FitchRatings

Banks
Retail & Consumer Banks
Norway

SpareBank 1 Nord-Norge

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Support Rating	5
Support Rating Floor	NF

Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Key Rating Drivers

Low-Risk Model, Regional Concentration: SpareBank 1 Nord-Norge's (SNN) ratings reflect its stable, low-risk business model, healthy profitability, asset quality that is better than that of its peers, and sound capital ratios. The ratings also factor in potentially volatile property prices and SNN's moderate franchise with geographically concentrated lending.

SNN's ratings are one notch higher than those of its peers in the Sparebanken 1 Alliance, reflecting better asset-quality metrics and a more retail-oriented business model. However, the ratings are constrained by its size and geographical concentration compared with larger, more diversified peers.

Focus on Retail and SMEs: Fitch Ratings expects SNN to continue to implement its solid strategy based on a low-risk business model and a focus on retail and SME customers. SNN has successfully reduced concentration risks relating to large exposures.

Strong Asset Quality: Fitch expects SNN's better-than-peers' asset quality metrics to remain strong, driven by its conservative underwriting standards and a stable operating environment. Impaired loans (defined as Stage 3 loans under IFRS9) accounted for 0.6% of gross loans at end-September 2019. The bank has limited exposure to offshore segments and the large public-sector presence in northern Norway is a stabilising factor.

Stable and Healthy Profitability: SNN's regional franchise and strong client relationships support healthy pre-impairment profitability and stable revenue generation. Interest margins are healthy and cost-efficiency acceptable, with an average cost/income ratio of around 50% in the past four years. Loan impairment charges have also been low at under 10% of pre-impairment profitability on average, and are expected to continue to be low in the medium term. The bank also aims to strengthen fee income from ancillary products.

Strong Capitalisation: SNN's risk-weighted capital ratios compare well with those of international peers. We expect the bank to maintain sound buffers over its minimum regulatory requirements. Its leverage ratio is strong in a European context with a Basel leverage ratio of 7.9% at end-September 2019.

Wholesale Funding Reliance: Like most Nordic banks, SNN relies on wholesale funding, in particular covered bonds issued through SpareBank 1 Boligkreditt (S1B), a joint funding vehicle for members of the SpareBank 1 Alliance. We expect SNN to retain a large liquidity portfolio to mitigate refinancing risk.

Rating Sensitivities

Upgrade Unlikely: An upgrade is unlikely due to SNN's already high ratings in the context of its company profile and geographical concentration.

Sensitive to Deteriorating Asset Quality: SNN's ratings are sensitive to deteriorating asset quality, particularly if the bank is unable to absorb losses through earnings. This would likely be followed by difficulties in obtaining competitively priced funding.

Property Prices Correction: Fitch does not expect that a significant property price correction would lead to significant quality deterioration in the bank's mortgage lending, but reduced consumption could negatively affect its SME portfolio. SNN is less exposed to this risk because house prices in the north of Norway are lower than the national average.

Applicable Criteria

Bank Rating Criteria (October 2018)
Short-Term Ratings Criteria (May 2019)

Related Research

SpareBank 1 Nord-Norge - Ratings Navigator (September 2019)

The Major Sparebanken of the SpareBank 1 Alliance (January 2020)

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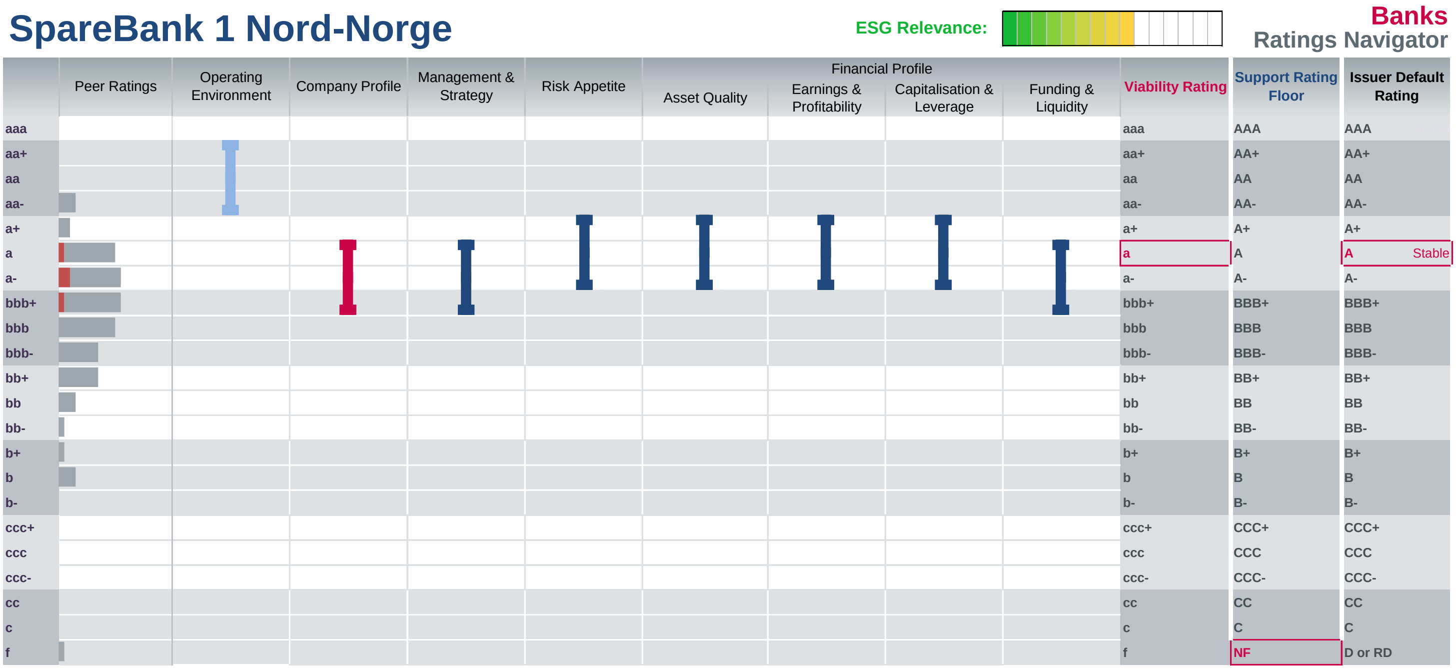
Ratings Navigator – Standalone Assessment



Support Rating Floor	Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)	A+ to A-
Actual country D-SIB SRF	NF
Support Rating Floor:	**NF**

Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)		✓	
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance			✓
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

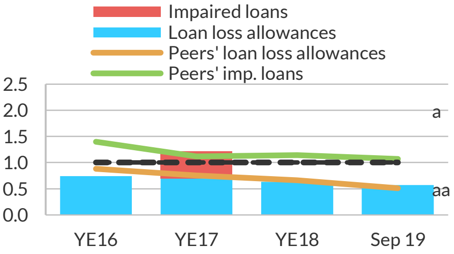
- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧	Positive	⇩	Negative
⇳	Evolving	▫	Stable

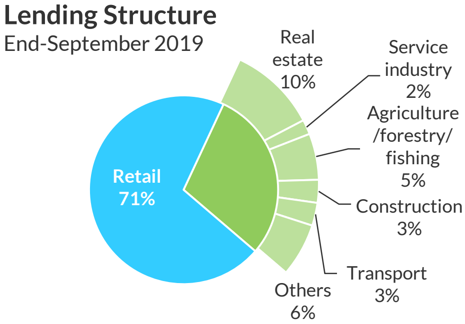
The Bank Resolution and Recovery Directive was adopted in Norway on 1st of January 2019. It provides a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support. In addition, SNN is not defined as a systemically important bank in Norway. We assign a Support Rating of '5' and a Support Rating Floor of 'No Floor' to SNN.

Asset Quality
(% gross loans)



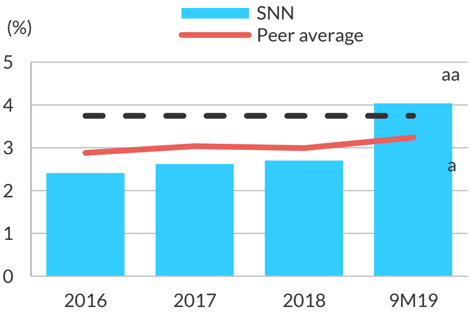
Note: Impaired loans fully covered by reserves at YE16, YE17 and Sep 19
Source:Fitch Ratings, Banks

Lending Structure
End-September 2019



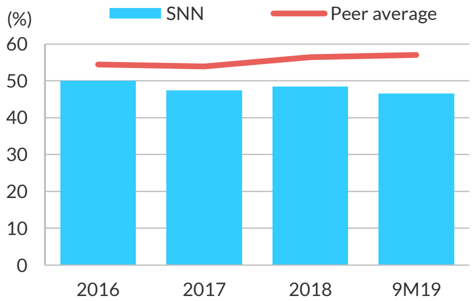
Gross loans incl. loans sold to S1B
Source: Fitch Ratings, Banks

Operating Profit/RWAs



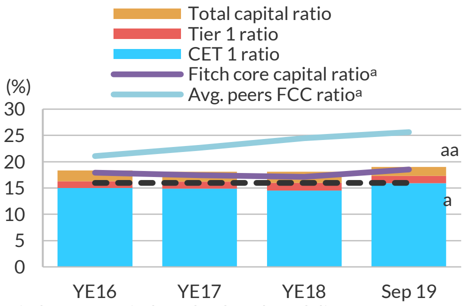
Source:Fitch Ratings, Banks

Cost Efficiency



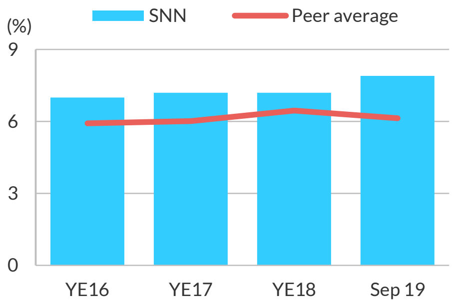
Source:Fitch Ratings, Banks

Risk-Weighted Capital Ratios



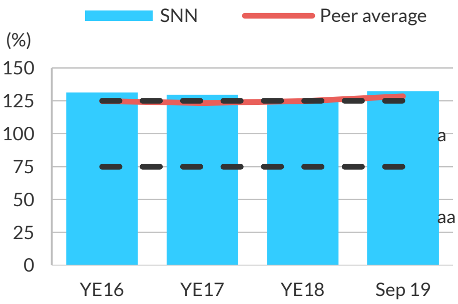
[a] Fitch Core Capital used as benchmark line
Source:Fitch Ratings, Banks

Reported Basel Leverage Ratios



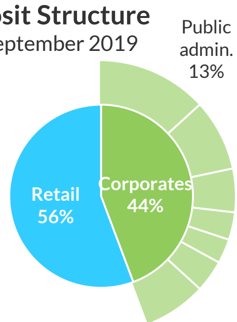
Source:Fitch Ratings, Banks

Loans/Deposits Ratios



Source:Fitch Ratings, Banks

Deposit Structure
End-September 2019



Source: Fitch Ratings

Note on Peer Charts:

Peer average includes Caja Rural de Navarra, Sociedad Cooperativa de Credito (CRN, VR: 'bbb+'), SpareBank 1 SMN (a-), SNN (a), SpareBank 1 SR-Bank (a-), Leeds Building Society (Leeds, a-), Belfius Bank SA/NV (Belfius, a-), Skipton Building Society (Skipton, a-), Coventry Building Society (Coventry, a-), de Volksbank N.V. (deVolks, a-) and ABN AMRO Bank N.V. (ABN, a).

Leeds, Belfius, Skipton, Coventry, ABN and de Volks' interim six months results were included in the latest average calculation while CRN was excluded due to data unavailability.

Black dashed lines in charts represent indicative quantitative ranges and corresponding implied scores for banks operating in environments that Fitch scores in the 'aa' category.

Summary Financials and Key Ratios

	30 Sep 19 9 months (NOKm) Unaudited	31 Dec 18 Year end (NOKm) Audited - unqualified	31 Dec 17 Year end (NOKm) Audited - unqualified	31 Dec 16 Year end (NOKm) Audited - unqualified
Summary income statement				
Net interest & dividend income	1,530	1,902	1,774	1,648
Net fees and commissions	691	883	846	786
Other operating income	1,063	631	694	573
Total operating income	3,284	3,416	3,314	3,007
Operating costs	1,138	1,474	1,366	1,320
Pre-impairment operating profit	2,146	1,942	1,948	1,687
Loan & other impairment charges	13	22	184	213
Operating profit	2,133	1,920	1,764	1,474
Other non-operating items (net)	-2	-4	n.a.	70
Tax	318	374	324	291
Net income	1,813	1,542	1,440	1,253
Other comprehensive income	-11	-49	75	-53
Fitch comprehensive income	1,802	1,493	1,515	1,200
Summary balance sheet				
Assets				
Gross loans	86,395	80,863	75,003	70,763
- Of which impaired	496	432	909	512
Loan loss allowances	496	511	516	527
Net loans	85,899	80,352	74,487	70,236
Interbank	n.a.	1,282	2,656	1,946
Derivatives	1,383	1,653	1,511	1,390
Other securities & earning assets	19,910	17,902	16,566	14,840
Total earning assets	107,192	101,189	95,220	88,412
Cash and due from banks	456	3,786	775	775
Other assets	1,732	1,181	1,191	1,314
Total assets	109,380	106,156	97,186	90,501
Liabilities				
Customer deposits	65,257	63,985	57,849	53,870
Interbank and other short-term funding	481	187	434	818
Other long-term funding	26,211	26,335	24,402	22,015
Trading liabilities and derivatives	744	874	902	985
Total funding	92,693	91,381	83,587	77,688
Other liabilities	2,713	1,717	1,300	1,302
Pref. shares and hybrid capital	780	780	530	500
Total equity	13,194	12,278	11,769	11,011
Total liabilities and equity	109,380	106,156	97,186	90,501

Summary Financials and Key Ratios (Cont.)

	30 Sep 19 9 months (NOKm) Unaudited	31 Dec 18 Year end (NOKm) Audited - unqualified	31 Dec 17 Year end (NOKm) Audited - unqualified	31 Dec 16 Year end (NOKm) Audited - unqualified
Ratios (annualised as appropriate)				
Profitability				
Operating profit/RWA	4.0	2.7	2.6	2.4
Net interest income/average earning assets	2.0	1.9	1.9	1.9
Non-interest expense/gross revenues	46.5	48.5	47.4	50.0
Net income/average equity	19.2	13.1	13.0	12.0
Asset quality				
Impaired loans ratio	0.6	0.5	1.2	0.7
Growth in gross loans	6.8	7.8	6.0	10.5
Loan loss allowances/impaired loans	100.0	118.3	56.8	102.9
Loan impairment charges/average gross loans	0.0	0.0	0.3	0.3
Capitalisation				
Fitch Core Capital ratio	18.6	17.1	17.4	17.9
Tangible common equity ratio	12.0	11.5	12.1	12.1
CET 1 ratio	15.9	14.5	14.9	15.0
Basel leverage ratio	7.9	7.2	7.2	7.0
Net impaired loans/FCC	0.0	-0.7	3.4	-0.1
Funding & liquidity				
Loans/customer deposits	132.4	126.4	129.7	131.4
LCR	144.0	172.0	126.0	121.0
Customer deposits/funding	70.4	70.1	69.5	69.8
NSFR	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions

Environmental, Social and Governance Considerations

FitchRatings **SpareBank 1 Nord-Norge**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

SpareBank 1 Nord-Norge has 5 ESG potential rating drivers

- SpareBank 1 Nord-Norge has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3'. ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.