



Announcement: Moody's changes outlook on SpareBank 1 Nord-Norge 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 Nord-Norge. The outlook on the bank's subordinated debt and hybrid instrument ratings were also changed to stable. The Prime-1 short-term rating was affirmed.

The stable outlook primarily reflects Moody's opinion that the asset quality of the bank will gradually stabilise. Indeed, in the recent quarters, loan-loss provisions have decreased, reaching a low 8% of pre-provision income in H1 2010, down from the 27% peak in 2008. In addition, problem loans remain relatively low at 1.7% of gross loans. Furthermore, Moody's takes comfort from the fact that the Norwegian economy has been among the most resilient to the global downturn.

The bank's ratings continue to be supported by: (i) its sound franchise in northern Norway; (ii) its membership of the SpareBank 1 Alliance; (iii) its relatively resilient core banking earnings; and (iv) its strengthened Tier 1 ratio of 11.2% 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, SpareBank 1 Nord-Norge's concentrated loan portfolio remains potentially vulnerable due to its relatively large real-estate exposure, which totalled around 15% of its gross loans (excluding mortgage loans transferred to the alliance's covered bond company, SpareBank 1 Boligkredit). In addition, despite its substantial deposit base, SpareBank 1 Nord-Norge's funding is geared towards wholesale funding (around 40% of its total funding).

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

Moody's previous rating action on SpareBank 1 Nord-Norge 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 Nord-Norge 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.moodys.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 Tromsø, Norway, SpareBank 1 Nord-Norge reported total consolidated assets of around NOK66 billion (EUR8.3 billion) at the end of June 2010.

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