MOODY'S INVESTORS SERVICE

CREDIT OPINION
29 April 2021

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 to credit analysis

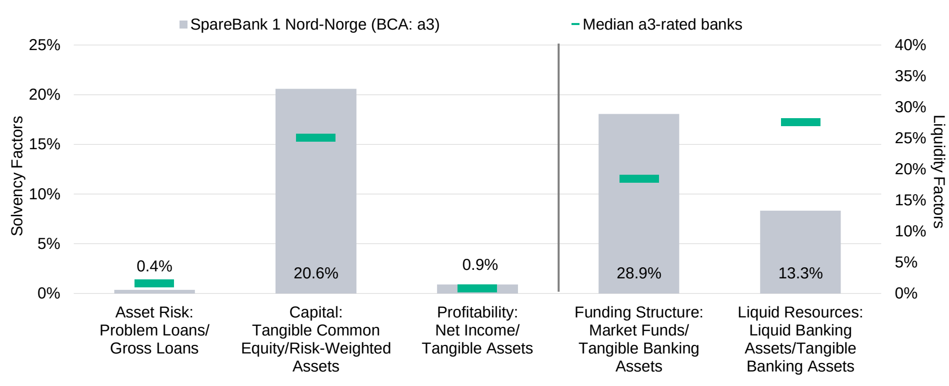

## Summary

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 17.5% in December 2020) and very low non-performing loans (NPLs of around 0.3% of gross loans in December 2020), and strong track record of low credit losses. The bank's BCA also takes into account its comfortable liquidity position and resilient profitability, despite the challenges conferred by the coronavirus in the local economy. 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 Loss Given Failure (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, based on the bank's Q1 2020 results. 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

» Equity certificate capital structure could cause some challenges in raising new capital in case of need

## 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 momentum could develop if SpareBank 1 Nord-Norge demonstrates (1) sustained excellent asset quality in its retail and corporate loan books, including in the more volatile segments; (2) continued good access to capital markets and strong liquidity on a sustainable basis; and/or (3) strong recurring earnings without compromising its risk profile.

## Factors that could lead to a downgrade

Future downward rating pressure would emerge if (1) SpareBank 1 Nord-Norge's problem loan ratio increases significantly above its similarly-rated peers; (2) financing conditions were to become more difficult; (3) its risk profile were to increase, for example as a result of increased exposure to more volatile sectors; and/or (4) macroeconomic environment were to deteriorate significantly leading to adverse developments in the Norwegian real-estate market. Also a reduction in the rating uplift as a result of lower volume of MREL securities than what we expect and incorporate in our forward-looking LGF analysis, could lead to downward rating pressure.

## Key indicators

Exhibit 2

**SpareBank 1 Nord-Norge (Consolidated Financials) [1]**

| | 12-20[2] | 12-19[2] | 12-18[2] | 12-17[2] | 12-16[2] | CAGR/Avg.[3] |
|---|---|---|---|---|---|---|
| Total Assets (NOK Billion) | 155.4 | 147.6 | 139.0 | 127.7 | 116.0 | 7.6[4] |
| Total Assets (USD Million) | 18,155.1 | 16,793.1 | 16,047.2 | 15,606.4 | 13,479.2 | 7.7[4] |
| Tangible Common Equity (NOK Billion) | 14.1 | 13.2 | 12.1 | 11.7 | 10.9 | 6.6[4] |
| Tangible Common Equity (USD Million) | 1,648.5 | 1,507.3 | 1,402.1 | 1,426.3 | 1,269.6 | 6.7[4] |
| Problem Loans / Gross Loans (%) | 0.3 | 0.3 | 0.5 | 1.0 | 0.6 | 0.6[5] |
| Tangible Common Equity / Risk Weighted Assets (%) | 20.6 | 19.9 | 17.1 | 17.4 | 17.9 | 18.6[6] |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 2.9 | 2.5 | 4.9 | 8.5 | 5.4 | 4.8[5] |
| Net Interest Margin (%) | 1.6 | 1.7 | 1.7 | 1.7 | 1.9 | 1.7[5] |
| PPI / Average RWA (%) | 2.8 | 2.4 | 2.2 | 2.4 | 2.2 | 2.4[6] |
| Net Income / Tangible Assets (%) | 0.9 | 1.4 | 1.1 | 1.2 | 1.0 | 1.1[5] |
| Cost / Income Ratio (%) | 45.4 | 48.6 | 48.9 | 47.4 | 50.0 | 48.1[5] |
| Market Funds / Tangible Banking Assets (%) | 28.9 | 29.9 | 30.7 | 31.4 | 30.8 | 30.3[5] |
| Liquid Banking Assets / Tangible Banking Assets (%) | 13.3 | 13.0 | 12.9 | 11.9 | 11.4 | 12.5[5] |
| Gross Loans / Due to Customers (%) | 178.0 | 178.9 | 177.6 | 182.3 | 178.7 | 179.1[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 year-end 2020, its consolidated assets (including loans transferred to covered bond companies) totalled over NOK155 billion (€14.7 billion).

## Recent developments

The nascent global economic recovery is under threat from the high level of COVID-19 cases and even with a gradual recovery, we expect 2021 real GDP in most advanced economies to be below pre-coronavirus levels, and we assume that difficulty in controlling the virus will hinder the gradual process of recovery in the short term. But over time, we expect better pandemic management and wider use of vaccines to reduce the importance of the virus as a macroeconomic variable.

Our forecasts assume that vaccines are unlikely to be available widely before the middle of 2021. Thus, the recovery path is still uncertain and will remain highly dependent on: (1) the distribution of vaccines, (2) effective pandemic management, and (3) government policy support.

On April 1, we changed our banking system outlook for the Norwegian banking sector to stable from negative. The change reflects our view that the Norwegian economy will recover strongly in 2021 after a coronavirus-induced downturn last year, exacerbated by a fall in the oil prices.Norwegian banks will maintain goof 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-Norges 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.

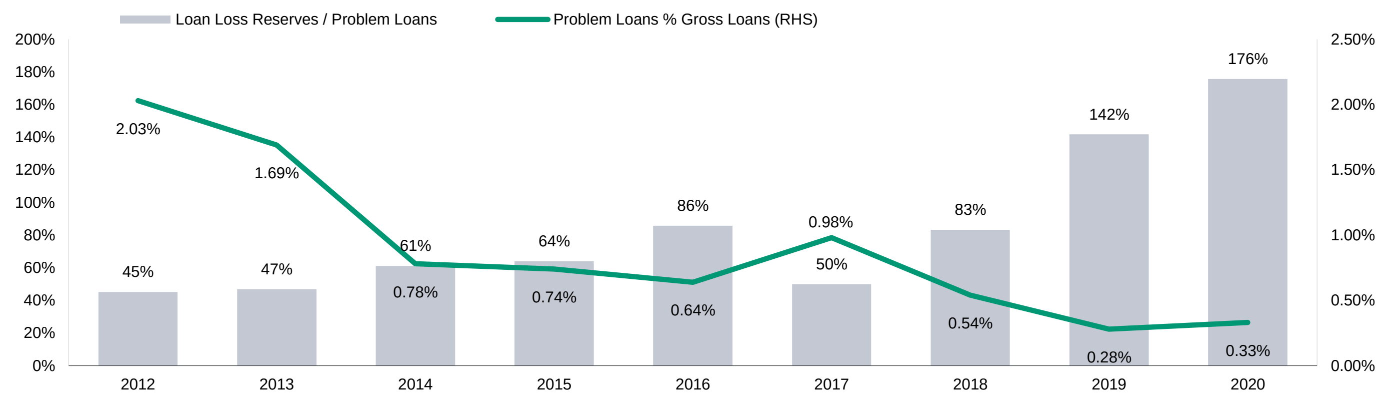
We expect the Norwegian mainland economy (excluding any oil-related activity) to have contracted (-2.0%) in 2020, while it is expected to rebound by +.36% in 2021. Unemployment peaked in March 2020 at 10.6% according to the Norwegian labour and Welfare administration and most recently stood at 3.8% as of year-end 2020 from 2.2% as of year-end 2019, which combined with the low economic activity will inevitable impact banks' credit growth, asset quality and earnings that will be strained from elevated credit costs.

### 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 0.3% in December 2020, only marginally higher from year-end 2019 (see Exhibit 3).

Exhibit 3

**SpareBank 1 Nord-Norge's asset quality evolution**




Note: Excludes off-balance sheet items and gross loans include loans transferred to covered bond companies
*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. However, we expect a marginal deterioration in the bank's asset quality metrics as Government support measures unwind during 2021.

SpareBank 1 Nord-Norge has relatively low exposure to the oil sector of around NOK1 billion, or around 0.7% of gross loans as of year-end 2020 (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 NOK41 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 4.4%, compared to around 0.7% for the corporate loan book as of year-end 2020.

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.

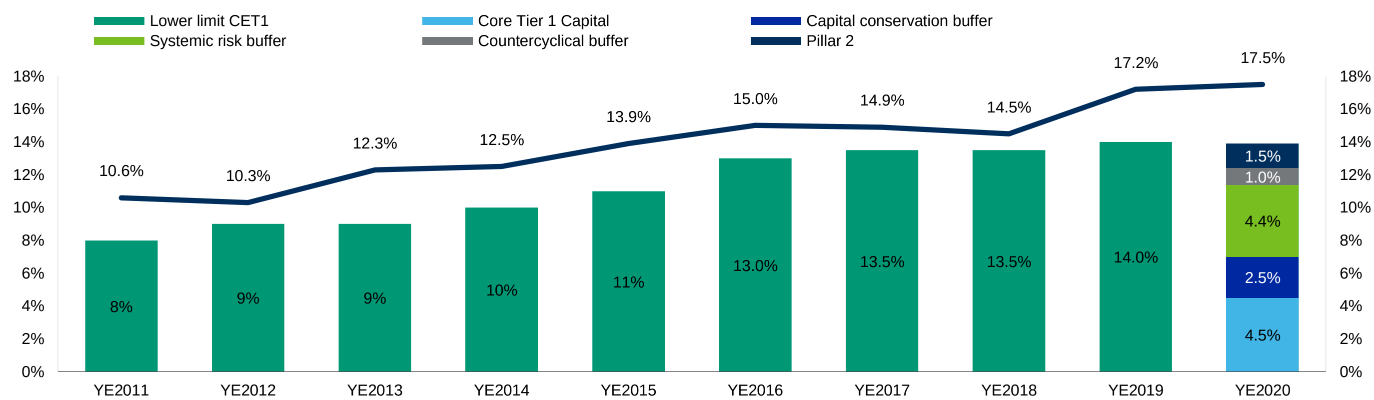
The negative adjustments that we incorporate on SpareBank 1 Nord-Norge's asset risk score are mainly driven by some concentrations in its loan book towards the real estate and construction sectors, which represents around 11% of gross loans (including transferred covered bond loans) as of December 2020. Although some of these borrowers will also be 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 at 18% and 17% respectively, while around 60% 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 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 204% in December 2020, 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 17.5% as of year-end 2020, marginally higher than 17.2% in December 2019 (see Exhibit 4). We also note the bank's other solid regulatory capital metrics with consolidated Tier 1 and total capital adequacy ratios of 18.9.% and 20.9% respectively as of December 2020.

Exhibit 4
**SpareBank 1 Nord-Norge's capitalisation**




*Source: Company reports and presentations*

Concurrently, the bank's leverage ratio was a comfortable 7.6% at year-end 2020, compared to 7.7% at end-December 2019 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 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 proposal to neutralise the positive RWAs impact from the transposition of the CRD IV directive into Norwegian law the systemic risk buffer was increased by 1.5% from year-end 2020.

SpareBank 1 Nord-Norge aims to have an internal capital buffer of 100 basis points above its regulatory CET1 minimum requirement (currently 13.9%), and thus its long-term CET1 capital ratio target is currently at least 14.9%, which is well below the bank's latest reported CET1 of 17.5%. Even in a scenario where the countercyclical buffer is reinstated at 2.5% which would take the bank's minimum CET1 requirement at 15.4% (or 16.4% 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.

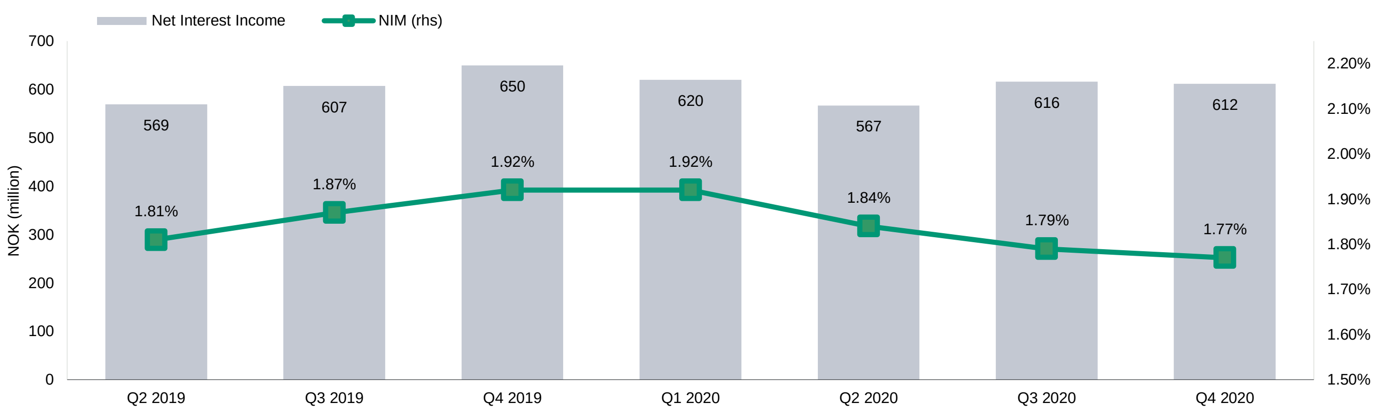
Our assigned Capital Score of aa2 reflects the bank's capital strength, but also its equity certificate capital (ECC) structure with ECC shareholders owning only 46.4% of the bank's total capital as of December 2020 and the rest in the form of primary capital. Accordingly, we believe that the bank may 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

In response to the economic stress from the coronavirus outbreak the Norges Bank has carried out three rate cuts totaling 150 basis points since March 2020, while prior to this period the key policy rate was on a rising trend. Low loan rates, coupled with an already fierce competition among Norwegian banks, have put pressure on SpareBank 1 Nord-Norge's net interest margin. The bank's net interest income was lower in 2020 and accounted for around 1.77% of average total assets, down from 1.92% in 2019 (see Exhibit 5).

Exhibit 5

**SpareBank 1 Nord-Norge's reported net interest income and margins**




*Source: Company reports and presentations, Moody's Financial Metrics*

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 report very good profitability metrics with a return on equity (RoE) of 12.6% in December 2020 (15.9% in December 2019). SpareBank 1 Nord-Norge reported a net income of NOK1,742 million in 2020 compared to NOK2,062 million a year earlier, with the large difference driven mainly by one-off gains recorded during 2019, as well as due to losses from investment in securities and sharp increase in loan loss provisions during 2020 on the back of the coronavirus outbreak.

SpareBank 1 Nord-Norge's reported cost-to-income ratio was 40.0% in December 2020, within the bank's target of lower than 40% and very low compared to similarly-rated peers globally. The bank announced on September 2020 the closure of 16 of its 31 branches, which will results to annual cost savings of NOK40mn. In addition the bank will be transferring another four branches to SpareBank 1 Helgeland as part of an earlier deal. The announced branch restructuring will improve the banks cost-income ratio and profitability in the next 12-18 months.

Loan loss provisions were NOK332 million in 2020, a substantial increase from NOK11 million a year earlier, and comprised 0.26% of gross loans (including covered bond loans). 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. Going forward, we expect the provisioning costs to remain elevated in 2020 than in prior years affecting the bank's bottom-line, although its recurring pre-provision income should remain at satisfactory levels.

Our profitability score reflects our expectation that over the next 12-18 months the bank's normalised earnings will be sustained at slightly lower levels, but 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...

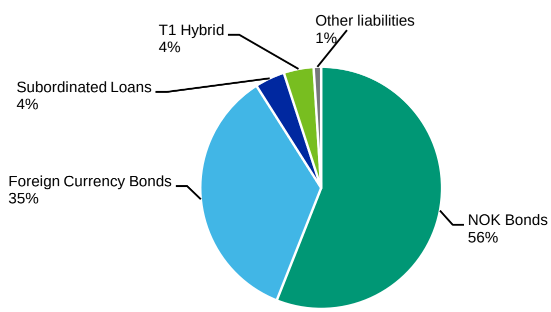
SpareBank 1 Nord-Norge's total funding (including covered bonds issued through SpareBank 1 Boligkreditt and SpareBank 1 Naeringskreditt) consisted of approximately in 53% from customer deposits as of year-end 2020, which have proven resilient over many years. During 2020 deposits grew 7.5%, while gross loans-to-deposits ratio (including securitized loans) was a high 175%. Retail deposits, which are considered more sticky, comprised around 55% of total customer deposits as of December 2020.

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). At year-end 2020, the bank had transferred retail mortgages worth NOK38.1 billion to these vehicles (i.e. around 30% 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. 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. We also note that the bank has a generally good maturities diversification of its capital markets funding (around NOK26 billion excluding covered bonds) until 2025, with repayments amounting to around NOK4 billion due in the next 12 months.

Exhibit 6

**SpareBank 1 Nord-Norge's market funding distribution as of year-end 2020**




*Source: Company presentations and reports*

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

SpareBank 1 Nord-Norge's liquid assets accounted for approximately 13% of total tangible banking assets in 2020. 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% at year-end 2020, 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, noting the smooth transition at the top management with a new CEO and CFO taking over earlier in the year with no drastic changes to the bank's strategic direction.

## Support and structural considerations

### Loss Given Failure and additional notching

The EU Bank Recovery and Resolution Directive (BRRD) has 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.

For SpareBank 1 Nord-Norge's long term deposit rating and senior unsecured debt rating, we take into consideration the likely impact of loss given failure (LGF) of the combination of their own volume and the amount of debt subordinated to them. We also take into consideration the expected level of MREL eligible capital issuance until the end of 2023, which we estimate at around NOK8 billion. The bank has so far issued NOK1 billion of senior non-preferred (SNP) debt in July 2020, which qualifies as MREL instrument. According to our forward-looking LGF model, this results in a Preliminary Rating Assessment (PRA) of three notches above the bank's BCA of a3 for both deposits and senior debt and zero notches for the bank's SNP debt (junior senior unsecured), reflecting very low loss given failure.

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 36 branches across the region as of year-end 2020. 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

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

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

SpareBank 1 Nord-Norge's CR Assessment is positioned at 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)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in the event of a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivative transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

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

The CRR is positioned 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) | | 20.6% | aa1 | ↔ | aa2 | Access to capital | |
| Profitability | | | | | | | |
| Net Income / Tangible Assets | | 0.9% | baa1 | ↔ | baa1 | Expected trend | |
| Combined Solvency Score | | | aa2 | | a2 | | |
| Liquidity | | | | | | | |
| Funding Structure | | | | | | | |
| Market Funds / Tangible Banking Assets | | 28.9% | baa2 | ↔ | baa2 | | |
| Liquid Resources | | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | | 13.3% | baa3 | ↔ | baa2 | Stock of liquid assets | |
| Combined Liquidity Score | | | baa2 | | baa2 | | |
| 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 | 52,515 | 33.8% | 59,977 | 38.6% |
| Deposits | 73,158 | 47.1% | 65,696 | 42.3% |
| Preferred deposits | 54,137 | 34.9% | 51,430 | 33.1% |
| Junior deposits | 19,021 | 12.2% | 14,266 | 9.2% |
| Senior unsecured bank debt | 23,167 | 14.9% | 23,167 | 14.9% |
| Dated subordinated bank debt | 1,050 | 0.7% | 1,050 | 0.7% |
| Preference shares (bank) | 780 | 0.5% | 780 | 0.5% |
| Equity | 4,660 | 3.0% | 4,660 | 3.0% |
| Total Tangible Banking Assets | 155,330 | 100.0% | 155,330 | 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 | 28.3% | 28.3% | 28.3% | 28.3% | 3 | 3 | 3 | 3 | 0 | aa3 |
| Counterparty Risk Assessment | 28.3% | 28.3% | 28.3% | 28.3% | 3 | 3 | 3 | 3 | 0 | aa3 (cr) |
| Deposits | 28.3% | 4.2% | 28.3% | 19.1% | 2 | 3 | 2 | 3 | 0 | aa3 |
| Senior unsecured bank debt | 28.3% | 4.2% | 19.1% | 4.2% | 2 | 2 | 2 | 3 | 0 | aa3 |
| Junior senior unsecured bank debt | 4.2% | 4.2% | 4.2% | 4.2% | -1 | -1 | -1 | 0 | 0 | a3 |
| Dated subordinated bank debt | 4.2% | 3.5% | 4.2% | 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 | |
| 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 -Dom Curr | 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 |

Moody's
INVESTORS SERVICE