MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Changes Sparebanken Vest's Rating Outlook to Stable From Negative

Global Credit Research - 15 Sep 2016

All the bank's ratings were affirmed, including its A1/P-1 deposit ratings

Limassol, September 15, 2016 -- Moody's Investors Service, ("Moody's") has today changed its rating outlook for Sparebanken Vest to stable from negative, affirming the bank's ratings, including its A1/P-1 deposit ratings and A1 senior debt rating. The rating action reflects Moody's opinion that the bank's financial performance will remain resilient in the context of Norway's slower economic growth due to low oil prices and reduced petroleum sector investments. It also takes into account the bank's relatively low credit impairments and its strong underlying core earnings in the first-half of 2016.

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

RATINGS RATIONALE

The outlook change to stable from negative on Sparebanken Vest's A1 deposit and senior debt ratings reflects Moody's view that the bank's financial performance will show resilience over the next 12-18 months, within a challenging operating environment in western Norway where it operates. Despite the challenges in the oil and gas sector, Norway's mainland economy has shown some resilience, while its flexible fiscal and monetary policies continue to support banks' operating environment. The bank's first-half 2016 results were favourable showing lower non-performing loans and loan loss provisions, despite some exposure to the commercial real estate sector in the county of Rogaland, in an area that has witnessed increases in vacancy rates. The loan book has performed strongly with overall problem loans (including performing/restructured doubtful loans) stable at 1.07% of gross loans in June 2016 (1.11% in December 2015).

As a result, the bank's credit costs declined to 0.06% of gross loans in June 2016, from 0.12% in June 2015, consuming around 5% of operating profits in June 2016 from 10% the year before. Adjusted for one-off items, Sparebanken Vest was able to report a 6% year-on-year increase in net profit for the first six months of 2016. This performance is in stark contrast to some of its domestic peers with higher direct exposure to oil-related sectors, which were impacted significantly from rising credit costs.

Moody's expects Sparebanken Vest's performance to be sustained in the next 12-18 months, as the rating agency considers that the bank's commercial real-estate exposure in Rogaland is manageable, with loans in the areas of Forus and Kokstad comprising only around 0.7% of the total loan book in June 2016. The performance of these exposures has held up, while the bank's oil-related shipping loans are similarly low at around 1.1% of its total portfolio. The rating agency believes that the strength of the bank's growing mortgage book, which comprised around 73% of total loans as of June 2016, will continue to support its underlying core operations and earnings.

Concurrently, Sparebanken Vest's baseline credit assessment (BCA) of baa1 is also supported by its increased capital position, with its common equity Tier 1 (CET1) ratio improving to 14.1% in June 2016 from 13.7% in December 2015. Moody's expects that the bank will be in a position to meet its 14.5% CET1 target by the end of 2016 mainly through retained earnings, which is also the level recommended by the local regulator. Although the bank's reported leverage ratio of 6.1% as of June 2016 is lower than some of its similarly rated local peers, Moody's considers this consistent with the bank's focus on low risk retail mortgages and no borrower concentrations. The rating agency notes that the outcome of the bank's BCA scorecard exhibits relative resilience to potential deteriorations in asset quality and earnings, which supports the baa1 BCA.

Sparebanken Vest's debt and deposit ratings of A1 continue to benefit from a very low loss given failure (LGF) for these instruments, as analysed according to its liability structure as of June 2016, resulting in a two-notch uplift from its BCA. The rating agency's expectation of moderate probability of government support continues to result in one additional notch of uplift on the bank's preliminary ratings, leading to the affirmation of the bank's ratings.

WHAT COULD CHANGE THE RATING UP/DOWN

Over time, upward pressure could develop if the bank demonstrates: (1) reduced exposure to more volatile sectors such as the shipping, construction and real estate sectors; (2) sustained strong asset quality with low level of problem loans and credit impairments; and/or (3) stronger earnings generation without an increase in its risk profile, combined with an improved non-interest income.

Future downward rating pressure would develop on Sparebanken Vest's ratings if: (1) the bank's problem loan ratio increases above our system-wide expectation of approximately 2%; (2) its profitability deteriorates from weakening income and high credit costs; (3) the bank fails to sustain its market position; and/or (4) the macroeconomic environment deteriorates more than currently anticipated, leading to a lower Macro Profile. Also, a reduction in the rating uplift as a result of the LGF analysis or a revision of the government support assumptions could lead to downward rating pressure.

Issuer: Sparebanken Vest

Affirmations:

....LT Bank Deposits (Local & Foreign), Affirmed A1, Outlook changed to Stable from Negative

.... ST Bank Deposits (Local & Foreign), Affirmed P-1

....Senior Unsecured (Foreign), Affirmed A1, Outlook changed to Stable from Negative

....Senior Unsecured MTN (Foreign), Affirmed (P)A1

....Junior Subordinate MTN (Foreign), Affirmed (P)Baa3

....Subordinate MTN (Foreign), Affirmed (P)Baa2

....Other Short Term (Foreign), Affirmed (P)P-1

.... Adjusted Baseline Credit Assessment, Affirmed baa1

.... Baseline Credit Assessment, Affirmed baa1

.... LT Counterparty Risk Assessment, Affirmed Aa3(cr)

.... ST Counterparty Risk Assessment, Affirmed P-1(cr)

Outlook Actions:

....Outlook, Changed To Stable From Negative

PRINCIPAL METHODOLOGY

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

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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