

London

Samuel S. Theodore
Managing Director Financial Institutions Group
Moody's Investors Service
Clients: 44.20.7772.5454

London

Anne Caris
AVP Analyst Financial Institutions Group
Moody's Investors Service
Clients: 44.20.7772.5454

MOODY'S CHANGES TO POSITIVE FROM STABLE THE OUTLOOK OF SPAREBANKEN MIDT-NORGE'S AND SPAREBANKEN NORD-NORGE'S A3/P-2/C RATINGS

Moody's Investors Service changed to positive from stable the outlook of Sparebanken Midt-Norge's and Sparebanken Nord-Norge's A3/P-2/C ratings. These two banks operate in Norway and are part of the SpareBank 1 Alliance.

According to Moody's, this rating action reflects improvement in the banks' revenue diversification, cost efficiency and risk profile. Cross-selling efforts from the bank's management have translated into a successful, though gradual, revenue diversification. Growth in fees and commissions averaged about 20% in the last eighteen months at both banks, although Sparebanken Nord-Norge remains slightly more dependent on net interest income. While such a pace might be less sustainable going forward, these two banks have built the right infrastructure to continue to diversify their activities from interest-based products, Moody's added. This is crucial to support future profitability given the high pressures on net interest margins which is not expected to be ease any time soon.

Moody's also noted that, during 2004, Sparebanken Midt-Norge and Sparebanken Nord-Norge handled successfully cost reduction programmes, which allowed them to reach a cost-to-income ratio of 54% at the end of September, below their medium-term target of 55%, compared to 57% and 58% at year-end 2003, respectively. While no major cuts are expected going forward, cost containment remains a management priority at both banks. With respect to profitability, the rating agency also sees favourably the remarkable turnaround in the SpareBank 1 Group's performance following its successful restructuring. The group is now breaking even and should no longer weight on the financials of its member banks. Member banks of the Alliance have also been converging increasingly, partly as a result of active benchmarking among themselves, transfer of know-how and the existence of synergies.

Part of the positive consequences of the Alliance has been the downscale of both banks' risk profile. Corporate exposures are being reduced as well as large exposures, although noting that Sparebanken Midt-Norge has taken more drastic measures in that respect. The two banks have also enhanced their liquidity through more stringent risk limits and daily management.

Moody's concluded by noting that sustainability in the above-mentioned trend is likely to result in a rating upgrade. That said, while improving, Sparebanken Nord-Norge's asset quality continues to lag A2-rated bank so that further action is expected in that respect. Similarly, although the planned acquisition of Norwegian bank Romsdals Fellesbank should have no downside on Sparebanken Midt-Norge's financials, it could result into some reputation risk if this acquisition were to be hostile.

Sparebaken Midt-Norge is headquartered in Trondheim, Norway. At the end of September 2004, it had total assets of NOK37 billion (€4.4 billion).

Sparebaken Nord-Norge is headquartered in Tromsø, Norway. At the end of September 2004, it had total assets of NOK42 billion (€5 billion).