

Rating Action: Moody's affirms Helgeland Sparebank's ratings; outlook remains stable

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London, 19 October 2017 -- Moody's Investors Service, ("Moody's") has today affirmed Helgeland Sparebank's long-term deposit and issuer ratings of A3, the bank's long-term counterparty risk assessment (CRA) of A2(cr) and maintained the stable outlook on all ratings.

The ratings affirmation mainly reflects the resilient performance of Helgeland Sparebank despite the challenging economic conditions in Norway over the last two years, as well as Moody's forward-looking expectation that profitability and capitalization will remain robust in a gradually recovering operating environment. Meanwhile, the bank's problem loan ratio will gradually improve and return to its historical average. The rating agency said that the ratings affirmation is also underpinned by the broadly unchanged liability structure of the bank and Moody's loss given failure (LGF) analysis.

The full list of the affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The affirmation of Helgeland Sparebank's ratings reflects the bank's resilient financial performance during challenging economic conditions, in addition to Moody's expectation that its performance will remain robust and its asset quality will strengthen over the next 12-18 months as the operating environment in Norway gradually improves in 2017-18. Helgeland Sparebank's baa2 BCA reflects its broadly stable profitability, and strengthened capital base, despite the challenging economic conditions and in Norway over the last two years and the bank's exposure to the volatile sectors of construction and real estate.

Moody's expects Helgeland Sparebank's asset quality to return to its historical average of 0.6% problem loan ratio in the next twelve months, from a 1.1% at end June, a somewhat comparatively elevated level non-performing assets mainly a result of two large individual non-performing commitments, which also highlights the bank's relatively high concentration levels. Although the bank's loan portfolio has a retail focus, a granular market segment with low delinquencies and losses historically, Helgeland Sparebank has significant exposure to the cyclical real-estate and construction industries (18% of gross loans in June 2017) which in an economic downturn could accelerate the pace of any deterioration in asset quality, as they have in the past.

Moody's expects Helgeland Sparebank's capitalization to remain strong. The bank's capital ratio compares well with its rated Norwegian peer group, with a Common Equity Tier 1 capital (CET1) ratio of 15.7% at end-June 2017 already above the regulatory minimum of 14.2% (effective end December 2017) as Norway's countercyclical buffer increases to 2% from 1.5% currently.

Helgeland Sparebank's profitability is expected to remain broadly unchanged over the next 12 months, as the rating agency expects pressure in the second half of 2017 following strong performance in the first half, as a result of strong competition and expected lower credit growth, especially in the retail market. The bank has maintained a net interest margin at 1.81% for the first six months of 2017 (1.83% in full-year 2016), despite increased competition, due to lower credit costs and strong credit growth. Lending to retail clients increased by almost 6% in the past 12 months, but tighter lending regulation will result into lower growth for the rest of 2017.

Helgeland Sparebank's funding profile benefits from a sizeable deposit base, made largely of retail customer deposits (60% of its non-equity funding at end June 2017), however the bank's deposit base demonstrates higher customer concentration than peers particularly to the municipalities sector (approximately 12% of total deposits). The bank also features a material reliance on market funding, primarily in the form of senior debt and covered bonds, rendering it vulnerable to any adverse changes in investor sentiment.

RATIONALE FOR THE AFFIRMATION OF DEPOSITS AND ISSUER RATINGS

The affirmation of Helgeland Sparebank's long-term deposit and issuer ratings of A3, take account of the group's consolidated balance sheet structure at end-June 2017 and its near-term funding plan. Moody's Advanced Loss Given Failure (LGF) analysis indicates that Helgeland Sparebank's deposits are likely to face

very low loss-given-failure due to the loss absorption provided by subordinated debt and, potentially, by senior unsecured debt (should deposits be treated preferentially in a resolution), as well as the substantial volume of deposits and senior debt themselves. This results in two notches of uplift above the bank's BCA.

Moody's assumption of a low probability of government support for Helgeland Sparebank's issuer and deposits ratings provide no further uplift, leading to long-term deposit and issuer ratings of A3.

RATIONALE FOR THE CR ASSESSMENT

As part of today's action, Moody's also affirmed Helgeland Sparebank's long-term CR Assessment of A2(cr), and short-term CR Assessment at P-1(cr). The CR Assessment is driven by the banks' standalone assessment based on the substantial cushion against default provided to the senior obligations represented by subordinated instruments, accounting for three notches of uplift relative to the BCA.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Helgeland Sparebank's BCA of baa2, is currently positioned at the bottom of Moody's BCA scorecard range demonstrating the potential for an upgrade over time. Moody's would consider a positive outlook and eventually an upgrade if Helgeland Sparebank demonstrates (1) a material reduction in client and sector concentrations, particularly in more volatile sectors of construction and real estate; (2) stronger earnings (and therefore a strengthened internal capital generation capacity) without an increase in its risk profile; and/or (3) significant improvement in the client concentration of its deposit base by shifting away from large corporate deposits to more stable retail funding.

Future downward rating 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; and/or (3) its risk profile increases, for example as a result of increased exposure to more volatile sectors

LIST OF AFFIRMED RATINGS

Issuer: Helgeland Sparebank

Affirmations:

...LT Issuer Rating, Affirmed A3, Outlook Remains Stable

...LT Bank Deposits, Affirmed A3, Outlook Remains Stable

...ST Bank Deposits, Affirmed P-2

...Adjusted Baseline Credit Assessment, Affirmed baa2

...Baseline Credit Assessment, Affirmed baa2

...LT Counterparty Risk Assessment, Affirmed A2(cr)

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

Outlook Actions:

...Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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