

Rating Action: Moody's takes actions on 4 Norwegian regional banks

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Actions conclude the review for downgrade

London, 04 March 2013 -- Moody's Investors Service has today taken actions on four Norwegian regional banks that are members of the SpareBank 1 Alliance: SpareBank 1 SR-Bank ASA, SpareBank 1 SMN, SpareBank 1 Nord-Norge and Sparebanken Hedmark. The rating actions conclude the review for downgrade originally initiated in March 2012.

Moody's confirmed the A2 long-term senior debt and deposit ratings and Prime-1 short-term ratings of SpareBank 1 SMN and SpareBank 1 SR-Bank ASA. The outlook on both banks' ratings are now stable.

At the same time, Moody's downgraded SpareBank 1 Nord-Norge's long-term senior debt and deposit ratings to A2 from A1 with a stable outlook and affirmed its Prime-1 short-term ratings. The deposit ratings of Sparebanken Hedmark were also downgraded to A2 from A1, but are on review for further downgrade; its Prime-1 short-term deposit ratings were consequently placed under review for downgrade. The downgrades of the two bank's long-term ratings reflects the reduction in the availability of mutual support within the Alliance, in Moody's view. The review for downgrade on Sparebanken Hedmark's deposit ratings reflects the downside risks associated with its increased stake in Bank 1 Oslo Akershus (unrated) to 40.5% from 12%.

There has been no change in the banks' standalone financial strength ratings (BFSRs) and related baseline credit assessments (BCAs).

RATINGS RATIONALE

Members of the SpareBank 1 Alliance do not benefit from legally binding guarantees or a common support fund. However, Moody's expects that Alliance members will benefit from some degree of mutual support, as a result of (1) a coherent Alliance strategy and a strong common brand name; (2) the increased importance for the member banks of the Alliance's joint product companies and covered bond funding companies; and (3) substantial financial inter-linkage between the banks.

However, Moody's considers that these elements of support are weaker than more explicit mechanisms in several other co-operative or mutualist groups in Europe. The rating agency therefore believes that only modest levels of mutual support are available between Alliance members. In addition, following the lowering of three Alliance members' standalone BCAs in December 2012, Moody's believes that the overall capacity within the Alliance to provide this mutual support has somewhat diminished.

In Moody's view, such support is also more likely to be first deployed to Alliance members with a weaker intrinsic credit quality. As a result, Moody's continues to factor a one-notch uplift in the A2 senior debt and deposit ratings of SpareBank 1 SMN and SpareBank 1 SR-Bank ASA, which were confirmed. At the same time, the rating agency removed this uplift from the stronger-rated parts of the Alliance, by downgrading to A2 the senior debt and deposit ratings of SpareBank 1 Nord-Norge and Sparebanken Hedmark, reflecting the decreased availability of support from other banks in the Alliance.

-- REVIEW FOR FURTHER DOWNGRADE ON SPAREBANKEN HEDMARK'S RATINGS

Sparebanken Hedmark announced on 18 January 2013 that it will increase its stake in Bank 1 Oslo Akershus to 40.5% from 12%. Sparebanken Hedmark will purchase shares from SpareBank 1 SR-Bank ASA, SpareBank 1 SMN and SpareBank 1 Nord-Norge and become the largest owner of the bank, conditional upon approval from the regulator. Moody's understands that the transaction is an opportunity for Sparebanken Hedmark to expand the scope of its operations to the Oslo and Akershus region, which borders the Hedmark county.

However, in Moody's view the financial strength of the bank after the transaction may be undermined by the somewhat higher risk profile of Bank 1 Oslo Akershus, which is characterised by (1) the rapid growth of its operations; (2) the competitive pressures in the Oslo-Akershus markets; (3) substantial exposure to real estate (loan book and brokerage activities); and (4) the lack of efficiency of its operations. Other downside risks involved

in the transaction include the operating challenges in sharing control of the company: in Moody's view, the success of the investment depends on whether Sparebanken Hedmark and Landsorganisasjonen (unrated), the other major shareholder following the transaction, can agree on a long-term strategy. The rating review on Sparebanken Hedmark's deposit ratings will focus on these risks. The outlook on Sparebanken Hedmark's BFSR is stable, because it can map to more than one BCA within the C- BFSR category.

WHAT COULD MOVE THE RATINGS UP/DOWN

-- SpareBank 1 SMN, SpareBank 1 SR-Bank ASA and SpareBank 1 Nord-Norge:

Upward rating momentum could develop following sustainable improvement in the banks' credit profiles and their resilience to the prevailing conditions, typically in the form of (1) decreased credit risk in their loan books through good management of their exposure to more volatile sectors such as real estate and construction (15% to 25% of the banks' on-balance-sheet loans at year-end 2012) and reduced single-borrower concentration, (2) bolstered liquidity buffers and reduced asset-liability mismatches to mitigate the reliance on market funding, which is substantial at all three banks and/or (3) improved earning-generation capacity without an increase in their overall risk profile in order to further strengthen their capital levels.

Conversely, there could be downward movements in the banks' ratings primarily as a result of (1) increase in their overall risk profiles due to e.g. increased involvement in more volatile investment or lending activities, (2) reduced ability to access capital markets, or deposit outflows and/or (3) a deterioration in asset quality beyond Moody's current expectations. A weakening in the cohesiveness of the Alliance, reducing the likelihood of mutual support between the banks, or a decrease in the likelihood of systemic support to be extended to the banks (e.g. following the implementation of a bail-in regime) would also likely adversely affect the ratings of the banks. In addition, the rating agency indicates that downwards pressure could be exerted on the banks' ratings due to external factors, such as a less supportive macroeconomic environment and/or substantially adverse developments in the Norwegian real-estate market.

-- Sparebanken Hedmark:

Upward rating pressure is unlikely in the short-term, given the review for downgrade. The review will focus on evaluating the impact of the increased stake in Bank 1 Oslo Akershus on the bank's overall risk profile. More specifically, the rating agency will assess Sparebanken Hedmark's ability to manage the risks involved with its increased exposure to a new and more competitive market than its home market, and exert control on the strategy of Bank 1 Oslo Akershus in a way that does not significantly impair its ability to generate stable earnings. During the review period, Moody's will also assess the potential synergies Sparebanken Hedmark can derive from its increased involvement in Bank 1 Oslo Akershus.

AFFECTED RATINGS

SpareBank 1 SMN:

- long-term senior debt and deposit ratings: confirmed at A2
- subordinated debt ratings: confirmed at Baa3(hyb)
- junior subordinated debt ratings: confirmed at Baa3(hyb)
- Tier 1 hybrid ratings: confirmed at Ba1(hyb)
- short-term ratings: confirmed at P-1

The C- standalone BFSR (stable outlook), equivalent to a baa2 BCA, is not affected.

All ratings now carry a stable outlook.

SpareBank 1 SR-Bank ASA:

- long-term senior debt and deposit ratings: confirmed at A2
- subordinated debt ratings: confirmed at Baa3(hyb)
- junior subordinated debt ratings: confirmed at (P)Baa3

- Tier 1 hybrid ratings: confirmed at Ba1(hyb)
- short-term ratings: confirmed at P-1

The C- standalone BFSR (stable outlook), equivalent to a baa2 BCA, is not affected.

All ratings now carry a stable outlook.

SpareBank 1 Nord-Norge:

- long-term senior debt and deposit ratings: downgraded to A2 from A1
- subordinated debt ratings: downgraded to (P)Baa3 from (P)Baa2
- junior subordinated debt ratings: downgraded to (P)Baa3 from (P)Baa2
- Tier 1 hybrid ratings: downgraded to Ba1(hyb) from Baa3(hyb)
- short-term ratings: P-1 affirmed

The C- standalone BFSR (stable outlook), equivalent to a baa1 BCA, is not affected.

All ratings now carry a stable outlook.

Sparebanken Hedmark:

- long-term deposit ratings: downgraded to A2 from A1, A2 under review for further downgrade
- short-term deposit ratings: P-1 under review for downgrade
- standalone BFSR: C-, equivalent to a baa1 BCA, affirmed

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Moody's Consolidated Global Bank Rating Methodology published in June 2012. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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Soline Poulain
Analyst
Financial Institutions Group

Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Simon Harris
MD - Financial Institutions
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



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