

ISSUER COMMENT

Sparebanken Hedmark Acquires Remaining Stake in Bank 1 Oslo Akershus, a Credit Positive

From [Credit Outlook](#)

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On Monday, [Sparebanken Hedmark](#) (A2 stable, baa2¹) announced that it will increase its ownership in Bank 1 Oslo Akershus (unrated) to 100% from 40.5%. Sparebanken Hedmark reached an agreement to buy the remaining shares from the Norwegian Confederation of Trade Unions (LO) (29.9%) and the other banks in the Sparebank 1 alliance (29.6%) for a total consideration of NOK1.9 billion. Pending Sparebanken Hedmark's board and regulatory approvals, the bank will finance approximately 90% of the purchase through issuing equity certificates to LO and the alliance banks, making them co-owners of the Sparebanken Hedmark group, and paying the remainder in cash.

The purchase is credit positive for Sparebanken Hedmark because the consolidated bank will have a wide franchise including the growing Oslo market. Sparebanken Hedmark will also be a strongly capitalized bank with a pro forma common equity Tier 1 ratio of 15.2% as of 30 September 2015.

Bank 1 Oslo Akershus is focused on the retail market (80% of total loans). It operates in Oslo and Akershus through 18 branches and 430 employees, with total assets of NOK53.8 billion. Although Bank 1 Oslo Akershus' profitability is strong, with a 9.2% return on equity (ROE), Sparebanken Hedmark's 12.3% ROE is stronger because it is able to charge higher margins in its area of operation. Bank 1 Oslo Akershus does have very strong asset quality, illustrated in its problem loan ratio of 0.2% at the end of September 2015, compared with the Norwegian banking system's problem loan ratio average of 1.25%. Its low problem loan ratio mainly reflects strong underwriting and a mortgage book in which more than 80% of the loans have a loan-to-value ratio of below 60%.

Bank 1 Oslo Akershus' capitalization (Tier 1 capital ratio 14% as of 30 September 2015) restricts the bank's ability to exploit growth opportunities on a standalone basis. Through the acquisition, Sparebanken Hedmark, which currently has a limited presence in the Oslo area, aims to improve service for its customers in Oslo and Akershus. The new consolidated bank will have adjusted total assets of approximately NOK125 billion (including loans transferred to covered bond companies) and will become the fourth-largest regional savings bank in Norway (see exhibit) increasing its strength within the SpareBank 1 Alliance. Sparebanken Hedmark intends to operate Bank 1 Oslo Akershus for a period of up to three years as a wholly owned subsidiary.

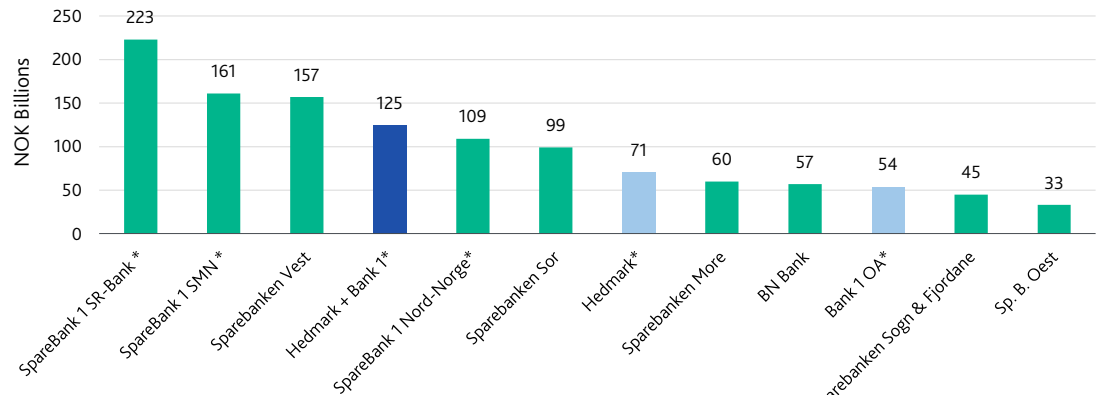
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Published every Monday and Thursday morning, Moody's [Credit Outlook](#) informs our research clients of the credit implications of current events.

¹ The ratings shown are Sparebanken Hedmark's deposit rating and its baseline credit assessment.

Sparebanken Hedmark and Competitors' Total Assets

The combined Sparebanken Hedmark and Bank 1 will be Norway's fourth-largest regional savings bank by assets.



Notes: * = Members of the SpareBank 1 Alliance. Figures include loans transferred to covered bond companies.

Sources: Moody's Investor Services and company presentations for Bank 1 Oslo Akershus and BN Bank

Following the equity certificate issuance, which the bank expects to conclude in the first half of 2016, LO will own 15.1% of the consolidated group while the SpareBank 1 Alliance banks will own 10.1%. Sparebanken Hedmark expects to have a common equity Tier 1 ratio of 15.2%, which compares well with other Norwegian rated savings banks, but will be lower than its standalone figure of 17.1% at end of September 2015, reflecting the increase in risk-weighted assets. Separately, the bank plans to list on the Oslo Stock Exchange in the third quarter of 2016, which is credit positive because it will improve the bank's access to capital, since the capital base currently consists only of retained earnings.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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