

Rating Action: Moody's assigns A2/P-1/C- ratings to Sparebanken Pluss (Norway)

Global Credit Research - 14 Dec 2010

First-time ratings

London, 14 December 2010 -- Moody's Investors Service has today assigned a C- bank financial strength rating (BFSR) and A2 long-term and Prime-1 short-term local- and foreign-currency deposit ratings to Sparebanken Pluss, a Norwegian savings bank. The outlook on all ratings is stable.

RATINGS RATIONALE

Sparebanken Pluss' C- BFSR, mapping to a Baseline Credit Assessment (BCA) of Baa1, reflects the bank's solid regional franchise, resilient retail business and good capital levels. However, the rating is constrained by the bank's large exposure to the real-estate sector, its high borrower concentration and high reliance on market funding.

In Moody's opinion, Sparebanken Pluss benefits from a sound market position on the southern coast of Norway in the counties of Vest-Agder and Aust-Agder, where we estimate its market share at 16% for lending and 21% for deposits. In light of the bank's regional importance, Moody's assesses a high probability of systemic support in a stress scenario from the government of Norway. As a result, the bank's A2 long-term deposit rating incorporates a two-notch uplift from the Baa1 BCA, under Moody's Joint Default Analysis methodology.

The bank has demonstrated robust trends in income and less volatility in its net profits than most of its Norwegian peers, primarily due to limited loan-loss provisions, a less volatile securities portfolio and resilient net interest income supported by positive loan growth throughout the crisis. However, Moody's notes that the Norwegian banking market is highly competitive, especially in retail, which could make it difficult for Sparebanken Pluss to sustain a positive income trend without increasing its risk profile.

Loans to retail customers (including loans transferred to Pluss Boligkredit, the bank's covered bond company) account for around 60% of the bank's loan book. The rest of the portfolio comprises loans to corporate customers, mainly SMEs. The rating agency notes that the loan portfolio exhibits very high borrower concentration as well as a significant exposure to property management and construction (24%), which we assess as a relatively more volatile sector.

At the end of September 2010, the bank reported a Tier 1 ratio of 12.4% (including 50% of interim profits). So far, the bank has had the lowest problem-loan ratio among Moody's-rated Norwegian savings banks. The rating agency believes that the bank could face challenges in maintaining its asset quality in the context of a sustained uncertain economic outlook, combined with a possible housing bubble in Norway. Moody's added however that, according to its estimations of potential credit losses, Sparebanken Pluss' current capital level allows it to absorb anticipated deterioration in asset quality at its current BFSR level.

The bank's funding profile is underpinned by a sizeable deposit base, but is also geared towards market funding, which accounts for over half of total funding. As with many other Norwegian banks, Sparebanken Pluss is increasingly funding itself on the booming Norwegian covered bond market through its wholly-owned covered bond company, Pluss Boligkredit. Around 27% of market funds stem from the covered bond market, most of it from the swap scheme with the Central Bank.

Any upgrade of the BFSR would have to be accompanied by a significant reduction in the bank's credit-risk concentrations and some improvement in profitability, combined with sustained capitalisation and robust liquidity. Conversely, the BFSR would be negatively affected if credit risk increased in the bank's large exposures or more volatile sectors, or if there was any other significant weakening of asset quality. Moody's notes that deterioration in the bank's capital or market positions could also have adverse rating implications.

The principal methodologies used in this rating were Moody's "Bank Financial Strength Ratings: Global Methodology", published in February 2007, and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", published in March 2007.

Headquartered in Kristiansand, Norway, Sparebanken Pluss reported total assets of NOK36.7 billion (EUR4.6 billion) at end-September 2010.

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