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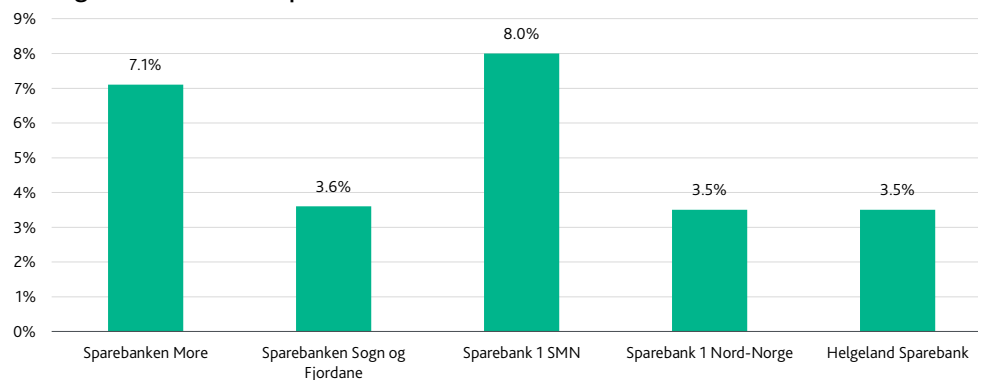
Norwegian Banks Will Benefit from Growing Seafood Exports

From [Credit Outlook](#)

Last Tuesday, the Norwegian Seafood Council reported that seafood exports in the first half of 2016 grew by 25% from a year ago. Such export growth is credit positive for Norwegian banks exposed to the sector, in particular [Sparebank 1 SMN](#) (A1/A1 stable, baa1¹), [Sparebanken Sogn og Fjordane](#) (A2 negative, baa1), [Sparebanken More](#) (A2 stable, baa1), [Sparebank 1 Nord-Norge](#) (A1/A1 stable, baa1) and [Helgeland Sparebank](#) (A3 stable, baa2). The seafood sector's strong performance alleviates some of the asset quality pressures that the banks face as a result of a softening Norwegian economy, and will provide the banks with profitable business opportunities.

The value of Norwegian seafood exports has been growing since 2012. In the first half of this year, the amount surged by 25%, supported by the depreciation of the Norwegian krone, supply constraints and high demand. Exports of salmon, which accounted for 65% of total seafood exports, grew by 28% year on year, driven by higher volumes and higher prices. The average price for fresh whole Norwegian salmon in June 2016 was NOK65 (\$7.70) per kilogram versus NOK41 (\$5.00) in June 2015. The exhibit below presents the exposure of the five most affected banks as of March 2016.

Norwegian Banks' Loan Exposure to Fisheries and Seafood as Percent of Gross Loans



Notes: Data for Sparebanken More include fishing boats and fish processing; for Sparebanken Sogn og Fjordane fishing and hunting, fish farming and hatcheries; for Sparebank 1 SMN fisheries and fish farming; for Sparebank 1 Nord-Norge fishing and marine aquaculture; and for Helgeland Sparebank fisheries and aquaculture.

Gross loans for Sparebank 1 SMN and Sparebank 1 Nord-Norge include loans transferred to their covered bond issuers Sparebank 1 Boligkreditt and Sparebank 1 Naringskreditt.

Source: The banks

What is Moody's Credit Outlook?

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¹ The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and baseline credit assessment.

The seafood sector's strong performance contrasts with Norway's overall economic activity, which has softened along with lower oil prices and falling oil sector investments. We expect Norway's GDP growth to moderate to 1.4% in 2016 from 1.6% in 2015. Given the softening economic activity, Norwegian banks will likely face increasing credit risk in their loans to businesses, particularly in oil-related sectors, as well as in some of their retail business driven by our expectation of an increase in the unemployment rate to 4.9% this year from 3.5% in 2014. As a result, banks' credit costs will likely increase modestly from very low levels of 0.2% of gross loans for rated banks as of December 2015.

More importantly, the fishing industry's strong performance will present the banks with business growth opportunities in a low growth, low interest rate environment, supporting profitability. For the first three months of 2016, the earnings of these banks, except Helgeland Sparebank, declined from a year earlier owing to lower net interest margins and reduced other income. For Sparebanken 1 SMN, the decline was more pronounced because of significantly higher credit costs.

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