source: Moody's Ratings

Environmental
SR-Bank faces moderate environmental risks primarily because of its portfolio exposure to carbon transition. These risks are primarily related to its corporate portfolio, however, exposure to the oil, offshore and shipping business has reduced and represent a limited share of the loan portfolio. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. The risk is mitigated by strong policies and clear targets in place.

Social
SR-Bank faces moderate social risks related to customer relations and associated regulatory and litigation risks, requiring high compliance standards. The exposure to customer relation risks is lower than its international peers, given the bank's untarnished customer conduct track record supported by the social mandate of the Savings Bank's model. SpareBank 1 SR-Bank is a digitally advanced bank in Norway, with a robust IT infrastructure and strong capabilities to mitigate cyber and personal data risks.

Governance
SR-Bank's governance risks are low. Despite sectoral and geographical concentrations, due to its limited reach, the bank benefits from strong underwriting standards which mitigate some of these concerns. The bank has a track record of sound capital and liquidity management and earnings stability while losses have been low, even at times of market turbulence. Despite being a regional savings bank the bank is fully listed. Following the merger with SpareBank 1 Sorost-Norge, the local savings bank foundations will own c.40% of the listed shares. The bank's Supervisory Board comprises of representatives of equity holders and employees. Related governance risks are however mitigated by Norway's developed institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure analysis
Norway implemented the EU's Bank Recovery and Resolution Directive (BRRD) on 1 January 2019, and BRRD2 was incorporated into Norwegian law on 1 June 2022, which results in lower subordination requirements for non-preferred senior volumes. For our resolution analysis, we apply our advanced LGF analysis, using our standard assumptions for a bank operating in an operational resolution regime country.

Our Advanced LGF analysis includes a forward-looking approach on the bank's near-term bail-in-able debt issuance and indicates a very low loss given failure for junior depositors and senior unsecured creditors, resulting in a three-notch uplift of the relevant ratings from the bank's a3 Adjusted BCA. These ratings incorporate our forward-looking view on expected future debt issuance.

Government support considerations
SR-Bank has a sound franchise in the county of Rogaland, southwest Norway, with a 35% market share, and was designated as a SIFI in Norway in 2023. The merged entity, SpareBank 1 Sor-Norge, is estimated to have a national market share of close to 7% based on its lending portfolio. As a result of the implementation of the BRRD legal framework in Norway on 1 January 2019, we assume a low probability of government support for the bank's senior debt and deposits, resulting in no rating uplift.

About Moody's bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our rating committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our Scorecard may significantly differ from that suggested by raw data alone (although 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 9
Rating Factors

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	1.1%	aa2	↑	baa1	Geographical concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	19.8%	aa1	↔	aa2	Stress capital resilience	
Profitability						
Net Income / Tangible Assets	1.1%	a2	↔	a3	Earnings quality	
Combined Solvency Score		aa2		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	36.1%	ba2	↑	ba1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	15.0%	baa2	↓	baa2	Stock of liquid assets	
Combined Liquidity Score		ba1		baa3		
Financial Profile				a3		
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				a2 - baa1		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Balance Sheet	in-scope (NOK Million)	% in-scope	at-failure (NOK Million)	% at-failure
Other liabilities	129,583	33.9%	145,390	38.0%
Deposits	154,975	40.5%	139,168	36.4%
Preferred deposits	114,682	30.0%	108,947	28.5%
Junior deposits	40,294	10.5%	30,220	7.9%
Senior unsecured bank debt	61,233	16.0%	61,233	16.0%
Junior senior unsecured bank debt	17,402	4.6%	17,402	4.6%
Dated subordinated bank debt	4,189	1.1%	4,189	1.1%
Preference shares (bank)	3,525	0.9%	3,525	0.9%
Equity	11,471	3.0%	11,471	3.0%
Total Tangible Banking Assets	382,378	100.0%	382,378	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	33.5%	33.5%	33.5%	33.5%	3	3	3	3	0	aa3
Counterparty Risk Assessment	33.5%	33.5%	33.5%	33.5%	3	3	3	3	0	aa3 (cr)
Deposits	33.5%	9.6%	33.5%	25.6%	3	3	3	3	0	aa3
Senior unsecured bank debt	33.5%	9.6%	25.6%	9.6%	3	3	3	3	0	aa3
Junior senior unsecured bank debt	9.6%	5.0%	9.6%	5.0%	0	0	0	0	0	a3
Dated subordinated bank debt	5.0%	3.9%	5.0%	3.9%	-1	-1	-1	-1	0	baa1
Junior subordinated bank debt	3.9%	3.9%	3.9%	3.9%	-1	-1	-1	-1	-1	baa2

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	aa3	0	Aa3	Aa3
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3(cr)	
Deposits	3	0	aa3	0	Aa3	Aa3
Senior unsecured bank debt	3	0	aa3	0		Aa3
Junior senior unsecured bank debt	0	0	a3	0	A3	A3
Dated subordinated bank debt	-1	0	baa1	0		Baa1
Junior subordinated bank debt	-1	-1	baa2	0		(P)Baa2

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

Ratings

Exhibit 10

Category	Moody's Rating
SPAREBANK 1 SR-BANK ASA	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	Aa3
Senior Unsecured	Aa3
Junior Senior Unsecured	A3
Junior Senior Unsecured MTN	(P)A3
Subordinate	Baa1
Jr Subordinate MTN	(P)Baa2
SR-BOLIGKREDITT AS	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating -Dom Curr	Aa3

Source: Moody's Ratings

Endnotes

1 The bank ratings shown are the local currency deposit rating and outlook, and the Baseline Credit Assessment.

REPORT NUMBER 1420266

CLIENT SERVICES

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