CREDIT OPINION

26 October 2024

Update

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RATINGS

SpareBank 1 Helgeland

Domicile	Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2
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 Helgeland

Update following rating upgrade, outlook changed to stable

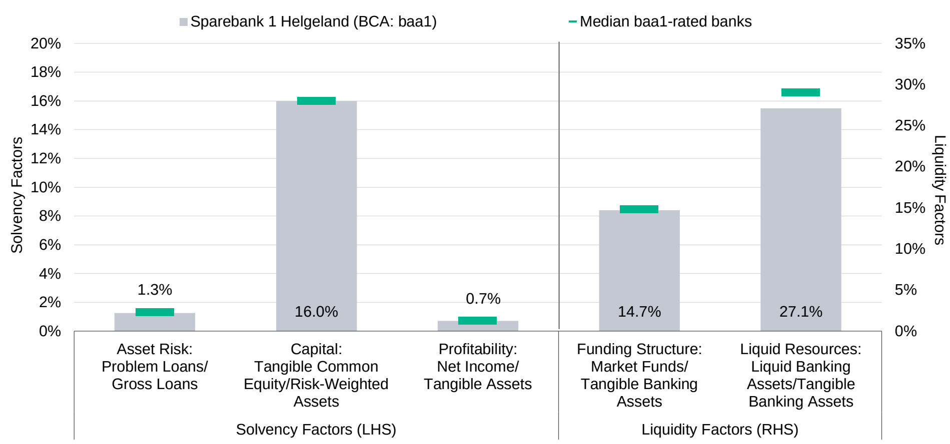
Summary

SpareBank 1 Helgeland's (SB1 Helgeland) A2 long-term deposit and issuer ratings incorporate the bank's baa1 standalone Baseline Credit Assessment (BCA); and 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.

SB1 Helgeland's baa1 BCA is driven by the successful integration of the bank into the SpareBank 1 Alliance; the bank's strong capitalisation; and its stable profitability and solid operating efficiency. These credit strengths are balanced against the bank's limited geographical reach, with around 82% of loans extended within its home district of Helgeland, as of June 2024; concentration in the cyclical real estate and construction sectors and slightly higher and volatile problem loans ratio and lower provisioning coverage than those of its local peers; and significant 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 Ratings

Credit strengths

» Low level of problem loans with retail-focused lending and no direct exposure to the oil sector

» Strong capital position, which provides a good loss-absorption buffer

» Improved profitability and solid operating efficiency

Credit challenges

» Sizable credit concentrations in northern Norway and the real estate sector

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

» High reliance on net interest income

Outlook

The stable outlook on the bank's long-term deposit and issuer ratings reflects the bank's very high capitalisation and sound profitability, balanced against asset risks stemming from credit concentrations and still sizable market funding reliance.

Factors that could lead to an upgrade

SB1 Helgeland's BCA could be upgraded if the bank is able to materially lower its share of non-performing loans while increasing its geographical diversification and maintaining its very high capitalisation. 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

SB1 Helgeland's 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, geographic 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]

	06-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	46.4	45.4	45.0	44.0	33.2	10.0[4]
Tangible Common Equity (NOK Billion)	4.5	4.6	4.4	4.1	3.5	7.4[4]
Problem Loans / Gross Loans (%)	1.8	1.4	0.9	1.1	1.9	1.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	19.3	20.6	21.2	19.1	19.2	19.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	14.5	11.0	7.0	9.1	14.3	11.2[5]
Net Interest Margin (%)	2.2	2.2	1.8	1.6	1.7	1.9[5]
PPI / Average RWA (%)	3.7	3.5	2.7	2.0	2.0	2.8[6]
Net Income / Tangible Assets (%)	1.2	1.0	1.0	0.5	0.9	0.9[5]
Cost / Income Ratio (%)	34.3	35.8	40.6	48.2	46.3	41.0[5]
Market Funds / Tangible Banking Assets (%)	18.5	20.0	19.7	22.2	20.9	20.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	15.0	13.6	14.6	14.0	16.1	14.7[5]
Gross Loans / Due to Customers (%)	149.0	153.9	148.6	157.1	148.2	151.4[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 Ratings and company filings

Profile

SpareBank 1 Helgeland (SB1 Helgeland) is a savings bank with a leading position in Helgeland, the southernmost district in Northern Norway, with consolidated assets of NOK37.9 billion (€3.3 billion) as of June 2024. 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 March 2021 and changed its name from the former Helgeland Sparebank, following a strategic partnership transaction with SpareBank 1 Nord-Norge (SNN) (Aa3/Aa3 stable, a3[1]), whereby SNN increased its ownership in SB1 Helgeland to 19.99% and SB1 Helgeland overtook SNN's regional business including a NOK10.2 billion loan portfolio and acquired various stakes in SNN's subsidiaries and 3% in SpareBank 1 SamSpar.

Detailed credit considerations

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

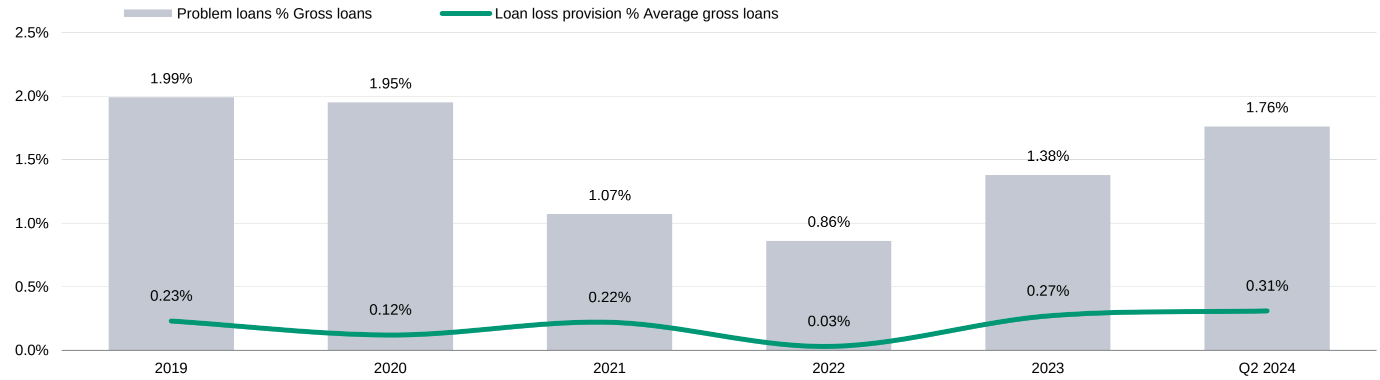
Our baa3 Asset Risk score for SB1 Helgeland takes into account the bank's low level of nonperforming loans (NPLs) balanced against high geographical and single-borrower concentration risks, together with its exposure to the cyclical real estate and construction sectors.

We expect the NPL ratio to remain broadly stable over the next 12-18 months as high interest rates fall to more normalised levels. NPLs (defined as IFRS 9 Stage 3 loans) reached 1.3% of gross loans as of June 2024, which is broadly in line with the median for global peers with a BCA of baa1, having increased steadily from 0.9% as of year-end 2022. The increase is mainly attributable to a few defaults in the corporate segment. The coverage of NPLs by Stage 3 provisions increased to 28% as of June 2024, up from 25% as of year-end 2023 and 24% as of year-end 2022.

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



Data presented for the end of Q2 is annualised where applicable.

Sources: Company filings and Moody's Ratings

Over the next 12-18 months, we expect risks stemming from SB1 Helgeland's exposure to the cyclical real estate and construction sectors to remain high, accounting for 15.5% of loans or 1.1x of its Common Equity Tier 1 (CET1) capital as of June 2024. A large portion of the bank's historical problem loans and credit losses relate to these sectors. In addition, the bank's loan book has high geographical and moderate single-borrower concentration. The transfer of the loan portfolio from SNN in 2022 has contributed to a reduction in single-borrower concentration, although geographical concentration has increased, with 82% of the bank's lending exposures relating to the district of Helgeland as of June 2024. 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 64% of the bank's loan book (including loans transferred to its covered bond funding vehicles) as of June 2024, similar to 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 debt, Norway's households will continue to service their debt. 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.

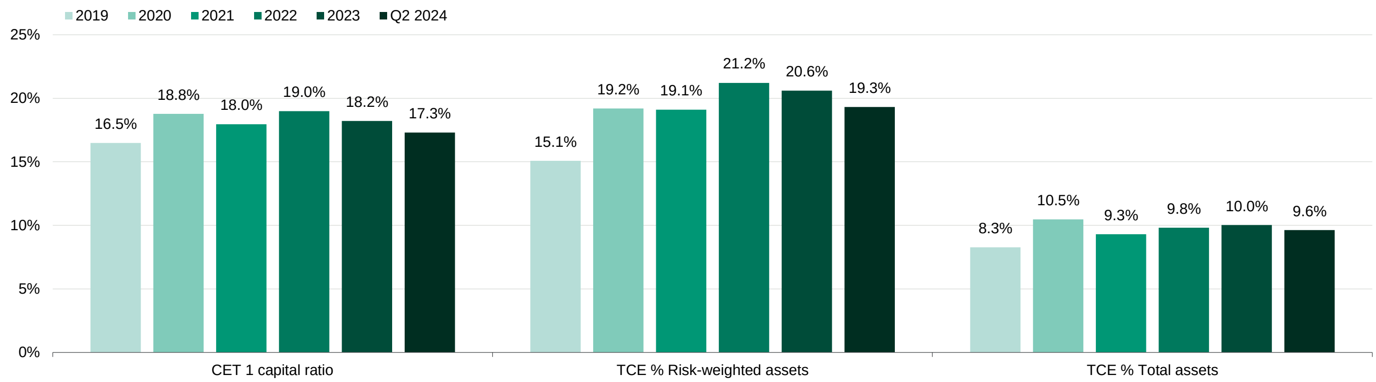
Capitalisation is strong, well above capital requirements

Our assigned Capital score of aa3 reflects SB1 Helgeland's strong capitalisation, a relative strength in our assessment of the bank's standalone financial profile. Our capital measure, tangible common equity (TCE)/risk-weighted assets (RWA), was 19.3% as of June 2024, compared with 20.6% as of year-end 2023.

The bank's CET1 ratio was 17.3% (see Exhibit 4) as of June 2024, higher than the bank's target of 16.5% and the regulatory minimum of 15.2%. 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 standardised approach in the calculation of RWA and a 2.5% countercyclical buffer requirement. The management buffer is 1.3% above the regulatory requirement.

The high capital requirements ensure a high level of capital ratios even though we expect the bank to manage the ratio down closer to its internal target over the next 18 months.

Exhibit 4
The bank's capitalisation is strong
SpareBank 1 Helgeland's capital evolution



Sources: Company filings and Moody's Ratings

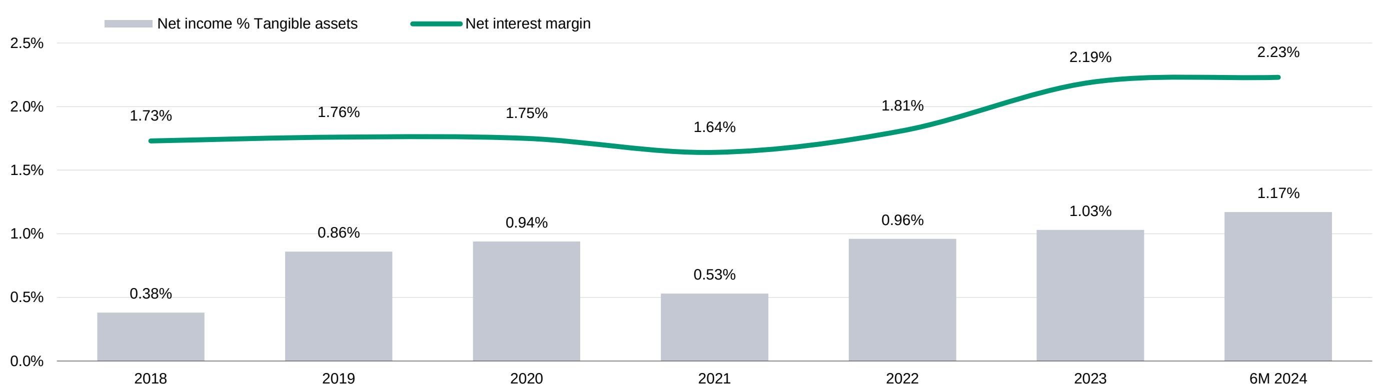
Improving profitability, with high reliance on net interest income

Our Profitability score of baa2 for the bank takes into account Moody's net income/tangible assets, which reached 1.2% in H1 2024 (see Exhibit 5) because of growing volumes following the consolidation of a residential portfolio from SNN and the favourable high interest rates.

Despite its small size, the bank is relatively cost efficient, with its cost-to-income ratio at 34% in H1 2024, down from 36% in 2023 and 41% in 2022 and closer to the level of its Sparebank 1 alliance peers. Net interest income increased 9% in H1 2024 compared with that in the year-earlier period, driven by interest rate increases, as reflected in the increase in the net interest margin to 2.23% in the first six months of 2024 from 2.09% in the year-earlier period. Over the same period, operating expenses increased too but at a lower rate of 8%, including the salary increases.

The bank's loan loss provisions reached NOK59 million in Q2 2024 compared with NOK47 million in Q2 2023 and significantly down from the peak of NOK249 million in 2018. The bank's loan loss provisions represented a small portion of 0.3% of the average gross loans in the first six months of 2024, 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
SB1 Helgeland's profitability evolution



(i) The 6M 2024 ratios are annualised. (ii) The results for 2021 were distorted by one-offs because of 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: Company filings and Moody's Ratings

Over the next 12-18 months, we expect the bank's profitability to remain high, while gradually declining from the recent highs, in line with the softening of the interest rate environment. Our assessment also incorporates a relatively high reliance on net interest income, with non-interest income accounting for 19% of net revenue for the first six months of 2024.

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 SB1 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 that the bank has broadened its investor base as it has increased its use of SpareBank 1 Boligkreditt AS (SpaBol; Aa3 stable) as a funding source, replacing Helgeland Boligkreditt AS. We expect the bank to continue to increase its covered bond funding through SpaBol, which will diversify its funding options, mitigating refinancing risk.

SB1 Helgeland's funding profile benefits from a sizeable deposit base, which accounted for 63% of its non-equity funding as of June 2024, 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 (10% and 9% of total deposits, respectively).

The bank's reliance on market funding, primarily in the form of senior debt and covered bonds, renders 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 June 2024, covered bonds accounted for 70% of Moody's-adjusted market funds, in a calculation where 50% of the Norwegian krone-denominated covered bonds are deducted to reflect the stability of covered bonds relative to unsecured market funding. However, the bank's market funds/tangible banking assets was 18.5% as of June 2024.

The bank's stock of liquid banking assets is adequate. As of year-end 2023, liquid banking assets accounted for 13.6% of tangible banking assets (15.0% as of June 2024) and comprised cash, interbank balances and liquid securities. As of year-end 2023, 98.3% of securities in the portfolio held were rated 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.

ESG considerations

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

Exhibit 6
ESG credit impact score

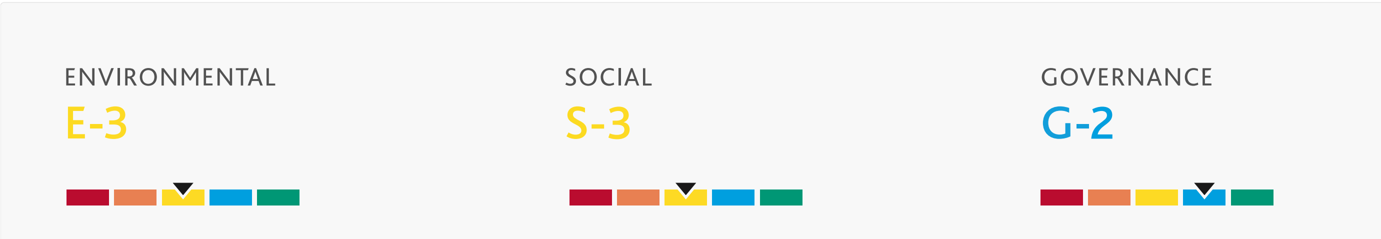
CIS-2

ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

SB1 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 Ratings

Environmental
SB1 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
SB1 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
SB1 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 TCE 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.

Under these assumptions, SB1 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 a2 Preliminary Rating Assessment for both the deposit and issuer ratings of the bank, which is two notches above the baa1 Adjusted BCA.

Government support
We believe that SB1 Helgeland is not a systemic institution. As such, the bank's ratings do not include uplifts for government support, reflecting of our assessment of a low probability of support from the Norwegian government.

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
Rating Factors

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	1.8%	aa3	↔	baa3	Geographical concentration	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	19.3%	aa1	↔	aa3	Access to capital		
Profitability							
Net Income / Tangible Assets	0.9%	baa1	↔	baa2	Expected trend		
Combined Solvency Score		aa3		a3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	20.0%	a2	↔	baa2	Market funding quality	Expected trend	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	13.6%	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				baa1			
Affiliate Support notching				0			
Adjusted BCA				baa1			

Balance Sheet	**in-scope (NOK Million)**	**% in-scope**	**at-failure (NOK Million)**	**% at-failure**
Other liabilities	15,149	32.7%	17,827	38.5%
Deposits	26,257	56.7%	23,579	50.9%
Preferred deposits	19,430	41.9%	18,459	39.8%
Junior deposits	6,827	14.7%	5,120	11.0%
Senior unsecured bank debt	2,796	6.0%	2,796	6.0%
Dated subordinated bank debt	350	0.8%	350	0.8%
Preference shares (bank)	400	0.9%	400	0.9%
Equity	1,390	3.0%	1,390	3.0%
Total Tangible Banking Assets	46,342	100.0%	46,342	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	21.7%	21.7%	21.7%	21.7%	3	3	3	3	0	a1
Counterparty Risk Assessment	21.7%	21.7%	21.7%	21.7%	3	3	3	3	0	a1 (cr)
Deposits	21.7%	4.6%	21.7%	10.7%	2	3	2	2	0	a2
Senior unsecured bank debt	21.7%	4.6%	10.7%	4.6%	2	1	2	2	0	a2

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	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	2	0	a2	0	A2	A2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 9

Category	Moody's Rating
SPAREBANK 1 HELGELAND	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2

Source: Moody's Ratings

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.

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