

Rating Action: Moody's assigns A3 issuer ratings to Helgeland Sparebank; outlook stable

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Limassol, May 24, 2016 -- Moody's Investors Service ("Moody's") has today assigned A3 long-term issuer ratings to Helgeland Sparebank with a stable outlook. The ratings are in line with the bank's A3 long-term deposit ratings.

All other ratings and rating inputs of Helgeland Sparebank are unaffected by today's action.

RATINGS RATIONALE

The A3 issuer ratings assigned to Helgeland Sparebank take into account the bank's baa2 baseline credit assessment (BCA), the analysis of the bank's balance sheet structure through Moody's Advanced Loss Given Failure (LGF) framework, and the rating agency's assessment of a low probability of government support.

Helgeland Sparebank's BCA reflects: (1) The bank's strong operating environment as banks in Norway benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength as well as low susceptibility to event risk; (2) low and declining problem loan levels (equivalent to 0.4% of gross loans as at year-end 2015), and consistently modest loan loss provision expenses as a percentage of gross loans that averaged 0.16% over the past five years; and (3) adequate capital levels with a reported common equity tier 1 (CET1) ratio of 15.2% at year-end 2015. These credit strengths are balanced against the bank's: (4) limited geographical reach, with over 80% of loans extended within its home Helgeland district; (5) high single-name concentrations, (6) concentration in commercial real-estate exposures (above 130% of CET1 capital at-end 2015); and (7) limited pricing power resulting from its relatively small size.

The issuer ratings also take into account Moody's Advanced LGF analysis of the volume of the bank's deposits and senior unsecured debt, as well as the volume of securities subordinated to them. This results in the rating agency's assessment of very low loss given failure and leads to two notches of rating uplift for the issuer ratings, which is the same uplift afforded for the bank's deposit ratings. Finally, Moody's assessment of a low likelihood of government support in the event of its failure takes into account Helgeland Sparebank's limited national market share of deposits and loans, (the bank is the 12th largest savings bank in Norway), leading to no uplift to the bank's preliminary ratings.

The stable outlook on the bank's issuer ratings reflects Moody's view that the bank's financial metrics will remain broadly resilient in the face of a modest slowdown in Norway's economic performance.

WHAT COULD CHANGE THE RATING UP/DOWN

An upgrade of Helgeland Sparebank's ratings could be triggered by: (1) A reduction in concentrations, particularly in more volatile sectors; (2) enhanced access to European capital markets and improved liquidity; and (3) stronger earnings generation without an increase in its risk profile.

Downward ratings pressure would emerge if: (1) Helgeland Sparebank's problem loan ratio increases significantly above Moody's system-wide expectation of approximately 2%; (2) financing conditions become more difficult; (3) its risk profile increases, for example as a result of increased exposures to more volatile sectors; and/or (4) the macroeconomic environment deteriorates more than estimated, leading to adverse developments in the Norwegian real-estate market. Also, a reduction in uplift as a result of the rating agency's LGF analysis could lead to ratings moving down.

PRINCIPAL METHODOLOGY

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

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Alexios Philippides
Asst Vice President - Analyst
Financial Institutions Group
Moody's Investors Service Cyprus Ltd.
Porto Bello Building
1, Siafi Street, 3042 Limassol
PO Box 53205
Limassol CY 3301
Cyprus
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Sean Marion
Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Cyprus Ltd.
Porto Bello Building
1, Siafi Street, 3042 Limassol
PO Box 53205
Limassol CY 3301
Cyprus
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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