

Credit Rating Announcement

16 November 2020

Scope affirms A- Issuer Rating of BN Bank ASA with Stable Outlook

The rating continues to reflect the Norwegian bank's solid credit fundamentals and ownership by SpareBank 1 Alliance member banks.

Rating action

Scope Ratings has affirmed the ratings of BN Bank ASA: Issuer Rating of A- and senior unsecured debt rating of BBB+. All ratings have a Stable Outlook.

Rating rationale

BN Bank's performance has remained resilient throughout the economic disruption caused by the Covid-19 pandemic. For the nine months ending 30 September 2020, the bank generated net profit of NOK 249m and reported a return on equity of 7.8%. While commercial real estate exposures tend to be more vulnerable in economic downturns, the bank's loan portfolio has seen a limited increase in credit risk. Credit impairments remain at levels which can be comfortably absorbed by earnings. In the first nine months, the bank made NOK 75m in provisions of which NOK 39m were for Stage 1 and Stage 2 exposures. Management expects lower credit impairments in the second half of the year. As of 30 September 2020, problem loans accounted for 0.4% of total loans.

Further, the bank is well positioned against an upcoming increase in the systemic risk buffer at year-end to 4.5%, from the current 3%. As of 30 September 2020, the CET1 capital and leverage ratios were 21.9% and 8.1%, respectively.

Key rating drivers

- Proven ability to adapt the bank's strategy and business to ensure the generation of sustainable earnings.
- Ownership by member banks of the SpareBank 1 Alliance brings significant benefits, including strong governance and access to the alliance's resources.
- The bank's focus on the Oslo region is a risk considering particularly elevated property prices in the region.
- Reassuring prudential metrics guided by regulatory requirements as well as the bank's experience

during the global financial crisis.

Rating-change drivers

Potential negative rating-change drivers include: (a) a loss of benefits from being affiliated with the SpareBank 1 Alliance, and (b) a decline in the operating environment which materially impacts earnings and capitalization. Meanwhile sustained and profitable growth without an increase in the bank's risk profile would be viewed favorably.

Stress testing & cash flow analysis

No stress testing was performed. No cash flow analysis was performed.

Methodology

The methodology used for this rating(s) and/or rating outlook(s), Bank Rating Methodology published on 4 May 2020, is available on <https://www.scooperatings.com/#!/methodology/list>.

Information on the meaning of each rating category, including definitions of default and recoveries can be viewed in the "Rating Definitions - Credit Ratings and Ancillary Services" published on <https://www.scooperatings.com/#!/governance-and-policies/rating-scale>. Historical default rates of the entities rated by Scope Ratings can be viewed in the rating performance report on <https://www.scooperatings.com/#governance-and-policies/regulatory-ESMA>. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope's definitions of default and rating notations can be found at <https://www.scooperatings.com/#governance-and-policies/rating-scale>. Guidance and information on how Environmental, Social or Governance factors (ESG factor) are incorporated into the rating can be found in the respective sections of the methodologies or guidance documents provided on <https://www.scooperatings.com/#!/methodology/list>.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months.

Solicitation, key sources, and quality of information

The rated entity and/or its agents participated in the rating process.

The following substantially material sources of information were used to prepare the credit rating: public domain, the rated entity, and Scope internal sources.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the rating or outlook action, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0.

Lead analyst: Pauline Lambert, Executive Director.

Person responsible for approval of the rating: Dierk Brandenburg, Managing Director.

The ratings/outlooks were first released by Scope on 8 August 2019.

Potential conflicts

Please see www.scooperatings.com for a list of potential conflicts of interest related to the issuance of credit ratings.

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Scope Ratings GmbH, Lennéstraße 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Director: Guillaume Jolivet.

About Scope Ratings GmbH

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Contact

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|--------------------|-------------------|--|
| Analyst | Pauline Lambert | p.lambert@scoperatings.com |
| Team leader | Dierk Brandenburg | d.brandenburg@scoperatings.com |



Scope Ratings GmbH • Lennéstraße 5 • D-10785 Berlin • Phone: +49 30 27891-0 • Fax: +49 30 27891-0
www.scoperatings.com

Executive Board: Guillaume Jolivet • District Court: Berlin: HRB 192993 B • VAT identification number: DE226486027

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