



Rating Action: Moody's Concludes the Review on the Ratings of Five Norwegian Savings Banks

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Review for downgrade continues on the debt and deposit ratings of the banks in the SpareBank 1 alliance

London, 06 December 2012 -- Moody's Investors Service today concluded its rating review on five Norwegian regional banks initiated in March 2012 by downgrading the long-term senior debt and deposit ratings of SpareBank 1 SMN and SpareBank 1 SR-Bank to A2 from A1 and those of Sparebanken Møre to A3 from A2. The A1 long-term senior debt and deposit ratings of SpareBank 1 Nord-Norge and Sparebanken Hedmark were maintained.

The standalone bank financial strength rating of SpareBank 1 Nord-Norge was downgraded to C- (equivalent to a baa1 standalone credit assessment) from C/a3 and the standalone credit assessments of SpareBank 1 SMN, SpareBank 1 SR-Bank and Sparebanken Møre were lowered to C-/baa2 from C-/baa1. The C-/baa1 standalone credit assessments of Sparebanken Hedmark was affirmed. All five banks' financial strength ratings now carry stable outlooks.

The short term rating of Sparebanken Møre was downgraded to P-2 from P-1 and the P-1 short term ratings of SpareBank 1 Nord-Norge, SpareBank 1 SMN, SpareBank 1 SR-Bank and Sparebanken Hedmark were affirmed.

The subordinated and junior subordinated debt ratings of SpareBank 1 Nord-Norge were both downgraded to (P)Baa2 from (P)A2 and (P)Baa1, respectively. The subordinated debt ratings of SpareBank 1 SMN and SpareBank 1 SR-Bank were downgraded to Baa3(hyb) from A2 and their junior subordinated debt ratings were downgraded to Baa3(hyb) from Baa2. The Tier 1 hybrid ratings of the three banks were maintained.

At the same time, Moody's placed the long-term senior debt and deposit ratings of the four banks in the SpareBank 1 alliance (SpareBank 1 SMN, SpareBank 1 SR-Bank, SpareBank 1 Nord-Norge and Sparebanken Hedmark), the subordinated, junior subordinated debt and Tier 1 hybrid ratings of SpareBank 1 SMN, SpareBank 1 SR-Bank, SpareBank 1 Nord-Norge and the P-1 short term ratings of SpareBank 1 SMN and SpareBank 1 SR-Bank under review for downgrade. The review will focus on our assessment of the support available to the banks through their membership of the SpareBank 1 alliance.

The long-term issuer rating of SpareBank 1 Gruppen AS was also downgraded to Baa2 with a stable outlook from Baa1. At the same time, the SpareBank 1 Gruppen AS short-term issuer rating of P-2 was confirmed. These rating actions follow those of the rating actions on its owners' standalone credit assessments (those of SpareBank 1 SR-Bank, SpareBank 1 SMN, SpareBank 1 Nord-Norge and Sparebanken Hedmark); parental support assumptions are currently incorporated into SpareBank 1 Gruppen's ratings.

RATINGS RATIONALE

-- CONCLUSION OF THE REVIEW INITIATED IN MARCH 2012

Moody's rating review focussed on, in addition to name-specific factors, broader concerns with respect to the banks' ability to maintain their currently sound asset quality. Today's rating actions primarily reflects Moody's view that the banks' high borrower concentrations and exposures to cyclical sectors, such as commercial real estate and shipping, could lead to a deterioration in asset quality metrics. In addition, the rating agency sees some longer term risks in the banks' residential mortgage books as a result of elevated house prices and household indebtedness in Norway (for more details, please refer to Moody's recent special comment:

http://www.moodys.com/research/Moodys-Norwegian-banks-are-sensitive-to-elevated-house-prices--PR_257156). Moody's also considered the reliance on market funding as a negative rating driver for some of the affected banks.

SpareBank 1 Nord-Norge

Moody's downgraded SpareBank 1 Nord-Norge's standalone credit assessment to C-/baa1 from C/a3 and

maintained its A1 long-term senior debt ratings. The lower standalone credit assessment reflects Moody's view that the bank's asset quality is undermined by the bank's high borrower concentration in its loan book and its sizeable exposure to the real estate and construction sectors (15% of on-balance-sheet loans at end-September 2012). In addition, its Tier 1 ratio, while good at 10.1% (including transitional floor) at end-September 2012, is below that of other banks in the SpareBank 1 alliance. Nevertheless, its retail focus (56% of on-balance-sheet loans at end-September 2012) and its relatively large deposit base (over 60% of total on-balance-sheet funding at end-September 2012) continue to be positive rating drivers. SpareBank 1 Nord-Norge's long-term senior debt ratings were maintained, reflecting Moody's assessment of a high probability of systemic support for the bank if necessary and a low probability of support from other members in the SpareBank 1 alliance.

SpareBank 1 SMN

Moody's downgraded SpareBank 1 SMN's standalone credit assessment to C-/baa2 from C-/baa1 and its long-term senior debt ratings to A2 from A1. The downgrade of the bank's ratings primarily reflects Moody's view that its exposure to more volatile sectors such as real estate and construction sectors (20% of on-balance-sheet loans at end-September 2012) and the maritime industry (7%) poses challenges to the sustainability of its currently good asset quality. The rating agency also believes SpareBank 1 SMN's relatively high usage of market funds (45% of total on-balance-sheet funding at end-September 2012) renders it vulnerable to fluctuations in investor sentiment, even though we positively note it can fund through covered bonds which have proven a relatively reliable funding source. The rating agency nevertheless continues to take comfort from the bank's currently low problem loans (0.7% of on-balance-sheet loans at end-September 2012) and its recently increased Tier 1 ratio at 10.6% (including transitional floor) at end-September 2012.

SpareBank 1 SR-Bank

Moody's downgraded SpareBank 1 SR-Bank's standalone credit assessment to C-/baa2 from C-/baa1 and its long-term senior debt ratings to A2 from A1. The rating action reflects Moody's view that the asset quality in SpareBank 1 SR-Bank's corporate loan book is undermined by the bank's substantial exposure to the real estate and construction sectors (27% of on-balance-sheet loans at end-September 2012) and shipping-related industries (6%), which Moody's views as more volatile. The ratings agency believes that asset quality in its retail loan book will continue to be supported by low interest rates and high employment but views the marked increase in house prices in Stavanger as a risk factor. The bank's high usage of market funds (41% of total on-balance-sheet funding at end-September 2012) also constitutes a negative rating driver, although Moody's positively notes SpareBank 1 SR-Bank's good access to capital markets in the recent months. Positively, SpareBank 1 SR-Bank's ratings benefit from its strong regional franchise and its recently strengthened Tier 1 ratio at 11.5% (including transitional floor) at end-September 2012.

Sparebanken Hedmark

Moody's affirmed Sparebanken Hedmark's C- /baa1 standalone credit assessment and maintained its A1 long-term senior debt ratings. The affirmation of the bank's ratings mainly reflects Moody's view that Sparebanken Hedmark's retail-focus (close to 60% of on-balance-sheet loans were to private customers at end-September 2012) renders it less susceptible to a deterioration in asset quality, especially given our expectation that interest rates and unemployment will continue to support borrowers' repayment capacities in the foreseeable future. In addition, we take comfort from Sparebanken Hedmark's large deposit base (around 75% of total funding at end-September 2012) and its Tier 1 ratio, which at 13.8% (standardised method) at end-September 2012, is higher than that of many of its rated peers. However, we continue to see downside risks in the banks' concentrated corporate book, in particular its sizeable exposure to the real estate and construction sectors (18% of on-balance-sheet loans at end-September 2012).

Sparebanken Møre

Moody's downgraded Sparebanken Møre's standalone credit assessment to C-/baa2 from C-/baa1 and its long-term senior debt ratings to A3 from A2. The downgrade of the bank's ratings primarily reflects Moody's view that asset quality at Sparebanken Møre could be undermined by its sizeable exposures to the real estate and construction (20% of loans excluding those transferred to the bank's covered bond company, Møre Boligkreditt at end-September 2012) and shipping (5%) sectors as well as its relatively less sophisticated risk management practices in Moody's view. The ratings agency also views the bank's substantial usage of market funds (just over 40% of total funding at end-September 2012) as a risk to its funding profile. Nevertheless, mitigating factors were also considered: the bank's lower problem loans (1.7% of loans excluding those transferred to Møre Boligkreditt at end-September 2012) and its good Tier 1 ratio at around 12% (standardised method) at end-September 2012.

SpareBank 1 Gruppen AS

The downgrade of SpareBank 1 Gruppen AS's long-term issuer rating to Baa2 (stable outlook) from Baa1 reflects the downgrade in the standalone credit assessments of SpareBank 1 Nord-Norge , SpareBank 1 SR-Bank and SpareBank 1 SMN, which collectively own nearly 60% of Sparebank 1 Gruppen AS, whilst Sparebanken Hedmark's rating was maintained (which owns around 12% of Sparebank 1 Gruppen AS). The confirmation of the short-term issuer rating at P-2 reflects Moody's standard mapping of short-term issuer ratings from the long-term rating. Any further material rating action on the owner banks standalone credit assessments would likely be reflected in SpareBank 1 Gruppen AS ratings.

-- SUBSEQUENT REVIEW ON THE DEBT AND DEPOSIT RATINGS OF THE BANKS IN THE SPAREBANK 1 ALLIANCE

The current long-term debt and deposit ratings for banks in the SpareBank 1 alliance (SpareBank 1 SMN, SpareBank 1 SR-Bank, SpareBank 1 Nord-Norge and Sparebanken Hedmark) incorporate Moody's assessment of a level of support from other member banks in the SpareBank 1 alliance. Today's downgrade of three of the four rated members' ratings means that Moody's believes that the creditworthiness of the support providers has weakened. As a result of this weakening, the ratings agency placed all long-term debt and deposit ratings of the four rated banks in the SpareBank 1 alliance under review for downgrade. During the review period, Moody's will assess the impact of alliance members' reduced credit strengths on their ability to provide support to each other. Currently the ratings agency expects that the affected banks' debt ratings may be lowered by up to one notch. The short-term ratings of SpareBank 1 SMN and SpareBank 1 SR-Bank were also placed under review, as a one-notch downgrade would mean the banks' creditworthiness is no longer commensurate with a P-1 rating.

-- SUBORDINATED AND JUNIOR SUBORDINATED DEBT RATINGS

Moody's also downgraded the subordinated debt and junior subordinated ratings of SpareBank 1 SR-Bank, SpareBank 1 SMN and SpareBank 1 Nord-Norge. The rating actions conclude the rating review on these debt classes initiated in November 2011 and follow the removal of systemic support uplifts from Norwegian junior subordinated and non-cumulative Tier 1 securities' ratings in February 2010. The rating actions reflect Moody's view that the possibility of losses being imposed on these instruments outside of liquidation has risen to a level which is incompatible with any remaining uplift. Moody's acknowledges that the current legal and regulatory framework remains ostensibly supportive. However, Moody's believes the probability of systemic support for these instruments is substantially lower than that for deposit and senior debt, given the lesser contagious impact of such losses on the financial system.

The banks' subordinated (dated) and junior subordinated (undated) debt instruments are now rated two notches below the banks' adjusted standalone credit assessments (which are one notch above their standalone credit assessments, reflecting support from the SpareBank 1 alliance). There is no coupon deferral option for subordinated debt while the issuers remain a going concern but junior subordinated debt features a coupon skip mechanism, which requires coupon suspension on a cumulative basis if a minimum regulatory capital trigger is breached. The wider notching compared to similar instruments issued by banks in other Nordic countries primarily reflects the ability of rated Norwegian issuers to permanently write-down principal in a going concern scenario if net assets are less than 25% of share capital and after the banks' share capital has been fully written down.

The banks' Tier 1 securities continue to be rated three notches below their adjusted standalone credit assessments. They are deeply subordinated, as they are senior only to equity. The loss absorption for Tier 1 securities stems from the non-cumulative coupon skip mechanism while the issuer remains a going concern. Coupon skip is mandatory upon the breach of minimum regulatory capital requirements or if the issuer does not have sufficient available distributable funds (balance-sheet trigger). The securities also feature a permanent principal write-down if the share capital has been reduced to zero and a temporary principal write-down if capital falls below the regulatory minimum.

After today's rating action, the banks' subordinated debt ratings no longer include systemic support uplifts, reflecting Moody's view that systemic support for subordinated debt may no longer be sufficiently predictable or reliable to be a sound basis for incorporating uplift into Moody's ratings.

In addition, the subordinated, junior subordinated debt and Tier 1 hybrid ratings of the four banks in the SpareBank 1 alliance were placed under review for downgrade, as Moody's will review its assumption of support from the SpareBank 1 alliance incorporated in their adjusted standalone credit assessments.

Moody's also attached a hybrid (hyb) indicator to the banks' dated subordinated debt ratings.

AFFECTED RATINGS

The following ratings have been downgraded:

- SpareBank 1 Nord-Norge: standalone credit assessment downgraded to C-/baa1 from C/a3, subordinated debt downgraded to (P)Baa2 from (P)A2 and junior subordinated debt ratings downgraded to (P)Baa2 from (P)Baa1
- SpareBank 1 SMN: standalone credit assessment downgraded to C-/baa2 from C-/baa1, long-term senior debt and deposit ratings downgraded to A2 from A1, subordinated debt downgraded to Baa3(hyb) from A2 and junior subordinated debt ratings downgraded to Baa3(hyb) from Baa2
- SpareBank 1 SR-Bank: standalone credit assessment downgraded to C-/baa2 from C-/baa1, long-term senior debt and deposit ratings downgraded to A2 from A1, subordinated debt downgraded to Baa3(hyb) from A2 and junior subordinated debt ratings downgraded to (P)Baa3 from (P)Baa2
- Sparebanken Møre: standalone credit assessment downgraded to C-/baa2 from C-/baa1, long-term senior debt and deposit ratings downgraded to A3 from A2 and short-term ratings downgraded to P-2 from P-1.
- SpareBank 1 Gruppen AS: long-term issuer rating downgraded to Baa2 from Baa1

The following ratings have been maintained, confirmed or affirmed:

- SpareBank 1 Nord-Norge: A1 long-term senior debt and deposit ratings, Baa3(hyb) Tier 1 hybrid ratings, P-1 short-term ratings
- SpareBank 1 SMN: Ba1(hyb) Tier 1 hybrid ratings
- SpareBank 1 SR-Bank: Ba1(hyb) Tier 1 hybrid ratings
- Sparebanken Hedmark: C-/baa1 standalone credit assessment, A1 long-term senior debt and deposit ratings, P-1 short-term ratings
- SpareBank 1 Gruppen AS: P-2 short-term issuer rating

The following ratings are under review for downgrade:

- SpareBank 1 Nord-Norge: A1 long-term senior debt and deposit ratings, (P)Baa2 subordinated debt ratings, (P)Baa2 junior subordinated debt ratings, Baa3(hyb) Tier 1 hybrid ratings
- SpareBank 1 SMN: A2 long-term senior debt and deposit ratings, Baa3(hyb) subordinated debt ratings, Baa3(hyb) junior subordinated debt ratings, Ba1(hyb) Tier 1 hybrid ratings, P-1 short-term ratings
- SpareBank 1 SR-Bank: A2 long-term senior debt and deposit ratings, Baa3(hyb) subordinated debt ratings, (P)Baa3 junior subordinated debt ratings, Ba1(hyb) Tier 1 hybrid ratings, P-1 short-term ratings
- Sparebanken Hedmark: A1 long-term senior debt and deposit ratings

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Moody's Consolidated Global Bank Rating Methodology, published in June 2012, Moody's Global Rating Methodology for Life Insurers published in May 2010, and Moody's Global Rating Methodology for Property and Casualty Insurers published in May 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Unless otherwise stated, all figures shown are from the banks' annual and interim reports.

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