

Rating Action: Moody's Takes Rating Actions on Seven Norwegian Banks

Global Credit Research - 16 Mar 2016

London, 16 March 2016 -- Moody's Investors Service (Moody's) has today taken rating actions on seven Norwegian banks.

The rating agency changed the outlook to negative from stable on the deposit and debt ratings of four regional savings banks, SpareBank 1 SR-Bank ASA, Sparebanken Vest, Sparebanken Sor and Sparebanken Sogn og Fjordane, to capture downward pressure on earnings and increasing asset risks in their corporate and commercial real estate lending books as a result of a slowdown in Norway's economic growth driven by a reduction in petroleum sector investments. At the same time, Moody's affirmed the deposit and senior debt ratings of these banks, ranging from A1 to A2, to reflect their strong financial profiles, Norway's still very strong operating environment overall, and Moody's assessment of the protection offered to creditors by their liability structures and the likelihood of affiliate and government support.

Moody's also upgraded the long-term debt ratings of DNB Bank ASA (DNB) to Aa2 from Aa3, aligning them with the bank's Aa2 deposit ratings, which were also affirmed, to reflect the increase in loss absorbing liabilities on the bank's balance sheet over the last several quarters, which benefits the position of senior unsecured debt in the loss hierarchy under Moody's loss given failure (LGF) framework. The rating agency also changed the outlook on DNB's debt and deposit ratings to negative from stable, reflecting pressures similar to those outlined above.

Finally, Moody's affirmed the Aa3 senior unsecured debt and deposit ratings of Nordea Bank Norge ASA and the A1 senior unsecured debt and deposit ratings of SpareBank 1 SMN, and maintained stable outlooks on these ratings. While Nordea Bank Norge's intrinsic strength faces pressures similar to those outlined above, this is balanced against the support that Moody's expects the bank would receive in case of need from the Nordea group. The stable outlook on SpareBank 1 SMN's A1 senior unsecured debt and deposit ratings reflects their resilience to some performance deterioration, taking into account the bank's current stronger than peer performance metrics.

A full list of the affected ratings is provided at the end of this press release.

In terms of the change in rating outlooks to negative, the rating agency expects that the spill-over effects from Norway's economic slowdown on the corporate sector will impact banks' balance sheets, particularly in the oil and offshore sector, as well as the commercial real estate sector, which Moody's considers particularly susceptible to volatility. Petroleum sector investments have been the growth engine for Norway's economy, and Moody's expects real GDP growth at 1.4% for 2016, down from 1.6% in 2015 and 2.2% in 2014, as stated in Moody's latest credit opinion on the sovereign.

RATINGS RATIONALE

DNB Bank ASA

The upgrade of DNB's senior unsecured debt ratings to Aa2, from Aa3, reflects Moody's view that the recently enhanced volume of senior unsecured debt and underlying subordination, which benefits the position of senior debt, will be sustainable. This leads to a very low loss given failure (LGF) for senior debt, increasing LGF uplift on DNB's senior unsecured debt ratings to two notches from one. This aligns DNB's senior debt ratings with its deposit ratings, which have been affirmed and similarly benefit from a two-notch LGF uplift. Taking into account the Norwegian government's 34% ownership of the bank, Moody's also continues to assume high probability of government support being forthcoming in the event of need, translating into an additional two notches of support uplift for DNB's senior debt and deposit ratings.

The affirmation of DNB's Aa2 deposit rating also takes into account the bank's a3 baseline credit assessment (BCA), which reflects Moody's view of strong asset quality and capital, balanced against high reliance on international capital markets. Moody's considers that DNB's asset quality benefits from a diversified loan book and the strength of the bank's retail and large corporate customers. DNB's problem loan ratio declined to 1.5% at the end of December 2015, compared to 1.9% in 2014. In line with its domestic and international peers, the

bank has increased its capital buffers: the ratio of tangible common equity to risk-weighted assets stood at 16.3% at the end of December 2015, up from 13.8% in 2014. While DNB benefits from a solid deposit base and access to local and international capital markets, reliance on market funding remains high (market funds stood at 37% of tangible banking assets at the end of December 2015), and the average maturity of funding has reduced, which renders the bank vulnerable to potential shifts in investor sentiment.

Despite the resilience of the bank's performance, the change in outlook on DNB's senior unsecured debt and deposit ratings to negative reflects Moody's expectation that Norway's slowing growth resulting from low oil prices and reduced oil investments will, over time, have a negative impact on DNB's performance. Moody's expects the softening in the operating environment to negatively impact DNB's earnings. In addition, the bank's sizeable exposures to offshore, shipping and commercial real estate (CRE) segments carry higher credit risks and are likely to weaken. While the bank's oil-related loan portfolio continues to perform well, exposure to riskier oilfield services and the offshore sector accounts for a sizeable 5.2% of DNB's Exposure at Default and Moody's expects these segments to experience an increase in losses in the short to medium term.

WHAT COULD CHANGE THE RATING UP/DOWN

Upward pressure on DNB's debt and deposit rating is unlikely in the near term given the negative outlook. The outlook could return to stable if DNB: (1) further reduces its asset vulnerability, especially in relation to oil-related and offshore exposures as well as to historically more volatile segments, such as shipping and CRE; (2) maintains strong and stable earnings generation without increasing its risk profile; and (3) preserves sustained access to international capital markets.

Downwards pressure on these ratings could develop if: (1) DNB's financing conditions were to become less cost effective; (2) its asset quality were to deteriorate beyond Moody's expectations; and/or (3) its risk profile increases, for example as a result of increased exposures to more volatile sectors or increased involvement in more risky operations such as capital market activities. In addition, Moody's considers that downward pressure on the ratings could develop as a result of external factors such as in the event of substantially adverse developments in the Norwegian oil, offshore and real-estate markets.

Nordea Bank Norge ASA

The affirmation of Nordea Bank Norge's Aa3 deposit and senior unsecured debt ratings, with a stable outlook, reflects Moody's view that any deterioration in performance stemming from the more challenging operating environment will be offset by intra-group support from the Nordea group in case of need.

Nordea Bank Norge has a solid business franchise as Norway's second-largest financial institution with a sizeable retail portfolio. Moody's expects downward pressure on Nordea Bank Norge's earnings and asset quality to increase, resulting from the bank's sizeable exposures to real estate companies (16% of the loan book at end-2015) and shipping and offshore (9% of the loan portfolio), the performance of which are likely to deteriorate because of the low oil prices and reduced oil investments, and the related deterioration in the bank's domestic operating environment.

However, in view of the bank's strong integration in the Nordea Group and the strong history of group support, Moody's expects that a potential one notch downward BCA movement would not result in a change in the bank's adjusted BCA of a3, which incorporates affiliate support. Moody's aligns the adjusted BCA of Nordea Bank Norge with the a3 Nordea group BCA.

Moody's also applies its Advanced LGF analysis on the consolidated balance sheet of Nordea Group as the rating agency considers that a single point of entry resolution approach is probable across the Nordic countries in which the Nordea group operates. This translates into a two-notch uplift on senior debt and deposit ratings. Finally, Moody's assesses the probability of government support in case of need as moderate, translating into a one notch government support uplift. Therefore, taking into account support considerations, the deposit and senior unsecured debt ratings of Nordea Bank Norge ASA are aligned to those of Nordea Bank AB, with a stable rating outlook.

WHAT COULD CHANGE THE RATING UP/DOWN

Although upward pressure on Nordea Bank Norge's ratings is unlikely in the near term, as Moody's expects that the bank's BCA will come under downward pressure as a result of the weakening operating environment, a limited amount of upward rating momentum could develop if Nordea Bank Norge demonstrates: (1) an improved funding profile on a stand-alone basis and continued solid access to capital markets; (2) stronger and more stable earnings generation without an increase in its risk profile; and/or (3) reduced asset

vulnerability especially in relation to more volatile segments such as shipping, offshore and commercial real estate.

Nordea Bank Norge's BCA could come under pressure if: (1) asset quality were to deteriorate more than Moody's anticipates; and/or (2) its risk profile increases, for example as a result of increased exposures to more volatile sectors or increased involvement in more risky operations such as capital market activities.

SpareBank 1 SR-Bank ASA

The outlook change to negative from stable on SpareBank 1 SR-Bank's A1 senior debt and deposit ratings reflects Moody's expectation that the bank's performance metrics come under increasing pressure, owing to Norway's slowing growth. SpareBank 1 SR-Bank's business is concentrated on the area around Stavanger, a logistics centre to Norway's off-shore industry that faces the challenges from reduced investments and lower oil prices. Direct exposure to the oil sector accounted for 8.7% of exposure at default at the end of 2015, and Moody's expects in particular the offshore sector to be challenged over the next two years, driven by a reduction in petroleum sector activity. While the bank's oil-related portfolio performed well during 2015, exposure to riskier segments, including the offshore sector, account for 5.1% of SpareBank 1 SR-Bank's Exposure at Default and Moody's expects further losses to arise from this segment in the short to medium term. In addition, Moody's considers that the bank's exposure to the commercial real estate sector (accounting for 13% of total loans at the end of 2015) in an geographical area that has witnessed high growth in the recent past will remain subject to deterioration, as vacancy rates increase following the ongoing slowdown in the region's economic activity.

However, the affirmation of SpareBank 1 SR-Bank's ratings hinges on Moody's recognition that to date the bank's strong asset quality has held up well, combined with supportive capital metrics. These supportive factors are balanced against high reliance on wholesale funding. The bank's corporate portfolio has witnessed only limited deterioration during 2015, with problem loans increasing to 0.9% of gross loans at end 2015 from 0.6% in 2014. SpareBank 1 SR-Bank improved its core equity tier 1 ratio to 13.3%, compared to 11.5% in 2014, well above the increased 11.5% regulatory minimum effective from July 2016. While SpareBank 1 SR-Bank benefits from solid access to domestic and international capital markets, reliance on wholesale funding remains high, with market funds at 43% of tangible banking assets (including assets transferred to covered bond companies), which renders the bank susceptible to potential shifts in investor sentiment.

SpareBank 1 SR-Bank's debt and deposit ratings also reflect the protection that creditors receive from the volume of senior unsecured debt and subordination. These instruments benefit from a very low LGF, as analysed using Moody's LGF framework (resulting in a two-notch LGF uplift) and the rating agency's expectation of moderate probability of government support (resulting in a one notch of uplift on the bank's preliminary ratings).

Sparebanken Vest

The outlook change to negative from stable on Sparebanken Vest's A1 senior debt and deposit ratings reflects Moody's expectation that Norway's slowing growth, resulting from reduced petroleum sector investments, will negatively impact asset quality. The rating agency expects that the bank's exposure to the commercial real estate sector (accounting for 12.3% of gross loans at end-December 2015), a significant part of which is located in the county of Rogaland in areas that have witnessed significant increases in vacancy rates, will see deterioration. In addition, Moody's considers the potential for growth in risk-weighted assets as limited, taking into consideration that the bank's leverage ratio, currently at 6.7%, is below the Norwegian average of 8.7%, and that its core equity tier 1 ratio will need to grow to reach a target of 14.5% as suggested by Norway's regulator, Finanstilsynet.

However, the affirmation of Sparebanken Vest's ratings nevertheless reflects the bank's strong asset performance to date and improved capitalisation, balanced against its high reliance on capital market funding. While Sparebanken Vest is located in Bergen in the western part of Norway, an area that has witnessed an increase in unemployment rates during 2015, the bank's loan portfolio has performed strongly, with problem loans at 1.11% of gross loans at the end of the year. Following a capital increase during 2015, the bank has already improved its core equity tier 1 ratio to 13.7%, compared to 12.2% in 2014, well above the increased 11.5% regulatory minimum effective from July 2016. Although Sparebanken Vest benefits from solid access to local and international capital markets, reliance on market funding remains high at 32.4% of tangible banking assets, which renders the bank susceptible to potential shifts in investor sentiment.

Sparebanken Vest's debt and deposit ratings also benefit from a very low LGF for these instruments as

analysed resulting in a two-notch uplift, and the rating agency's expectation of moderate probability of government support, resulting in one notch of uplift on the bank's preliminary ratings.

Sparebanken Sor

The outlook change to negative from stable on Sparebanken Sor's A1 issuer and deposit ratings reflects Moody's expectation that Sparebanken Sor's asset performance will be negatively impacted by Norway's slowing growth. Sparebanken Sor's exposure to the construction and real estate sector (24% of gross loans at end-December 2015) poses downside risks to future loan performance as the operating environment weakens further. In addition, Moody's expects the bank will reduce growth on risk-weighted assets to 1-2% from 12% in 2015, which puts further pressure on the bank's business as the bank intends to grow its capital base in order to meet a 14.5% CET1 ratio by the end of 2016 (as expected by Norway's FSA).

However, the affirmation of Sparebanken Sor's ratings primarily reflects the bank's strong asset performance to date, and improving capital metrics, balanced against reliance on capital markets. The bank's corporate portfolio performed strongly during 2015 with problem loans at 1.3% of gross loans compared to 1.8% in 2014. Following a capital increase in 2016, the bank improved its core equity tier 1 ratio to 13.7% compared to 13.1% in 2014, which is above the increased 11.5% regulatory minimum effective from July 2016. While Sparebanken Sor has good access in the domestic capital markets, Moody's expects the bank to continue accessing the international markets in order to expand further its investor base beyond the more limited and concentrated domestic market due to the bank's increased size following the Sparebanken Sor-Pluss merger in 2013. Sparebanken Sor's issuer and deposit ratings benefit from a very low LGF for these instruments resulting in a two-notch rating uplift, and the rating agency's expectation of moderate probability of government support, resulting in a one notch of uplift on the bank's preliminary ratings.

Sparebanken Sogn og Fjordane

As part of today's rating action Moody's assigned an A2 long-term issuer rating to Sparebanken Sogn og Fjordane, in line with the bank's deposit ratings, which were also affirmed. The bank's issuer and deposit ratings also benefit from a very low LGF for debt and deposits resulting in a two-notch rating uplifts.

The outlook change to negative from stable on Sparebanken Sogn og Fjordane's A2 deposit and issuer ratings reflects Moody's expectation that Norway's slowing growth resulting from reduced petroleum sector investments will have a negative impact on Sparebanken Sogn og Fjordane's profitability and asset quality. The bank's profitability weakened significantly during 2015 driven mainly by losses in the bank's liquidity book, in combination with renewed margin pressure and higher corporate loan losses, trends that the rating agency expects to continue in 2016. Moody's also expects Sparebanken Sogn og Fjordane's exposure to the construction and real estate sector, which accounted for 13% of total loans at end 2015, to lead to further losses in the bank's portfolio.

However, the affirmation of Sparebanken Sogn og Fjordane ratings reflects the bank's strong asset performance to date, and improving capital metrics, balanced against reliance on the domestic capital market. The bank's corporate portfolio witnessed strong performance during 2015 with problem loans at 1.3% of gross loans at the end of the year from 1.8% in 2014, notwithstanding significant exposure to the volatile commercial real estate sector. The bank increased its non-performing loan coverage ratio to 65.2% from 28.7% in 2016. Furthermore, the bank improved its capital base in 2015 reporting a core equity tier 1 ratio of 13.7%, well above the increased 11.5% regulatory minimum effective from July 2016. While Sparebanken Sogn og Fjordane benefits from a strong deposit base, accounting for nearly 60% of total funding, the bank is more vulnerable to changes in investor sentiment due to its full dependency on the concentrated domestic market.

SpareBank 1 SMN

The affirmation of SpareBank SMN's A1 senior debt and deposit ratings reflect Moody's view that potential deterioration in asset quality will be limited, and that currently strong earnings and capital provide strong cushions. SpareBank SMN's baa1 BCA reflects the bank's strong asset quality and capital metrics, balanced against high reliance on market funding. The bank's corporate portfolio witnessed strong performance during 2015 with problem loans at 0.6% of gross loans at the end of the year from 0.5% in 2014, notwithstanding exposures to the volatile commercial real estate sector (accounting for 19% of the on balance sheet loans) and the oil sector (accounting for 4.8% of Exposure at Default). Furthermore, the bank improved its capital base in 2015 reporting a core equity tier 1 ratio of 13.6%, compared to 11.2% in 2014, well above the increased 11.5% regulatory minimum effective from July 2016.

The stable outlook on SpareBank 1 SMN's ratings reflects Moody's expectation that the bank's ratings are

currently resilient to the limited expected deterioration in its performance metrics (driven by Norway's slowing growth resulting from reduced petroleum sector investments). SpareBank 1 SMN's debt and deposit ratings also benefit from a very low LGF for these instruments resulting in a two-notch rating uplift, and the rating agency's expectation of moderate probability of government support being forthcoming in the case of need, resulting in a one notch uplift on the bank's preliminary ratings.

WHAT COULD CHANGE THE RATING UP/DOWN

SAVINGS BANKS: SPAREBANK 1 SR BANK, SPAREBANKEN VEST, SPAREBANKEN SOR, SPAREBANKEN SOGN OG FJORDANE, SPAREBANK 1 SMN

Upward rating momentum is currently unlikely given the negative outlook on four of the five savings banks affected by this rating action. Over time, upward pressure could develop if these banks demonstrate: (1) reduced exposure to more volatile sectors such as the oil and commercial real estate related sectors; (2) diversified access to capital markets and improved liquidity; and/or (3) stronger earnings generation without an increase in risk profiles.

Downward rating pressure would develop on these banks ratings if: (1) Moody's expects their problem loan ratios to increase above its current system-wide expectation of approximately 2%; (2) profitability deteriorates further from expected levels; (3) the banks fail to sustain their market position; and/or (4) the macroeconomic environment deteriorates more than currently anticipated, leading to more challenging operating conditions and reduced profitability.

LIST OF AFFECTED RATINGS

Issuer: DNB Bank ASA

..Upgrades:

...Senior Unsecured Medium-Term Note Program, upgraded to (P)Aa2 from (P)Aa3

...Senior Unsecured Regular Bond/Debenture, upgraded to Aa2 negative from Aa3 stable

..Affirmations:

... Long-term Counterparty Risk Assessment, affirmed Aa1(cr)

... Short-term Counterparty Risk Assessment, affirmed P-1(cr)

... Long-term Deposit Ratings, affirmed Aa2, outlook changed to negative from stable

... Subordinate Regular Bond/Debenture, affirmed Baa1 (hyb)

... Subordinate Medium-Term Note Program, affirmed (P)Baa1

... Pref. Stock Non-cumulative Preferred Stock, affirmed Baa3 (hyb)

... Short-term Deposit Ratings, affirmed P-1

... Commercial Paper, affirmed P-1

... Other Short Term, affirmed (P)P-1

... Adjusted Baseline Credit Assessment, affirmed a3

... Baseline Credit Assessment, affirmed a3

..Outlook Actions:

...Outlook, changed to negative from stable

Issuer: DNB Bank ASA, New York Branch

..Affirmations:

.... Long-term Deposit Rating, Affirmed Aa2, outlook changed to negative from stable

.... Short-term Deposit Rating, affirmed P-1

.... Other Short-term, affirmed P-1

..Outlook Actions:

....Outlook, changed to negative from stable

Issuer: Den norske Bank ASA

..Upgrades:

.... Senior Unsecured Medium-Term Note Program, upgraded to (P)Aa2 from (P)Aa3

..Affirmations:

.... Subordinate Medium-Term Note Program, affirmed (P)Baa1

.... Other Short Term, affirmed (P)P-1

..Outlook Actions:

....Outlook, changed to negative from stable

Issuer: Nordea Bank Norge ASA

..Affirmations:

.... Adjusted Baseline Credit Assessment, affirmed a3

.... Baseline Credit Assessment, affirmed a3

.... Counterparty Risk Assessment, affirmed Aa2(cr)

.... Counterparty Risk Assessment, affirmed P-1(cr)

.... Short-term Deposit Rating, affirmed P-1

.... Senior Unsecured Regular Bond/Debenture, affirmed Aa3 stable

.... Long-term Deposit Rating, affirmed Aa3 stable

..Outlook Actions:

....Outlook, remains stable

Issuer: SpareBank 1 SR-Bank ASA

..Affirmations:

.... Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

.... Short-term Counterparty Risk Assessment, affirmed P-1(cr)

.... Long-term Deposit Ratings, affirmed A1, outlook changed to negative from stable

.... Junior Subordinate Medium-Term Note Program, affirmed (P)Baa3

.... Subordinate Regular Bond/Debenture, affirmed Baa2/Baa2(hyb)

.... Subordinate Medium-Term Note Program, affirmed (P)Baa2

.... Senior Unsecured Regular Bond/Debenture, affirmed A1, outlook changed to negative from stable

.... Senior Unsecured Medium-Term Note Program, affirmed (P)A1

... Long-term Issuer Rating, affirmed A1, outlook changed to negative from stable

... Short-term Deposit Ratings, affirmed P-1

... Adjusted Baseline Credit Assessment, affirmed baa1

... Baseline Credit Assessment, affirmed baa2

..Outlook Actions:

...Outlook, changed to negative from stable

Issuer: Sparebanken Vest

..Affirmations:

... Adjusted Baseline Credit Assessment, affirmed baa1

... Baseline Credit Assessment, affirmed baa1

... Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

... Short-term Counterparty Risk Assessment, affirmed P-1(cr)

... Short-term Deposit Ratings, affirmed P-1

... Senior Unsecured Medium-Term Note Program, affirmed (P)A1

... Other Short-term, affirmed (P)P-1

... Junior Subordinate Medium-Term Note Program, affirmed (P)Baa3

... Subordinate Medium-Term Note Program, affirmed (P)Baa2

... Senior Unsecured Regular Bond/Debenture, affirmed A1, outlook changed to negative from stable

... Long-term Deposit Ratings, affirmed A1, outlook changed to negative from stable

..Outlook Actions:

...Outlook, Changed To Negative From Stable

Issuer: Sparebanken Sor

..Affirmations:

... Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

... Short-term Counterparty Risk Assessment, affirmed P-1(cr)

... Long-term Deposit Ratings, affirmed A1, outlook changed to negative from stable

... Long-term Issuer Ratings, affirmed A1, outlook changed to negative from stable

... Short-term Deposit Ratings, affirmed P-1

... Adjusted Baseline Credit Assessment, affirmed baa1

... Baseline Credit Assessment, affirmed baa1

..Outlook Actions:

...Outlook, changed to negative from stable

Issuer: Sparebanken Sogn og Fjordane

..Assignments:

... Long-term Issuer Ratings, assigned A2 negative

..Affirmations:

... Long-term Counterparty Risk Assessment, affirmed A1(cr)

... Short-term Counterparty Risk Assessment, affirmed P-1(cr)

... Long-term Deposit Ratings, affirmed A2, outlook changed to negative from stable

... Short-term Deposit Ratings, affirmed P-1

... Adjusted Baseline Credit Assessment, affirmed baa1

... Baseline Credit Assessment, affirmed baa1

..Outlook Actions:

...Outlook, changed to negative from stable

Issuer: SpareBank 1 SMN

..Affirmations:

... Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

... Short-term Counterparty Risk Assessment, affirmed P-1(cr)

... Long-term Deposit Ratings, affirmed A1 stable

... Senior Unsecured Regular Bond/Debenture, affirmed A1 stable

... Senior Unsecured Medium-Term Note Program, affirmed (P)A1

... Subordinate Regular Bond/Debenture, affirmed Baa2 (hyb)

... Subordinate Medium-Term Note Program, affirmed (P)Baa2

... Junior Subordinate Medium-Term Note Program, affirmed (P)Baa3

... Long-term Issuer Rating, affirmed A1 stable

... Short-term Deposit Ratings, affirmed P-1

... Adjusted Baseline Credit Assessment, affirmed baa1

... Baseline Credit Assessment, affirmed baa1

..Outlook Actions:

...Outlook, remains stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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