

ISSUER COMMENT

3 FEBRUARY 2015

RATINGS

Sparebank 1 Nord-Norge

BFSR	C-
BCA / adj. BCA	baa1/ baa1
LT Bank Deposits (Domestic/Foreign)	A2
Senior Unsecured / MTN (Foreign)	A2/ (P)A2
Subordinate MTN	(P)Baa2
Junior Subordinate MTN	(P)Baa3
Pref. Stock Non-cumulative (Foreign)	Ba1(hyb)
ST Bank Deposits (Domestic/Foreign)	P-1

Source: Moody's

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SpareBank 1 Nord-Norge

SpareBank 1 Nord-Norge's write-down of Russian exposures reduces Q4 2014 profits

On 23 January, Sparebank 1 Nord-Norge (SNN, A2 negative, C-/baa1 stable) announced a NOK300 million (\$39.4 million) loss on its Russian exposure that will be included in the group's full year 2014 financial statement. This write-down is the result of the ongoing contraction in the Russian economy, against the background of turbulence in Russia's financial markets in December 2014, including rapid rouble depreciation and a concurrent slump in securities prices. As a result of the write-down, SNN's combined lending and equity exposure to the Russian banks it partly owns has been reduced to NOK315 million (almost 0.4% of SNN's total assets) from NOK615 million previously. Although the impact on profits for Q4 2014 is negative, given its small size we regard its effect on the bank's overall strength as limited.

SNN is involved in banking operations in Russia through Tavrichesky Bank (TB, unrated) and North-West 1 Alliance Bank (NW1, unrated), with ownership shares of 10% and 75%, respectively. SNN's original NOK165 million equity exposure was split between NOK95 million in TB (total assets: NOK215 million), and NOK70 million in NW1 (total assets: NOK400 million).

Given that TB has been experiencing liquidity pressures caused by deposit outflows, we believe that this entity will account for the majority of SNN's write-down; in contrast, NW1 will be affected to a lesser degree as it is primarily funded by SNN. As of end September 2014, SNN provided the equivalent of NOK343¹ million of funding to NW1 which accounted for almost 100% of its market funds.

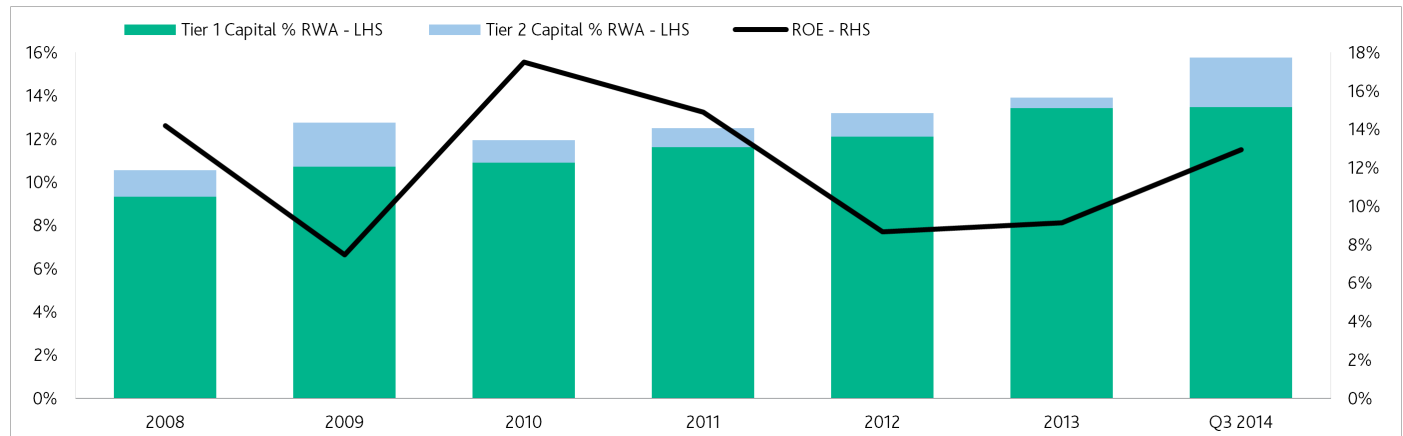
The write-down represents almost 50% of SNN's overall exposure to these banks; however, the overall impact on SNN is manageable when compared to its NOK354 million average quarterly net income generated in the first three quarters of 2014. SNN's residual exposure to these banks accounts for just below 4% of Tier 1 capital as of end September 2014.

SNN has, since 2013, been working on exit solutions for its Russian exposures, but these plans have not been realised because of the ongoing contraction in the Russian economy. We expect the efforts to exit/downscale the remaining Russian exposures will also continue after the announced write-down.

The bank's current rating fully reflects its strong regional market position and brand recognition in Northern Norway albeit the Russian exposures and risks associated with them, which will have limited impact in SNN's improving capital and profitability ratios (see Exhibit 1).

Exhibit 1

Sparebank 1 Nord-Norge's capital ratios have improved



Source: Banking Financial Metrics, Company Reports

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1 North-West 1 Alliance Bank's Q3 2014 Financial Statements. Exchange rate used at 1 Oct 2014, 1 RUB=0.1628 NOK (RUB2,108 million).

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