

Norway
Credit Update

SpareBank 1 SR-Bank

Ratings

	Current Ratings
Long-Term IDR	A
Short-Term IDR	F1
Individual Rating	B/C
Support Rating	3
Support Rating Floor	BB+
Sovereign Risk	
Foreign Long-Term IDR	AAA
Local Long-Term IDR	AAA

Outlook

Sovereign Foreign Long-Term	Stable
Sovereign Local Long-Term	Stable

Watch

Foreign Long-Term IDR	Negative
Foreign Short-term IDR	Negative
Individual Rating	Negative

Financial Data

SpareBank 1 SR-Bank	31 Dec 2008 ^a	31 Dec 2007
Total assets (USDm)	17,982.4	19,030.0
Total assets (NOKm)	125,877	103,120
Total equity (NOKm)	5,966	5,694
Operating profit (NOKm)	643	1,256
Published net income (NOKm)	480	1,007
Comprehensive income (NOKm)	410	1,036
Operating ROAA (%)	0.27	1.34
Operating ROAE (%)	5.28	25.14
Internal capital generation (%)	7.03	20.73
Eligible capital/weighted risks (%)	7.28	8.64
Tier 1 ratio (%) ^b	6.44	7.35

^a preliminary figures

^b Basel II - Internal ratings-based approach including transitional floors

Analysts

Andrea Jaehne
+44 20 7417 4244
andrea.jaehne@fitchratings.com

Alexandre Birry
+44 20 7682 7550
alexandre.birry@fitchratings.com

Rating Rationale

- The ratings of SpareBank 1 SR-Bank (SR) reflect its strong local franchise, good core earnings generation and diversified funding sources, while also considering its tighter capitalisation and increased risks in the corporate portfolio.
- SR is a founding member of the SpareBank 1 Alliance (the Alliance) cooperation scheme, through which SR benefits from cost efficiencies and access to the joint funding vehicle SpareBank 1 Boligkreditt AS (Boligkreditt). It also exposes SR to the risks and negative results in 2008 of the joint company, SpareBank 1 Gruppen (SG), of which SR owns 19.9%.
- Operating profitability has been hit by large loan impairment charges, a decline in fee income, fair-value losses on the bank's securities portfolio and losses at SG from its life insurance company. However, bottom line profit was boosted by negative goodwill in excess of NOK400m following the acquisition of a 20% stake in Glitnir Bank ASA. To offset more challenging revenue generation, the increase in operating expenses has been more contained than in previous years.
- In 2008, SR's loan book increased by 13%. Strong growth mainly came from corporate loans, which accounted for 48% of SR's total loans at end-2008. Almost half of these loans were secured on commercial property. Residential mortgages have increased more slowly as some of these have been transferred to Boligkreditt. Impaired loans increased rapidly in 2008, but the ratio remained sound at 1.62% of total loans at end-2008. As a result of the weakening economy, Fitch Ratings expects a further deterioration in 2009.
- SR's customer deposit base grew by 8% and funded 55% of its loan book at end-2008. Access to capital markets remained challenging, but SR benefited from covered bond issuances of through Boligkreditt. Covered bonds have become the most common wholesale funding source as they can be easily pledged with the central bank. In 2008, SR improved its liquidity, which is well managed.
- SR's capitalisation has deteriorated following strong loan growth. Fitch views capitalisation as tight and would welcome an increase in the bank's capital. SR's Fitch eligible capital includes 9% of hybrid capital at end-2008.

Support

- SR has no owners or shareholders, although it does have publicly traded primary capital certificates. There is no formal support agreement among the members of the Alliance, although the other banks would probably be willing to provide some form of mutual support. In Fitch's view, there is moderate probability that, given SR's strong regional franchise, the government would provide support if required.

What Could Trigger A Downgrade?

- The Rating Watch Negative on SR's ratings reflects downward pressure from further deterioration in asset quality or the failure by the bank to improve its capitalisation.

Profile

SR is the second-largest Norwegian-owned bank, operating in Rogaland and its neighbouring regions of Agder and Hordaland.

Balance Sheet Analysis

SPAREBANK 1 SR-BANK

	31 Dec 2008				31 Dec 2007		31 Dec 2006		31 Dec 2005	
	Year End USDm	Year End NOKm	As % of Assets	Average NOKm	Year End NOKm	As % of Assets	Year End NOKm	As % of Assets	Year End NOKm	As % of Assets
	Preliminary	Preliminary	Preliminary	Preliminary	Preliminary	Preliminary	Original	Original	Original	Original
A. LOANS										
1. Private	7,361.3	51,529.0	40.94	51,312.0	51,095.0	49.55	48,461.0	56.99	41,890.0	62.30
2. Corporate	6,871.6	48,101.0	38.21	42,548.0	36,995.0	35.88	27,673.0	32.54	19,128.0	28.45
3. Government	n.a.	n.a.	-	n.a.	n.a.	-	1,163.0	1.37	730.0	1.09
4. Other	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	64.0	0.10
5. Loan Impairment	82.0	574.0	0.46	401.5	229.0	0.22	238.0	0.28	332.0	0.49
6. Loan Impairment (memo)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
7. Less: Loans from the Insurance Business	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
TOTAL A	14,150.9	99,056.0	78.69	93,458.5	87,861.0	85.20	77,059.0	90.62	61,480.0	91.44
B. OTHER EARNING ASSETS										
1. Loans and Advances to Banks	202.3	1,416.0	1.12	2,386.5	3,357.0	3.26	170.0	0.20	43.0	0.06
2. Government Securities	n.a.	n.a.	-	n.a.	n.a.	-	51.0	0.06	32.0	0.05
3. Trading Assets	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	0.0	0.00
4. Derivatives	691.7	4,842.0	3.85	2,869.5	897.0	0.87	478.0	0.56	519.0	0.77
5. Other Securities and Investments	1,296.4	9,075.0	7.21	7,259.5	5,444.0	5.28	3,507.0	4.12	3,127.0	4.65
6. Equity Investments	336.7	2,357.0	1.87	2,072.0	1,787.0	1.73	1,375.0	1.62	965.0	1.44
7. Insurance	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	0.0	0.00
TOTAL B	2,527.1	17,690.0	14.05	14,587.5	11,485.0	11.14	5,581.0	6.56	4,686.0	6.97
C. TOTAL EARNING ASSETS (A+B)	16,678.0	116,746.0	92.75	108,046.0	99,346.0	96.34	82,640.0	97.18	66,166.0	98.41
D. TANGIBLE FIXED ASSETS	48.1	337.0	0.27	315.5	294.0	0.29	299.0	0.35	305.0	0.45
E. NON-EARNING ASSETS										
1. Cash and Due from Banks	999.7	6,998.0	5.56	4,810.0	2,622.0	2.54	834.0	0.98	351.0	0.52
2. Other	256.6	1,796.0	1.43	1,327.0	858.0	0.83	1,262.0	1.48	415.0	0.62
F. TOTAL ASSETS	17,982.4	125,877.0	100.00	114,498.5	103,120.0	100.00	85,035.0	100.00	67,237.0	100.00
G. DEPOSITS & MONEY MARKET FUNDING										
1. Due to Customers - Current	7,758.1	54,307.0	43.14	52,260.5	50,214.0	48.69	32,489.0	38.21	27,206.0	40.46
2. Due to Customers - Savings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Due to Customers - Term	n.a.	n.a.	-	n.a.	n.a.	-	10,058.0	11.83	10,324.0	15.35
4. Deposits with Banks	1,588.4	11,119.0	8.83	8,465.5	5,812.0	5.64	6,028.0	7.09	3,636.0	5.41
5. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	n.a.	n.a.	-	801.0	0.94	1,400.0	2.08
TOTAL G	9,346.6	65,426.0	51.98	60,726.0	56,026.0	54.33	49,376.0	58.07	42,566.0	63.31
H. OTHER LIABILITIES										
1. Derivatives	289.9	2,029.0	1.61	1,371.0	713.0	0.69	435.0	0.51	203.0	0.30
2. Trading Liabilities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
4. Insurance	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
TOTAL H	289.9	2,029.0	1.61	1,371.0	713.0	0.69	435.0	0.51	203.0	0.30
I. OTHER FUNDING										
1. Long-term Borrowing	6,522.4	45,657.0	36.27	40,646.0	35,635.0	34.56	25,256.0	29.70	16,651.0	24.76
2. Subordinated Debt	520.7	3,645.0	2.90	3,031.0	2,417.0	2.34	2,522.0	2.97	1,830.0	2.72
3. Other Funding	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
TOTAL I	7,043.1	49,302.0	39.17	43,677.0	38,052.0	36.90	27,778.0	32.67	18,481.0	27.49
J. NON-INTEREST BEARING	375.6	2,629.0	2.09	2,428.0	2,227.0	2.16	2,676.0	3.15	1,651.0	2.46
K. HYBRID CAPITAL										
1. Hybrid capital accounted for as equity	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Hybrid Capital accounted for as debt	75.0	525.0	0.42	466.5	408.0	0.40	470.0	0.55	506.0	0.75
L. TOTAL LIABILITIES	17,130.1	119,911.0	95.26	108,668.5	97,426.0	94.48	80,735.0	94.94	63,407.0	94.30
M. EQUITY										
1. Common Equity	722.6	5,058.0	4.02	5,298.5	5,539.0	5.37	4,178.0	4.91	3,823.0	5.69
2. Minority Interest	1.7	12.0	0.01	14.0	16.0	0.02	12.0	0.01	7.0	0.01
3. Revaluation Reserves	128.0	896.0	0.71	517.5	139.0	0.13	110.0	0.13	0.0	0.00
TOTAL M	852.3	5,966.0	4.74	5,830.0	5,694.0	5.52	4,300.0	5.06	3,830.0	5.70
MEMO: CORE CAPITAL	721.4	5,050.0	4.01	5,291.0	5,532.0	5.36	4,188.0	4.93	3,821.0	5.68
MEMO: ELIGIBLE CAPITAL	796.4	5,575.0	4.43	5,757.5	5,940.0	5.76	4,658.0	5.48	4,327.0	6.44
N. TOTAL LIABILITIES & EQUITY	17,982.4	125,877.0	100.00	114,498.5	103,120.0	100.00	85,035.0	100.00	67,237.0	100.00
Exchange Rate		USD1 = NOK 7.0000			USD1 = NOK 5.4188		USD1 = NOK 6.2600		USD1 = NOK 6.7700	

Income Statement Analysis

SPAREBANK 1 SR-BANK

	31 Dec 2008		31 Dec 2007		31 Dec 2006		31 Dec 2005	
	Income	As % of	Income	As % of	Income	As % of	Income	As % of
	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV
	NOKm	Earning Assts	NOKm	Earning Assts	NOKm	Earning Assts	NOKm	Earning Assts
	Preliminary	Preliminary	Preliminary	Preliminary	Original	Original	Original	Original
1. Interest Income	7,430.0	6.88	5,112.0	5.62	3,007.0	4.04	2,314.0	-
2. Interest Expense	5,771.0	5.34	3,760.0	4.13	1,867.0	2.51	1,163.0	-
3. NET INTEREST REVENUE	1,659.0	1.54	1,352.0	1.49	1,140.0	1.53	1,151.0	-
4. Net Fees & Commissions	554.0	0.51	594.0	0.65	436.0	0.59	377.0	-
5. Net Insurance Revenue	n.a.	-	n.a.	-	n.a.	-	0.0	-
6. Other Operating Income	-66.0	-0.06	677.0	0.74	671.0	0.90	510.0	-
7. Personnel Expenses	776.0	0.72	751.0	0.83	634.0	0.85	541.0	-
8. Other Operating Expenses	677.0	0.63	606.0	0.67	544.0	0.73	471.0	-
9. PRE-IMPAIRMENT OPERATING PROFIT	694.0	0.64	1,266.0	1.39	1,069.0	1.44	1,026.0	-
10. Loan Impairment Charge	386.0	0.36	10.0	0.01	-92.0	-0.12	6.0	-
11. Other Credit Impairment and Provisions	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. OPERATING PROFIT	308.0	0.29	1,256.0	1.38	1,161.0	1.56	1,020.0	-
13. Other Income and Expenses	335.0	0.31	n.a.	-	n.a.	-	76.0	-
14. PUBLISHED PRE-TAX PROFIT	643.0	0.60	1,256.0	1.38	1,161.0	1.56	1,096.0	-
15. Taxes	163.0	0.15	249.0	0.27	237.0	0.32	234.0	-
16. Profit/(Loss) from Discontinued Operations	n.a.	-	n.a.	-	n.a.	-	0.0	-
17. Change in Value of AFS investments	-70.0	-0.06	29.0	0.03	110.0	0.15	n.a.	-
18. Currency Translation Differences	n.a.	-	n.a.	-	n.a.	-	0.0	-
19. Other Gains/(Losses) not in Published Net Income	n.a.	-	n.a.	-	n.a.	-	n.a.	-
20. FITCH COMPREHENSIVE INCOME	410.0	0.38	1,036.0	1.14	1,034.0	1.39	862.0	-
21. Total Gains/(Losses) not in Published Net Income	-70.0	-0.06	29.0	0.03	110.0	0.15	0.0	-
22. IFRS Dividends included in Fitch Interest Expense	n.a.	-	n.a.	-	n.a.	-	n.a.	-
23. PUBLISHED NET INCOME	480.0	0.44	1,007.0	1.11	924.0	1.24	862.0	-

Ratio Analysis

SPAREBANK 1 SR-BANK

		31 Dec 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005
		Year End NOKm Preliminary	Year End NOKm Preliminary	Year End NOKm Original	Year End NOKm Original
I. PERFORMANCE					
1. Net Interest Margin	%	1.54	1.49	1.53	n.a.
2. Loan Yield	%	n.a.	n.a.	4.29	n.a.
3. Cost of Funds	%	5.50	4.37	2.68	n.a.
4. Costs/Average Assets	%	1.27	1.44	1.55	n.a.
5. Costs/Income	%	65.42	56.80	57.24	52.74
6. Pre-Impairment Operating ROAA	%	0.61	1.35	1.40	n.a.
7. Operating ROAA	%	0.27	1.34	1.52	n.a.
8. Pre-impairment Operating ROAE	%	11.90	25.34	26.30	n.a.
9. Operating ROAE	%	5.28	25.14	28.56	n.a.
II. CAPITAL ADEQUACY					
1. Internal Capital Generation	%	7.03	20.73	25.44	n.a.
2. Core Capital/Total Assets	%	4.67	5.37	4.93	5.68
3. Eligible Capital/Regulatory Weighted Risks	%	7.28	8.64	7.90	9.59
4. Eligible Capital+Eligible Revaluation Reserves/Regulatory Weighted Risks	%	7.36	8.84	8.09	9.59
5. Tier 1 Regulatory Capital Ratio	%	6.44	7.35	7.39	8.98
6. Total Regulatory Capital Ratio	%	9.80	9.77	10.56	11.84
7. Free Capital/Equity	%	33.19	63.68	59.12	75.35
III. LIQUIDITY (year end)					
1. Liquid Assets/Deposits & Money Mkt Funding	%	22.49	12.94	7.83	7.25
2. Loans/Deposits	%	182.40	174.97	181.12	163.82
IV. ASSET QUALITY					
1. Loan Impairment Charge/Gross Loans (av.)	%	0.41	0.01	-0.13	n.a.
2. Total Credit Impairment/Pre-impairment Operating Profit	%	55.62	0.79	-8.61	0.58
3. Loan Impairment/Gross Impaired Loans	%	35.61	30.99	74.14	72.02
4. Individual Loan Impairment/Gross Impaired Loans	%	21.40	13.30	33.30	35.40
5. Impaired Loans Gross / Loans Gross	%	1.62	0.84	0.42	0.75
6. Impaired Loans Net/Eligible Capital	%	16.21	8.59	1.78	2.98
7. Net Charge-offs/Gross Loans (av.)	%	n.a.	n.a.	n.a.	n.a.