

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms SpareBank 1 SR-Bank ASA's ratings and upgrades SpareBank 1 Sorost-Norge's long-term deposit ratings on merger, outlook stable

19 Sep 2024

Stockholm, September 19, 2024 -- Moody's Ratings (Moody's) today affirmed all ratings on SpareBank 1 SR-Bank ASA (SR-Bank), including its long-term deposit and senior unsecured debt ratings at Aa3 as well as the Baseline Credit Assessment (BCA) and Adjusted BCA at a3. The outlook on the long-term deposit and senior unsecured ratings of SR-Bank remained stable.

Concurrently, we upgraded SpareBank 1 Sorost-Norge's (SB1 SOON) long-term ratings by one notch, including its long-term deposit and issuer ratings to Aa3 from A1 to be aligned with SR-Bank's ratings. The bank's BCA and Adjusted BCA were also upgraded to a3 from baa1. The outlook on the long-term deposit and issuer ratings for SB1 SOON was changed to stable from positive. We intend to withdraw all the ratings on SB1 SOON once the legal entity ceases to exist subsequent to the completion of the legal merger with SR-Bank.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

BASELINE CREDIT ASSESSMENT

SR-Bank and SB1 SOON are in the final stage of their merger process that was initially announced in October 2023, with the transaction expected to be completed on 1 October 2024. The affirmation of SR-Bank's BCA at a3 and the upgrade of SB1 SOON's BCA to a3 from baa1 reflects our expectation of a successful closing of the merger as planned, creating the largest savings bank in Norway. SR-Bank will assume all assets and liabilities of SB1 SOON, which will then cease to exist as a legal entity.

The combined entity, to be renamed SpareBank 1 Sor-Norge ASA (SB1NO), will have

a pro-forma gross lending book of approximately NOK400 billion across retail (65%) and corporate (35%), as of end-June 2024. We expect the enlarged bank to benefit from a strengthened franchise, with a somewhat more diversified lending portfolio and complementary geographical footprint stretching from Bergen to Oslo.

We understand that the integration process is on track and key management positions have been announced, including the recent appointment of Inge Reinertsen, the current Chief Financial Officer (CFO) of SR-Bank, as the new Chief Executive Officer (CEO). We expect the combined bank to display sound asset quality and resilient profitability that will underpin continued robust capitalisation levels, comfortably above regulatory requirements over the coming 12 to 18 months. However, merger related costs and continued inflationary pressure on IT and staff expenses will likely result in marginally higher cost base and cost-to-income ratio, before any merger synergies are fully realised.

The affirmation of SR-Bank's BCA at a3 and the upgrade of SB1 SOON's BCA to a3 from baa1, reflects our view that the combined entity's standalone credit profile will be largely similar to the existing credit profile of SR-Bank.

ADVANCED LOSS GIVEN FAILURE ANALYSIS

We expect the combined entity's liability structure to include sufficient buffer of MREL-eligible senior and subordinated debt, which will limit potential losses for depositors and senior creditors in a resolution scenario. Accordingly, the positioning of both bank's long-term deposit and issuer ratings at Aa3, three notches higher than their BCA, is warranted according to our Advanced Loss Given Failure (LGF) analysis.

OUTLOOK

The stable outlook on SR-Bank's long-term deposit and senior unsecured ratings reflects our expectation that the combined entity's financial profile following the merger will be broadly consistent with the bank's current standalone credit profile.

The stable outlook on SB1 SOON's long-term deposit and issuer ratings are in line with the outlook on SR-Bank's long-term deposit and issuer ratings, reflecting the fact that SB1 SOON will be fully absorbed by SR-Bank assuming the transaction closes as expected on 1 October 2024.

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

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.

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.

LIST OF AFFECTED RATINGS

..Issuer: SpareBank 1 SR-Bank ASA

Outlook Actions:

....Outlook, Remains Stable

Affirmations:

- Adjusted Baseline Credit Assessment, Affirmed a3
- Baseline Credit Assessment, Affirmed a3
- LT Counterparty Risk Assessment, Affirmed Aa3(cr)
- ST Counterparty Risk Assessment, Affirmed P-1(cr)
- LT Counterparty Risk Rating (Foreign Currency), Affirmed Aa3
- LT Counterparty Risk Rating (Local Currency), Affirmed Aa3
- ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1
- ST Counterparty Risk Rating (Local Currency), Affirmed P-1
- LT Issuer Rating, Affirmed Aa3 STA
- ST Bank Deposits (Foreign Currency), Affirmed P-1
- ST Bank Deposits (Local Currency), Affirmed P-1
- Junior Senior Unsecured (Local Currency), Affirmed A3
- Junior Senior Unsecured (Foreign Currency), Affirmed A3
- Subordinate Medium-Term Note Program (Foreign Currency), Affirmed (P)Baa1
- Senior Unsecured Medium-Term Note Program (Foreign Currency), Affirmed (P)Aa3
- Junior Subordinated Medium-Term Note Program (Foreign Currency), Affirmed

(P)Baa2

.... Junior Senior Unsecured Medium-Term Note Program (Foreign Currency),
Affirmed (P)A3

.... Subordinate (Foreign Currency), Affirmed Baa1

.... Senior Unsecured (Foreign Currency), Affirmed Aa3 STA

.... LT Bank Deposits (Foreign Currency), Affirmed Aa3 STA

.... LT Bank Deposits (Local Currency), Affirmed Aa3 STA

..Issuer: SR-Boligkreditt AS

Outlook Actions:

....Outlook, Remains Stable

Affirmations:

.... LT Counterparty Risk Assessment, Affirmed Aa3(cr)

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

.... LT Counterparty Risk Rating (Foreign Currency), Affirmed Aa3

.... LT Counterparty Risk Rating (Local Currency), Affirmed Aa3

.... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

.... ST Counterparty Risk Rating (Local Currency), Affirmed P-1

.... LT Issuer Rating (Local Currency), Affirmed Aa3 STA

..Issuer: SpareBank 1 Sorost-Norge

Outlook Actions:

....Outlook, Changed To Stable From Positive

Upgrades:

.... Adjusted Baseline Credit Assessment, Upgraded to a3 from baa1

.... Baseline Credit Assessment, Upgraded to a3 from baa1

.... LT Counterparty Risk Assessment, Upgraded to Aa3(cr) from A1(cr)

.... LT Counterparty Risk Rating (Foreign Currency), Upgraded to Aa3 from A1

.... LT Counterparty Risk Rating (Local Currency), Upgraded to Aa3 from A1

.... LT Issuer Rating (Foreign Currency), Upgraded to Aa3 from A1, Outlook changed to STA from POS

.... LT Issuer Rating (Local Currency), Upgraded to Aa3 from A1, Outlook changed to STA from POS

.... LT Bank Deposits (Foreign Currency), Upgraded to Aa3 from A1, Outlook changed to STA from POS

.... LT Bank Deposits (Local Currency), Upgraded to Aa3 from A1, Outlook changed to STA from POS

Affirmations:

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

.... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

.... ST Counterparty Risk Rating (Local Currency), Affirmed P-1

.... ST Bank Deposits (Foreign Currency), Affirmed P-1

.... ST Bank Deposits (Local Currency), Affirmed P-1

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.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 on <https://ratings.moodys.com/rating-definitions>.

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