

Announcement: Moody's Places the Ratings of Five Norwegian Savings Banks on Review for Downgrade

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The review includes the ratings of SpareBank 1 Gruppen

London, 09 March 2012 -- Moody's Investors Service has placed the issuer and long-term debt ratings of Norwegian regional banks SpareBank 1 Nord-Norge (A1), SpareBank 1 SMN (A1), SpareBank 1 SR-Bank (A1), Sparebanken Hedmark (A1) and Sparebanken Møre (A2) on review for downgrade. Our current expectation is for a downgrade of up to one notch for SpareBank 1 Nord-Norge, SpareBank 1 SMN, SpareBank 1 SR-Bank and Sparebanken Hedmark and for up to two notches for Sparebanken Møre. The Bank Financial Strength Ratings, BFSR's, of SpareBank 1 Nord-Norge (C) and Sparebanken Møre (C-) are also included in the review but the BFSR's of SpareBank 1 SMN (C-), SpareBank 1 SR-Bank (C-) and Sparebanken Hedmark (C-) have been affirmed.

Similarly, the P-1 short term ratings of Sparebanken Møre have been placed on review for downgrade, but the P-1 short-term ratings of SpareBank 1 Nord-Norge, SpareBank 1 SMN, SpareBank 1 SR-Bank and Sparebanken Hedmark have been affirmed.

The review also incorporates the Baa1 long- and P-2 short-term issuer ratings of SpareBank 1 Gruppen AS following the placement of its owners' senior debt ratings (those of SpareBank 1 SR-Bank, SpareBank 1 SMN, SpareBank 1 Nord-Norge and Sparebanken Hedmark) on review for downgrade; parental support assumptions are currently incorporated into SpareBank 1 Gruppen's ratings. Please refer to the detailed list of affected ratings at the end of this press release.

The subordinated and junior subordinated debt ratings of SpareBank 1 SR-Bank, SpareBank 1 SMN and SpareBank 1 Nord-Norge remain on review for downgrade.

RATINGS RATIONALE

In addition to various name-specific factors, the rating actions reflect Moody's view that it may become difficult for the banks to maintain their good asset quality going forward. In our opinion, higher home prices and household indebtedness, as well as the increased proportion of high LTV loans on the banks' retail loan books, render them vulnerable to economic downturns. In addition we note that the banks are increasingly transferring their lowest LTV retail mortgage loans to covered bond vehicles, which remain an attractive source of funding. This means however that the banks' remaining loans, on which unsecured bondholders have a claim, are relatively low quality assets. We also continue to consider loans to the commercial real estate and shipping industries as more volatile and therefore more likely to deteriorate in a downturn. Additionally, high borrower concentrations in the banks' corporate loan books could both accelerate the pace and increase the extent of any deterioration in asset quality.

SpareBank 1 Nord-Norge

Moody's decision to review for downgrade SpareBank 1 Nord-Norge's long-term debt ratings of A1 and BFSR of C, which maps to a baseline credit assessment (BCA) of A3, reflects our concerns that the bank may be challenged to maintain its good asset quality metrics due to its (i) sizeable exposure to property management, at approximately 15% of total loans (excluding volumes transferred to the alliance's covered bond company, SpareBank 1 Boligkreditt), (ii) high single counterparty and industry concentrations and (iii) increasing exposure to high LTV mortgages, which are not eligible for the cover pool in SpareBank 1 Boligkreditt. Moody's also expects that the bank's earnings will increase only modestly, given that growth opportunities in its regional operating environment are likely to become more limited, and increased competition for retail products may make growing margins more challenging. Nevertheless, the bank's focus on its retail operations, good risk management practices and relatively low reliance on market funding are clearly credit positive in terms of its standalone financial strength. Currently we expect that the bank's senior debt ratings may be lowered by up to one notch.

SpareBank 1 SMN

Moody's affirmed the C- BFSR of SpareBank SMN, but placed on review for downgrade the bank's issuer and long-term debt ratings (A1) and BCA (Baa1). The review reflects the bank's (i) sizeable exposure to property management, at approximately 17% of total loans (excluding volumes transferred to SpareBank 1 Boligkreditt), (ii) high single counterparty and industry concentrations, (iii) exposure to other sectors, such as maritime (8% of total loans), which could negatively affect asset quality, (iv) relatively low Tier 1 capital ratio (10.4% at year-end 2011), though we positively note the bank is in the process of strengthening it with around NOK1 billion equity capital, and (v) increasing exposure to high LTV mortgages, which are not eligible for the cover pool in SpareBank 1 Boligkreditt. Mitigating factors include the bank's strong asset quality metrics (problem

loans accounted for only 0.7% of total loans at year-end 2011) and our view that its risk management practices are more robust than those of other Norwegian savings banks. Currently we expect that the bank's senior debt ratings may be lowered by up to one notch.

SpareBank 1 SR-Bank

Moody's affirmed the C- BFSR of SpareBank 1 SR-Bank, but placed on review for downgrade the bank's issuer and long-term debt ratings (A1) and BCA (Baa1). The review relates primarily to the bank's (i) sizeable exposure to property management, at approximately 23% of total loans (excluding volumes transferred to the alliance's covered bond company, SpareBank 1 Boligkreditt), (ii) high single counterparty and industry concentrations, (iii) relatively unseasoned loan book due to high pre-crisis loan growth and (iv) increasing exposure to high LTV retail mortgages, which are not eligible for the cover pool in SpareBank 1 Boligkreditt. Nevertheless, we note that the bank has strengthened its buffer against potential losses via a recent NOK1.5 billion rights issue. We currently expect that the bank's senior debt ratings may be lowered by up to one notch.

Sparebanken Hedmark

Moody's affirmed the C- BFSR of Sparebanken Hedmark, but placed on review for downgrade the bank's long-term debt ratings (A1) and BCA (Baa1). The review reflects the bank's (i) sizeable exposure to property management, at approximately 15% of total loans (excluding volumes transferred to SpareBank 1 Boligkreditt), (ii) high single counterparty and industry concentrations, (iii) relatively low asset quality (problem loans accounted for 2.4% of total loans at year-end 2011), which is unlikely to substantially improve in the short to medium term and (iv) risk management practices, which are somewhat less robust than those of the larger banks in the SpareBank 1 alliance. Although Moody's considers the bank's focus on retail to be credit positive (retail accounts for approximately 50% of total loans), the continued transfer of its highest-quality loans (those with the lowest LTVs) to SpareBank 1 Boligkreditt reduces the relative quality of its remaining loans. We currently expect that the bank's senior debt ratings may be lowered by up to one notch.

Sparebanken Møre

The review for downgrade which includes all ratings of Sparebanken Møre (A2/P-1/C-), was triggered by its (i) sizeable exposure to property management and shipping, at approximately 21% of total loans (excluding loans transferred to the bank's mortgage credit institution Møre Boligkreditt), (ii) high single counterparty and industry concentrations, (iii) relatively weak asset quality metrics (problem loans accounted for 2.1% of total loans at year-end 2011), (iv) relatively unsophisticated risk management practices and (v) increasing exposure to high LTV mortgages, which are not eligible for the cover pool in mortgage issuing company Møre Boligkreditt. We currently expect that the bank's senior debt ratings may be lowered by up to two notches.

SpareBank 1 Gruppen AS

The review for downgrade of SpareBank 1 Gruppen AS's Baa1 long-term and P-2 short-term issuer ratings follows the placement on review of its owner banks' ratings (that is, 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 AS ratings. Any further rating actions on the owner banks would likely be reflected in SpareBank 1 Gruppen AS ratings.

GLOBAL LOCAL CURRENCY DEPOSIT RATINGS

The A1 global local currency (GLC) deposit rating of SpareBank 1 Nord-Norge receives two notches of uplift from its A3 BCA, and the GLC deposit ratings of SpareBank 1 SMN, SpareBank 1 SR-Bank and Sparebanken Hedmark receive three notches of uplift from the banks' respective Baa1 BCA's due to the very high probability of government support (where the support rating is the Aaa rated local currency deposit rating of Norway) for the banks if necessary, given their importance to the Norwegian market. Furthermore, we also factor in a low level of support for the SpareBank 1 alliance member banks (SpareBank 1 Nord-Norge, SpareBank 1 SMN, SpareBank 1 SR-Bank and Sparebanken Hedmark).

The A2 GLC deposit rating of Sparebanken Møre receives two-notches of uplift from its Baa1 BCA, also due to the high probability of government support for the bank if necessary, and its importance to the Norwegian market.

SUBORDINATED AND JUNIOR SUBORDINATED DEBT RATINGS

The subordinated and junior subordinated debt ratings of SpareBank 1 SR-Bank, SpareBank 1 SMN and SpareBank 1 Nord-Norge were placed on review on 29 November 2011. This reflects Moody's view that the probability of government support for subordinated debt in Europe is lower than in the past in light of potential legislative changes, including the European Commission's proposed framework for bank resolutions, which would allow losses to be imposed on subordinated debt holders outside of bankruptcy.

WHAT COULD CHANGE THE RATINGS UP/DOWN

An upgrade of the banks' ratings is unlikely in the short-to-medium term given the current review for downgrade. Banks whose ratings (debt and BFSR) are on review for downgrade would likely be downgraded if we expect that asset quality is likely to

deteriorate, notably in relation to retail lending and certain corporate exposures, or if the operating environment in Norway would become less supportive as the global growth outlook is bleak. The rating agency also expects the banks earnings will increase only modestly as growth opportunities in the region may become more limited and competition for retail products may render increase in margins more difficult.

AFFECTED RATINGS

The following ratings have been placed on review:

- SpareBank 1 Nord-Norge: C BFSR (which maps to A3 on the long-term scale), A1 long-term debt and deposit ratings, and Baa3(hyb) non-cumulative hybrid rating. The bank's (P)A2 subordinated debt and (P)Baa1 junior subordinated debt ratings remain on review.
- SpareBank 1 SMN: A1 long-term debt and deposit ratings and Ba1(hyb) non-cumulative hybrid rating. The bank's A2 subordinated debt and Baa2(hyb) junior subordinated debt ratings remain on review.
- SpareBank 1 SR-Bank: A1 long-term debt and deposit ratings and Ba1(hyb) non-cumulative hybrid rating. The A2 subordinated debt and (P)Baa2 junior subordinated debt ratings remain on review.
- Sparebanken Hedmark: A1 long-term debt and deposit ratings
- Sparebanken Møre: C- BFSR (which maps to Baa1) and A2/P-1 debt and deposit ratings
- SpareBank 1 Gruppen AS: Baa1 long-term and P-2 short-term issuer ratings

The following ratings have been affirmed:

- SpareBank 1 SMN: C- BFSR (which maps to Baa1), as a lower standalone rating (Baa2) would still map to C- on the BFSR scale
- SpareBank 1 SR-Bank: C- BFSR (which maps to Baa1), as a lower standalone rating (Baa2) would still map to C- on the BFSR scale
- Sparebanken Hedmark: C- BFSR (which maps to Baa1) as a lower standalone rating (Baa2) would still map to C- on the BFSR scale
- The P-1 short term ratings of SpareBank 1 Nord-Norge, SpareBank 1 SMN, SpareBank 1 SR-Bank and Sparebanken Hedmark

The methodologies used in these ratings were Bank Financial Strength Ratings: Global Methodology published in February 2007, Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007, Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt published in November 2009, 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.moody.com for a copy of these methodologies.

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