FitchRatings

FITCH AFFIRMS NORWEGIAN SPAREBANKEN; OUTLOOK STABLE

Fitch Ratings-London/Paris-19 February 2013: Fitch Ratings has affirmed SpareBank 1 SMN's (SMN), SpareBank 1 SR-Bank's (SR) and Sparebanken Vest's (SV) Long-term Issuer Default Ratings (IDR) at 'A-' with Stable Outlooks and Short-term IDRs at 'F2'. The agency has also affirmed SpareBank 1 Nord-Norge's (SNN) Long-term IDR at 'A', with a Stable Outlook and Short-term IDR at 'F1'. A full list of rating actions is at the end of this rating action commentary.

RATING ACTION RATIONALE
The affirmation of SNN, SMN, SR and SV's ratings (collectively Sparebanken) reflect the Sparebanken's sound asset quality, and good capital and leverage ratios. These outweigh the negative considerations with respect to the significant rise in house prices over the past 20 years, reliance on wholesale funding and the geographical concentration of these banks.

RATING DRIVERS AND SENSITIVITIES - IDRS AND SENIOR DEBT
The Stable Outlooks reflect Fitch's expectation that the Sparebanken will maintain satisfactory profitability and continue to build capital, while not increasing their risk profiles. Downward pressure on the Sparebanken's ratings is most likely to be a result of a significant correction in house prices, should that lead to a deterioration in asset quality and/or operating profit, although this is not Fitch's base case. The ratings would also be sensitive to prolonged dislocation in wholesale funding markets affecting the banks' ability to grow profitably. Upside potential to the banks' ratings is limited given that the ratings are already high for banks with relatively limited franchises and wholesale funding dependence.

Fitch expects the banks' asset quality to remain sound, driven by the continued strong Norwegian economic outlook. A potential softening in the housing market represents a downside risk for the banks following strong house price growth over the past 20 years. In its base case, Fitch does not expect such a scenario to lead to a significant deterioration of the banks' retail portfolios. A more likely possible scenario is that lower private consumption would affect business generation and the asset quality of the banks' corporate exposures.

The Sparebanken have strong deposit franchises in their respective regions, but also rely on wholesale markets for their structural funding. Fitch expects the Sparebanken to maintain access to both domestic and international funding markets, in particular issuing covered bonds through SpareBank 1 Boligkreditt (S1B; a joint funding vehicle of Alliance member banks) and Sparebanken Vest Boligkreditt (SVB). This funding structure makes the banks sensitive to investor confidence.

The Sparebanken's creditworthiness continues to benefit from their entrenched regional franchises and their good core operating profitability, the latter benefiting especially from low loan impairment charges.

SNN
The affirmation of SNN's ratings reflects its lower dependency on market funding, property prices that have risen largely in line with the national average (albeit from a lower absolute level) and somewhat wider lending margins due to lower competition. Fitch considers that the combination of these factors makes the bank's creditworthiness slightly more resilient than the other rated Alliance banks. SNN's asset quality also benefits from its majority retail lending, while single name concentration remains a moderate risk. Fitch considers SNN well capitalised and its earnings generation solid. Credit growth in 2012 was relatively high, and SNN's ratings would be sensitive to further significant credit growth leading to higher wholesale funding dependency or putting pressure on capital ratios.

SMN
SMN's ratings are driven by Fitch's expectation that the bank's asset quality will remain sound, backed by the diversified economy in mid Norway. SMN raised additional capital in 2012, and Fitch expects the bank to continue to build capital via retained earnings. Single name concentration remains a moderate risk.

SR
The affirmation of SR's ratings reflects its strong position in the growing Western Norwegian economy and the agency's expectation that asset quality will remain sound. Similarly to SMN, SR raised additional capital in 2012. Property prices in SR's region have increased more strongly than the national average, making the bank's asset quality more sensitive to a potential price correction. SR also relies more heavily on wholesale funding than other rated Alliance members, which makes the bank more sensitive to a prolonged dislocation of international wholesale funding markets or a change in sentiment to Norwegian issuers.

SV
The affirmation of SV's ratings reflects its sound risk profile and good capitalisation. Around three-quarters of SV's lending related to retail and mainly mortgage lending at end-2012 and Fitch expects asset quality to remain robust. Wholesale funding dependence is significant although SVB (its wholly-owned covered bond vehicle) has diversified the funding base. The higher loan/deposit ratio at SV compared with the rated Alliance banks is driven by its 100% ownership and consolidation of SVB, its covered bonds issuer. The covered bond issuer for the Alliance banks is minority owned by each of them.

RATING DRIVERS AND SENSITIVITIES - SUPPORT RATING AND SUPPORT RATING FLOOR
The Sparebanken's Support Ratings and Support Rating Floors reflect Fitch's expectation that there would be a moderate probability that support would be forthcoming from the Norwegian authorities if required. This is driven by the regional importance of these banks, where they hold leading market shares, and a strong ability of the Norwegian authorities to provide support if required.

The Support Rating and Support Rating Floor are sensitive to any potential change in Fitch's assumptions about the propensity or ability of Norwegian authorities to provide timely support to the bank, which would most likely be driven by a broader review of support considerations for banks in Norway, Europe or globally.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid capital issued by the Sparebanken are all notched down from the banks' VRs. The ratings are in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably. Their ratings are primarily sensitive to any change in the Sparebanken's VRs.

SUSBIDIARY AND AFFILIATED COMPANY RATING DRIVERS AND SENSITIVITIES
S1B's ratings reflect its role as a covered bond funding vehicle for its shareholder banks, which are members of the SpareBank 1 Alliance. Given S1B's close integration in the Alliance, including operational support and servicing of the mortgage assets, no VR is assigned. S1B's ratings are sensitive to the same factors that might drive a change in the parent banks' ratings.

These rating actions have no impact on the ratings of the covered bonds issued by S1B and SVB.

The rating actions are as follows:

SMN:
Long-term IDR affirmed at 'A-'; Outlook Stable
Short-term IDR affirmed at 'F2'
Viability Rating affirmed at 'a-'
Support Rating affirmed at '3'
Support Rating Floor affirmed at 'BB+'
Senior unsecured debt affirmed at 'A-'

Subordinated debt affirmed at 'BBB+'
Hybrid capital instruments affirmed at 'BB+

SR:
Long-term IDR affirmed at 'A-'; Outlook Stable
Short-term IDR affirmed at 'F2'
Viability Rating affirmed at 'a-'
Support Rating affirmed at '3'
Support Rating Floor affirmed at 'BB+'
Senior unsecured debt affirmed at 'A-'
Hybrid capital instruments affirmed at 'BB+

SNN:
Long-term IDR affirmed at 'A'; Outlook Stable
Short-term IDR affirmed at 'F1'
Viability Rating affirmed at 'a'
Support Rating affirmed at '3'
Support Rating Floor affirmed at 'BB+'
Senior unsecured debt affirmed at 'A'
Subordinated debt affirmed at 'A-'

S1B:
Long-term IDR affirmed at 'A-'; Outlook Stable
Short-term IDR affirmed at 'F2'
Support Rating affirmed at '1'

SV:
Long-term IDR affirmed at 'A-'; Outlook Stable
Short-term IDR affirmed at 'F2'
Viability Rating affirmed at 'a-'
Support Rating affirmed at '3'
Support Rating Floor affirmed at 'BB+'
Senior unsecured debt affirmed at 'A-'
Hybrid capital instruments affirmed at 'BB+'

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Additional information is available on www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 15 August 2012 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686181