

Rating Action: Moody's assigns A3 rating to SpareBank 1 Nord-Norge's senior non-preferred (SNP) unsecured notes

09 Jul 2020

Limassol, July 09, 2020 -- Moody's Investors Service, ("Moody's") has today assigned a local currency A3 rating to the recently issued NOK1 billion senior non-preferred notes of SpareBank 1 Nord-Norge. The senior non-preferred notes, which are classed as "junior senior" unsecured notes by Moody's are ranked junior to other senior unsecured obligations, including senior unsecured debt, and senior to subordinated debt issuances of the bank.

RATINGS RATIONALE

ASSIGNMENT OF JUNIOR SENIOR NOTES RATING INCORPORATES THE LIKELY MODERATE LOSS SEVERITY FOR THIS TYPE OF INSTRUMENT

The A3 rating assigned to the bank's junior senior notes reflects (1) SpareBank 1 Nord-Norge's adjusted baseline credit assessment (BCA) of a3; (2) Moody's advanced forward-looking loss given failure (LGF) analysis of the bank's liability structure by the end of 2023 when the bank needs to fully meet its MREL with such junior senior notes, which indicates likely moderate loss severity for this instrument in the event of the bank's failure, leading to a positioning at the same level as the bank's adjusted BCA; and (3) Moody's assumption of a low probability of government support for this new instrument, resulting in no rating uplift.

Moody's considers Norway to be an Operational Resolution Regime, while SpareBank 1 Nord-Norge is subject to the Norwegian implementation of the Bank Recovery and Resolution Directive (BRRD). Therefore, Moody's applies its Advanced LGF analysis to determine the potential loss of the junior senior notes. Moody's forward looking analysis is based upon the volume of MREL qualifying liabilities that the Norwegian Financial Supervisory Authority has specified the bank must issue by 1 January 2024, alongside the bank's own funding plan.

Please see the report "Banks - Nordic Countries: FAQ: Nordic banks' new non-preferred senior debt instruments" (https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1122335) for additional details on the junior senior notes and the risks they pose to creditors.

STABLE OUTLOOK ON LONG-TERM DEPOSIT AND SENIOR UNSECURED DEBT RATINGS DRIVEN BY EXPECTED RESILIENT PERFORMANCE

Junior senior ratings do not carry an 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. Despite the challenges posed on the economy by the coronavirus pandemic and reduced oil prices, we believe that the bank has the earnings and capital buffers to shield its solvency during this difficult period.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

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.

Future downward rating pressure would emerge if (1) SpareBank 1 Nord-Norge's problem loan ratio increases significantly above its similarly-rated peers; (2) the bank faces any challenges in its refinancing needs; (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 that we incorporate in our forward-looking LGF analysis, could lead to downward rating pressure.

LIST OF AFFECTED RATINGS

..Issuer: SpareBank 1 Nord-Norge

Assignments:

....Junior Senior Unsecured Regular Bond/Debenture, Assigned A3

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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