

**Announcement: Moody's changes outlook on SpareBank 1 SR-Bank to stable from negative (Norway)**

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London, 07 September 2010 -- Moody's Investors Service has today changed to stable from negative the outlook on the C- bank financial strength rating (BFSR) and the A1 long-term debt and deposit ratings of SpareBank 1 SR-Bank. The outlook on the bank's subordinated debt and hybrid instrument ratings was also changed to stable. The Prime-1 short-term rating was affirmed.

The stable outlook primarily reflects Moody's expectation that the negative pressure on the bank's profit from asset quality issues will gradually ease, although the performance may not return to its pre-crisis level in the medium term. In recent quarters, loan-loss provisions have declined, accounting for 13% of pre-provision income in 2010, down from a 37% peak in the FY2008. In addition, problem loans remain relatively low, at 1.4% of gross loans. Furthermore, Moody's takes comfort from the fact that the Norwegian economic environment is currently relatively stable and has been among the most resilient to the global downturn.

The ratings continue to be underpinned by: (i) the bank's strong regional market position in south-western Norway; (ii) its membership of the SpareBank 1 Alliance; (iii) its relatively resilient core banking earnings; and (iv) its improved Tier 1 ratio, at 9.1% at end-June 2010.

An upgrade of the banks' ratings could be triggered by a sustainable improvement in earnings without an increase in its risk profile. A reduction of loan concentrations may also result in upward pressure on the ratings.

However, Moody's remains concerned about the bank's relatively concentrated loan book. In particular, the bank's exposure to the real-estate sector represents over 20% of its total loans, excluding mortgage loans transferred to the alliance's covered bond company, SpareBank 1 Boligkreditt. Moody's also notes the bank's reliance on wholesale funding, which accounted for around half of its total funding.

SpareBank 1 SR-Bank's ratings could be negatively affected if credit quality weakens to a greater extent than envisaged in Moody's base-case stress scenario, which would exert pressure on the bank's capitalisation.

Moody's previous rating action on SpareBank 1 SR-Bank was implemented on 26 February 2010, when the junior subordinated debt and Tier 1 hybrid ratings were downgraded to A3 and Baa2, respectively, following the release of Moody's revised methodology (see "Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt" published on 17 November 2009).

The principal methodologies used in rating SpareBank 1 SR-Bank are Moody's "Bank Financial Strength Ratings: Global Methodology", published February 2007, and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", published in March 2007, which are available on [www.moody.com](http://www.moody.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Stavanger, Norway, SpareBank 1 SR-Bank reported total consolidated assets of around NOK129 billion (EUR16.3 billion) at the end of June 2010.

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