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Fitch Rates Sparebank 1 Nord-Norge's Senior Non-Preferred 'A'; Upgrades Senior Preferred to 'A+'

Fitch Ratings-Paris-09 July 2020:

Fitch Ratings has assigned Sparebank 1 Nord-Norge's (SNN) NOK1 billion inaugural senior non-preferred note a long-term rating of 'A' and has upgraded SNN's senior preferred debt rating to 'A+' from 'A'. The bank's other ratings are unaffected by this rating action. A full list of rating actions is below.

The upgrade of the senior preferred debt rating reflects the protection that could accrue to senior preferred debt from the bank's more junior bank resolution debt and equity buffers and the bank's first issuance of senior non-preferred debt.

Key Rating Drivers

The long-term rating of senior preferred notes is one notch above the bank's Long-Term Issuer Default Rating (IDR, A/Negative), reflecting Fitch's expectation that SNN will meet its resolution buffer requirements with senior non-preferred and more junior debt and equity instruments. The Norwegian resolution authority has already set minimum requirement for own funds and eligible liabilities (MREL) for SNN, which the bank currently meets including senior preferred bonds.

However, from 1 January 2024, only debt subordinated to senior preferred liabilities will be eligible for MREL in Norway. We estimate that the bank will need to issue around NOK10 billion (around 15% of risk-weighted assets) under the current regulatory framework, which we believe to be manageable for the bank. Senior preferred debt issued after 1 January 2020 are not eligible for MREL. The short-term senior preferred debt rating is the lower of the two ratings mapping to an 'A+' long-term rating and reflects our assessment of SNN's funding and liquidity, which we score 'a-'.

Senior non-preferred notes are rated in line with SNN's Long-Term IDR because they are direct, unsecured and senior obligations of the bank. Senior non-preferred debt constitutes a new senior debt class under the Norwegian Act on Financial Institutions and Financial Groups that ranks above subordinated debt and below existing senior debt, which becomes senior preferred debt and ranks in line with certain other senior liabilities. Senior non-preferred debt will be bailed-in

before senior debt in the event of insolvency or resolution.

We also assigned SNN long- and short-term deposit ratings of 'A+'/'F1'. The long-term deposit rating is one notch above the bank's Long-Term IDR, because deposits benefit from the same level of protection as preferred senior creditors from the planned build-up of bank resolution debt and equity buffers.

RATING SENSITIVITIES

The long-term and short-term debt and deposits ratings are primarily sensitive to changes to SNN's Long-Term and Short-Term IDRs, which are sensitive to changes to the bank's Viability Rating.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-The debt and deposit ratings would be downgraded if the bank's IDRs are downgraded. The long-term senior preferred and deposit ratings are also sensitive to changes to our expectation that the bank will not use senior preferred debt to meet its resolution buffer from 2024. The build-up of a combined buffer of senior non-preferred and more junior debt sustainably above 10% of risk-weighted assets would also allow uplift to the senior preferred and deposit ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-The debt and deposit ratings would be upgraded if the bank's IDRs are upgraded.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

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

SpareBank 1 Nord-Norge

---Senior non-preferred; Long Term Rating; New Rating; A

---Senior preferred; Long Term Rating; Upgrade; A+

---long-term deposits; Long Term Rating; New Rating; A+

---Senior preferred; Short Term Rating; Affirmed; F1

---short-term deposits; Short Term Rating; New Rating; F1

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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