

CREDIT OPINION

29 November 2019

Update

 Rate this Research

RATINGS

SpareBank 1 Nord-Norge

Domicile	Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A1
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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CLIENT SERVICES

SpareBank 1 Nord-Norge

Update to credit analysis

Summary

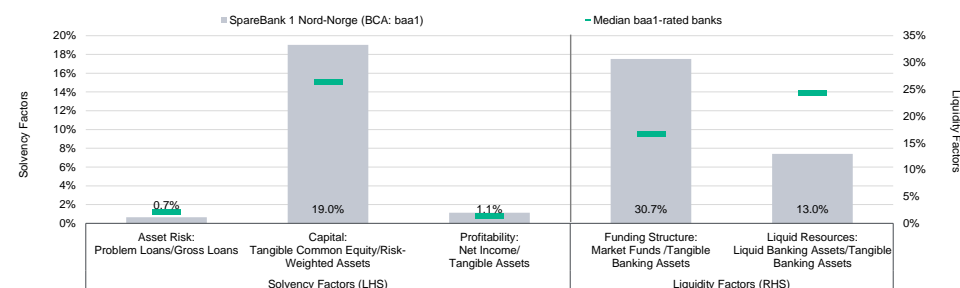
[SpareBank 1 Nord-Norge's](#) long-term deposit and senior unsecured debt ratings of A1 take into account the bank's baseline credit assessment (BCA) of baa1, but also our forward looking loss given failure (LGF) analysis which leads to three notches of rating uplift from its BCA.

SpareBank 1 Nord-Norge's BCA of baa1 reflects the bank's strong regional position, retail focus combined with a solid deposit franchise, as well as its robust capital base (CET1 of 15.9% in September 2019) and low level of non-performing loans (NPLs of 0.4% of gross loans in September 2019). The bank's BCA also takes into account its comfortable liquidity position and satisfactory profitability, benefiting from the more favourable economic conditions in northern Norway. These positive rating drivers are to some degree counterbalanced by downside risks stemming from the bank's exposure to the real estate sector, which are vulnerable to property price movements, 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. The deposit and senior debt ratings have a stable outlook.

Exhibit 1

Rating Scorecard - Key financial ratios



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 profitability supported by a low cost base

Credit challenges

- » Asset risk profile partly affected by some sector and borrower 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 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 good 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 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 also incorporate in our forward-looking LGF analysis, could lead to downward rating pressure.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

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

	09-19 ²	12-18 ²	12-17 ²	12-16 ²	12-15 ²	CAGR/Avg. ³
Total Assets (NOK Billion)	144.3	139.0	127.7	116.0	109.8	7.6 ⁴
Total Assets (USD Million)	15,886.4	16,047.2	15,606.4	13,479.2	12,399.7	6.8 ⁴
Tangible Common Equity (NOK Billion)	13.4	12.1	11.7	10.9	9.8	8.7 ⁴
Tangible Common Equity (USD Million)	1,477.0	1,402.1	1,426.3	1,269.6	1,110.6	7.9 ⁴
Problem Loans / Gross Loans (%)	0.5	0.5	1.0	0.6	0.7	0.7 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	19.0	17.1	17.4	17.9	17.5	17.8 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.7	4.9	8.5	5.4	6.3	5.7 ⁵
Net Interest Margin (%)	1.5	1.7	1.7	1.9	2.0	1.8 ⁵
PPI / Average RWA (%)	2.4	2.2	2.4	2.2	1.4	2.1 ⁶
Net Income / Tangible Assets (%)	1.2	1.1	1.2	1.0	0.8	1.1 ⁵
Cost / Income Ratio (%)	46.9	48.9	47.4	50.0	63.5	51.3 ⁵
Market Funds / Tangible Banking Assets (%)	30.3	30.7	31.4	30.8	33.7	31.4 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	11.2	12.9	11.9	11.4	12.8	12.1 ⁵
Gross Loans / Due to Customers (%)	165.8	177.6	182.3	178.7	183.8	177.7 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 due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel III periods presented.

Source: Moody's Investors Service; 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 30 September 2019, its consolidated assets (including loans transferred to covered bond companies) totalled NOK144 billion.

Detailed credit considerations

SpareBank Nord-Norge's BCA is supported by its Very Strong - Macro Profile

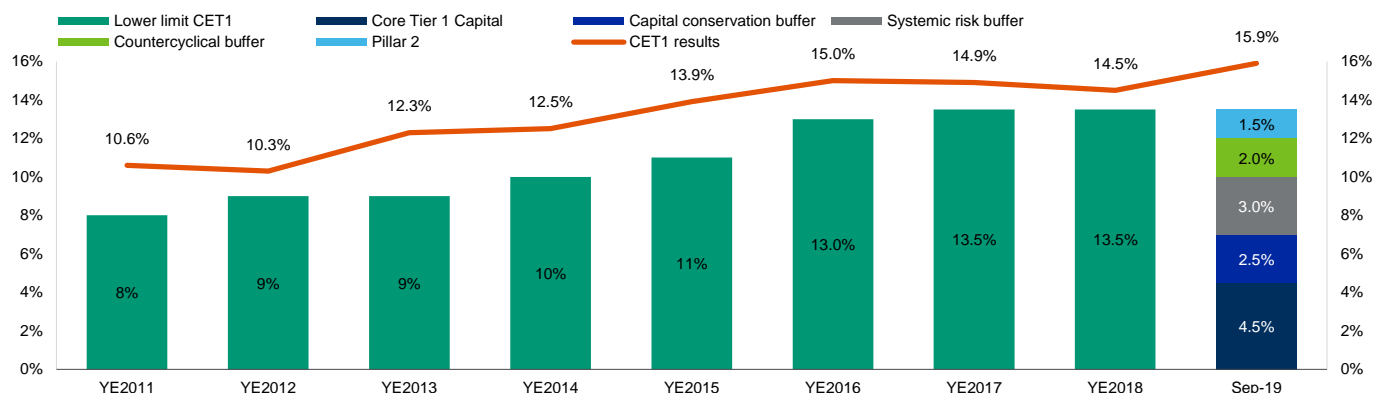
As a domestically oriented bank, we align SpareBank 1 Nord-Norge's Macro Profile with that of Norway at [Very Strong -](#). Norwegian banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as very low susceptibility to adverse events. The main risks to the banking sector stem from Norway's high household indebtedness, elevated real-estate prices, and extensive use of market funding by the domestic banks. However, these risks are mitigated by the household sector's strong ability to service debt and by the Norwegian government's well coordinated monetary and regulatory policies. Additional supporting factors are the country's sizeable sovereign wealth fund that is able to support the economy in the event of financial crisis.

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 have a loss absorption buffer available. The bank's consolidated Tangible Common Equity (TCE) over risk-weighted assets (including transitional floors) ratio was a high 19% at end-September 2019, up from 17.1% in December 2018, while the group's reported Common Equity Tier 1 (CET1) was 15.9% at end-September 2019 including the bank's third-quarter 2019 net profit (see Exhibit 3). The increase in the bank's capital metrics is mainly driven by the proportional deconsolidation of BN Bank in Q3 2019, following a reduction in its stake to 9.99%, reducing significantly its risk-weighted assets (RWAs).

Exhibit 3

SpareBank 1 Nord-Norge's capitalisation



Source: Company reports and presentations

SpareBank 1 Nord-Norge aims to have an internal capital buffer of 100 basis points above the regulatory CET1 minimum requirement (13.5%), and thus its long-term CET1 capital ratio target is currently 14.5%. 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 the region. In view of the comfortable capital metrics, we note that SpareBank 1 Nord-Norge has removed its limit on the dividend payout ratio, which was previously capped at a maximum of 50% of group profits, and indicated that future payout will take into account the bank's capital levels and future growth. For 2019, the bank targets a minimum payout ratio of 50%.

We also note the bank's other solid regulatory capital metrics with consolidated Tier 1 and total capital adequacy ratios of 17.3% and 19.0% respectively at end-September 2019. Concurrently, the bank's leverage ratio was 7.9% at end-September 2019, compared to 7.2% at end-December 2018, well above the 5% minimum requirement that came into force on 30 June 2017. Furthermore, the removal of the 80% Basel I floor in calculating its RWAs combined with the introduction of the SME discount under CRD IV by the end of 2019 and the Q4 2019 profit will likely benefit the bank's CET1 capital ratio by more than 200 basis points. This will more than offset the increase in the countercyclical buffer by 50 basis points (to 2.5% from 2% currently) and the Ministry of Finance's proposal to increase the systemic risk buffer by 150 basis points (to 4.5% from 3% currently) for IRB-based banks.

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 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.

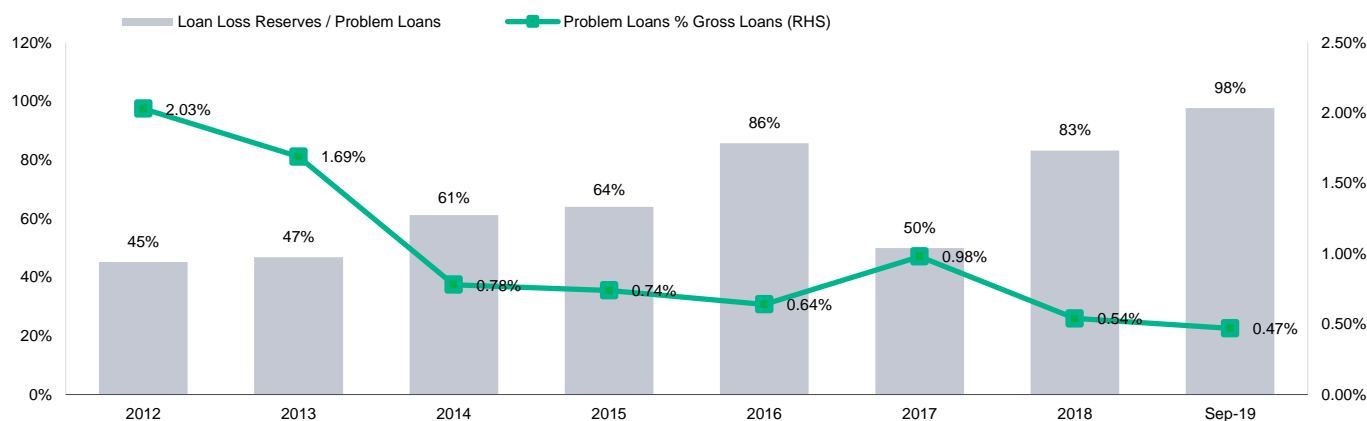
Asset risk profile partly affected by some sector and borrower concentrations, although problem loans are very low

SpareBank 1 Nord-Norge's loan book benefits from a substantial proportion of retail loans (around 71% of gross loans, including loans transferred to covered bond companies, at end-September 2019), mostly in the form of mortgages. The bank's asset quality is generally strong, with a problem loans ratio (nonperforming and doubtful loans as a percentage of total gross loans including covered bond loans) of 0.47%, down from 0.54% at end-December 2018 (see Exhibit 4).

The bank's generally good asset performance benefits from a favourable lending environment, including high unemployment benefits that support borrowers' ability to repay debt, a creditor-friendly legal framework, and the more benign macroeconomic conditions in the northern part of Norway where the bank is based. Northern Norway had a very low registered unemployment rate of 1.8% as of September 2019 compared to 2.2% nationally.

Exhibit 4

SpareBank 1 Nord-Norge's asset quality evolution



Note: Gross loans include loans transferred to covered bond companies

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

SpareBank 1 Nord-Norge has low exposure to the oil sector of around NOK1 billion, or 0.82% of gross loans at end-September 2019 (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. We note that NOK37 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 3.7%, compared to around 0.7% for the corporate loan book at end-September 2019. However, we note that the 3.7% default rate in oil-related exposures has declined from 4.9% at end-December 2016, reflecting the improving conditions in the oil-sector and favourable prospects in the northern region.

Our assigned Asset Risk Score of a2 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 loans) at end-September 2019. We also note some risks related to individual borrower concentration, which could accelerate the extent and pace of any deterioration in asset quality, a characteristic common to many Nordic banks, although we view favourably the bank's increased focus in reducing some borrower concentrations. In addition, our concerns are somewhat mitigated by the relative diversification within the bank's commercial real-estate exposure, with offices and shopping centres being the largest at 22% and 20.8% respectively, and the fact that more than 66% of this exposure is in smaller commitments of less than NOK100 million.

Looking ahead, we expect the bank's problem loan ratio to remain stable due to the currently benign economic conditions in the country. 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 asset quality positioning. The bank's provisioning coverage for problem loans (including collective provisions) increased to 98% at end-September 2019 from 83% at end-December 2018, eliminating any downward risks from its existing stock on problem loans.

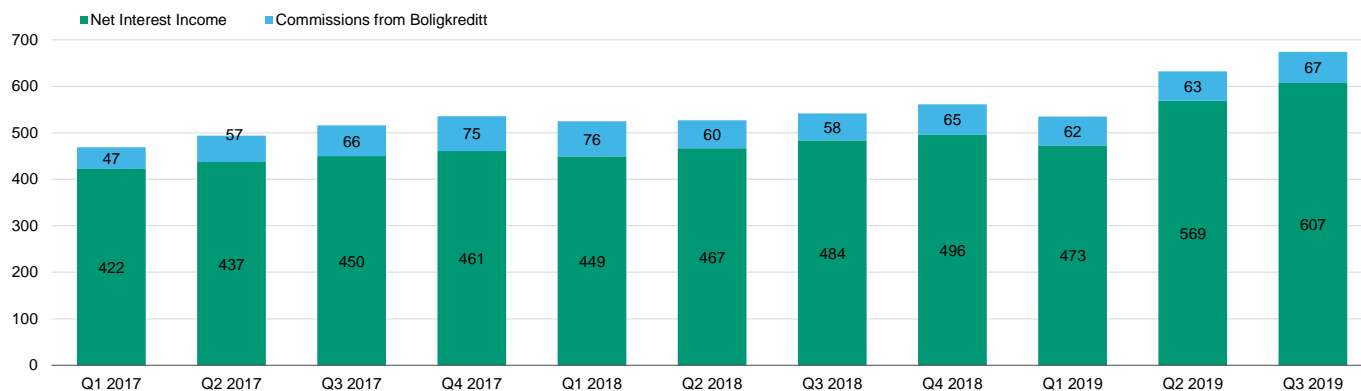
Satisfactory recurring profitability supported by a low cost base

SpareBank 1 Nord-Norge's earnings base benefits from its resilient retail banking operations, with a reported normalised return on equity (RoE) of 14.1% (excluding NOK460 million gain from the insurance merger between SpareBank 1 Forsikring AS and DNB Forsikring AS on 01.01.19) in the nine months ending September 2019, up from 13.3% in the same period last year. Such performance is among the strongest compared to Norwegian peers.

The bank's reported net interest income (see Exhibit 5) accounted for 1.87% of average total assets in the nine months ending September 2019, compared to 1.85% in the same period in 2018, reflecting both loan growth of 5.5% year-on-year and upward

repricing of loans that somewhat alleviates margin pressure from fierce competition (especially for mortgages). SpareBank 1 Nord-Norge raised its interest rate on residential mortgages by an average of 25 basis points in September 2019, following earlier increases of 25 basis points in June 2019 and April 2019. The interest rate increases followed increases in Norges Bank's base rate, with four changes taking place within 12 months, the latest one in September 2019 raising the official rate by 25 basis points to 1.5%.

Exhibit 5

SpareBank 1 Nord-Norge's net interest income (NOK million)

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

SpareBank 1 Nord-Norge normalised cost-to-income ratio was 40.3% in September 2019, which is close to the bank's target of 40% or lower. The bank's operating costs in September 2019 increased by nearly 5%, compared to the same period last year, largely related to digitalisation, automation, new system solutions and higher costs in its subsidiaries. The increased digitalisation and changes in customer behaviour have triggered a reorganization at the bank to improve efficiency. The bank's reorganisation with the reduction of the full-time employees of the parent bank by up to 15%, closure of 21 branches and concentration on 16 financial centres, have helped reduce the bank's cost base.

Loan loss provisions stood at 0.02% of average gross loans in the nine months of 2019, from 0.01% in the same period last year. In absolute terms, we note that the bank reported a loan loss expense of NOK13 million in first nine months of 2019, up from loan losses of NOK8 million in same period last year, indicating its favourable credit risk profile and the low downside risks to its earnings.

SpareBank 1 Nord-Norge reported a net income of NOK1,813 million in the nine months of 2019 compared to NOK1,171 million in the same period last year, with the large increase driven mainly by the one-off gain of NOK460 million from the insurance merger. Excluding the one-off gain, net income grew 16% compared to the same period year earlier. 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. Furthermore, we anticipate that loan losses will remain low and manageable, given the generally favourable economic activity in the region.

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 Næringskreditt) consisted of approximately 51% in the form of customer deposits at end-September 2019, which have proven resilient over many years. At end-September 2019, the bank's year-on-year growth in deposits was 6.2%, while its gross loans-to-deposits ratio (including securitized loans) was a high 166%. Retail deposits, which are considered more sticky, comprised around 56% of total customer deposits at end-September 2019.

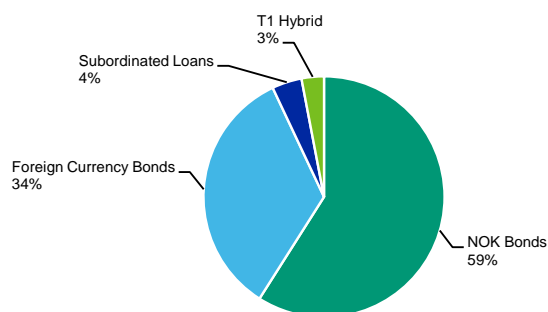
SpareBank 1 Nord-Norge has increasingly used covered bond funding, which is done off-balance sheet through specialised companies owned jointly together with other members of the SpareBank 1 Alliance (SpareBank 1 Boligkreditt for residential mortgages and SpareBank 1 Næringskreditt for commercial mortgages). At end-September 2019, the bank had transferred retail mortgages worth NOK34.7 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. Our Funding Structure Score reflects our view that SpareBank 1 Nord-Norge's usage of market funding (see Exhibit 6) is of sufficient scale (market funds, including covered bond issued by the covered bond companies, comprised around 31% of tangible banking assets at end-September 2019) 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 2024, with repayments amounting to almost NOK5 billion due in 2020.

Exhibit 6

SpareBank 1 Nord-Norge's market funding distribution at end-September 2019



Source: Company presentations and reports

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

SpareBank 1 Nord-Norge's liquid assets accounted for approximately 11% of total tangible banking assets as per our scorecard at end-September 2019. 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 144% at end-September 2019 (132% at end-September 2018), 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.

Environmental, social and governance 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.

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 over the coming 2-3 years, which we estimate at around NOK9 billion. According to our forward-looking LGF model, this results in a Preliminary Rating Assessment (PRA) of three notches above the bank's BCA of baa1 for both deposits and senior debt, reflecting very low loss given failure.

For junior securities issued by SpareBank 1 Nord-Norge, our LGF analysis confirms a high level 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 38 branches across the region as of end-September 2019. 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%. As a result of implementation of BRRD framework in Norway on 01.01.2019, which is aligned with the EU's bank recovery and resolution directive, we revised our assumptions in line with other banks under these frameworks and assume low probability of government support for debt and deposits, resulting in no additional notches of rating uplift above their PRA, positioning them at A1.

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 A1(cr)/P-1(cr).

SpareBank 1 Nord-Norge's CR Assessment is positioned at A1(cr)/Prime-1(cr), three notches above the bank's adjusted BCA of baa1, 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 A1/P-1.

The CRR is positioned three notches above the adjusted BCA of baa1, 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	0.7%	aa1	↔	a2	Single name concentration	Geographical concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	19.0%	aa1	↔	aa2	Access to capital		
Profitability							
Net Income / Tangible Assets	1.1%	a2	↔	a3	Expected trend	Earnings quality	
Combined Solvency Score		aa2		a1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	30.7%	baa3	↔	baa3	Extent of market funding reliance	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	12.9%	baa3	↔	baa2	Quality of liquid assets	Stock of liquid assets	
Combined Liquidity Score		baa3		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				baa1			
Affiliate Support notching				0			
Adjusted BCA				baa1			
Balance Sheet							
		in-scope (NOK Million)	% in-scope	at-failure (NOK Million)	% at-failure		
Other liabilities		47,663	33.0%	54,319	37.7%		
Deposits		65,257	45.2%	58,601	40.6%		
Preferred deposits		48,290	33.5%	45,876	31.8%		
Junior deposits		16,967	11.8%	12,725	8.8%		
Senior unsecured bank debt		25,161	17.4%	25,161	17.4%		
Dated subordinated bank debt		1,050	0.7%	1,050	0.7%		
Preference shares (bank)		780	0.5%	780	0.5%		
Equity		4,327	3.0%	4,327	3.0%		
Total Tangible Banking Assets		144,238	100.0%	144,238	100.0%		

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned LGF	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	30.5%	30.5%	30.5%	30.5%	3	3	3	3	0	a1
Counterparty Risk Assessment	30.5%	30.5%	30.5%	30.5%	3	3	3	3	0	a1 (cr)
Deposits	30.5%	4.3%	30.5%	21.7%	2	3	2	3	0	a1
Senior unsecured bank debt	30.5%	4.3%	21.7%	4.3%	2	2	2	3	0	a1
Dated subordinated bank debt	4.3%	3.5%	4.3%	3.5%	-1	-1	-1	-1	0	baa2
Junior subordinated bank debt	3.5%	3.5%	3.5%	3.5%	-1	-1	-1	-1	-1	baa3
Non-cumulative bank preference shares	3.5%	3.0%	3.5%	3.0%	-1	-1	-1	-1	-2	ba1

Instrument Class	Loss Given		Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
	Failure	notching					
Counterparty Risk Rating	3	0		a1	0	A1	A1
Counterparty Risk Assessment	3	0		a1 (cr)	0	A1(cr)	
Deposits	3	0		a1	0	A1	A1
Senior unsecured bank debt	3	0		a1	0		A1
Dated subordinated bank debt	-1	0		baa2	0		(P)Baa2
Junior subordinated bank debt	-1	-1		baa3	0		(P)Baa3
Non-cumulative bank preference shares	-1	-2		ba1	0		Ba1 (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	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
Subordinate MTN	(P)Baa2
Jr Subordinate MTN	(P)Baa3
Pref. Stock Non-cumulative	Ba1 (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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