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CREDIT OPINION
31 January 2024

Update

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SpareBank 1 Helgeland

Update following rating affirmation, outlook positive

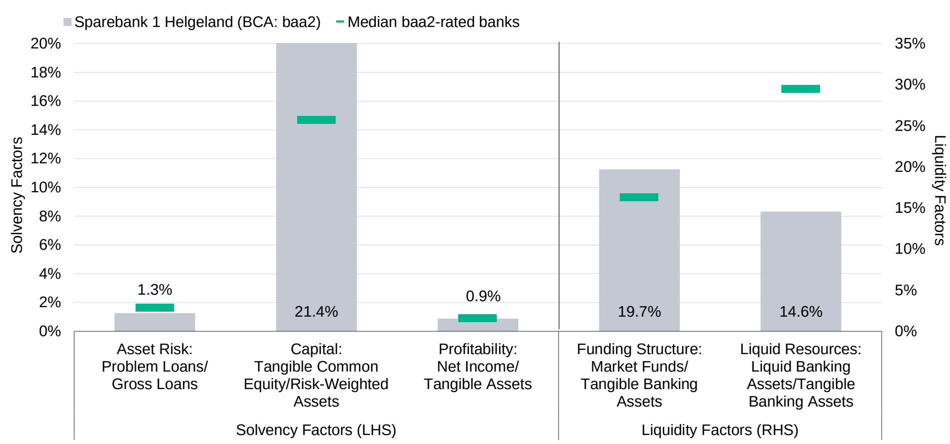
Summary

SpareBank 1 Helgeland's (SB1 Helgeland) A3 long-term deposit and issuer ratings incorporate (1) the bank's baa2 standalone Baseline Credit Assessment (BCA); and (2) two notches of rating uplift from the application of our Advanced Loss Given Failure (LGF) analysis, which takes into account the risks faced by different liability classes should the bank enter resolution. The bank's ratings do not benefit from government support uplift because of our assessment of a low probability of support.

SB1 Helgeland's baa2 BCA is driven by (i) the successful integration of the bank into the SpareBank 1 Alliance; (2) the bank's strong capitalisation; and (3) stable profitability and healthy operating efficiency. These credit strengths are balanced against the bank's (1) limited geographical reach, with around 84% of loans extended within its home district of Helgeland, (2) concentration in the cyclical real estate and construction sectors, and slightly higher problem loans ratio and lower provisioning coverage than its local peers; and (3) material market funding reliance.

Exhibit 1

Rating Scorecard - Key financial ratios



These are our Banks Methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average and the latest figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures.
Source: Moody's Investors Service

RATINGS

SpareBank 1 Helgeland

Domicile	Norway
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

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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Credit strengths

» Stable asset quality with retail focused lending and no direct exposure to the oil sector

» The bank's solid capital position provides a good loss-absorption buffer

» Improving profitability and healthy operating efficiency

Credit challenges

» Exposure to elevated risks from lending to cyclical sectors, and geographical and credit concentrations

» Material market funding reliance, which renders the bank vulnerable to any adverse changes in investor sentiment, despite a sizeable deposit base

» A high reliance on net interest income

Outlook

The positive outlook on the long-term deposit and long-term issuer ratings reflects the bank's improving fundamentals in terms of asset risk and profitability, together with the successful integration of SpareBank 1 Helgeland into the SpareBank 1 Alliance, which creates positive rating pressure. These considerations are balanced against a slightly higher than local peers credit risk profile, and depositor concentrations.

Factors that could lead to an upgrade

» SpareBank 1 Helgeland's BCA could be upgraded if the bank maintains its strong solvency position, including lower asset risk, while lowering its dependance on market funding and high deposit concentration. An upgrade of the BCA would lead to an upgrade of the long-term ratings.

» The bank's deposit and issuer ratings could be upgraded if its liability structure changes to include substantially higher amounts of more junior debt.

Factors that could lead to a downgrade

» The BCA could be downgraded if (1) the bank's problem loan ratio increases significantly, or its cost of risk rises sustainably above the historical average; (2) if there is a significant increase in single-borrower or sector concentration levels; or (3) the bank increases its reliance on confidence-sensitive market funding.

» There could also be downward pressure on the bank's ratings in case its liability structure changes, such that it increases the expected loss given failure for deposits and senior debt.

Key indicators

Exhibit 2

SpareBank 1 Helgeland (Consolidated Financials) [1]

	09-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	45.4	45.0	44.0	33.2	34.1	7.9[4]
Tangible Common Equity (NOK Billion)	4.5	4.4	4.1	3.5	2.8	12.9[4]
Problem Loans / Gross Loans (%)	1.2	0.9	1.1	1.9	2.0	1.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	21.4	21.2	19.1	19.2	15.1	19.2[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	9.5	7.0	9.1	14.3	17.4	11.5[5]
Net Interest Margin (%)	2.1	1.8	1.6	1.7	1.8	1.8[5]
PPI / Average RWA (%)	3.5	2.7	2.0	2.0	2.1	2.5[6]
Net Income / Tangible Assets (%)	1.1	1.0	0.5	0.9	0.9	0.9[5]
Cost / Income Ratio (%)	35.2	40.6	48.2	46.3	41.4	42.4[5]
Market Funds / Tangible Banking Assets (%)	19.4	19.7	22.2	20.9	22.2	20.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	16.6	14.6	14.0	16.1	16.8	15.6[5]
Gross Loans / Due to Customers (%)	149.5	148.6	157.1	148.2	145.9	149.9[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 Helgeland is a savings bank with a leading position in Helgeland, the southernmost district in Northern Norway, with consolidated assets of NOK37.2 billion (€3.3 billion) as of September 2023. It was the 11th largest savings bank in Norway in terms of consolidated assets as of year-end 2022. The bank provides traditional banking products and financial services to retail customers, small and medium-sized companies, municipalities and institutions that are predominantly connected to Helgeland. The bank joined the Sparebank 1 alliance in 2021.

Recent developments

In 2021 Sparebank 1 Helgeland (previously called Helgeland Sparebank) and SpareBank 1 Nord-Norge (SNN), (Aa3/Aa3 stable, a3) completed a strategic partnership transaction announced in March 2020, whereby SB1 Helgeland acquired part of SNN's portfolio and joined the Sparebank 1 alliance while SNN increased its ownership in SB1 Helgeland.

In particular, in October 2021, SB1 Helgeland completed the transfer of the majority of SNN's NOK 10.2bn loan portfolio in the Helgeland region, about 90% of which comprising retail mortgages, along with onboarding SNN's employees in the region. At the same time SB 1 Helgeland issued NOK800 million of new equity certificates, a proportion of which were acquired by SNN to increase its ownership of SB1 Helgeland to 19.99% and becoming the second largest shareholder.

Earlier in February 2021, SB1 Helgeland changed its legal name from Helgeland Sparebank and formally joined the Sparebank 1 alliance on 15 March 2021. Concurrently, SB1 Helgeland acquired 15% stake in SNN's subsidiaries (EiendomsMegler 1 Nord-Norge, SpareBank 1 Finans Nord-Norge AS and SpareBank 1 Regnskapshuset Nord-Norge AS) and became a member of the SpareBank 1 alliance through the acquisition of 3% stake in SamSpar.

Detailed credit considerations

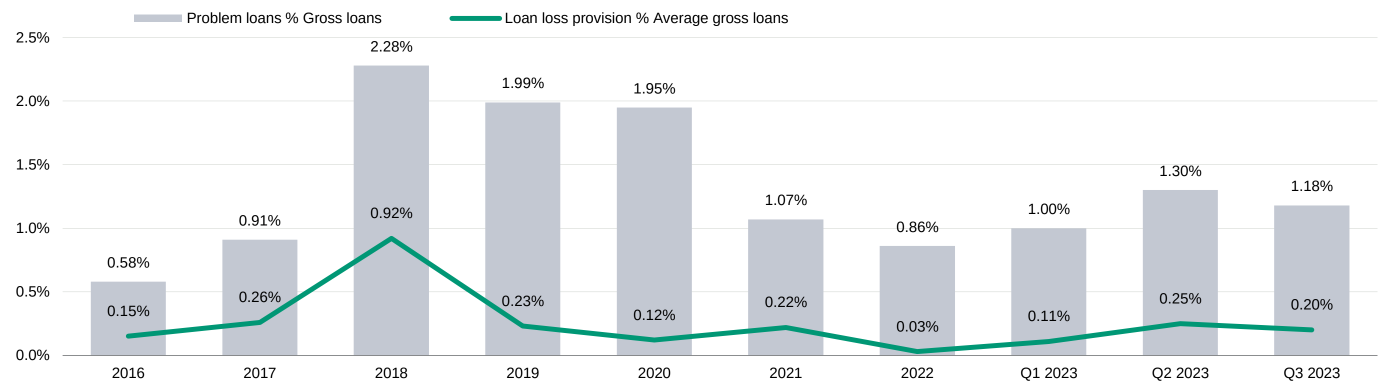
Improving asset quality, but high asset risks stem from credit concentrations

Our baa2 Asset Risk score for SB1 Helgeland takes into account the bank's low and improving level of non performing loans balanced against high geographical and single-borrower concentration risks, together with its exposure to the cyclical real estate and construction sectors.

Non-performing loans (NPL; defined as IFRS 9 Stage 3 loans) reached 1.2% of gross loans as of September 2023, which is lower than the 1.6% median of global peers with a baa2 BCA, having increased from 0.9% as of year-end 2022, but reduced from the recent peak of 1.3% in June 2023. The fluctuation during 2023 was mainly due to a few movements in the corporate segment. Overall, the asset quality is improving as legacy loans are being written off in tandem with the consolidation of the loan portfolio from Sparebank 1 Nord-Norge (SNN) in the last quarter of 2021, which comprised mainly residential mortgages with low risk.

SB1 Helgeland demonstrated a consistently low credit loss performance, with loan-loss provisions corresponding to 0.2% of average gross loans in the first nine months of 2023, while also consistently not exceeding 0.26% since 2015, despite a peak of 0.92% in 2018 (Exhibit 3). The coverage of NPLs by Stage 3 provisions increased to 26% as of 30 September 2023, higher than the 24% as of year-end 2022 but lower than 41% as of year-end 2021.

Exhibit 3
The bank's asset-quality metrics have recently been affected by the restructuring of its corporate commitments
SB1 Helgeland's asset-quality evolution



Note: Data presented for the end of Q1, Q2 and Q3 periods are annualised.
Sources: Bank's disclosures and Moody's Investors Service

We see elevated risks stemming from SB1 Helgeland's exposure to the cyclical real estate and construction sectors, which together accounted for 16.1% of loans or, equivalently, 1.2x of its CET1 capital as of September 2023. A large portion of the bank's historical problem loans and credit losses relate to these sectors. In addition, the bank's loan book exhibits high geographical and moderate single-borrower concentration. The transfer of the loan portfolio from SNN has contributed to a reduction in single-borrower concentration, although geographical concentration has increased. As of September 2023, 84% of the bank's lending exposures were in the district of Helgeland. We acknowledge that such concentrations are typical for small local savings banks, however they could accelerate the extent and pace of any deterioration in asset quality, especially in the event of an economic downturn.

Retail loans, predominantly residential mortgages, made up 74% of the bank's loan book (including loans transferred to its covered bond funding vehicles) as of September 2023, in line with other Norwegian savings' banks in which retail lending usually accounts for 70%-80% of gross loans.

Residential mortgages have performed well in the past, and we expect this segment's loan quality to remain strong over the next 12-18 months because, despite the long-term risks stemming from an increasing level of household indebtedness, Norway's households will continue to service their debt as unemployment remain low and inflationary pressures manageable. Furthermore, mortgage affordability in Helgeland remains substantially better than that in other areas, such as Oslo, despite property price increases in the area in recent years.

Following SB1 Helgeland's integration into the Sparebank 1 alliance, we consider operational risks have decreased as the bank benefits from access to the Sparebank 1 alliance's shared platforms and expertise related to anti-money laundering (AML), data analysis, digital platforms, and cyber security.

We expect non-performing loan (NPL) ratio to increase only marginally over the next 12-18 months due to the high interest rates and as inflation is declining to more normalized levels. Norway, in particular the Northern part of the country, has amble hydropower generation. Energy prices in the Helgeland region therefore remain low, supporting its energy intensive industries and households, albeit these benefits are partly offset by downside risks related to global inflationary and supply-chain issues.

Capitalisation is strong, well above capital requirements

Our assigned Capital score of aa3 reflects Sparebank 1 Helgeland's strong capitalisation, a relative strength in our assessment of the bank's standalone financial profile. Moody's capital measure, tangible common equity (TCE) to risk-weighted assets, was 21.4% as of September 2023, compared with 21.2% as of year-end 2022.

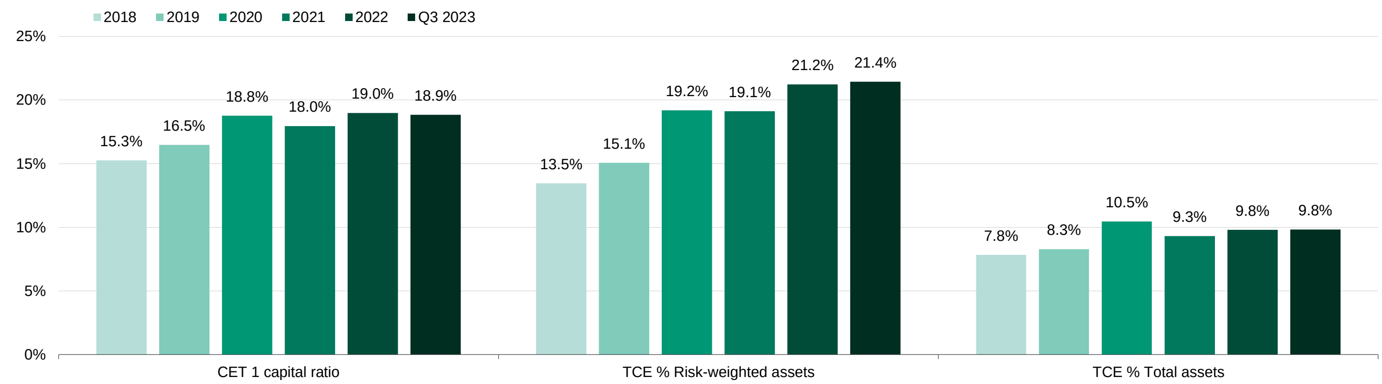
The bank's CET1 ratio was 18.9% (see Exhibit 4) as of September 2023, higher than the bank's target of 17.5% and the regulatory minimum of 16.2%. The regulatory minimum includes a 2.2% Pillar 2 requirement specific to the bank, a 4.5 % systemic risk buffer requirement for banks that follow a standardized approach in the calculation of RWAs, and a 2.5% CCyB requirement. The management buffer is 1.3% above the regulatory requirement.

The high capital requirements ensure a high level of capital ratios going forward even though we expect the bank to manage the ratio down closer to its internal target over the medium term.

Exhibit 4

The bank's capitalisation is strong

SpareBank 1 Helgeland's capital evolution



Sources: Bank's disclosures and Moody's Investors Service

Improving profitability, with high reliance on net interest income

Our Profitability score of baa2 for the bank takes into account our net income-to-tangible assets ratio, which has reached 1.1% in the first nine months of 2023 (see Exhibit 5) owing to growing volumes following the consolidation of a residential portfolio from Sparebank 1 Nord-Norge and the favorable high interest rates.

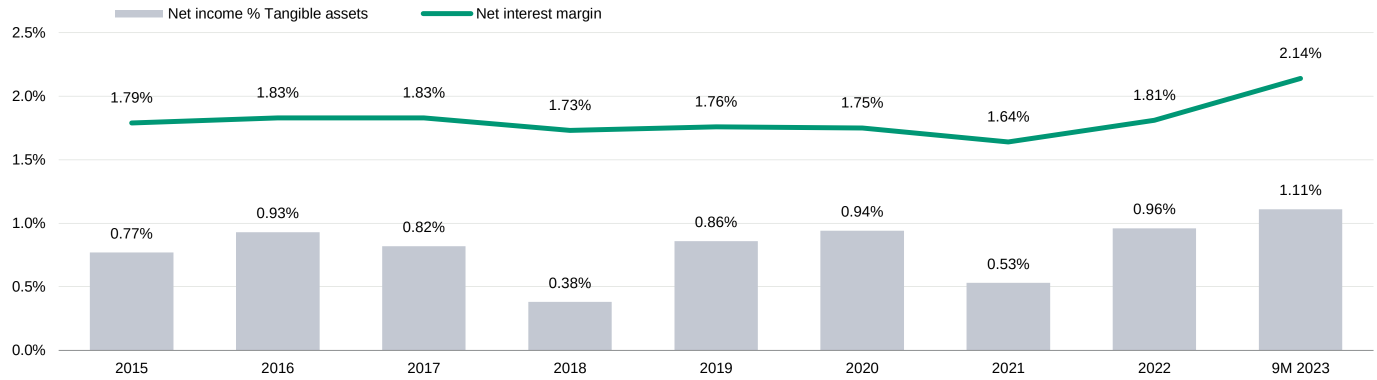
Despite its small size the bank is relatively cost efficient, with its cost-to-income ratio reducing to 35% in the first nine months of 2023 from 41% in 2022 and 48% in 2021 and closer to the level of its Sparebank 1 alliance peers. Net interest income increased 27% in the first nine months of 2023 compared with the year-earlier period, driven by interest rate increases as reflected in the increase in net interest margin to 2.14% in 9M 2023 from 1.73% in 9M 2022. Over the same period, operating expenses increased also but at a lower rate of 8% including the salary increases.

The bank's loan-loss provisions reached NOK57 million in Q3 2023 compared to NOK5 million in Q3 2022 and significantly down from the peak of NOK249 million in 2018. The bank's loan-loss provisions represented a small portion of 0.2% of the average gross loans in the first nine months of 2023, supporting its bottom-line profitability.

Exhibit 5

The bank's profitability has remained broadly stable and picked up recently, and compares adequately with that of its peers

SpareBank 1 Helgeland's profitability evolution



Notes: (i) The 9M 2023 ratios are annualized. (ii) The results for 2021 was distorted by one-offs due to the bank's preparations to join the Sparebank 1 alliance. In 2021, as a result of the bank being in a transitional phase, the bank also saw increases in IT costs and staff costs related to overtime and severance packages.
Sources: Bank's disclosures and Moody's Investors Service

In the coming 12-18 months we expect the bank's profitability to remain high, in line with the high interest rate environment. Our assessment also incorporates a relatively high reliance on net interest income, with non interest income accounting for 15.5% of net revenue for 9M 2023.

Market funding reliance renders the bank vulnerable to any adverse changes in investor sentiment, despite a sizeable deposit base

Our combined Liquidity score of baa2 reflects Sparebank 1 Helgeland's relative reliance on potentially confidence-sensitive market funding, and its historically limited debt issuance sizes and, therefore, potential investor base. It also reflects the expectation that the bank will broaden the investor base as it has turned to the use of SpareBank 1 Boligkreditt AS (Spabol; Aa3 stable) as a funding source, replacing Helgeland Boligkreditt AS. Going forward we expect the bank to gradually increase its covered bond funding through Spabol which will diversify its funding options, mitigating refinancing risk going forward.

SpareBank 1 Helgeland's funding profile benefits from a sizeable deposit base, which accounted for 61% of its non-equity funding as of September 2023, made largely of retail customer deposits. However, the bank's deposit base demonstrates a higher customer concentration than that of its peers, particularly in the municipalities and transportation sectors (11% and 10% of total deposits, respectively).

The bank also has a reliance on market funding, primarily in the form of senior debt and covered bonds, rendering it vulnerable to any adverse changes in investor sentiment. Covered bond funding has grown significantly since 2009, when Helgeland Boligkreditt AS (the bank's wholly owned covered bond company) was established. As of September 2023, covered bonds accounted for 67% of our adjusted market funds, in a calculation where 50% of NOK denominated covered bonds are deducted to reflect the stability of covered bonds relative to unsecured market funding. As such, the bank's market funds/tangible banking assets ratio stood at 19.4% as of September 2023.

We consider the bank's stock of liquid banking assets adequate. As of year-end 2022, liquid banking assets accounted for 14.6% of tangible banking assets (16.6% as of Q3 2023) and comprised cash, interbank balances and liquid securities. As of year-end 2022, 99.4% of securities in the portfolio held were rated at A3 (or its rating equivalent) or higher. However, these holdings mostly consist of domestic government/municipal securities and mortgage covered bonds, which leads to concentration and contagion risk in the country.

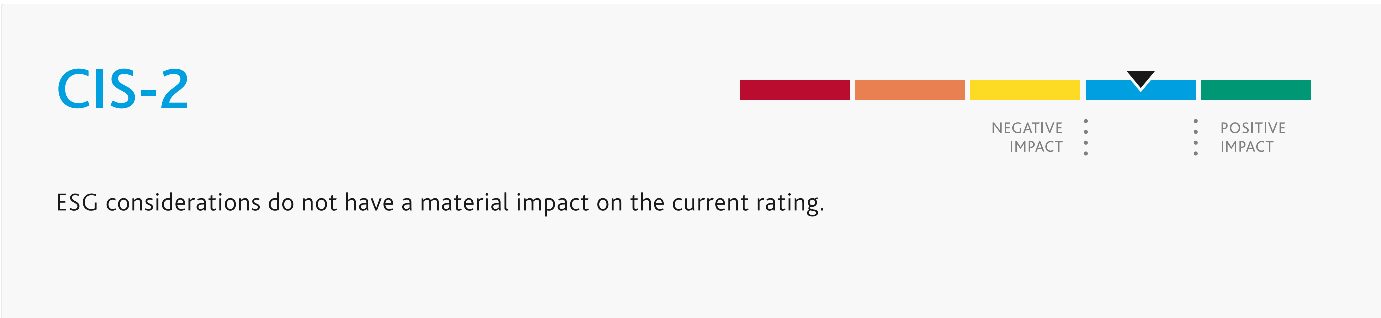
Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank specific figures originate from bank's reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document titled Financial Statement Adjustments in the Analysis of Financial Institutions, published on 9 August 2018.

ESG considerations

SpareBank 1 Helgeland's ESG credit impact score is CIS-2

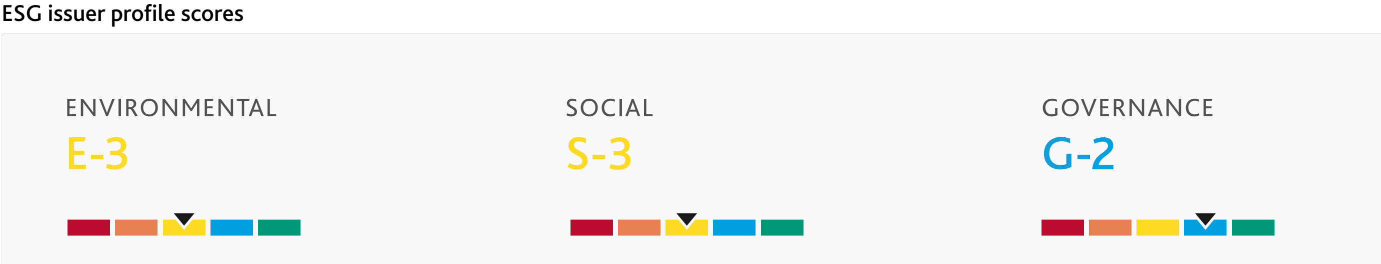
Exhibit 6
ESG credit impact score



Source: Moody's Investors Service

SpareBank 1 Helgeland's **CIS-2** indicates that ESG considerations have no material impact on the current rating.

Exhibit 7
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

SpareBank 1 Helgeland faces moderate environmental risks because of its portfolio exposure to carbon transition. These risks are primarily related to its corporate portfolio. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, the bank is developing its climate risk and portfolio management capabilities.

Social

SpareBank 1 Helgeland faces moderate social risks related to customer relations and associated regulatory and litigation risks, requiring high compliance standards. The exposure to customer relation risks is lower than its international peers, given the bank's untarnished customer conduct track record supported by the social mandate of the Savings Bank's model. SpareBank 1 Helgeland is a digitally advanced bank in Norway, with a robust IT infrastructure and strong capabilities to mitigate cyber and personal data risks, supported by its cooperation within the SpareBank 1 Alliance.

Governance

SpareBank 1 Helgeland faces low governance risks and its risk management, policies and procedures are in line with industry best practices. Despite sectoral and geographical concentrations, due to its limited reach, the bank benefits from strong underwriting standards which mitigate some of these concerns. The bank has a track record of sound capital and liquidity management and earnings stability while losses have been low, even at times of market turbulence. Being a local savings bank, 43% of the bank is directly owned by the local Helgeland community foundation. Other owners are private investors which hold listed equity certificates, with Sparebank1

Nord Norge being the largest. The bank's Supervisory Board comprises of representatives of EC holders, the foundation, and employees. Related governance risks are however mitigated by Norway's developed institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

Norway implemented the EU's Bank Recovery and Resolution Directive (BRRD) on 1 January 2019, and subsequently, BRRD2 was incorporated into Norwegian law on 1 June 2022, which has resulted in lower subordination requirements for non-preferred senior volumes. For our resolution analysis, we assumed residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits and 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. We apply a standard assumption for the large European banks that 26% of deposits are junior

Under these assumptions, Sparebank 1 Helgeland's deposits and senior unsecured debt are likely to face a very low loss given failure, because of the volume of deposits and senior debt themselves and the amount of debt subordinated to them. This results in an a3 Preliminary Rating Assessment for both the deposit and issuer ratings of the bank, which is two notches above the baa2 Adjusted BCA.

Government support

We do not incorporate any government support uplift on SB1 Helgeland's ratings because we consider the probability of government support, in case of need, to be low.

Counterparty Risk Ratings (CRRs)

Sparebank 1 Helgeland's CRRs are A2/Prime-1

Sparebank 1 Helgeland's CRRs are three notches above its Adjusted BCA of baa2, reflecting the extremely low loss given failure from the volumes of instruments that are subordinated to CRR liabilities.

Counterparty Risk (CR) Assessment

Sparebank 1 Helgeland's CR Assessment is A2(cr)/Prime-1(cr)

For SB1 Helgeland, our Advanced LGF analysis indicates an extremely low loss given failure for the CR Assessment, leading to three notches of uplift from the bank's baa2 Adjusted BCA.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement 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 8

SpareBank 1 Helgeland

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	1.3%	aa2	↔	baa2	Geographical concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	21.4%	aa1	↔	aa3	Access to capital	
Profitability						
Net Income / Tangible Assets	0.9%	baa1	↔	baa2	Earnings quality	
Combined Solvency Score		aa3		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	19.7%	a2	↓	baa2	Market funding quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	14.6%	baa3	↔	baa3		
Combined Liquidity Score		baa1		baa2		
Financial Profile				baa1		
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				a3 - baa2		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Balance Sheet	**in-scope (NOK Million)**	**% in-scope**	**at-failure (NOK Million)**	**% at-failure**
Other liabilities	15,723	34.7%	18,277	40.3%
Deposits	25,046	55.3%	22,491	49.6%
Preferred deposits	18,534	40.9%	17,607	38.9%
Junior deposits	6,512	14.4%	4,884	10.8%
Senior unsecured bank debt	2,429	5.4%	2,429	5.4%
Dated subordinated bank debt	350	0.8%	350	0.8%
Preference shares (bank)	400	0.9%	400	0.9%
Equity	1,359	3.0%	1,359	3.0%
Total Tangible Banking Assets	45,307	100.0%	45,307	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	20.8%	20.8%	20.8%	20.8%	3	3	3	3	0	a2
Counterparty Risk Assessment	20.8%	20.8%	20.8%	20.8%	3	3	3	3	0	a2 (cr)
Deposits	20.8%	4.7%	20.8%	10.0%	2	3	2	2	0	a3
Senior unsecured bank debt	20.8%	4.7%	10.0%	4.7%	2	1	2	2	0	a3

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	a2	0	A2	A2
Counterparty Risk Assessment	3	0	a2 (cr)	0	A2(cr)	
Deposits	2	0	a3	0	A3	A3
Senior unsecured bank debt	2	0	a3	0	A3	A3

[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 9

Category	Moody's Rating
SPAREBANK 1 HELGELAND	
Outlook	Positive
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3

Source: Moody's Investors Service

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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