MOODY'S
INVESTORS SERVICE

Credit Opinion: Sparebanken Pluss

Global Credit Research - 22 Dec 2010

Kristiansand, Norway

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Financial Strength	C-
Senior Unsecured	A2
Other Short Term	P-1

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Key Indicators

Sparebanken Pluss (Consolidated Financials)[1]

	[2]**9-10**	[2]**12-09**	[2]**12-08**	[3]**12-07**	[3]**12-06**	**Avg.**
Total Assets (NOK billion)	**36.69**	**35.19**	**30.49**	**25.68**	**21.54**	[4]**14.24**
Tangible Common Equity (NOK billion)	**2.49**	**2.23**	**1.99**	**1.80**	**1.66**	[4]**10.55**
Total Assets (EUR million)	**4,588.79**	**4,245.67**	**3,133.07**	**3,234.29**	**2,623.70**	[4]**15.00**
Tangible Common Equity (EUR million)	**310.95**	**269.00**	**204.09**	**226.48**	**202.72**	[4]**11.29**
Total Assets (USD million)	**6,264.64**	**6,091.43**	**4,355.12**	**4,728.71**	**3,459.75**	[4]**16.00**
Tangible Common Equity (USD million)	**424.51**	**385.94**	**283.70**	**331.12**	**267.32**	[4]**12.26**
PPI / Avg RWA	**--**	**2.02%**	**1.37%**	**1.92%**	**2.01%**	[5]**1.69%**
Net Income / Avg RWA	**--**	**1.29%**	**0.76%**	**1.34%**	**1.46%**	[5]**1.03%**
(Market Funds - Liquid Assets) / Total Assets	**48.56%**	**46.24%**	**42.07%**	**32.82%**	**31.65%**	[6]**40.27%**
Core Deposits / Average Gross Loans	**--**	**53.55%**	**54.41%**	**65.58%**	**60.36%**	[6]**58.47%**
Tier 1 Ratio	**12.37%**	**12.18%**	**11.44%**	**12.48%**	**13.85%**	[5]**12.00%**
Tangible Common Equity / RWA	**11.95%**	**11.17%**	**10.36%**	**10.93%**	**12.09%**	[5]**11.16%**
Cost / Income Ratio	**33.72%**	**33.84%**	**42.79%**	**38.57%**	**38.12%**	[6]**37.41%**
Problem Loans / Gross Loans	**0.67%**	**0.47%**	**0.94%**	**0.21%**	**0.29%**	[6]**0.52%**
Problem Loans / (Equity + Loan Loss Reserves)	**7.57%**	**5.43%**	**11.31%**	**2.44%**	**3.07%**	[6]**5.97%**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] Basel II & IFRS reporting periods have been used for average calculation [6] IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

On 14 December 2010, Moody's Investors Service assigned first-time ratings of A2/C-/P-1 to Sparebanken Pluss.

The C- bank financial strength rating (BFSR), which translates into a baseline credit assessment (BCA) of Baa1, reflects (i) Sparebanken Pluss' sound local franchise; (ii) its solid retail business; and (iii) sound capital levels. However, the BFSR is constrained by the bank's large exposure to the real-estate sector and its high borrower concentration.

The global local-currency (GLC) deposit rating of A2 is supported by the bank's Baa1 BCA and the Aaa local-currency deposit ceiling of Norway, which we assume to be the underlying support provider. Given the bank's importance to its region - and the region's importance to the national economy of Norway - Moody's assesses a high probability of systemic support in the event of a stress situation. Consequently, Sparebanken Pluss' GLC deposit rating benefits from a two-notch uplift from its BCA.

Credit Strengths

- Sound market position on the southern coast of Norway

- Very low levels of problem loans

- Resilient earnings from retail banking operations

- Efficient operations

- Good capitalisation

Credit Challenges

- Reducing credit-risk concentrations, especially to the real-estate sector and by single-name borrower

- Improving profitability levels in the highly competitive Norwegian market

- Sustaining good asset quality across the economic cycle

- Maintaining and improving its market position

Rating Outlook

The outlook is stable on all the bank's ratings.

What Could Change the Rating - Up

An upgrade of the BFSR or the GLC deposit ratings could be triggered by: (i) an improvement in the bank's profitability metrics; or (ii) a reduction in the loan-book concentration.

What Could Change the Rating - Down

The BFSR could be downgraded if there is: (i) any deterioration in asset quality or capitalisation that exceeds Moody's expectations; (ii) any change in the bank's risk profile; or (iii) any indication that the bank cannot sustain its market positions.

The GLC deposit rating could be downgraded if: (i) the BFSR deteriorates; or (ii) Moody's current assessment of the probability of systemic support for the bank declines.

Recent Results and Company Events

Sparebanken Pluss reported pre-tax profit of NOK265 million during Q1-Q3 2010. Despite some improvement in net interest income and reduced costs from a one-off effect related to a pension-scheme change, this represents a decrease from NOK287 million in the corresponding period in 2009. The decrease primarily reflects the exceptionally high income from financial instruments in 2009. In addition, loan-loss provisions remained low at NOK18 million during Q1-Q3 2010 (NOK14 million in Q1-Q3 2010).

At end-September 2010, the Tier 1 and total capital ratios stood at 12.4% and 14.3%, as calculated under Basel II's standardised approach and including 50% of interim profits.

DETAILED RATING CONSIDERATIONS

Our detailed considerations for Sparebanken Pluss' currently assigned ratings are as follows.

Bank Financial Strength Rating

The assigned BFSR is two notches below the C+ outcome of Moody's bank financial strength scorecard. Based on Moody's scenario analysis (see Special Comment entitled "Moody's Approach to Estimating Nordic Banks' Credit Losses" published in July 2009), we believe that Sparebanken Pluss' sizeable exposure to real estate and its high loan-book concentration could exert adverse pressure on its capitalisation. As a result, we believe that the bank's financial strength is consistent with a C- BFSR.

Qualitative Factors (50% weighting)

Factor 1: Franchise Value

Trend: Neutral

Sparebanken Pluss is a regional savings bank with a sound market position on the southern coast of Norway in the counties of Vest-Agder and Aust-Agder. The bank is characterised by high retail and SME market shares that are underpinned by a loyal customer base. Moody's estimates that the bank has a market share of 16% in lending and 21% in deposit-taking in the counties where it operates. In addition, Sparebanken Pluss is the market leader in providing financial services to Christian organisations in Norway, largely as a result of its agreement with the Norwegian Christian Purchasing Organisation (KNIF). Though the bank enjoys some geographical diversification through its position in this niche market, the bank is a marginal national player.

Sparebanken Pluss operates as an independent savings bank, using an open-architecture business model to offer financial services including life and non-life insurance products (Tennant Forsikring, a subsidiary of Gjensidige Forsikring). In addition, Sparebanken Pluss jointly owns a real-estate brokerage company (Pluss Garanti Eiendomsmegling, 49%) and established its own covered bond company, Pluss Boligkreditt AS, in January 2009 for funding purposes.

In the region where it operates, Sparebanken Pluss faces competition from larger players such as Nordea and DnB NOR, as well as from other local and regional savings banks. As a result, one of the bank's main challenges is maintaining and improving its market share.

Although we acknowledge Sparebanken Pluss' strong presence in its operational region, the C score for franchise value is constrained by its low geographical diversification. We also expect that it will be difficult for the bank to gain market shares, due to the fierce competition in southern Norway. We therefore assign a neutral trend.

Factor 2: Risk Positioning

Trend: Neutral

At year-end 2009, the bank's largest owner, Glastad Farsund Invest AS, controlled almost 7% of the equity certificates (ECs), with no other EC-holders owning above 5%. The 20 largest EC holders together own around 40% of the ECs.

As a company listed on the Oslo Stock Exchange, Sparebanken Pluss' corporate governance principles are based on the Norwegian Code of Practice for Corporate Governance. The highest body, the Board of Trustees, comprises 24 EC-holders, depositors, employees and public appointees and is responsible for electing the Board of Directors members. The CEO is not a member of the Board of Directors, which has six members.

Sparebanken Pluss has a dedicated risk-management unit reporting to the CEO. The bank's overall risk exposure and risk development is reviewed quarterly by the management and the Board of Directors. Sparebanken Pluss has applied the standardised approach of Basel II to calculate its credit risk since January 2008. Overall, we view the bank's risk-management practices as adequate for the level and type of risk that it incurs, although we also consider that it lacks the sophistication of other larger players in the Nordic region.

In addition, Sparebanken Pluss adopted IFRS in January 2009 and is now in line with its Nordic peers in terms of financial reporting transparency and timeliness.

Moody's views Sparebanken Pluss' market-risk appetite as very limited. The bank's internal limit for interest-rate risk is NOK50 million in relation to a 2% change in interest rates, its maximum level of equity investments is set at NOK60 million and it targets net open foreign-currency positions below NOK30 million. Overall, Sparebanken Pluss' market-risk appetite, as measured by the aforementioned internal limits, is capped at around 6% of its year-end 2009 Tier 1 capital. According to the same measures, the actual market risk at year-end 2009 was below 3% of its Tier 1 capital.

Sparebanken Pluss' liquidity management is covered under the Liquidity section, below.

Sparebanken Pluss scores D+ for risk positioning, with its high credit-risk concentration the main constraining factor. We believe any significant improvement in this metric is unlikely due to the bank's limited geographical reach; we therefore assign a neutral trend for this factor.

Factor 3: Regulatory Environment

For a discussion about the regulatory environment, please see Moody's Banking System Outlook on Norway.

Factor 4: Operating Environment

Trend: Neutral

The score for the operating environment takes into account the economic stability, integrity and corruption of a country and its legal system. The score for Norway's operating environment is B. For a further discussion about the operating environment, please see Moody's latest Banking System Outlook on Norway.

Quantitative Factors (50% weighting)

Factor 5: Profitability

Trend: Weakening

Sparebanken Pluss is reliant on net interest income, which has represented over 70% of its operating income in recent years. Although this income source contracted in 2009, we note that it has been supported by some relatively good loan-book growth (almost 16% in 2008 and 7% in 2009).

Fee and commission income, mainly from payment services, represented around 12% of operating income during 2009, slightly down from its 2008 level.

Similar to most of its European peers, Sparebanken Pluss experienced volatility in its earnings as a result of variations in the value of its financial investments. These yielded a NOK78 million loss in 2008 and a NOK85 million gain in 2009, chiefly reflecting spread movements on the bank's fixed-income securities.

Loan-loss provisions affected the bank's net profitability in 2008 and 2009, standing at NOK46 million and NOK25 million, respectively. Nevertheless, Moody's notes that these are appreciably lower than most of its Norwegian rated peers.

Sparebanken Pluss' profitability score of D+ is in line with those of most its Nordic peers. However, we believe profitability will remain under pressure going forwards, especially as fierce competition in southern Norway is compressing margins. We therefore assign a weakening trend.

Factor 6: Liquidity

Trend: Neutral

Sparebanken Pluss' liquidity is underpinned by a strong deposit base, which accounts for almost 50% of total funding; retail deposits represent around 60% of total deposits.

At year-end 2009 the deposit-to-gross loan ratio was just below 50%, meaning that the bank relies on market funding, most of which comes from the domestic market. The maturity profile of the bank's debt is relatively diversified: at year-end 2009, almost 80% of the market funding (including interbank funding) had a maturity exceeding 12 months.

In January 2009, Sparebanken Pluss established its wholly-owned covered bond company, Pluss Boligkreditt. This provides the bank with an additional source of funding, a factor that Moody's views as credit positive. In 2009, covered bonds were mainly used in the (now phased-out) government swap arrangement, whereby these instruments were exchanged for government bonds. We expect that covered bonds will remain an attractive source of funding for Sparebanken Pluss, especially in the context of the central bank's recently amended guidelines. Under the amended guidelines, the central bank will no longer accept securities issued by banks as collateral for loans from February 2012, although covered bonds will continue to be accepted.

At year-end 2009, liquid assets accounted for almost 20% of total assets (14% at year-end 2008), comprising cash and deposits with the central bank and the securities portfolio. The portfolio mainly includes senior bonds from the government as well as other issuers and a limited amount of equity investments. We note that these holdings are concentrated on Norwegian securities, which could be a source of vulnerability from a concentration-risk perspective. Overall, we view the increased liquidity level as credit positive. However, we note that it is chiefly in the form of Norwegian Treasury bills from the government swap arrangement and that the bank will have to repurchase the covered bonds from the government at the same price paid by the government for these bonds.

Sparebanken Pluss' score for liquidity is D+. It primarily reflects its high reliance on market funds, which we expect to continue. We therefore assign a neutral trend.

Factor 7: Capital Adequacy

Trend: Neutral

We believe that Sparebanken Pluss' capitalisation is sound. At year-end 2009, the Tier 1 and total capital ratios - as calculated under Basel II's standardised approach - were 12.1% and 14.2%, respectively. Moody's notes that these levels are in line with those of other Moody's-rated Norwegian savings banks.

The bank did not need to increase its capital during the financial crisis, unlike many of its European peers and we assess its current capital buffer to be adequate to withstand potential credit losses.

Hybrid capital comprised around 12% of the bank's Tier 1 capital, which is a low in relation to the bank's European peers, but fairly close to the 15% maximum amount that can be included in Tier 1 in Norway. We view hybrid capital as less loss-absorbing than pure equity and caution that these instruments could potentially be excluded from Tier 1 capital, according to the Basel Committee's propositions.

Sparebanken Pluss applies the Basel II standardised approach in calculating its capital adequacy requirement for credit risk. It has stated that it is assessing whether it should apply for IRB approval. Given the bank's large retail-loan book, the capital requirement is estimated to be lower under Basel II IRB model.

Sparebanken Pluss scores A for capital adequacy. We expect that the bank will seek to maintain its current capital levels and therefore we assign a neutral trend to this factor.

Factor 8: Efficiency

Trend: Neutral

Sparebanken Pluss' efficiency as measured by its cost-to-income ratio is among the best in the Nordic region, at 34%. Moody's notes that the solid income in 2009 has somewhat supported the metric, though it has consistently been at good levels (below 40%) in recent years.

One of the reasons behind the comparatively good efficiency is its relatively limited branch network (14 branches) and staff (191 employees), which enables it to contain fixed costs. We also deem the bank's privileged position in the not-for-profit sector, which gives it a competitive advantage, to be another reason behind the good metric. In addition, the bank uses third-party providers when selling services such as insurance products, thereby avoiding the fixed costs associated with in-house production.

The bank scores A for cost efficiency. However, going forward, cost containment might prove to be more difficult as an independent bank, especially if it tries to gain market shares by expanding its branch network, or by broadening its in-house product palette. We have assigned a neutral trend to this factor.

Factor 9: Asset Quality

Trend: Weakening

Sparebanken Pluss exhibits some industry concentration, with the real-estate sector (including construction) representing around 24% of gross loans. We view this relatively high exposure to a sector that has historically generated high losses for banks as a potential source of vulnerability, though we note that losses in that sector have remained moderate at Sparebanken Pluss. In addition, the bank has a sizeable exposure (9%) to the Norwegian Christian Purchasing Organisation (KNIF), a non-for-profit organisation aimed at optimising cost management at religious communities and organisations in Norway.

Nevertheless, we take some comfort from the fact that the loan book comprises 60% retail loans and that at end-September 2010. We however note that almost 40% of retail mortgages (24% of total loans) were part of Pluss Boligkreditt's covered pool.

In addition, operating in a limited geographic area entails significant single-borrower exposure, as measured by the 20 largest exposures in relation to Tier 1 capital, or pre-provision income.

Furthermore, we note that the loan portfolio is relatively unseasoned, reflecting high lending growth (a year-on-year increase of 16% in 2008 and 17% in 2007), especially in the corporate sector.

Nevertheless, problem loans (defined as gross defaulted loans and other loans subject to individual write-downs) accounted for a very low 0.5% of gross loans at year-end 2009 (around 1% at year-end 2008). Moody's notes that this level is the lowest among the bank's rated Norwegian peers.

The score for asset quality is A. While we positively view Sparebanken Pluss' sound asset quality, we caution that the sustained increase in house prices in Norway may have understated the level of impairment because of inflated collateral values. Additionally, household indebtedness has increased in recent years, making customers more vulnerable to interest-rate rises, although overall, unemployment is low in Norway. We believe it will be challenging for Sparebanken Pluss to sustain the very low asset-quality metrics and therefore assign a weakening trend.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a GLC deposit rating of A2 to Sparebanken Pluss. The rating is supported by its Baa1 BCA and the Aaa local-currency deposit ceiling of Norway, which we consider to be the underlying support provider. Given the bank's importance to its region, and the region's importance to the national economy of Norway, Moody's assesses as high the probability of systemic support in the event of a stress situation.

Foreign Currency Deposit Rating

The bank's foreign-currency deposit ratings are unconstrained, because Norway has a country ceiling of Aaa. Sparebanken Pluss' foreign-currency deposit rating is A2.

Foreign Currency Debt Rating

The bank's foreign-currency debt ratings are unconstrained, because Norway has a country ceiling of Aaa. Sparebanken Pluss' foreign-currency debt rating is A2.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Sparebanken Pluss

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						C	
Factor: Franchise Value						C	Neutral
Market Share and Sustainability		x					
Geographical Diversification					x		
Earnings Stability		x					
Earnings Diversification [2]							
Factor: Risk Positioning						D+	Neutral
Corporate Governance [2]	--	--	--	--	--		
- Ownership and Organizational Complexity	--	--	--	--	--		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management		x					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency			x				
- Global Comparability	x						
- Frequency and Timeliness	x						
- Quality of Financial Information				x			
Credit Risk Concentration	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			x				
Market Risk Appetite	x						
Factor: Operating Environment						B	Neutral
Economic Stability			x				
Integrity and Corruption		x					
Legal System	x						
Financial Factors (50%)						C+	
Factor: Profitability						D+	Weakening
PPI / Average RWA - Basel II			1.69%				
Net Income / Average RWA - Basel II				1.03%			
Factor: Liquidity						D+	Neutral
(Mkt funds-Liquid Assets) / Total Assets					40.38%		
Liquidity Management			x				
Factor: Capital Adequacy						A	Neutral
Tier 1 Ratio - Basel II	11.81%						
Tangible Common Equity / RWA - Basel II	10.76%						
Factor: Efficiency						A	Neutral
Cost / Income Ratio	38.40%						
Factor: Asset Quality						A	Weakening
Problem Loans / Gross Loans	0.54%						
Problem Loans / (Equity + LLR)	6.39%						
Lowest Combined Score (15%)						D+	
Economic Insolvency Override						Neutral	
Aggregate Score						C+	
Assigned BFSR						C-	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.