

SpareBank 1 Østfold Akershus

Rating Update

LONG-TERM RATING

A

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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RATING RATIONALE

Our 'A' long-term issuer rating on SpareBank 1 Østfold Akershus (Østfold Akershus) reflects the bank's strong profitability and capitalisation, as well as its exposure to a growth region of Norway. The bank is part of the SpareBank 1 Alliance, which Nordic Credit Rating (NCR) views as supportive for business diversity, operating efficiency and liquidity. The bank has very strong pre-provision profitability, driven by higher net interest margins and a higher share of fee income in revenues than its peers, as well as strong cost efficiency. Østfold Akershus is predominantly a mortgage retail bank but has also exposure to commercial real estate lending. There are no signs of a pricing bubble or overinvestment in commercial real estate in the region where the bank operates.

Unlike most Norwegian savings banks, Østfold Akershus's equity belongs almost entirely to the owners of the bank's equity capital certificates (ECCs) and the bank is utilising the equity market to finance growth. Two foundations control approximately two-thirds of the ECCs. We view the ownership structure as supportive of our standalone credit assessment, but do not notch explicitly to reflect potential support.

OUTLOOK

Our stable outlook reflects the benign domestic and regional operating environment and Østfold Akershus's low to moderate risk appetite. We expect the bank to deliver stable growth in line with domestic credit growth, and stable underlying profitability over the next three years. We do not expect the bank to make any major acquisitions or enter new geographic markets during our forecast period.

POTENTIAL POSITIVE RATING DRIVERS:

- An upgrade is unlikely at this time given already very strong earnings and capitalisation, and a benign loss environment.

POTENTIAL NEGATIVE RATING DRIVERS:

- Growth significantly outpacing capital generation.
- Increased competition leading to lower profitability.
- An economic downturn leading to deteriorating credit quality.

Figure 1. Bank key credit metrics, 2015–2021e

(%)	2015	2016	2017	2018	2019e	2020e	2021e
Net interest margin	1.88	1.94	1.84	1.76	1.79	1.81	1.82
Loan losses/net loans	0.10	0.01	0.00	0.00	0.00	0.08	0.11
Pre-provision income/REA	2.9	3.7	3.5	3.4	3.0	3.1	3.2
Return on ordinary equity	10.7	14.1	12.3	11.7	12.3	10.8	9.7
Loan growth	6.5	5.1	5.7	11.3	2.7	5.0	5.5
CET1 ratio*	16.6	16.3	17.6	16.4	17.9	18.2	18.2

*Mother bank until 2018, thereafter group CET1. New regulations assumed implemented from 2019. Source: NCR estimates and company data. e – estimate. REA – risk exposure amount. CET1 – common equity Tier 1. All metrics are adjusted as per NCR methodology.

COMPANY PROFILE

Østfold Akershus is a medium-sized Norwegian regional savings bank with origins dating back to 1835. The most recent merger in the organisation's history was in 2011, between Halden Sparebank and Rygge-Vaaler Sparebank. The bank has operations in Østfold county and the southern part of Akershus county in south-eastern Norway, which combined have a population of 450,000 and are within commuting distance to Oslo. The bank has six branch offices and 198 employees (full-time equivalents).

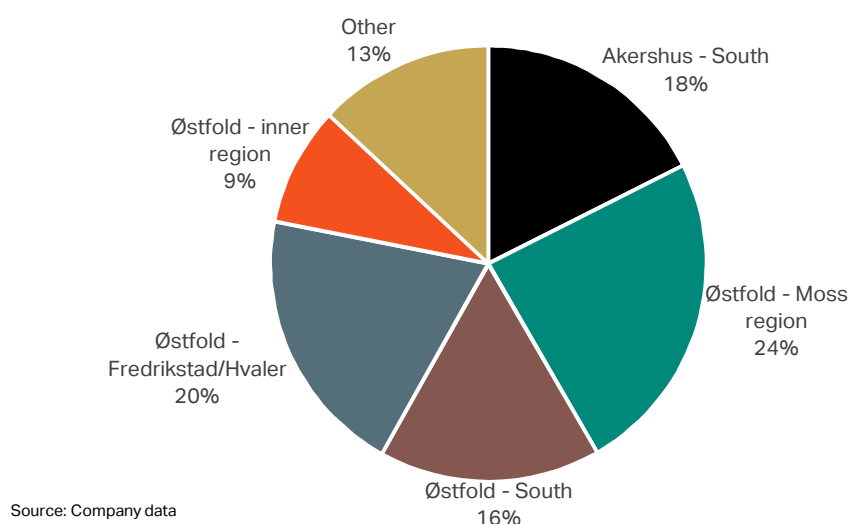
Østfold Akershus is a member of the SpareBank 1 Alliance (the Alliance), Norway's second largest finance group in terms of assets. The Alliance consists of 14 independent savings banks, which cooperate on branding and provide a joint platform. Importantly, the Alliance allows individual banks to offer competitive products and achieve economies of scale in development projects and compliance.

The bank has ECCs listed on the Oslo Stock Exchange. The owners of the ECCs control 93.4% of the bank's equity, but under Norwegian legislation they control no more than 40% of the vote in the Assembly of Representatives. The two largest owners are the SpareBank 1 Stiftelsen Østfold Akershus (40.67%) and SpareBank 1 Stiftelsen Halden (25.24%). These are foundations which exist for the purpose of owning the bank and supporting the community.

OPERATING IN A GROWTH REGION

NCR expects a benign domestic operating environment for Norwegian banks over the next two to three years. Despite higher capital requirements, Norwegian banks have outperformed their European peers in terms of earnings and efficiency and have managed a downturn in the oil and offshore segment with robust loss performance in recent years.

Figure 2. SpareBank 1 Østfold Akershus lending by region (incl. transferred loans), 2018



Østfold Akershus operates in a region close to Oslo. The two main roads and railway lines to Sweden and the European continent run through the region and significant investment is currently being made to modernise the railway systems and reduce commuting times. High real estate prices in Oslo have led to significant housing and commercial real estate development projects in the region. Population growth in the region has been in line with the Norwegian average over the last 10 years at 1.1% per annum, but it will most likely be higher over the next few years.

We assign the operating environment a score of 'a'

Regional operations

Unemployment in the region has for many years been higher than the Norwegian average owing to the decline of old manufacturing industries. The number of jobs is now increasing as a result of growth in building and construction, technology-driven industries, logistics and warehousing, and organic agriculture. Unemployment in the region was 2.9% as of Sept. 2019, down from 3.0% 12 months previously.

Figure 3. Annual GDP growth of Norwegian counties, 2009–2018

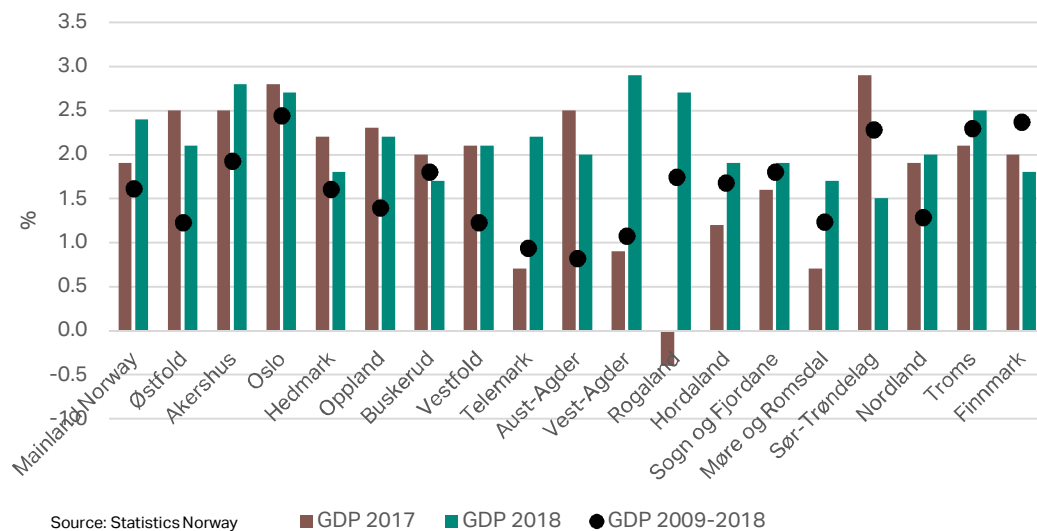
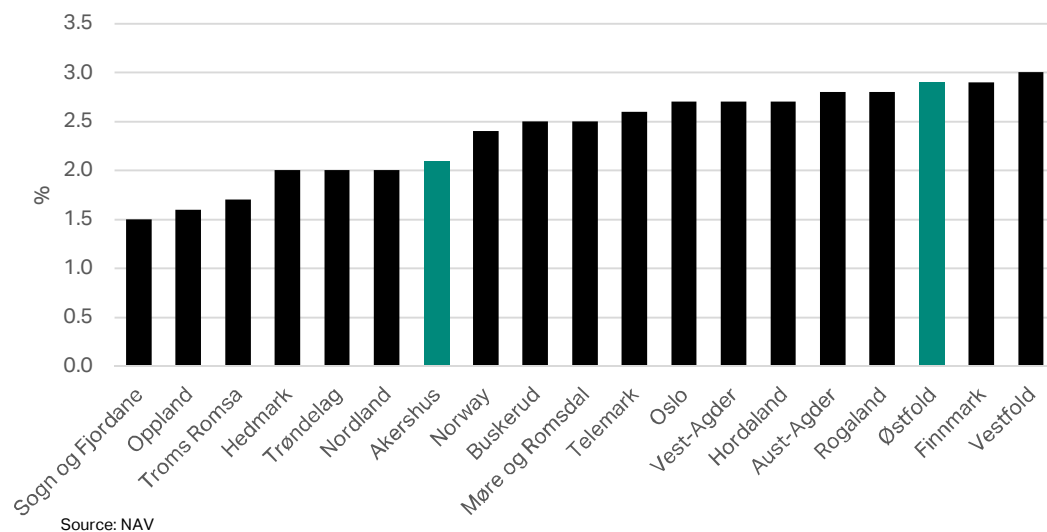


Figure 4. Unemployment in Norway by county, Sep. 2019



RISK APPETITE IS LOW TO MODERATE

We score the risk appetite 'a-'

Østfold Akershus has a medium to low risk profile. The bank has sufficient capital and liquidity buffers and a moderate credit risk profile. Its risk governance and internal risk reporting are adequate considering the bank's risk profile and complexity.

ESG summary

Norwegian savings banks use parts of their surplus funds to give gifts for socially beneficial purposes. Østfold Akershus manages this through two foundations that own a total of 65.9% of the bank's ECCs. The foundations receive dividends which are used to sponsor sports, cultural events, education and research in the bank's operating region. We already incorporate this gift and sponsorship activity into our assessment of Østfold Akershus' environmental, social and corporate governance (ESG), and note that the bank is making good progress in applying ethical considerations to the credit process. Østfold Akershus has three front office employees responsible for countering money laundering as well as three compliance officers. There is also a central function in the SpareBank 1 Alliance which supports member banks in compliance issues.

However, Østfold Akershus has some way to go in terms of sustainability reporting. In 2019, the Governance Group consultancy reviewed 2018 annual and sustainability reports of the 100 largest listed companies in Norway and analysed each company's sustainability reporting. It gave the bank a score of 0-0.9 out of a maximum of 4, together with 45 other companies and a majority of the banks in the sample.

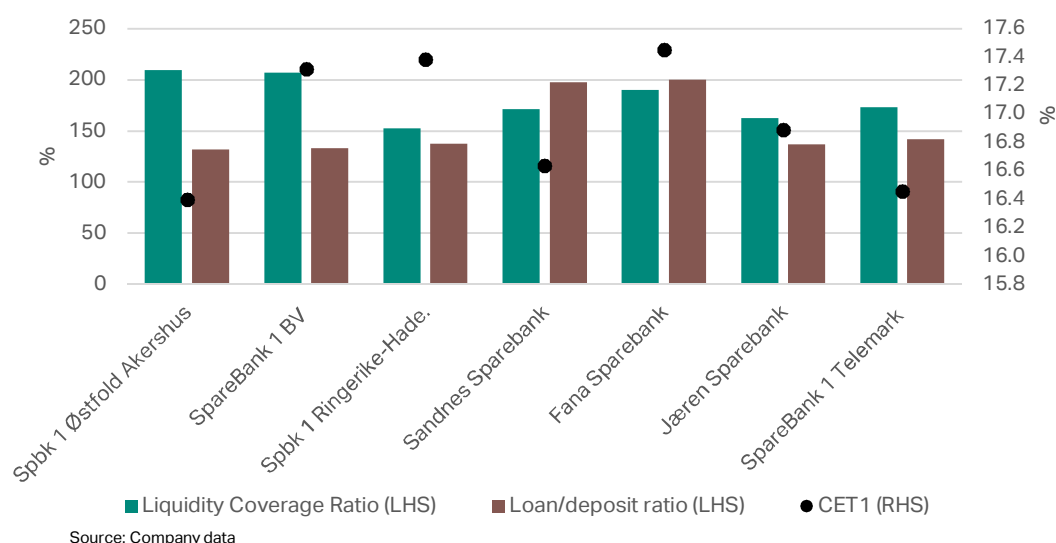
Capital

Østfold Akershus has a Basel Pillar I CET1 requirement of 12% plus a provisional Pillar II requirement of 1.7%. The bank's target CET1 ratio is a minimum of 15%, well below its most recently reported CET1 ratio of 16.1% (proportionally consolidated at 30 Sep. 2019, including 50% of year-to-date profit). We believe that the actual CET1 level over the next few years will remain higher than target levels. The bank uses the standardised capital model, which is generally more conservative than internal ratings-based capital models, particularly for a predominantly residential mortgage bank. The leverage ratio is strong at 8.7%.

The implementation of the EU's Capital Requirements Regulation (CRR)/Capital Requirements Directive (CRD) IV implies removal of the Basel I floor and a 23.8% REA discount on exposures to SMEs. Management expects this to strengthen the consolidated CET1 ratio by 1.8pp. However, the Ministry of Finance has proposed to compensate for lower REAs by increasing the systemic risk buffer for all Norwegian banks by 1.5pp. If this is implemented, Østfold Akershus' reported and required consolidated CET1 ratio will increase by similar amounts. In our estimates, we have assumed that the Ministry's proposal is implemented from year-end 2019.

Our capital assessment takes into account NOK 305m in additional Tier 1 capital instruments and strong profitability, as well as the bank's ability to reduce its dividend from the 50% target level during a stressed scenario. The recent merger of SpareBank 1 Forsikring and DNB Livsforsikring will give Østfold Akershus a financial gain on shares in SpareBank 1 Forsikring of NOK 51.7m in the first quarter of 2020, which will boost its CET1 ratio by about 0.3pp. In addition, the bank could sell its NOK 72m holding of SpareBank 1 Østlandet ECCs, which would increase the CET1 ratio by 0.4pp.

Figure 5. Peer comparison of Norwegian savings banks' capitalisation and liquidity, 2018



Funding and liquidity

We view the bank's management of liquidity as satisfactory. As of 30 Sep. 2019, the liquidity coverage ratio (LCR) was 129%. LCR measures liquid assets compared with a 30-day net liquidity requirement in a stress situation. Østfold Akershus' loan-to-deposit ratio was 124% at the end of the third quarter of 2019, which was also the average for Norwegian banks at the end of 2018. This is high compared with the corresponding ratios of the bank's international peers, owing mainly to Norway's institutionalised pensions savings.

An important additional source of funding for the bank is its ability to transfer loans to the Alliance's jointly owned covered-bond companies. As of 30 Sep. 2019, Østfold Akershus had transferred NOK 8.7bn to the two companies (see below), which represents 31% of total lending including transferred loans. This ratio has been stable for the past 12 months. The bank also has a significant buffer in loans that can be transferred to the covered-bond companies as a liquidity reserve.

In our view, market risk is a negligible risk factor for the bank given its strategy of not holding trading portfolio of financial instruments, and its low limit on interest rate risk and currency risk.

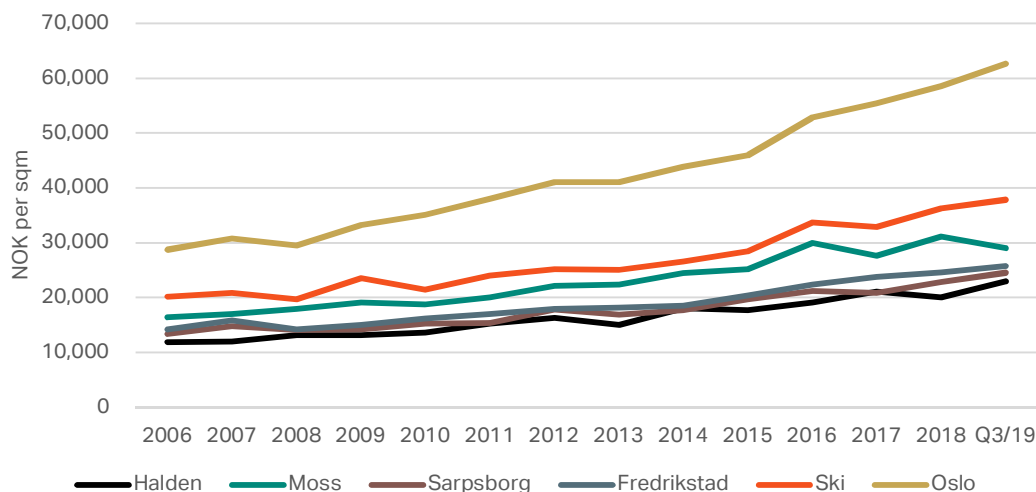
PREDOMINANTLY A MORTGAGE BANK

We score credit risk 'bbb+'

Østfold Akershus' loan portfolio mainly consists of retail loans to regional customers, at 74% excluding loans transferred to covered-bond companies and 81% including such loans. The retail loans predominantly comprise mortgage loans, 99% of which are within 80% of loan to value (LTV). According to the Norwegian financial supervisory authority, 60% of lending in Norway is to retail customers, of which 92% consists of mortgages. Østfold Akershus' split between retail and commercial is normal for a savings bank. Close to 90% of loans are to customers in the bank's primary region. Housing prices in Østfold have shown modest increases for many years.

The bank is targeting loan growth in line with the market in retail lending and 8% in commercial lending, including loans transferred to the covered-bond companies. Retail lending growth is, however, expected to be lower than market growth in 2019.

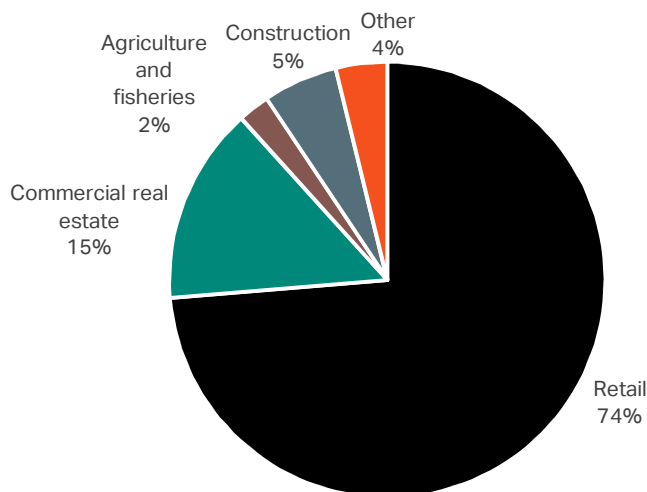
Figure 6. House prices in Østfold Akershus' key population centres and in Oslo



Source: SSB

As of 30 Sep. 2019, Østfold Akershus had transferred NOK 8.4bn in loans to SpareBank 1 Boligkreditt (retail mortgages) and NOK 0.3bn to SpareBank 1 Næringskreditt (commercial mortgages). Østfold Akershus receives commission based on the net return on the transferred loans. The bank owns 4.36% and 3.70%, respectively, of the two covered-bond companies. The loans are therefore not consolidated in Østfold Akershus' balance sheet but are consolidated in the capital requirement, according to CRD IV. Credit risk is transferred to the covered-bond companies, and the risk that remains with the bank is the ownership risk and a pro-rata 12-month liquidity guarantee (which can be off-loaded to the central bank via the deposit of covered bonds). Both covered-bond companies issue bonds that are rated 'AAA' or equivalent by a rating agency accredited by the European Securities and Markets Authority.

Figure 7: SpareBank 1 Østfold Akershus lending by sector



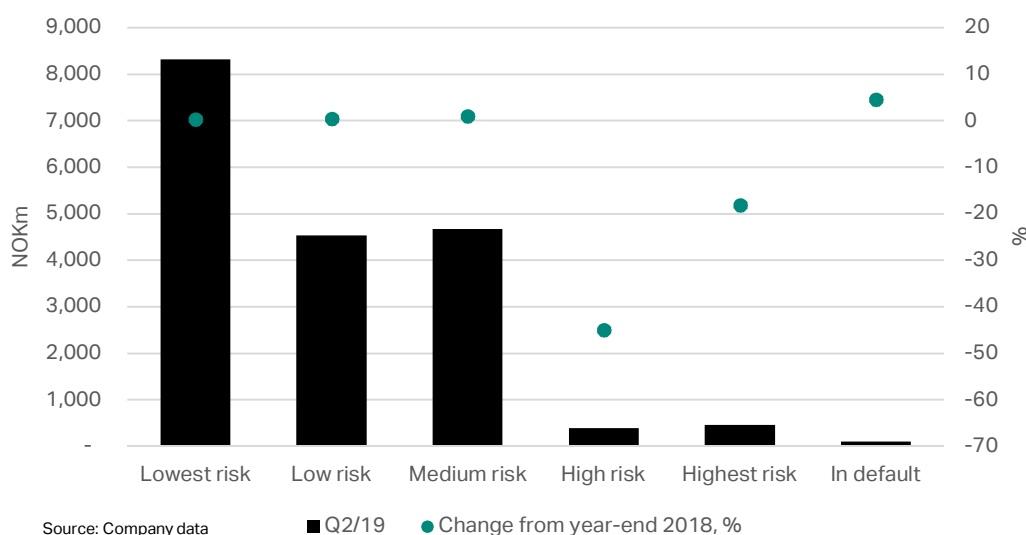
Source: Company data

Østfold Akershus has a well-diversified commercial loan book. The main sector exposure is, as with most Norwegian savings banks, commercial real estate. This sector has historically been worst hit in a banking crisis, as in Norway in the early 1990s, and our subfactor-score has taken into account that almost half of the commercial real estate portfolio is project financing. However, we see limited risk

over the next few years due to the low LTV ratios in the portfolio, low interest rates and moderate loan growth.

Østfold Akershus' own risk classification shows that its loan portfolio has a strong leaning towards the lowest risk classes and also shows positive migration from higher to lower risk classes. Average probability of default in the corporate portfolio was as high as ~12% after the merger in 2011, but better credit procedures, clean-up of the loan book and an improving regional economy has brought probability of default down to close to 2%.

Figure 8. SpareBank 1 Østfold Akershus exposure to default by risk classification, Q2 2019



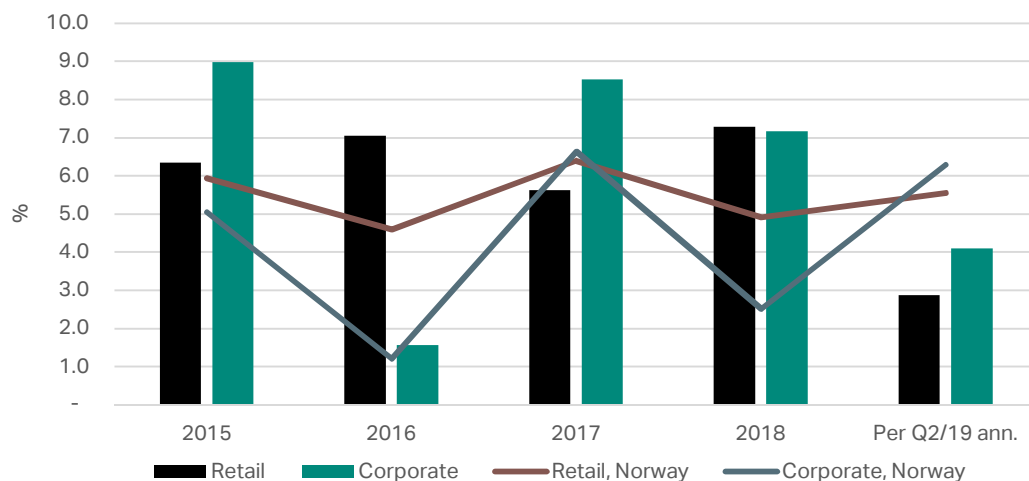
LARGE NORDIC BANKS ARE MAIN COMPETITORS

Østfold Akershus has the second-largest market share in Østfold after DNB, with 17% of the retail lending market in 2018. In the first quarter of 2019, Danske Bank was particularly aggressive in the retail market via collective agreements with professional trade unions. The campaign had a material effect on Østfold Akershus's residential mortgage growth in 2019 and demonstrated a higher-than-expected price sensitivity for the bank's customers. As such, we have revised our market position score downward one notch to a level in line with other regional savings banks.

In addition to the large Nordic banks, there are also several small savings banks in the Eika alliance operating in the bank's operating region, particularly in rural areas. In the Moss/Rygge area, which is experiencing high population growth, the bank's market share was as high as 30% in 2018. In commercial lending, market share was 19% in the targeted SME market. Østfold Akershus' national market share in lending is only 0.6%, however.

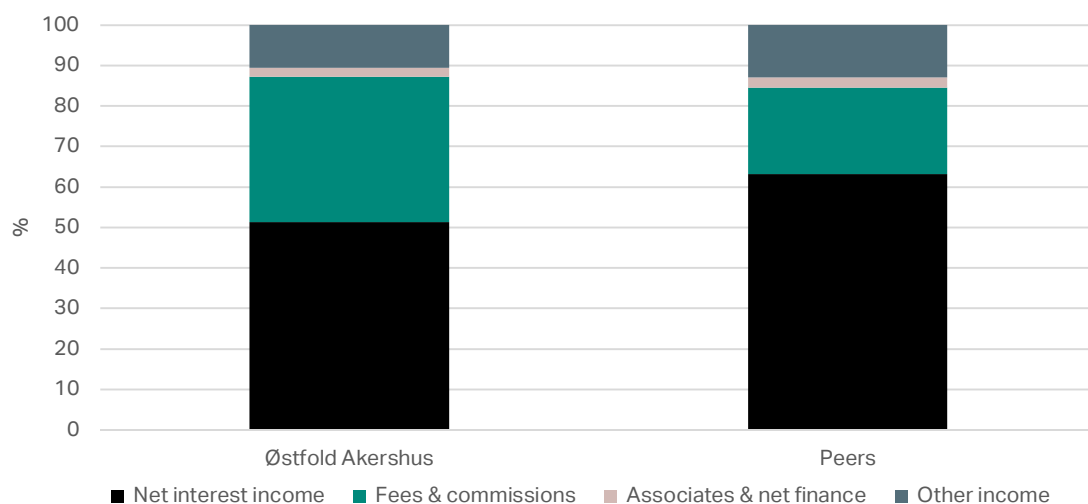
We consider the competitive position to be at the 'bbb' level

Figure 9. Lending growth SpareBanken Østfold Akershus and total market (Norway)



Source: SSB, company data

Figure 10. SpareBank 1 Østfold Akershus income against peer group average for 2017–18



Peers: SpareBank 1 BV, SpareBank 1 Ringerike Hadeland, Fana Sparebak, Sparebanken Møre, Jæren Sparebank, SpareBank 1 Telemark.
Source: Company data

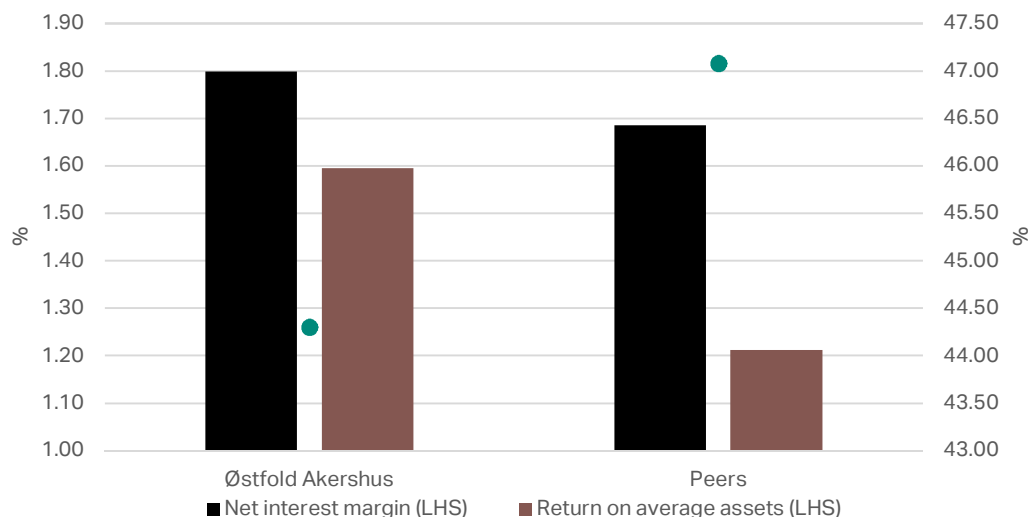
Like the other banks in the Alliance, Østfold Akershus is focusing on increasing fees and commissions. The bank has a growing market share in its real estate brokerage, which stood at 16% in 2018. Unlike other banks in the Alliance, Østfold Akershus has refrained from entering the market for accounting services. Still, Østfold Akershus generates a higher share of fees and commission than similar-sized peers, as illustrated in the figure above. Some of the difference is explained by relatively high transfers to covered-bond companies.

We assign performance indicators a score of 'aa-'

PROFITABILITY BOTH IN ABSOLUTE AND RELATIVE TERMS

Østfold Akershus has undergone a period of restructuring and has reduced risk since a change of management in 2013. The bank has the highest return on average assets among similar-sized savings banks (NOK 10–30bn in assets) in Norway, and profitability has shown a high degree of stability in recent years, beyond positive one-off effects. Østfold Akershus not only has had higher net commission than its peers, but also a higher net interest margin and a lower cost-to-income ratio, which contributes strongly to higher profitability than that of similar-sized peers.

Figure 11. SpareBank 1 Østfold Akershus earnings metrics against peer group average 2017–18



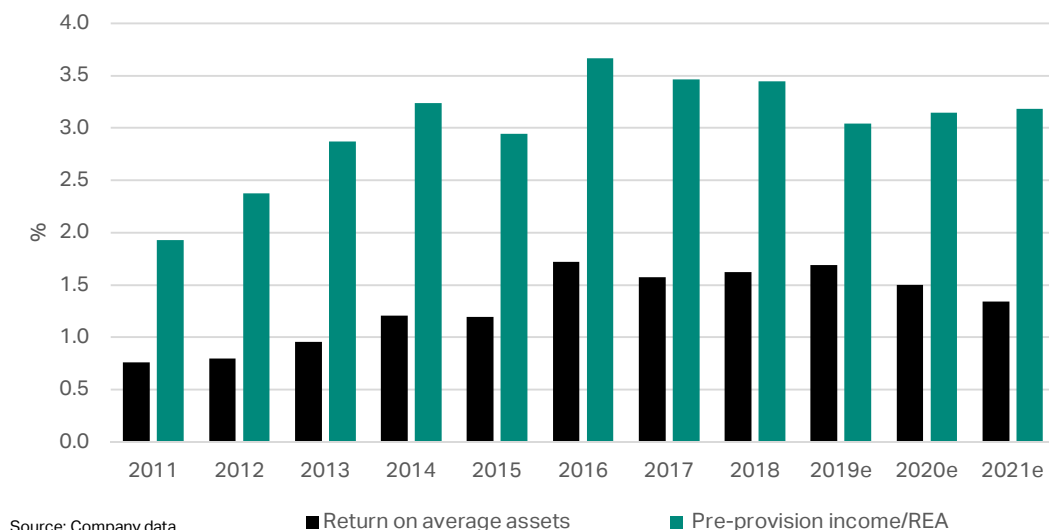
Peers: SpareBank 1 BV, SpareBank 1 Ringerike Hadeland, Fana Sparebak, Sandnes Sparebank, Jæren Sparebank, SpareBank 1 Telemark.
Source: Company data

Earnings indicators

We expect the bank to achieve strong returns over the next few years. Our return on equity forecasts for 2019 and 2020 are above the bank's 10% target. We expect pre-provision return on REA to stay above 3% over the next three years, as shown in Figure 12. Using proportionate consolidation for minority ownership in product companies in the Alliance, in accordance with CRD IV, reduces this measure somewhat without changing the economic realities for the bank.

We also expect net interest margin to improve gradually over the next few years, driven by mortgage lending rates increasing more than deposit rates and external funding costs, as well as higher yield on liquidity reserves. We have, however, also accounted for a negative lag-effect from a minimum of six weeks' delay from increased funding costs to an increase in lending rates. We expect moderate growth in fee income, driven more by increased real estate brokerage fees than traditional banking fees. We expect the cost-to-income ratio be around 45%, but somewhat higher in 2019 mainly due to costs related to moving to new headquarters and investments in the real estate brokerage business. The bank has already picked the low-hanging fruit on cost savings after cutting the number of its branches to 6 from 13 and reducing the number of its full-time equivalent employees to 198 from 235 since 2013.

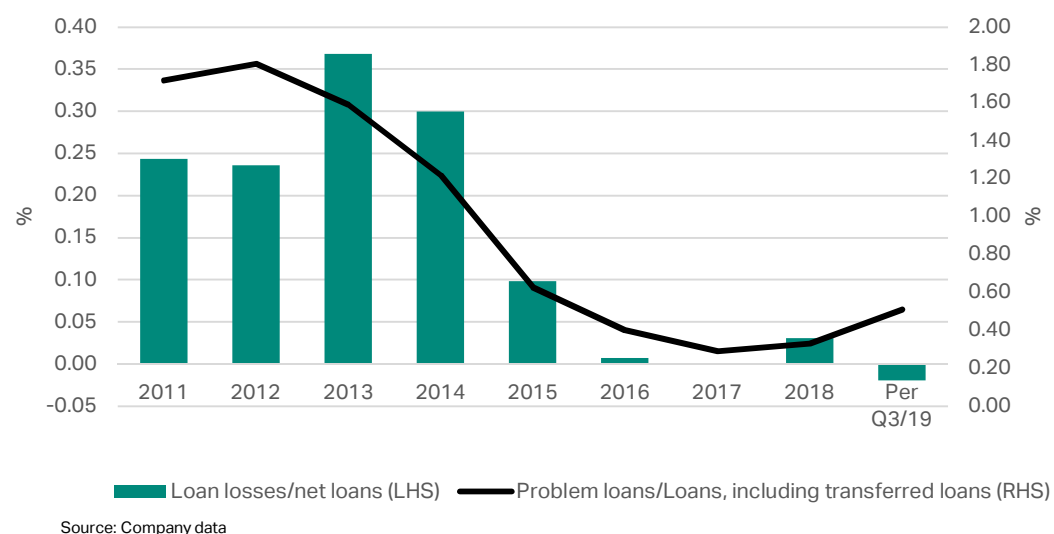
Figure 12. SpareBank 1 Østfold Akershus return on assets and REA, 2011–2021e



Loss performance

Østfold Akershus reported loan losses at 0 bps of lending in 2017 and 3bps in 2018, compared with an average of 11 bps and 9 bps, respectively, for all Norwegian savings banks. Problem loans are low and we do not expect credit quality to deteriorate over the next few years. The increase in problem loans in 2019 is due to two commercial real estate loans with sufficient collateral to cover the loans, and the bank does not expect to incur losses on these loans. We consequently expect the bank to report low loan losses increasing from zero in 2019 to 8bps in 2020 and 11 bps in 2021. Our earlier estimates were 12bps in 2019 and 16 bps in 2020.

Figure 13. SpareBank 1 Østfold Akershus loss performance indicators, 2011–Q3 2019



PEER COMPARISON

We believe that Østfold Akershus' relative strengths and the bank's current operating environment are reflected in our 'a' initial credit assessment and do not adjust our initial credit assessment based on a peer assessment or any other factors. NCR has confidential credit assessments (not full credit ratings) on 286 Nordic banks, including 101 Norwegian banks. Twelve percent of both sets of assessments have a score of 'a' or higher. The average score is 'bbb+'.

SUPPORT ANALYSIS

We view Østfold Akershus' ownership as supportive of our standalone credit assessment, but do not provide additional notching as a result of this support. The two foundations which control 65.9% of the bank's ECCs are currently liquid and able to participate in further equity issues, as they have done historically. SpareBank 1 Stiftelsen Halden did not participate in the last ECC issue in order to reduce its stake, but we believe it has available liquidity to participate if necessary. The foundations have a stated purpose to exercise long-term and stable ownership of Østfold Akershus and must have an ownership interest in the bank constituting 15% or more of the bank's issued equity capital. We therefore expect the foundations to continue to reduce their holdings in the bank over time.

Figure 14. SpareBank 1 Østfold Akershus ownership structure

Owner	Share of ECCs
SpareBank 1 Stiftelsen Østfold Akershus	40.67%
SpareBank 1 Stiftelsen Halden	25.24%
Pareto AS	8.89%
Landkreditt Utbytte	2.34%
Eika Egenkapitalbevis	2.12%
Pareto Aksje Norge	1.58%
Arctic Funds	1.51%
Wenaasgruppen	0.97%
Salt Value	0.73%
Other	15.95%
Total	100.00%

ISSUE RATINGS

Our rating on Østfold Akershus' unsecured senior debt is in line with the issuer rating of 'A'. NCR considers the underlying credit quality of the issuer in its notching of various instruments. The risk of non-payment of capital instruments for highly rated entities is perceived to be very low. We therefore adapt the notching of individual debt instruments depending on the underlying credit quality and the ability of a financial institution to repay its debts.

Figure 15. SpareBank 1 Østfold Akershus issue rating indications

Issue rating	Starting point	Issue rating
Senior unsecured	Issuer rating	A
Tier 2	Standalone credit assessment	A-
Additional Tier 1	Standalone credit assessment	BBB

Figure 16. Bank rating scorecard

Subfactors	Impact	Score
National factors	10.0%	a
Regional, cross border, sector	10.0%	a
Operating environment	20.0%	a
Capital	17.5%	a
Funding & liquidity	15.0%	a
Risk governance	5.0%	a-
Credit risk	10.0%	bbb+
Market risk	0.0%	N/A
Other risks	2.5%	a
Risk appetite	50.0%	a-
Market position	15.0%	bbb
Earnings	7.5%	aa
Loss performance	7.5%	a+
Performance indicators	15.0%	aa-
Indicative credit assessment		a
Peer comparisons		0
Transitions		0
Borderline assessments		0
Adjustment factors		0
Standalone credit assessment		a
Ownership		0
Material credit enhancement		0
Rating caps		0
Support		0
Issuer rating		A
Short-term rating		N-1+

Figure 17. Bank key credit metrics and financials

Key credit metrics (%)	2014	2015	2016	2017	2018	2019Q3 YTD
Income composition						
Net interest income/op. revenue	44.4	55.4	51.8	51.9	50.5	47.6
Net fee income/op. revenue	39.0	39.4	32.6	35.8	36.1	31.9
Net trading income/op. revenue	3.0	(3.7)	5.7	1.5	2.7	(0.5)
Net other income/op. revenue	13.5	8.9	9.9	10.7	10.7	20.9
Earnings						
Net interest margin	1.7	1.9	1.9	1.8	1.8	1.7
Pre-provision income/REA	3.3	2.9	3.7	3.5	3.4	3.8
Return on ordinary equity	12.6	10.7	14.1	12.3	11.7	13.1
Return on assets	1.2	1.2	1.7	1.6	1.6	1.8
Cost-to-income ratio	52.7	52.2	44.1	43.9	44.7	40.8
Cost-to-income ratio, ex. Trading	54.4	50.3	46.8	44.6	46.0	40.6
Capital						
CET1 ratio*	15.6	16.6	16.3	17.6	16.4	16.3
Tier 1 ratio	16.5	17.6	17.9	19.2	18.2	17.4
Capital ratio	16.5	17.6	18.2	19.9	19.3	18.4
REA/assets	52.6	55.3	55.7	55.6	53.7	56.7
CET1 ratio, prop. consolidated	-	-	-	-	16.1	16.1
Tier 1 ratio, prop. consolidated	-	-	-	-	17.8	17.3
Capital ratio, prop. consolidated	-	-	-	-	19.2	18.5
REA/assets, adjusted	-	-	-	-	73.0	75.9
Dividend payout ratio	20.2	20.4	27.0	35.9	53.9	-
Leverage ratio	6.3	8.1	8.8	9.8	9.7	9.9
Growth						
Asset growth	-	4.5	5.7	5.4	11.9	5.2
Loan growth	-	6.5	5.1	5.7	11.3	1.9
Deposit growth	-	1.0	4.8	4.6	11.0	12.6
Loss performance						
Credit provisions to net loans	0.3	0.1	0.0	0.0	0.0	(0.0)
Impaired loans to gross loans	1.2	0.6	0.4	0.3	0.3	0.6
Net impaired loans to gross loans	1.0	0.5	0.4	(0.1)	(0.0)	0.3
Net problem loans to equity	4.7	0.5	(0.1)	(0.5)	(0.2)	1.4
NPL coverage ratio	45.2	86.6	105.6	135.9	109.6	56.7
Stage 3 loans/gross loans	-	-	-	-	0.6	0.6
Stage 3 coverage ratio	-	-	-	-	18.1	21.3
Funding & liquidity						
Loan/ deposit ratio	122.5	129.1	129.5	130.9	131.3	123.6
Loan/ (deposit + covered bond)	122.5	129.1	129.5	130.9	131.3	123.6
Net stable funding ratio	118.0	124.0	121.0	130.0	121.0	na
Liquidity coverage ratio	220.0	115.0	234.0	137.0	209.0	129.0

Key financials (NOKm)	2014	2015	2016	2017	2018	2019Q3 YTD
Balance sheet						
Total assets	17,987	18,793	19,865	20,946	23,437	24,037
Total tangible assets	17,969	18,779	19,855	20,940	23,435	24,037
Total financial assets	17,384	18,240	19,280	20,381	22,911	23,254
Net loans and advances to customers	14,320	15,246	16,023	16,944	18,857	19,069
Total securities	1,772	1,883	1,853	2,217	2,420	2,726
Customer deposits	11,688	11,806	12,370	12,939	14,359	15,431
Issued securities	4,033	4,339	4,433	4,537	5,355	4,894
of which covered bonds	-	-	-	-	-	-
of which other senior	3,567	3,874	4,120	4,225	5,044	4,743
of which subordinated	465	465	314	312	311	151
Total equity	1,842	2,246	2,670	3,096	3,330	3,454
Total ordinary equity	1,842	2,246	2,520	2,946	3,180	3,304
Capital						
Common equity tier 1	1,478	1,723	1,804	2,044	2,063	2,219
Tier 1	1,558	1,829	1,979	2,232	2,289	2,366
Total capital	1,558	1,829	2,020	2,317	2,431	2,508
REA	9,463	10,387	11,071	11,641	12,580	13,633
Income statement						
Operating revenues	655	610	703	701	754	638
Pre-provision operating profit	310	292	393	393	417	378
Impairments	47	14	1	0	6	(5)
Net income	220	221	347	321	360	320

*Mother bank except group CET1 (not proportionally consolidated) Q3/19. Source: NCR estimates and company data. REA – risk exposure amount. CET1 – common equity Tier 1. NPL – non-performing loans. All metrics are adjusted as per NCR methodology.

Figure 18. Country - key national metrics

	2015	2016	2017	2018e	2019e	2020e	2021e
GDP growth (%)	2.0	1.1	1.9	2.2	2.5	2.2	1.5
CPI growth (%)	2.7	3.1	1.4	1.6	2.3	1.9	2.0
Unemployment rate (%)	4.3	4.7	4.2	3.8	3.6	3.4	3.5
Current account balance/GDP (%)	7.9	4.4	5.7	8.1	7.2	7.1	7.9
Monetary policy rate	1.0	0.5	0.5	0.6	1.1	1.6	1.7

*Mother bank except group CET1 (not proportionally consolidated) Q3/19 Source: Central Bank, Statistics Norway, OECD, DNB, Nordea, Danske Bank, SEB, EIU

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 28 Nov. 2018.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Methodology used when determining the credit rating:	Nordic Credit Rating - Financial Institutions Rating Methodology published 14 Aug. 2018 Nordic Credit Rating - Rating Principles published 16 Sep. 2019 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies . The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA) .
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Company presentations, Data provided by external data providers, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity
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