FITCH AFFIRMS NORWEGIAN SPAREBANKEN

Fitch Ratings-London-06 December 2013: Fitch Ratings has affirmed SpareBank 1 SMN's (SMN), SpareBank 1 SR-Bank's (SR) and Sparebanken Vest's (SV) Long-term Issuer Default Ratings (IDR) at 'A-', Short-term IDRs at 'F2' and Viability Ratings (VRs) at 'a-'. The Outlooks on the Long-term IDRs are Stable.

Fitch has also affirmed SpareBank 1 Nord-Norge's (SNN) Long-term IDR at 'A', Short-term IDR at 'F1' and VR at 'a'; and Sandnes Sparebank's (Sandnes) Long-term IDR at 'BBB', Short-term IDR at 'F3' and VR at 'bbb'. The Outlook on SNN's and Sandnes' Long-term IDRs is Stable. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS- IDRS, VRS AND SENIOR DEBT

The affirmation of SNN's, SMN's, SR's, SV's (collectively Sparebanken) and Sandnes' ratings, reflects Fitch's view that the banks' sound asset quality will remain robust even in case of a house price correction.

The Sparebanken's ratings are based on individually strong regional franchises, sound asset quality, and healthy profitability underpinning internal capital generation. The ratings also take into account the banks' reliance on wholesale funding, sharp rises in property prices over recent years, potentially creating overheating of the market, and relatively concentrated loan books by geography and by industry sector.

Sandnes' ratings are based on its sound performance, which provides a buffer against increasing loan impairment charges (LICs), an established but regionally concentrated franchise, and acceptable asset quality. The latter is affected by a relatively large portfolio of impaired but still performing loans. The ratings also factor in the bank's small volume of equity compared with similarly rated peers.

Improved profitability through margin enhancements has been successful in 2013, and Fitch expects the high capital requirements introduced in Norway will continue to support the industry's efforts to reprice the loan book. LICs took up a modest 5% to 15% of pre-impairment operating profits in 9M13, and Fitch expects they will remain manageable for the Sparebanken and Sandnes in 2014.

The Sparebanken's sound asset quality underpins the ratings and is supported by a benign Norwegian operating environment. Fitch expects the banks will maintain strict underwriting practices and further build buffers to withstand a correction in house prices. Nevertheless, a sharp fall in the property market represents a downside risk for the banks. Fitch does not expect such a scenario to lead to significant deterioration of the quality of the banks' retail portfolios, although the banks' corporate exposures would be more sensitive to a correction and possible subsequent economic downturn including a drop in private consumption.

Sandnes' non-performing loans represented a low 0.7% of gross loans at end-September 2013. However, it has a relatively significant legacy portfolio in its SME business, where non-performing plus impaired (but still performing) loans represented a more material 3.2% at end-September 2013. As the bank is working out these exposures, changing the business towards less risky business sectors, Fitch expects the stock of impaired loans to continue to reduce.

Similar to most Nordic peers the Sparebanken and Sandnes rely on wholesale funding to varying degrees. The Sparebanken have maintained access to domestic and international funding markets, in particular for covered bonds through SpareBank 1 Boligkreditt (S1B; a joint funding vehicle of Alliance member banks) and Sparebanken Vest Boligkreditt (unrated). However, they would be

affected by a prolonged dislocation of the debt capital markets, and Fitch believes that the banks will retain significant liquidity portfolios to mitigate this risk.

The Sparebanken's capital adequacy ratios, excluding Basel II transitional floors, compare well with those of international peers, but lag those of their larger Nordic peers partly due to higher risk weights. Leverage is low in a European context, with tangible common equity/tangible assets generally between 6%-10% at end-September 2013.

SNN

SNN's VR is currently one notch higher than the other rated Sparebanken. This reflects its lower dependency on the wholesale markets as part of its funding structure, wider lending margins due to lower competition, and the presence of a strong and stable public sector in the region. SNN's asset quality also benefits from a higher proportion of retail lending than its Alliance partners. However, its smaller size has led to slightly higher loan concentration as a proportion of Fitch core capital as well as the proportion of impaired loans to gross loans. Credit growth in 2012 and 9M13 was relatively high, which could put pressure on reported capital ratios if it continues.

SMN

SMN's ratings are driven by Fitch's expectation that the bank's asset quality will remain sound, backed by the diversified economy in mid-Norway. SMN raised additional capital in 3Q13, although Fitch expects the bank to improve capital ratios further via retained earnings. Capitalisation and leverage is slightly weaker than the other rated Alliance banks, although it compares well with similarly rated peers in an international context.

SR

SR's ratings reflect its strong position in the prosperous western Norway and Fitch's expectation that asset quality will remain sound. SR is the largest of the Sparebanken and maintains strong profitability, aided by tight cost control. Capitalisation is adequate, in Fitch's view, and improving year on year. Property prices in SR's region have increased more strongly than the national average, making the bank's asset quality more sensitive to a potential price correction. The bank is also more sensitive to the oil economy than other Sparebanken and more reliant on wholesale funding, which makes it more sensitive to a prolonged dislocation of international wholesale funding markets or a change in sentiment toward Norwegian issuers.

SV

SV's ratings are underpinned by its sound risk profile and capitalisation. Around three-quarters of SV's lending related to retail, mainly mortgage, lending, making the bank sensitive to a house price correction. SV left the Sparebank 1 Alliance in 2004 and set up jointly owned companies (offering leasing, insurance and brokerage) with other savings banks. These companies are now profitable and should continue to improve earnings. Wholesale funding dependence is significant although the bank has diversified its funding base through Sparebanken Vest Boligkreditt (its wholly-owned covered bond vehicle). The higher loan/deposit ratio at SV, compared with the rated Alliance banks, is driven by the consolidation of its covered bonds issuer, while the Alliance banks only have minority stakes in S1B.

SANDNES

Sandnes' ratings reflect its established, but regionally concentrated retail and SME franchise in economically prosperous municipalities around Sandnes in south-west Norway. The ratings also factor in its reliance on wholesale funding, working-out of troubled legacy assets and small absolute size of capital. Fitch considers the bank's property management portfolio, which shows a significant proportion of exposures in high loan-to-value buckets, as a key risk, which could put pressure on the bank's ratings. Fitch's expectation is that management will continue its risk reducing strategy, which should lead to fewer borrower concentrations in more volatile sectors, and underwriting standards will remain conservative. Sandnes currently uses the standardised approach to calculate its capital

requirements for both retail and corporate exposures, which leads to risk weights higher than peers and therefore slightly lower reported capital ratios. Leverage is relatively low in a European context, with a tangible equity to tangible assets ratio of 6.7% at end-September 2013, but higher than most Sparebanken. The bank's small absolute volume of capital makes it vulnerable to shocks.

RATING SENSITIVITIES - SPAREBANKEN'S VRS, IDRS AND SENIOR DEBT

The Stable Outlooks on the Sparebanken's ratings reflects Fitch's view that rating action is currently not expected. It factors in Fitch's expectation that house prices are likely to stabilise or moderately fall in the near term; while capital ratios and funding structures are strengthening and growth plans are limited, providing a stronger buffer against unexpected shocks.

An upgrade is currently unlikely given the already high ratings, geographical concentration and structural reliance on wholesale funding.

The Sparebanken's ratings could be downgraded if credit growth surpassed internal capital generation, weakening capitalisation materially. The ratings are also sensitive to a significant house price correction, should the banks be unable to absorb losses via earnings. The correction would probably lead to a drop in private consumption, affecting corporate lending quality, which Fitch expects to be the key driver for losses. In addition, this scenario would likely also be followed by difficulties in obtaining competitively priced funding in the wholesale funding markets which is a further ratings sensitivity.

RATING SENSITIVITIES - SANDNES'S VR, IDRS AND SENIOR DEBT

The Stable Outlook on Sandnes' ratings reflects Fitch's view that rating action is currently not expected. The Outlook is supported by Fitch's expectation of the operating environment in Norway remaining sound, supporting Sandnes' asset quality and working out of impaired exposures, and maintained access to market funding. An upgrade is unlikely because the bank's small size makes it relatively sensitive to shocks.

Sandnes' ratings are sensitive to a reduced activity in the region should it lead to a significant house price correction or increased losses in the corporate sector. A dislocation in debt capital markets making Sandnes' unable to obtain competitively priced funding is a further sensitivity.

RATING DRIVERS - SUPPORT RATINGS AND SUPPORT RATING FLOORS

The Sparebanken's Support Ratings and Support Rating Floors reflect Fitch's view that there is a moderate probability of support, if required from the Norwegian authorities, given their strong regional franchises.

In addition, there is a possibility of institutional support from the members of the Alliance. However, Fitch understands that no legal obligation arises from membership of the Alliance to support member banks.

Sandnes' Support Rating reflects Fitch's view of an only low extraordinary support probability from the Norwegian authorities, given the bank's very small size in a Norwegian context, hence its Support Rating Floor is 'No Floor'.

RATING SENSITIVITIES - SUPPORT RATINGS AND SUPPORT RATING FLOORS

The Support Ratings and Support Rating Floors are potentially sensitive to any change in Fitch's assumptions about the ability (as reflected in its ratings) or willingness of the Norwegian state to provide timely support to the bank, if required. They are also sensitive to a change in Fitch's assumptions around the availability of sovereign support for banks more generally.

In Fitch's view, there is a clear intention ultimately to reduce implicit state support for financial institutions in Europe. On 11 September 2013, Fitch outlined its approach to incorporating support

in its bank ratings in light of evolving support dynamics for banks worldwide (see "Fitch Outlines Approach for Addressing Support in Bank Ratings" and "Bank Support: Likely Rating Paths", at www.fitchratings.com).

The Support Ratings would be downgraded and the Support Rating Floors revised down if Fitch concludes that potential sovereign support has weakened relative to its previous assessment.

KEY RATING DRIVERS AND SENSITIVITIES - SMN'S, SR'S and SV'S SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid capital issued by the Sparebanken are all notched down from the banks' VRs. Therefore, their respective ratings have been affirmed and are sensitive to any change in the banks' VRs.

The ratings are in accordance with Fitch's criteria 'Assessing and Rating Bank Subordinated and Hybrid Securities' reflecting each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably.

SNN's and SMN's subordinated debt instruments are notched down once from the banks' VRs to reflect the notes' higher expected loss severity relative to senior unsecured creditors.

SMN's and SV's hybrid Tier 1 securities are rated four notches below the banks' VRs to reflect the higher loss severity risk of these securities relative to average recoveries (two notches from the VR) as well as high risk of non-performance (an additional two notches).

KEY RATING DRIVERS AND SENSITIVITIES - SUBSIDIARY AND AFFILIATED COMPANY

S1B's IDRs are aligned with those of the largest Alliance members, SR and SMN, and reflect its role as a covered bond funding vehicle for its shareholder banks. Given S1B's close integration in the Alliance, including operational support and servicing of the mortgage assets, no VR is assigned. S1B's ratings are sensitive to the same factors that might drive a change in the parent banks' ratings.

These rating actions have no impact on the ratings of the covered bonds issued by S1B and Sparebanken Vest Boligkreditt.

The rating actions are as follows:

SpareBank 1 Nord-Norge (SNN):
Long-term IDR affirmed at 'A'; Outlook Stable
Short-term IDR affirmed at 'F1'
Viability Rating affirmed at 'a'
Support Rating affirmed at '3'
Support Rating Floor affirmed at 'BB+'
Senior unsecured debt affirmed at 'A'
Subordinated debt affirmed at 'A-'

SpareBank 1 SMN (SMN):
Long-term IDR affirmed at 'A-'; Outlook Stable
Short-term IDR affirmed at 'F2'
Viability Rating affirmed at 'a-'
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 'BB+

SpareBank 1 SR-Bank (SR):
Long-term IDR affirmed at 'A-'; Outlook Stable

Short-term IDR affirmed at 'F2'
Viability Rating affirmed at 'a-'
Support Rating affirmed at '3'
Support Rating Floor affirmed at 'BB+'
Senior unsecured debt affirmed at 'A-'
Hybrid capital instruments affirmed at 'BB+

SpareBank 1 Boligkreditt (S1B):
Long-term IDR affirmed at 'A-'; Outlook Stable
Short-term IDR affirmed at 'F2'
Support Rating affirmed at '1'

Sparebanken Vest (SV):
Long-term IDR affirmed at 'A-'; Outlook Stable
Short-term IDR affirmed at 'F2'
Viability Rating affirmed at 'a-'
Support Rating affirmed at '3'
Support Rating Floor affirmed at 'BB+'
Senior unsecured debt affirmed at 'A-'
Hybrid capital instruments affirmed at 'BB+'

Sandnes Sparebank:
Long-term IDR affirmed at 'BBB'; Outlook Stable
Short-term IDR affirmed at 'F3'
Viability Rating affirmed at 'bbb'
Support Rating affirmed at '5'
Support Rating affirmed at 'No Floor'

Contact:
Primary Analyst
Jens Hallen
Director
+44 20 3530 1326
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst (SNN, SMN, SR, S1B)
Andrew Parkinson
Analyst
+44 20 3530 1420

Secondary Analyst (SV, Sandnes)
Lawrence Power
Analyst
+44 20 3530 1567

Committee Chairperson
Michael Dawson-Kropf
Senior Director
+49 69 768076 113

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

Additional information is available on www.fitchratings.com

Applicable criteria, "Assessing and Rating Bank Subordinated and Hybrid Securities", dated 5 December 2012, "Evaluating Corporate Governance", dated 12 December 2012, and "Global Financial Institutions Rating Criteria," dated 15 August 2012, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Assessing and Rating Bank Subordinated and Hybrid Securities
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=695542
Evaluating Corporate Governance
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=694649
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686181