

Announcement: Correction to Text, Oct. 27, 2010 Release: Moody's changes Sparebanken Øst's ratings outlook to stable from negative (Norway)

Global Credit Research - 28 Oct 2010

London, 28 October 2010 -- Substitute Prime-2 for Prime-1 in first paragraph, second sentence. Revised release follows.

Moody's Investors Service has today changed to stable from negative the outlook on the C- bank financial strength rating (BFSR) mapping to a Baa2 Baseline Credit Assessment (BCA) and the A3 long-term debt and deposit ratings of Sparebanken Øst. The Prime-2 short-term rating was affirmed.

Sparebanken Øst is well-positioned in its current rating category. The bank's ratings continue to be underpinned by: (i) its strong regional market position in south-eastern Norway; (ii) its relatively resilient core banking earnings; and (iii) its improved Tier 1 ratio, at 12.9% at end-June 2010; (iv) ongoing de-risking of Sparebanken Øst's balance sheet, primarily in its investment portfolio and in its syndicated loan exposures to Icelandic and eastern European financial institutions.

Commenting on the revision of the outlook to stable from negative, Moody's notes that in 2008, these exposures led to large losses, resulting in a negative result for the year. Now that the bank has started to reduce its riskier investment portfolio, investing in more liquid assets such as Norwegian Treasury bills, and largely provisioned the remaining exposures to Icelandic and eastern European financial institutions, the rating agency believes less volatility will arise from the investment portfolio going forward. In addition, Moody's notes positively that loan-loss provisions were relatively low at NOK25 million in 2009 and that the bank was writing-back provisions in H1 2010. Problem loans are still somewhat increasing in absolute terms, but remain contained at 1.8% of gross loans at end-June 2010.

Upward pressure on the bank's ratings could arise from (i) a continuation of the focus on core business and reduced asset allocation to the investment portfolio; (ii) an improvement in profitability; and/or (iii) sustaining the persistently low problem loan level.

Sparebanken Øst's ratings could be negatively affected if credit quality weakens to a greater extent than envisaged in Moody's base-case stress scenario, which would exert pressure on the bank's capitalisation.

Moody's previous rating action on Sparebanken Øst was implemented on 8 September 2009, when the long-term deposit rating to A3 from A1 with negative outlook, reflecting Sparebanken Øst's weaker position in the C- BFSR category (the BFSR mapping was changed to a Baa2 baseline credit assessment from a Baa1).

The principal methodologies used in rating Sparebanken Øst are Moody's "Bank Financial Strength Ratings: Global Methodology", published February 2007, and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", published in March 2007, which are available on www.moody's.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Drammen, Norway, Sparebanken Øst reported total consolidated assets of around NOK23.6 billion (EUR3 billion) at the end of June 2010.

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