MOODY'S INVESTORS SERVICE

CREDIT OPINION
16 February 2022

Update

Rate this Research

RATINGS

SpareBank 1 Nord-Norge

Domicile	Tromso, Norway
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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SpareBank 1 Nord-Norge

Update following rating action

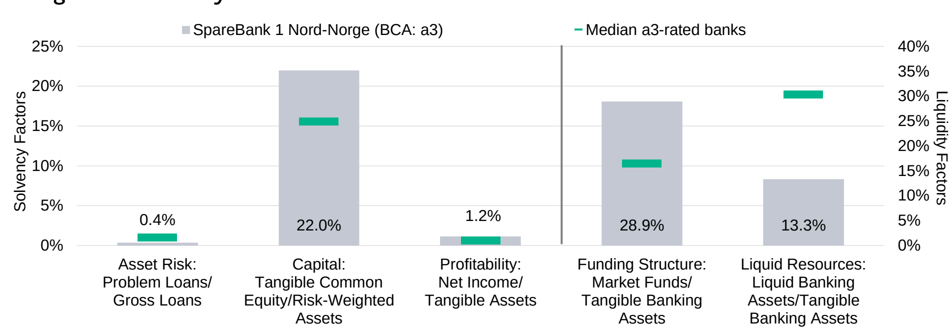
Summary

SpareBank 1 Nord-Norge's long-term deposit and senior unsecured debt ratings of Aa3 take into account the bank's baseline credit assessment (BCA) of a3, but also our forward looking loss given failure (LGF) analysis which leads to three notches of rating uplift from its BCA.

SpareBank 1 Nord-Norge's BCA of a3 reflects the bank's high levels of capital, strong regional position, retail focus combined with a solid deposit franchise, as well as its robust capital base (CET1 of 18.7% at end 2021) and very low non-performing loans (NPLs of around 0.4% of gross loans at end 2021), and strong track record of low credit losses. The bank's BCA also takes into account its comfortable liquidity position and resilient profitability, which we expect to remain strong. These positive rating drivers are to some degree counterbalanced by downside risks stemming from the bank's relatively narrow geographical focus alongside high levels of credit concentrations including exposure to the commercial real estate (CRE) sector, and the bank's market funding dependence.

The bank's deposit and senior unsecured debt ratings incorporate our forward-looking LGF analysis, taking into account the bank's volume of deposits and senior unsecured debt, and the stock of securities subordinated to them. SpareBank 1 Nord-Norge benefits from a large volume of deposits and substantial layers of subordination, resulting in very low loss given failure and thus three notches of rating uplift from the bank's BCA.

Exhibit 1
Rating Scorecard - Key financial ratios



These are our Banks methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average and latest annual figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year end figures.
Source: Moody's Financial Metrics

Credit strengths

» SpareBank 1 Nord-Norges's BCA is supported by its Very Strong- Macro Profile

» Solid capital ratios provide a good loss absorption buffer

» A good customer deposit franchise underpin comfortable liquidity and result in deposit ratings benefiting from a very low loss-given-failure rate

» Satisfactory recurring pre-provision profitability supported by a low cost base

Credit challenges

» Asset risk profile partly affected by some sector and geographical concentrations, although problem loans are very low

» Some reliance on market funding raises the bank's funding risk profile

Rating Outlook

The bank's deposit and debt ratings have a stable outlook, balancing the bank's robust capital, asset quality and pre-provision profitability against some downside risks stemming from certain credit concentrations and from the bank's market funding dependence.

Factors that could lead to an upgrade

Upward rating pressure could develop if SpareBank 1 Nord-Norge demonstrates; comfortable liquidity and lower use of market funds combined with maintaining strong capitalisation on an on-going basis; continued stronger earnings generation across the credit cycle without an increase in its risk profile combined with an improved cost-to-income ratio.

Factors that could lead to a downgrade

The bank's ratings could be downgraded if: SpareBank 1 Nord-Norge's problem loan ratio and impairments increase significantly above its similarly-rated peers; financing conditions become more difficult, impairing its ability to raise low-cost market funding; its risk profile increases, as a result of increased exposures to more volatile sectors; the macroeconomic environment deteriorates, leading to adverse developments in the Norwegian real-estate market and a deterioration in asset quality. Furthermore, the senior unsecured debt ratings could be downgraded should the bank issue materially lower volumes of junior-senior instruments.

Key indicators

Exhibit 2
SpareBank 1 Nord-Norge (Consolidated Financials) [1]

	09-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	160.4	155.4	147.6	139.0	127.7	6.3[4]
Tangible Common Equity (NOK Billion)	15.4	14.1	13.2	12.1	11.7	7.8[4]
Problem Loans / Gross Loans (%)	0.3	0.3	0.3	0.5	1.0	0.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	22.0	20.6	19.9	17.1	17.4	19.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	2.4	2.9	2.5	4.9	8.5	4.2[5]
Net Interest Margin (%)	1.5	1.6	1.7	1.7	1.7	1.6[5]
PPI / Average RWA (%)	2.9	2.8	2.4	2.2	2.4	2.5[6]
Net Income / Tangible Assets (%)	1.3	0.9	1.4	1.1	1.2	1.2[5]
Cost / Income Ratio (%)	43.1	45.4	48.6	48.9	47.4	46.7[5]
Market Funds / Tangible Banking Assets (%)	26.8	28.9	29.9	30.7	31.4	29.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	12.5	13.3	13.0	12.9	11.9	12.7[5]
Gross Loans / Due to Customers (%)	169.8	178.0	178.9	177.6	182.3	177.3[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

SpareBank 1 Nord-Norge is a leading regional savings bank in northern Norway that provides retail and corporate customers with a range of banking products and services, including finance, savings, insurance and payment transmission services. As of September 2021, its consolidated assets (including loans transferred to covered bond companies) totaled over NOK160 billion (€15.8 billion).

Recent developments

Solid economic recovery is underway in Norway. Norway's GDP contracted by 0.8% year on year in 2020, a mild contraction compared to similarly rated peers. With the recovery gaining traction in the second half of 2020 and early 2021, real GDP reached its 2019 pre-pandemic level in the second quarter of 2021. In 2020, the fall in GDP was softened by petroleum and ocean transport activities (17.6% of GDP in 2020), which expanded by 8.0%. The recent rise in hydrocarbon prices is sustaining exports. In addition, the rapid recovery was driven by falling COVID-19 cases and rapid progress on vaccinations (91% of the adult population was partly vaccinated as of 25 October, and 86.8% fully vaccinated) that allowed for a reduction in government restrictions starting in mid-April 2021 with the end of the measures in late September. In December there was a surge in confirmed coronavirus cases leading to the reintroduction of restrictions in Norway.

Against this backdrop, Norges Bank increased its policy rate by 25 bps in September and December 2021, resulting in a policy rate of 0.5% as of year-end 2021. Norges Bank's rate increase follows its advice to the Ministry of Finance in June to begin restoring banks' counter cyclical buffer (CCyB) requirement to 1.5% by the end of June 2022 from 1% currently. On 3 September, the Government decided to give Norges Bank decision-making authority for the countercyclical capital buffer, with the latter deciding to increase further the CCyB to 2.0% from end of December 2022. Although the central bank left the policy rate unchanged during the January meeting, the central bank's forward guidance points to additional hikes in 2022 and beyond. We expect the interest rate hike to support Norwegian banks net interest margins and profitability.

In April 2021 we changed our outlook on the Norwegian banking system to stable from negative. This reflects our expectation that the Norwegian economy will recover strongly after a coronavirus-induced downturn in 2020, which was exacerbated by a fall in oil prices. Norwegian banks will maintain good asset quality, as well as strong capitalisation and solid profitability. Their dependence on market funding will remain high, although offset by ample liquidity.

Detailed credit considerations

Norway's 'Very Strong-' Macro Profile remains supportive towards the bank's stand alone credit profile

Norway's operating environment is improving supported by a strong economic recovery in 2021 after the coronavirus-induced downturn last year. The anticipated pace of recovery, faster than that of most European peers, reflects a combination of improving consumer demand as lockdown restrictions ease, continued government support, and rising oil prices.

SpareBank 1 Nord-Norge operates only in Norway and thus its operating environment is reflected through the 'Very Strong -' Macro Profile we assign for Norway. Norwegian banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as a very low susceptibility to event risk. Norway has a diversified and growing economy, which demonstrated resilience to the last weakening in the oil sector in 2014-15.

The main risks to the banking system stem from the high level of household debt, elevated real estate prices and domestic banks' extensive use of market funding. However, these risks are mitigated by the strength of households' ability to service debt, banks' adequate capitalisation and the relatively small size of the banking system compared with the total size of the economy.

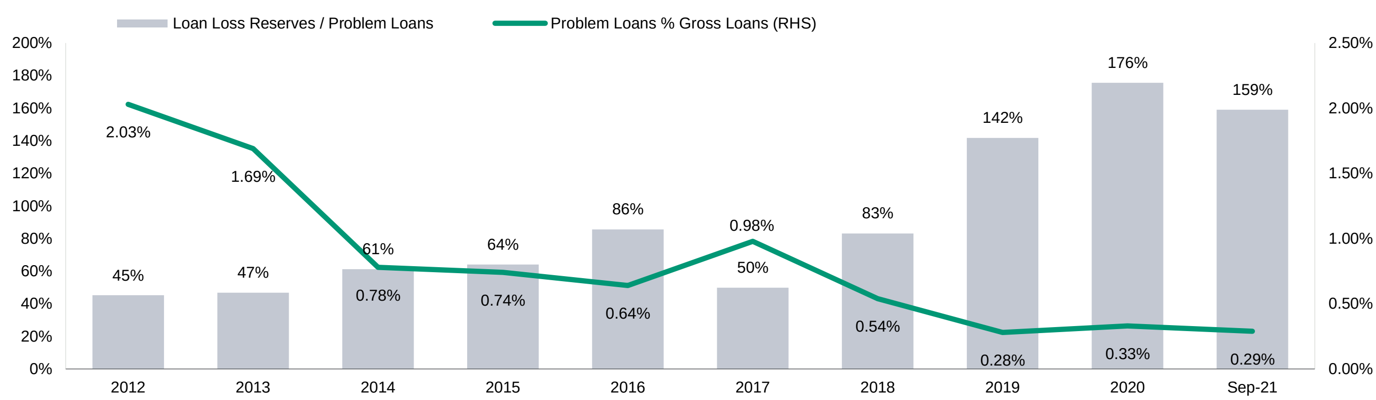
Nonetheless, we expect the Norwegian mainland economy (excluding any oil-related activity) rebound in real GDP to 3.2% in 2021 as the vaccine rollout progresses will allow the government to gradually phaseout some of these temporary measures and narrow the structural non-oil deficit towards 3% of the Government Pension Fund (GPFG) in the medium term.

Strong asset risk profile with very low problem loans, although partly affected by some sector and borrower concentrations

SpareBank 1 Nord-Norge's loan book benefits from a substantial proportion of retail loans (around 70% of gross loans, including loans transferred to covered bond companies), mostly in the form of mortgages. The bank's asset quality is generally strong, with a problem loans ratio (stage 3 loans as a percentage of total gross loans including covered bond loans and excluding off-balance sheet items) of around 0.4% at end December 2021.

Exhibit 3

SpareBank 1 Nord-Norge's asset quality evolution



Note: Gross loans include loans transferred to covered bond companies and exclude off-balance sheet items
Source: Company reports and presentations, Moody's Financial Metrics

The bank's generally good asset performance benefited from a favourable lending environment in recent years, including high unemployment benefits that support borrowers' ability to repay debt (even more so throughout the current coronavirus pandemic), a creditor-friendly legal framework, and a strong performance of the fishing industry in northern Norway where the bank is based.

SpareBank 1 Nord-Norge has relatively low exposure to the oil sector of around NOK0.8 billion, or around 0.6% of gross loans at end 2021 (including loans transferred to covered bond companies). Furthermore, the majority of these exposures are supported by long-term contracts mainly by suppliers to the oil companies. Such contracts provide some level of stability to the bank's asset quality, especially during periods of oil price deterioration as was the case in the first half of 2020. We note that only around NOK28 million from the bank's total oil-related exposure is in the form of non-performing or impaired loans, which corresponds to a default rate of 3.4%, compared to around 0.5% for the corporate loan book at end 2021.

Our assigned Asset Risk Score of a3 indicates that overall asset risk remains a relative strength for SpareBank 1 Nord-Norge. The bank operates mainly in northern Norway that has benefited from the Norwegian currency depreciation in recent years, through exporting industries such as farming, fishing and tourism that have been performing very strongly.

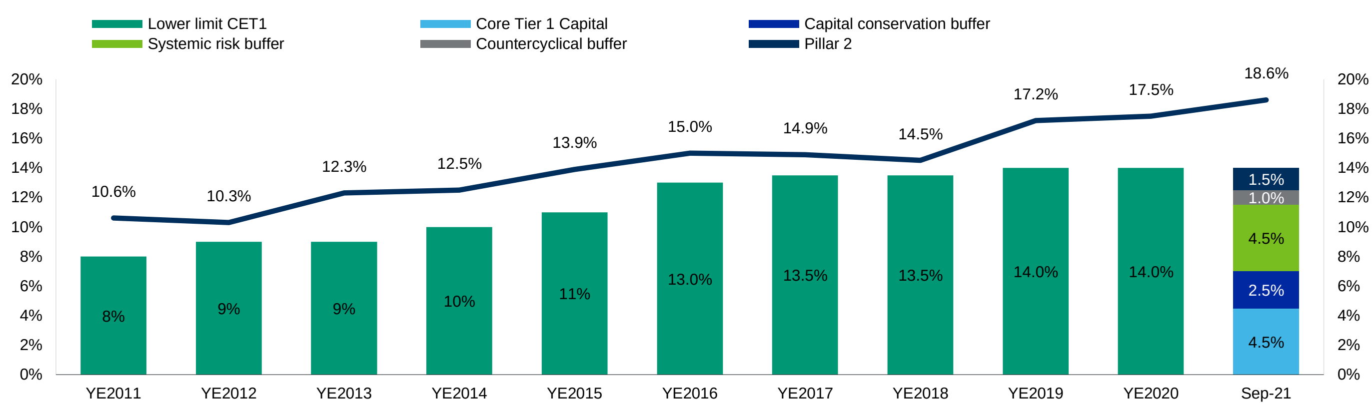
The negative adjustments that we incorporate on SpareBank 1 Nord-Norge's asset risk score are mainly driven by some concentrations in its loan book towards the real estate sector, which represents around 12% of gross loans (including transferred covered bond loans) at end 2021. Although some of these borrowers have been affected by the pandemic, our concerns are somewhat mitigated by the relative diversification within the bank's commercial real-estate exposure. Offices and residential developments are the largest, standing at 16% and 18% respectively, while around 59% of the real estate exposures is in smaller commitments of less than NOK100 million.

Looking ahead, we expect the bank's problem loan ratio to only marginally increase as Government support measures come to an end, although it will remain low and in line with the global average for banks with a BCA of a3. Consequently, we do not expect any major asset quality deterioration over the next 12-18 months, which could trigger downward rating pressure for the bank, while the bank's more favourable exposure to non-oil exporting sectors such as fisheries is likely to sustain its good performance despite the challenges in other sectors of the economy. The bank's provisioning coverage for problem loans (including collective provisions based on the expected credit losses - ECL - model) was at 159.1% in September 2021, eliminating any downward risks from its existing stock of problem loans.

Solid capital ratios provide a good loss absorption buffer

We consider SpareBank 1 Nord-Norge's capital metrics to be solid, and sufficient to meet its growth plans and concurrently providing a good loss absorption buffer. The group's reported Common Equity Tier 1 (CET1) was 18.7% at end 2021, higher than 17.5% in 2020 (see Exhibit 4). We also note the bank's other solid regulatory capital metrics with consolidated Tier 1 and total capital adequacy ratios of 20% and 21.6% respectively at end 2021.

Exhibit 4
SpareBank 1 Nord-Norge's capitalisation



Source: Company reports and presentations

Concurrently, the bank's leverage ratio was a comfortable 8.3% at end 2021, compared to 7.6% recorded as of December 2020 and well above the 5% minimum requirement. The sharp increase in capital metrics in December 2019 was mainly due to the removal of the 80% Basel I floor in calculating its risk-weighted assets (RWAs) combined with the introduction of the SME discount under the Capital Requirements Directive (CRD IV).

In response to the global coronavirus outbreak and resulting economic stress, the Norwegian FSA has revised banks' capital requirements during the first quarter of 2020. Accordingly, the countercyclical capital buffer requirement has been lowered by 150 basis points to allow more flexibility, while banks were requested to reconsider their dividend payments for 2019. However, based on the Ministry of Finance's attempt to neutralise the reduction in RWAs resulting from the transposition of the CRD IV directive into Norwegian law the systemic risk buffer was increased by 1.5% from year-end 2020. Furthermore, the countercyclical buffer will increase by 50 basis points to 1.5% with banks having to comply by June 2022, and 2.0% by December 2022.

SpareBank 1 Nord-Norge aims to have an internal capital buffer of 100 basis points above its regulatory CET1 minimum requirement (currently 14.0%), and thus its long-term CET1 capital ratio target is currently at least 15.0%, which is well below the bank's latest reported CET1 of 18.7%. Even in a scenario where the countercyclical buffer is reinstated at 2.5% which would take the bank's minimum CET1 requirement at 15.5% (or 16.5% including its management buffer), the bank would still be in a position to meet that.

We believe that such capital levels provide a good loss absorption buffer to the bank, a good safety net to its creditors and also some room for a potential take-over activity of certain smaller savings banks in its region.

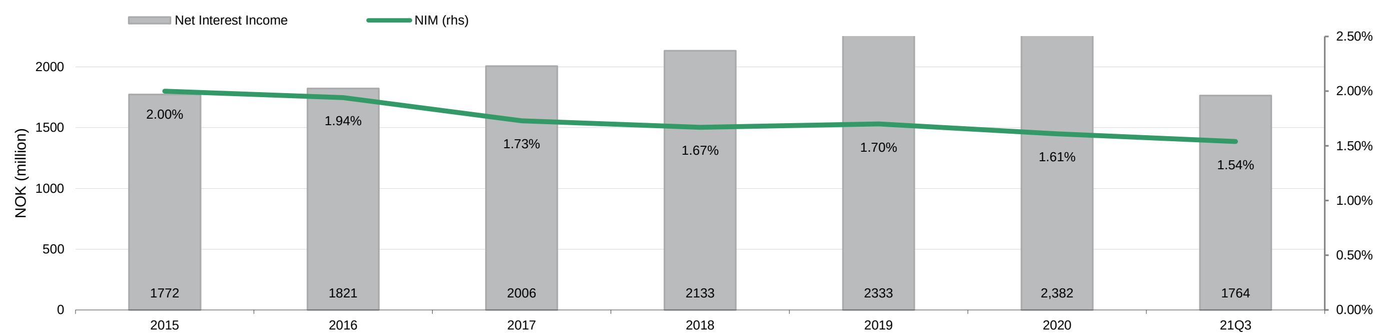
Our assigned Capital Score of aa2 reflects the bank's capital strength, but also its equity certificate capital (ECC) structure with ECC shareholders owning only 46.4% of the bank's total capital as of December 2021 and the rest in the form of primary capital. Accordingly, we believe that the bank may face challenges to raise new equity in case of need during difficult market conditions, due to the dilutive effect that the ECC structure could cause.

Satisfactory recurring pre-provision profitability supported by a low cost base

SpareBank 1 Nord-Norge's earnings base generally benefits from its resilient retail banking operations. Despite the challenges in the Norwegian economy in the context of the coronavirus pandemic, the bank reported very good profitability metrics with a return on equity (RoE) of 15% in 2021 (12.6% in December 2020). SpareBank 1 Nord-Norge reported a net income of NOK2.3 billion in 2021 compared to NOK1.7 billion in 2020. The profit for 2021 includes an aggregate net gain of NOK43 million from the sale of part of the portfolio to SpareBank 1 Helgeland.

Nevertheless, low loan rates coupled with an already fierce competition among Norwegian banks, have put pressure on SpareBank 1 Nord-Norge's net interest margin. This pressure is expected to alleviate following the hikes to the interest rate, which have largely translated to increased mortgage rates while deposit rates have remained flat. The bank's net interest margin (NIM) in the first nine months of 2021 was around 1.54%, down from 1.61% as of year-end 2020 (see Exhibit 5). We expect the bank's margins to trend upwards, despite the intense competition, as Norges Bank executes their planned rate hikes.

Exhibit 5
SpareBank 1 Nord-Norge's net interest income and margins



**All figures and ratios are adjusted using Moody's standard adjustments.*
Source: Company reports and presentations, Moody's Financial Metrics

SpareBank 1 Nord-Norge's reported cost-to-income ratio was 40.6% in 2021, just above the bank's target of lower than 40% but very low compared to similarly-rated peers globally. The bank announced in September 2020 the closure of 16 of its 31 branches, which resulted in annual cost savings of NOK40mn, which include the transfer of four branches to SpareBank 1 Helgeland during 4Q21 as part of an earlier deal. We expect the optimisation of the branch network to support the banks cost-income ratio and profitability in the next 12-18 months.

The bank recorded loan loss provision reversal of NOK235 million in 2021, a substantial change from NOK332 million in provisioning a year earlier, primarily driven from a NOK163 million compensation from a lawsuit previously booked as credit loss. The bank, similarly to its local peers, has taken on a front-loading approach to provisioning in H1 2020 to account for the increased uncertainty resulting from the coronavirus outbreak and lockdown measures that were in place in Norway at the time. These loan losses were mainly based on the expected credit losses (ECL) model, and not necessarily linked to individual impairments due to default on behalf of borrowers.

Our a3 profitability score reflects our expectation that over the next 12-18 months the bank's normalised earnings will remain strong, and close to the 12% long-term RoE target. The bank has been successful in leveraging its strategy to become the dominant bank in the northern region for retail and SME loans, despite the strong competition on the retail side.

Some reliance on market funding raises the bank's funding risk profile...

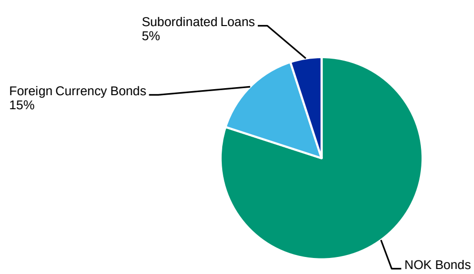
SpareBank 1 Nord-Norge's total funding (including covered bonds issued through SpareBank 1 Boligkreditt and SpareBank 1 Naeringskreditt) consisted of approximately in 55% from customer deposits as of December 2021, which have proven resilient over many years. During the 12 months ended as of December 2021, deposits grew 4.1% (excluding the Helegland portfolio), while gross loans-to-deposits ratio (including securitized loans) was a high 167%. Retail deposits, which are considered more sticky, comprised around 55% of total customer deposits as of September 2021.

SpareBank 1 Nord-Norge has increasingly used covered bond funding, which is done off-balance sheet through specialised companies owned jointly together with other members of the SpareBank 1 Alliance (SpareBank 1 Boligkreditt for residential mortgages and SpareBank 1 Næringskreditt for commercial mortgages). As of December 2021, the bank had transferred loans worth NOK36.6 billion to these vehicles (i.e. around 29% of its total gross loan book). While we view positively the diversification benefit of covered bond funding, its extensive use increases the amount of pledged assets unavailable for unsecured bondholders, including depositors in liquidation.

We reflect the relative stability of covered bonds compared with unsecured market funding through a standard adjustment in our scorecard accounting around half of such covered bonds as deposit-like funding. We also note that the bank has a generally good maturities diversification of its capital markets funding (around NOK19 billion excluding covered bonds) until 2025, with repayments amounting to around NOK5 billion due in the next 12 months.

Our Funding Structure Score reflects our view that SpareBank 1 Nord-Norge's usage of market funding (see Exhibit 6) is of sufficient scale to represent a source of vulnerability because, in times of market stress, market funding can become more expensive and/or restricted.

Exhibit 6
SpareBank 1 Nord-Norge's market funding distribution as of September 2021



Source: Company presentations and reports

...although liquidity is comfortable mitigating any market funding concerns

SpareBank 1 Nord-Norge's liquid assets accounted for approximately 12.5% of total tangible banking assets as of September 2021. However, we note that this ratio understates the core liquidity of the bank, given that it does not take into account the liquid assets held by SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Accordingly, we incorporate a positive adjustment in the assigned Liquid Resources Score to reflect the additional source of liquidity stemming from the covered bond companies.

The liquidity reserve primarily consists of Norwegian T-bills, sovereign bonds, rated covered bonds as well as bonds issued by domestic or international financial institutions and domestic corporate bonds. The bank's LCR ratio under Basel III stood at a comfortable 142% as of December 2021, well above the statutory requirement of 100% and we do not expect the bank to face any problems meeting the NSFR ratio. We generally believe that the bank will continue to have a relatively conservative liquidity profile, maintaining excess liquidity and minimizing any refinancing risk.

ESG considerations

In line with our general view of the banking sector, Sparebank 1 Nord-Norge's has low exposure to Environmental risks and moderate exposure to Social risks. See our Environmental and Social risk heatmaps for further information.

Norway, similarly to the European Union, has policies in place that ensure new housing to be energy-efficient, which enables banks to gather mortgages for asset pools to issue green bonds. Such policies also help limit environmental risks for Norwegian banks with large retail exposure and primarily mortgage lending activity, which should help strengthen the bank's credit profile. In addition, the bank is taking various initiatives to promote and integrate in its business the UN's sustainable development goals, including those related to 'climate action' and 'life below water'.

The most relevant Social risks for banks arise when they interact with their customers. Social risks are particularly high in the area of data security and customer privacy which is partly mitigated by sizeable technology investments. Fines and reputational damage due to product misselling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services, increasing information technology cost, aging population concerns in several countries, impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base. Overall, we consider banks, including SpareBank 1 Nord-Norge, to face moderate social risks.

We believe banks face moderate social risks. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. In addition, we regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. See our social risk heat map for further information.

Governance is highly relevant for SpareBank 1 Nord-Norge, as it is to all players in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Corporate governance remains a key credit consideration and requires ongoing monitoring. However, we currently do not have any governance related concerns over SpareBank 1 Nord-Norge.

Support and structural considerations

Loss Given Failure and additional notching

The EU Bank Recovery and Resolution Directive (BRRD) entered into force as of 1 January 2019 in Norway, which confirms our current assumptions regarding LGF analysis. In our advanced LGF analysis we assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in “junior” wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

The ratings take into account Moody's forward-looking LGF analysis of the combined entity's volume of deposits and senior unsecured debt, as well as the volume of securities subordinated to them. SpareBank 1 Nord-Norge will be required to issue large volumes of instruments, prior to the end of 2023, that are subordinated to depositors and senior creditors in order to comply with their minimum requirements for own funds and eligible liabilities (MREL). The analysis takes into account the Norwegian Financial Supervisory Authority's (FSA)'s revised approach to calculating MREL subordination requirements, following the expected implementation of the amended Bank Recovery and Resolution Directive (BRRD2) into Norwegian law; as well as the bank's need to hold buffers above the minimum requirements. This assumption leads to three notches of rating uplift for the bank's senior debt ratings, which is the same uplift afforded for the bank's deposit ratings.

However, it is the agency's view that under the new MREL subordination requirements it is less likely that the bank will issue a sufficiently large buffer above the new lower minimum requirement to materially reduce expected loss rates for junior senior debt holders. As a result the holders of these instruments are likely to face moderate losses given failure resulting in a rating of A3 in-line with the bank's BCA.

For junior securities issued by SpareBank 1 Nord-Norge, our LGF analysis confirms a higher loss given failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity, positioning them below the bank's BCA. We also incorporate additional notching for junior subordinated and preference share instruments reflecting the coupon features.

Government support

SpareBank 1 Nord-Norge has a solid, defensible footprint in northern Norway with 19 branches across the region as of September 2021. Moody's estimates that the bank commands market shares of around 20% in terms of loans in the three most northerly counties of Norway, although its national market share is limited, at around 2.2%.

Following the implementation of BRRD law in Norway on 1 January 2019, we assume a low probability of government support for debt and deposits, resulting in no additional notches of rating uplift above their PRA, positioning them at Aa3.

For other junior securities, we continue to believe that potential government support is low and these ratings do not include any related uplift. Junior securities also include additional downward notching from the BCA, reflecting coupon suspension risk ahead of a potential failure.

Counterparty Risk Assessment

SpareBank 1 Nord-Norge's CR Assessment is Aa3(cr)/P-1(cr).

SpareBank 1 Nord-Norge's CR Assessment is Aa3(cr)/Prime-1(cr), three notches above the bank's adjusted BCA of a3, based on the substantial cushion against default provided to the senior obligations represented by the CRA by subordinated instruments. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CRA captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

Counterparty Risk Ratings (CRRs)

SpareBank 1 Nord-Norge's CRR is Aa3/P-1.

The CRR is three notches above the adjusted BCA of a3, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard 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 methodology and scorecard factors

Exhibit 7

SpareBank 1 Nord-Norge

Macro Factors							
Weighted Macro Profile	**Very Strong -**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.4%	aa1	↔	a3	Geographical concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	22.0%	aa1	↔	aa2	Access to capital	
Profitability						
Net Income / Tangible Assets	1.2%	a2	↔	a3	Expected trend	
Combined Solvency Score		aa2		a1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	28.9%	baa2	↓	baa3	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	13.3%	baa3	↑	baa2	Stock of liquid assets	
Combined Liquidity Score		baa2		baa3		
Financial Profile				a3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a2 - baa1		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Balance Sheet	**in-scope (NOK Million)**	**% in-scope**	**at-failure (NOK Million)**	**% at-failure**
Other liabilities	53,358	33.3%	61,337	38.3%
Deposits	78,223	48.8%	70,244	43.8%
Preferred deposits	57,885	36.1%	54,991	34.3%
Junior deposits	20,338	12.7%	15,253	9.5%
Senior unsecured bank debt	18,568	11.6%	18,568	11.6%
Junior senior unsecured bank debt	3,466	2.2%	3,466	2.2%
Dated subordinated bank debt	1,050	0.7%	1,050	0.7%
Preference shares (bank)	780	0.5%	780	0.5%
Equity	4,808	3.0%	4,808	3.0%
Total Tangible Banking Assets	160,253	100.0%	160,253	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	27.4%	27.4%	27.4%	27.4%	3	3	3	3	0	aa3
Counterparty Risk Assessment	27.4%	27.4%	27.4%	27.4%	3	3	3	3	0	aa3 (cr)
Deposits	27.4%	6.3%	27.4%	17.9%	2	3	2	3	0	aa3
Senior unsecured bank debt	27.4%	6.3%	17.9%	6.3%	2	2	2	3	0	aa3
Junior senior unsecured bank debt	6.3%	4.1%	6.3%	4.1%	0	0	0	0	0	a3
Dated subordinated bank debt	4.1%	3.5%	4.1%	3.5%	-1	-1	-1	-1	0	baa1
Non-cumulative bank preference shares	3.5%	3.0%	3.5%	3.0%	-1	-1	-1	-1	-2	baa3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa3	0	Aa3	Aa3
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3(cr)	
Deposits	3	0	aa3	0	Aa3	Aa3
Senior unsecured bank debt	3	0	aa3	0	Aa3	Aa3
Junior senior unsecured bank debt	0	0	a3	0	A3	A3
Dated subordinated bank debt	-1	0	baa1	0		(P)Baa1
Non-cumulative bank preference shares	-1	-2	baa3	0		Baa3 (hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
SPAREBANK 1 NORD-NORGE	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	Aa3
Senior Unsecured	Aa3
Junior Senior Unsecured	A3
Subordinate MTN	(P)Baa1
Pref. Stock Non-cumulative	Baa3 (hyb)

Source: Moody's Investors Service

Foreign currency deposit rating

SpareBank 1 Nord-Norge's foreign currency deposit rating of A1 is unconstrained given that Norway has no country ceiling.

Foreign currency debt rating

SpareBank 1 Nord-Norge's senior unsecured foreign currency debt rating of A1 is unconstrained given that Norway has country ceiling.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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