

FITCH TAKES RATING ACTIONS ON NORWEGIAN SPAREBANKEN

Fitch Ratings-London-25 March 2011: Fitch Ratings has downgraded SpareBank 1 SMN's (SMN), SpareBank 1 SR-Bank's (SR) and SpareBank 1 Boligkreditt's (S1B) Long-term Issuer Default Ratings (IDR) to 'A-' from 'A', with Stable Outlooks, and Short-term IDRs to 'F2' from 'F1'. The agency has also affirmed SpareBank 1 Nord-Norge's (SNN) Long-term IDR at 'A', with Stable Outlook and Short-term IDR at 'F1', and Sparebanken Vest's (SV) and Sparebanken Vest Boligkreditt's (SVB) Long-term IDRs at 'A-', with Stable Outlook, and Short-term IDRs at 'F2'. A full list of ratings actions is at the end of this release.

The downgrades of SMN and SR follow the agency's assessment of the banks' creditworthiness. Both banks' Long-term IDRs have been on Negative Outlook since 2009. Both banks, similar to other Norwegian banks, continue to benefit from a mostly benign operating environment in Norway. However, Fitch has taken the view that their strong credit growth and their funding profiles are more commensurate with the revised rating level. Both banks' Long-term IDRs are on Stable Outlook following the rating action, reflecting their strong regional franchises, sound earnings generation and capitalisation. SMN and SR have also demonstrated their ability to access medium-term senior unsecured funding in the prevailing market conditions in 2010. As a result of the rating actions taken on SMN and SR, which are S1B's largest shareholders, Fitch has also downgraded the mortgage credit institution's Long-term and Short-term IDRs as its ratings are based on institutional support.

Loan growth at SMN and SR has outpaced Norwegian economic growth, which, in addition to the possible future risks to asset quality, has resulted in a higher reliance on market funding than peers. The banks also have some single name concentration. Since late 2008, both banks, as well as peers, entered into a swap agreement with the central bank to swap covered bonds for treasury bills. The agreement matures in 2014. Fitch understands the banks have not made any additional use of the swap agreement in 2010. There are also competitive pressures in SMN's and SR's regions, which Fitch expects to continue. In the agency's opinion, asset price inflation also remains somewhat of a concern, particularly for some property types in the banks' core regions. Although some of these factors are mitigated by the strength of the Norwegian sovereign, the banks are exposed to international funding market sentiment.

The affirmation of SNN's ratings partly reflects its location in northern Norway, where it benefits from a lower dependency on market funding. SNN's asset quality also benefits from its majority retail lending, while single name concentration remains a moderate risk. With its announced capital increase, Fitch considers the bank's capitalisation as strong and earnings generation is solid.

S1B's IDRs and Support Rating reflect the extremely high likelihood of support from shareholders, due to the strategic importance of S1B to its shareholders within their funding profile, the strong co-operation between the banks within the SpareBank 1 Alliance and the common brand name shared by the shareholder banks and S1B. Fitch will separately comment on the covered bonds issued by S1B.

SMN, SR and SNN are founding members of the SpareBank 1 Alliance, which was established in 1996. In Fitch's view, the banks benefit from cost efficiencies and wider income diversification through SpareBank 1 Gruppen AS (SG), although SG also exposes them to additional earnings volatility, as seen in 2008, partly due to insurance activities. The banks also benefit from the greater market presence of S1B, their joint funding vehicle, which forms an important part of their funding strategies. SR has applied to change its legal structure into a limited liability savings bank, which may potentially improve its access to capital, but is unlikely to have any ratings impact.

The affirmation of SV's ratings partly reflects its solid capitalisation relative to its risks. Operating

profitability and asset quality remain robust. Although credit growth has historically been strong with moderate single name concentration, around three-quarters of SV's lending related to retail and mainly mortgage lending at end-2010. Fitch also considers there is a dependency on market funding. Its wholly-owned covered bond vehicle, SVB, has helped diversify the funding base and given access to competitive funding rates. Given its integration into SV, importance to SV's funding strategy and ownership structure, SVB's ratings are in line with SV's.

The rating actions are as follows:

SMN:

Long-term IDR downgraded to 'A-' from 'A'; Outlook Stable

Short-term IDR downgraded to 'F2' from 'F1'

Individual Rating affirmed at 'B/C'

Support Rating affirmed at '3'

Support Rating Floor affirmed at 'BB+'

Senior unsecured debt downgraded to 'A-' from 'A'

Subordinated debt downgraded to 'BBB+' from 'A-'

Hybrid capital instruments downgraded to 'BBB' from 'BBB+'

SR:

Long-term IDR downgraded to 'A-' from 'A'; Outlook Stable

Short-term IDR downgraded to 'F2' from 'F1'

Individual Rating affirmed at 'B/C'

Support Rating affirmed at '3'

Support Rating Floor affirmed at 'BB+'

Senior unsecured debt downgraded to 'A-' from 'A'

Hybrid capital instruments downgraded to 'BBB' from 'BBB+'

SNN:

Long-term IDR affirmed at 'A'; Outlook Stable

Short-term IDR affirmed at 'F1'

Individual Rating affirmed at 'B/C'

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 downgraded to 'A-' from 'A', Outlook Stable

Short-term IDR downgraded to 'F2' from 'F1'

Support Rating affirmed at '1'

SV:

Long-term IDR affirmed at 'A-'; Outlook Stable

Short-term IDR affirmed at 'F2'

Individual Rating affirmed at 'B/C'

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 'BBB'

SVB:

Long-term IDR affirmed at 'A-', Outlook Stable

Short-term IDR affirmed at 'F2'

Support Rating affirmed at '1'

Contact:

Primary Analyst
Sebastian Angerer
Analyst
+44 20 3530 1315
Fitch Ratings Limited
30 North Colonnade
London, E14 5GN

Secondary Analyst
Andrew Shenton
Associate Director
+44 20 3530 1141

Committee Chairperson
Philip Smith
Senior Director
+44 20 3530 1091

Media Relations: Hannah Warrington, London, Tel: +44 20 3530 1153, Email: hannah.warrington@fitchratings.com.

Additional information is available on www.fitchratings.com.

Applicable criteria and related research, 'Global Financial Institutions Rating Criteria, dated 16 August 2010, and 'Short-Term Ratings Criteria for Corporate Finance', dated 2 November 2010, 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=547685

Short-Term Ratings Criteria for Corporate Finance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=568726

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.