



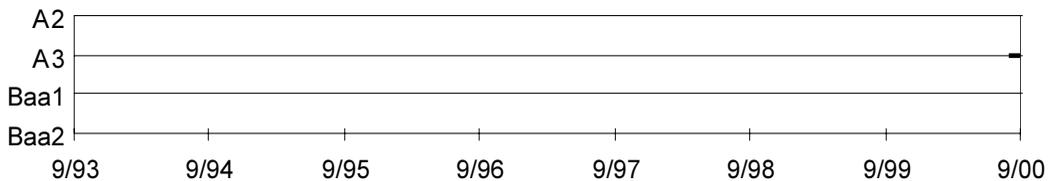
## Sparebanken Nord Norge

### Ratings and Contacts

September 2000

Category	Moody's Rating	Analyst	Phone
Bank Deposits	A3/P-2	Janne Thomsen/London	44.20.7772.5454
Bank Financial Strength	C	Tobias Gruen/London	
		Samuel S. Theodore/London	
		Rosemarie Conforte/New York	1.212.553.1653

### Rating History Long-term Bank Deposits



### Operating Statistics

#### Sparebanken Nord-Norge (Consolidated)

	[1]1999	1998	1997	1996	Average
Net income - group share (NOK bn)	0.3	0.2	0.2	0.2	0.2
Recurring earning power (%) [2]	1.6	1.3	1.5	1.4	1.5
Net interest margin (%)	3.3	3.6	3.5	3.7	3.5
Cost/ income ratio (%)	61.2	66.8	63.7	66.7	64.6
Return on avg. assets (%)	1.1	0.6	0.8	0.9	0.9
Return on equity (period end) (%)	15.9	9.7	12.0	13.5	12.8
Loan loss prov % preprov income	21.0	28.7	24.1	22.6	24.1

[1] For the 12 months ended Dec. 31. [2] Preprovision income % avg. assets.

### Balance Sheet Statistics

#### Sparebanken Nord-Norge (Consolidated)

	[1]1999	1998	1997	1996	[2]Average/ CAGR
Total assets (NOK bn)	28.6	26.1	24.5	22.5	6.2
Total assets (USD bn)	3.6	3.4	3.3	3.5	—
Shareholders' equity (NOK bn)	1.9	1.7	1.6	1.5	6.1
Avg gross loans % avg assets	86.9	87.8	89.4	90.0	88.5
Avg gross loans % avg deposits	165.6	158.9	153.7	148.8	156.8
Problem loans % gross loans	1.6	1.6	1.8	2.2	1.8
Loan loss reserves % gross loans	1.3	1.2	1.1	1.2	1.2
Tier 1 ratio (%)	8.5	8.6	8.6	8.9	8.6

[1] As of Dec. 31. [2] Compound Annual Growth Rate (%) for total assets and equity

### Opinion

#### Rating Rationale

The A3/P-2 deposit and C financial strength ratings of Sparebanken Nord-Norge were assigned in August 2000. They reflect the bank's strong regional franchise, solid financial fundamentals and the continuing benefits from participation in the SpareBank 1 alliance, although also taking into account increasing competition from the major Nordic groups combined with ongoing pressure on the bank's profitability and funding. Moody's believes that managing these threats is likely to be a significant challenge in coming years.

Sparebanken Nord-Norge is a savings bank operating in Northern Norway through 106 branches. The bank exhibits strong leadership in both retail and corporate banking. Strategy still focuses on offering customers a comprehensive range of services, recently enhanced by acquisitions. In late 1996, Sparebanken Nord-Norge participated in the creation of SpareBank 1 Gruppen, an alliance with three other savings banks. In 1999, Föreningsparbanken AB (rated Aa3/P-1/B),

one of Sweden's largest banking groups, joined the group buying 24% of SpareBank1 Gruppen. SpareBank1 Gruppen allows Sparebanken Nord-Norge and its partners to benefit from efficiencies of scale and new cross-selling opportunities, while making the development of more sophisticated and tailored products possible than would the bank on a stand-alone basis.

The bank has satisfactory profitability although interest margins are coming under pressure from competition. We also identify rising stress on funding as lending growth outstrips deposit growth. Asset quality is adequate, loan loss charges low and capitalisation solid.

#### Rating Outlook

The rating outlook is stable.

#### Recent Results

Net income totalled NOK331 end-1999 (NOK 244 yoy). Tier 1 was 9.5% (9.3%) and total capital was 13.9% (11.2%).

Coupon	Type of Debt	Maturity	Moody's Rating
<b>Sparebanken Nord-Norge</b>			
—	Bank Financial Strength Rating	—	C
—	Long-Term Bank Deposit Rating	—	A3
—	Short-Term Bank Deposit Rating	—	P-2

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## STRENGTHS/OPPORTUNITIES

- **Benefits of position within wider Sparebank1 Alliance. Sparebank1 Group offers a wide range of products via its various Group entities plus economies of scale in an increasing number of areas.**
- **Strong partner in Sweden's Föreningssparebanken–Swedbank (rated Aa3/P-1/B) which holds a 25% stake in Sparebank1 Group.**
- **Well-established brand and leading market position in northern Norway.**
- **Solid financial fundamentals.**

## CHALLENGES

- **Complex group arrangement; no serious disagreement has so far tested unity of purpose.**
- **No joint and several liability agreement in place. However, the longer Sparebank1 Alliance is in existence, the greater the moral obligation of the banks to each other (in the event that one of them experiences a crisis).**
- **Distribution for Sparebank1 Nord-Norge remains very much branch based, although Internet operations are gradually picking up in popularity.**

## Strategic Characteristics & Developments

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### STRONG FRANCHISE IN NORTHERN NORWAY

Sparebanken Nord-Norge (also known as Sparebank1 Nord-Norge) is a savings bank operating in northern Norway. The bank, which serves the retail and small- to medium-sized corporate sectors via its 106 branches, has a strong and defensible franchise in this area, where it is the leading bank, with a market share of around 40% of retail banking and 45% of corporate banking. The savings bank also owns the region's largest real estate agency and a subsidiary providing leasing and factoring.

Sparebank1 Nord-Norge was created via a series of mergers in 1989 to 1992, although its roots can be traced back to 1836. Since the mergers, which were triggered by the Norwegian banking crises of ten years ago, Sparebank1 Nord-Norge has managed to substantially turn around management, controls and profitability.

### SPAREBANK1 NORD–NORGE'S STRATEGY FOCUSES ON ITS REGIONAL STRENGTHS

Sparebank1 Nord-Norge's main strategy is to focus on its core banking business in its region, i.e. the northern part of Norway, and to provide a comprehensive service for its clients. Apart from a range of financial targets, that are in line with the targets for most of the Norwegian banks, Sparebank1 Nord-Norge is also putting emphasis on increasing fee income by selling more of the products available from the alliance.

Similar to other regional banks in Norway, Sparebank1 Nord-Norge faces strong and increasing competition from the country's major banks as well as from other Nordic banks. While this may make it increasingly challenging for Sparebank1 Nord-Norge to maintain its position, we believe that strong customer loyalty to the bank may limit the rate and extent to which this occurs.

### SPAREBANK1 ALLIANCE SUCCESSFULLY ENHANCES THE COMPETITIVENESS OF REGIONAL SAVINGS BANKS

As a response to this competitive pressure, Sparebank1 Nord-Norge was one of the founding members of Sparebank1 Gruppen AS in 1996. The alliance allows Sparebank1 Nord-Norge and its partners to realise efficiencies of scale and develop the more sophisticated and tailored financial products that customers now demand (such as asset management, pensions, insurance and capital markets). It would be difficult for a bank of this size to develop on a stand-alone basis.

The alliance is therefore used to provide such products via its various subsidiaries. Examples of this are Odin, Norway's fourth largest mutual fund company, and First Securities, formerly known as Elcon Securities and 51% owned by Sparebank1 Group. (SpareBank1 alliance also owns financial services companies operating in areas such as life assurance, non-life insurance, credit cards, real estate, and asset man-

agement whose products are distributed throughout the networks of the alliance members. We believe that this arrangement is beginning to deliver the desired benefits in terms of revenue enhancement and cost savings, and is so far proceeding smoothly, albeit so far under only favourable economic conditions.

### **AN UNTESTED, COMPLEX GROUP ARRANGEMENT, ALTHOUGH MORAL OBLIGATION BETWEEN MEMBERS IS LIKELY TO BOND THEM IN A CRISIS**

SpareBank1 Gruppen AS is a legal alliance with three other regional savings banks plus sixteen district savings banks (now seventeen banks). The seventeen district saving banks form “SamSpar”, which is an equal partner of SpareBank1 Group together with the four regional savings banks. The need for local expertise of customers in their respective regions is said to make an alliance preferable to a merger.

While this is a valid strategy, the arrangement in regard to the alliance is complex. Any of the Norwegian members can veto a decision concerning SpareBank1 Group and it remains to be seen how successful the alliance members will be in making more controversial decisions and maintaining unity of purpose. It also raises a related question over the Group’s speed of reaction. We believe that there is a play-off between the opportunities that an alliance, rather than a full merger, gives for enhancing efficiency and the benefits of strong customer loyalty that comes with maintaining local branding and independence.

There is no joint and several liability in place although we believe a moral and reputational obligation exists between the banks (in the event of one of them experiencing a crisis). Due to the common branding policy of the banks within the group, such a moral obligation is likely to grow stronger the longer the Sparebank1 Alliance is in existence. The Norwegian member banks undertake active, if informal, benchmarking.

### **STRENGTHENED BY PRESENCE OF FÖRENINGSSPARBANKEN...**

In 1999, Föreningssparbanken AB (rated Aa3/P-1/B), one of Sweden’s largest banking groups, joined the group through buying 24% of SpareBank1 Group with an option to increase its holding to 25%. Through Föreningssparbanken joining the alliance it has been possible to cross-sell each others’ products and for the participating savings banks to target larger corporate clients and to extend their product range to existing clients.

### **... AND CONTINUES TO EXPAND ITS PRODUCT RANGE**

Also in 1999, SpareBank1 Group acquired Vår Gruppen (the bank and insurance body of the labour movement in Norway). The acquisition enhances the life insurance products Sparebank1 Group is able to offer. As part of the agreement, the labour movement took a 10% stake in Sparebank1 Group (this agreement awaits final authorisation from the regulatory authorities). With Vår joining the group, Föreningssparbanken will exercise its option to increase its equity stake to 25%. The new alliance will have total assets of NOK 175billion, 425 branches and 5900 employees.

### **ENHANCING ITS INTERNET STRATEGY**

Such is the state of Internet development and its popularity in the Nordic region that for most banks operating in the region, development of Internet technology is a necessity rather than an add-on extra to the existing franchise. Nordic banks are becoming more and more aware of the need to provide Internet banking facilities and those that have been less active in its development are now taking swift steps to catch up. Sparebank Nord-Norge is currently in the process of upgrading their Internet banking facilities in co-operation with the Sparebank1 Group members and Swedbank to a common IT platform. This should enhance Sparebank1 Nord-Norge’s distribution network, which is primarily branch based. Sparebank1 Nord-Norge is working on changing the branch concept to accommodate the increased use of the Internet through changing the emphasis from transactions to advisory services.

## Financial Fundamentals

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### **STABLE RECURRING EARNINGS BUT MARGINS WILL CONTINUE TO NARROW**

Sparebank1 Nord-Norge is achieving a good level of profitability in the context of the Norwegian banking system. Risk weighted recurring earning power rose to 2.19% in 1999 from 1.81% the year before. Net interest margin declined slightly in 1999 to 3.35% but is still one of the highest in Norway. However, we expect to see further decline in the future due to the highly competitive Norwegian market.

With net interest income typically accounting for over 75% of the bank's income and with competitive pressure unlikely to ease, we believe that growth in fee income will be important in sustaining the bank's profitability. Equally important will be efforts to sustain improvements in efficiency. Sparebank1 Nord-Norge's cost/income ratio has improved from 67% in 1998 to 61% in 1999. Both areas are the main focus for the bank's strategy.

### **ASSET QUALITY IS SATISFACTORY AND STABLE**

The composition of the bank's loan portfolio is satisfactory. Around half of the loan portfolio relates to the retail sector. Lending to the corporate sector is fairly well diversified. In common with the Norwegian banking sector, problem loans are stable at a low level (1.61% of total loans) and seem likely to remain so for some time, given benign economic conditions in Norway.

### **INCREASED RELIANCE ON MARKET FUNDS**

Deposit growth has however been unable to keep up with lending, resulting in an increased reliance on market funds. The bank is taking steps to diversify funding sources and extend maturities. While no significant liquidity risks are evident, the changing funding structure tends to be more expensive, so putting more pressure on interest margins.

### **SATISFACTORY CAPITALISATION**

The bank has a total capital ratio of 10.58% at year-end 1999 (11.58% at year-end 1998) and Tier 1 at 8.49% (8.55%). Given the risk profile of Sparebank1 Nord-Norge, these ratios are satisfactory.

## Sparebanken Nord-Norge

	31/12/99	31/12/98	31/12/97	31/12/96
<b>Summary Balance Sheet (NOK million)</b>				
Cash & central bank	447	251	442	323
Due from banks	94	414	153	26
Securities	2,365	1,924	1,523	1,377
Gross loans	24,904	22,682	21,732	20,279
Loan loss reserves (LLR)	-322	-267	-244	-234
Fixed assets	573	526	417	400
Other assets	568	595	457	350
Total assets	28,629	26,125	24,480	22,521
Total assets (USD million)	3,562	3,438	3,346	3,496
Demand deposits	11,894	11,280	10,897	9,893
Savings deposits	2,598	2,957	2,810	3,737
Due to banks	2,651	1,491	1,185	523
Market funds	8,289	7,432	6,557	5,614
Other liabilities	619	583	706	589
Total liabilities	26,051	23,743	22,155	20,356
Subordinated debt	724	718	713	700
Shareholders' equity	1,853	1,663	1,611	1,464
Total capital funds	2,578	2,382	2,325	2,165
Total liabilities & capital funds	28,629	26,125	24,480	22,521
Derivatives - notional amount	--	--	--	--
Derivatives - replacement value	--	--	--	--
Risk weighted assets (RWA)	21,050	19,303	17,795	16,940
Contingent liabilities	--	--	--	--
<b>Summary Income Statement (NOK million)</b>				
+Interest income	2,227	1,879	1,512	1,633
-Interest expense	1,365	1,046	733	833
=Net interest income	862	833	779	800
+Trading income	83	-15	17	8
+Fees & commissions	148	130	121	118
+Other operating income	45	60	34	32
=Operating income	1,138	1,008	951	958
-Personnel expenses	327	326	291	273
-Other operating expenses	302	287	266	320
= Operating funds flow	509	395	394	365
-Amortisation/depreciation	67	60	49	46
=Preprovision income (PPI)	442	335	345	319
-Loan loss provisions (LLP)	93	96	83	72
+Other non operating adjustments [1]	51	0	0	3
+Extraordinary profit / loss	0	0	0	0
=Pretax income	400	239	262	250
-Taxes	106	78	68	52
=Net income	294	161	194	198
-Minority interests	0	0	0	0
=Net income (group share)	294	161	194	198
<b>Real Growth Rates (Inflation Deducted) (%)</b>				
Liquid assets	9.72	19.49	19.60	--
Gross loans	7.33	2.02	4.45	--
Problem loans	5.94	-9.81	-12.37	--
LLR	17.89	6.97	1.63	--
Total assets	7.12	4.32	5.94	--
Customer deposits (demand and savings)	-0.50	1.53	-1.98	--
Market funds & due to banks	19.85	12.66	22.96	--
Shareholders' equity	8.92	0.91	7.25	--
Risk weighted assets	6.60	6.04	2.39	11.37
Operating Income	10.36	3.61	-3.25	--
Operating Expenses	1.09	8.56	-7.57	--
Preprovision Income	28.97	-5.08	5.41	--
Loan Loss Provisions	-5.30	13.06	12.36	--
Net Income	78.50	-18.88	-4.50	--

# Sparebanken Nord-Norge

	31/12/99	31/12/98	31/12/97	31/12/96
<b>Income Statement in % Average Risk Weighted Assets</b>				
Operating income	5.64	5.43	5.48	6.00
Operating expenses	3.45	3.63	3.49	4.00
Provision income	2.19	1.81	1.99	2.00
Loan loss provision	0.46	0.52	0.48	0.45
Net income	1.46	0.87	1.12	1.24
<b>Liquidity, Funding &amp; Balance Sheet Composition</b>				
Avg. liquid assets % avg. total assets	10.04	9.30	8.18	7.66
Avg. gross loans % avg. total assets	86.91	87.77	89.38	90.04
Avg. customer deposits % avg. total funding	59.12	62.64	66.33	68.95
Avg. interbank funds % avg. total funding	8.52	6.00	4.14	2.65
Avg. market funds (excl. interbank) % avg. total funding	32.35	31.36	29.53	28.40
Avg. liquid assets % avg. customer deposits	19.13	16.84	14.06	12.66
Avg. gross loans % avg. customer deposits	165.64	158.94	153.68	148.78
Avg. market funds reliance [2]	21.80	21.22	20.17	--
Avg. RWA % avg. total assets	73.70	73.31	73.90	70.95
<b>Breakdown of Operating Income in %</b>				
Net interest income % operating income	75.75	82.64	81.91	83.51
Trading income % operating income	7.29	-1.49	1.79	0.84
Fees & commissions % operating income	13.01	12.90	12.72	12.32
Other operating income % operating income	3.95	5.95	3.58	3.34
<b>Profitability</b>				
Yield on avg. earning assets (%)	8.56	7.88	6.76	7.56
Cost of interest bearing liabilities (%)	5.46	4.54	3.44	4.07
Breakeven yield (%)	5.21	4.32	3.25	3.84
Net interest margin (%)	3.35	3.56	3.51	3.72
Return on equity (period end) (%)	15.87	9.68	12.04	13.52
Return on average assets (%)	1.07	0.64	0.83	0.88
Return on avg. RWA (%)	1.46	0.87	1.12	1.24
Recurring earning power (PPI % avg. assets)	1.61	1.32	1.47	1.42
Risk-weighted recurring earning power (PPI % avg. RWA)	2.19	1.81	1.99	2.00
Net interest income coverage of LLP (x)	9.27	8.68	9.39	11.11
LLP % provision income	21.04	28.66	24.06	22.57
Effective tax rate (tax % pretax income)	26.50	32.64	25.95	20.80
Dividend payout ratio (%)	0.00	0.00	0.00	0.00
<b>Efficiency</b>				
Cost/income ratio (operating expenses % operating income)	61.16	66.77	63.72	66.70
Operating expenses % average assets	2.54	2.66	2.58	2.84
Operating expenses % net interest income	80.74	80.79	77.79	79.88
PPI / employee (NOK thousand)	474.76	312.21	312.78	290.00
Total assets / employee (NOK million)	30.75	24.35	22.19	20.47
Earning assets / employee (NOK million)	29.39	23.32	21.22	19.71
Operating expenses / employee (NOK thousand)	747.58	627.21	549.41	580.91
<b>Asset Quality</b>				
LLR % gross loans	1.29	1.18	1.12	1.15
Problem loans % gross loans	1.61	1.63	1.85	2.20
LLR % problem loans	80.30	72.16	60.85	52.47
LLP % gross loans	0.37	0.42	0.38	0.36
Credit risk coverage [3]	10.83	11.05	11.18	11.61
Problem loans % (shareholders' equity + LLR)	18.44	19.17	21.62	26.27
Total capital funds % gross loans	10.35	10.50	10.70	10.68
<b>Capital Adequacy (Period End)</b>				
Tier 1 ratio (%)	8.49	8.55	8.61	8.88
Total capital ratio (%)	10.58	11.58	12.07	12.77
Shareholders' equity % total assets	6.47	6.37	6.58	6.50
Total capital funds % total assets	9.00	9.12	9.50	9.61
Equity participations % shareholders' equity	10.90	8.60	8.69	3.07
"Free" capital % shareholders' equity [4]	58.18	59.77	65.43	69.60
Internal capital growth (%)	17.68	9.99	13.25	--

[1] This may include value adjustments of securities.

[2] Avg. [(market funds-liquid assets) % (earning assets-liquid assets)]

[3] (Total capital funds-equity participations+LLR) % gross loans

[4] "Free" capital = shareholders' equity - equity participations - fixed assets



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