

Rating Action: Moody's assigns first time A2 Deposit ratings to BankNordik

21 Mar 2022

Stockholm, March 21, 2022 -- Moody's Investors Service ("Moody's") has today assigned first time long-term Deposit and Issuer ratings of A2 to P/F BankNordik (BankNordik), and short-term Deposit ratings of P-1. The Baseline Credit Assessment (BCA) was assigned at baa1. Furthermore, Counterparty Risk Ratings (CRR) of A1/P-1 and Counterparty Risk Assessment (CRA) of A1(cr)/P-1(cr) were also assigned. The outlook on the long-term Deposit and Issuer ratings is positive.

The Deposit and Issuer ratings reflect: 1) the bank's standalone assessment capturing BankNordik's very strong capitalisation, sound recurring profitability and a diversified and stable depositor base, balanced against high geographical and sector concentrations; 2) BankNordik's position as one of the larger banks in the Faroe Islands (Aa2 stable) and Greenland, which are small open sub-sovereign economies with dependence on fishing industries, but benefitting from ongoing support from the government of Denmark (Aaa stable); and 3) the strong loss protection given failure due to the significant amounts of loss absorbing liabilities, as per Moody's Advanced Loss Given Failure Analysis.

The positive outlook on the long-term Deposit and Issuer ratings reflects Moody's view that over the next 12-18 months, BankNordik will issue additional senior non-preferred (or junior senior unsecured, under Moody's terminology) instruments as per the Minimum Requirement for own funds and Eligible Liabilities (MREL), increasing the buffers protecting depositors and creditors in case of failure. Moody's expects that the bank's ambitions for a more efficient capital management will lead to a lower, but still very strong capitalization, which will trigger the need for additional junior senior unsecured issuances. Moody's furthermore expects that the performance of BankNordik will remain steady over the outlook horizon.

A full list of assigned ratings and assessments can be found at the end of this press release.

RATINGS RATIONALE

BASELINE CREDIT ASSESSMENT

BankNordik's baa1 BCA reflects its very strong capitalisation and strong profitability, balanced against geographical concentration risks in the Faroe Islands and Greenland, and increasing share of confidence sensitive market funding in its funding profile. The BCA reflects Denmark's macro profile of Strong +, with a supportive environment evidenced by growing GDP per capita. In addition, BankNordik, which is classified as a Systemically Important Financial Institution (SIFI) in the Faroe Islands, benefits from the sound regulatory and supervisory framework prevailing in Denmark, with the Danish Financial Supervisory Authority being its direct supervisor.

Tangible common equity to risk weighted assets (TCE/RWA) was an extremely strong 29.6% at the end of 2021, and Tier 1 leverage ratio was 13.8%. While capitalisation will trend downwards with more efficient capital management, the bank targets a strong Common Equity Tier 1 (CET1) ratio of 20% over the longer term. Since the bank uses the standardised approach to measure its credit risk, this lower capital target still entails a strong leverage ratio above 10% in the coming years.

The bank has a strong recurring profitability, with a net income to tangible assets of 0.9% for 2020 and 1.6% in 2021. While there is limited potential for additional balance sheet growth in the existing geographical areas of operation, BankNordik is expanding its insurance business and mortgage lending via partners, which will allow the bank to continue increasing net income over time despite limited balance sheet expansion.

Moody's considers that asset risk is high, reflecting the narrow Faroese and Greenland economies, and more specifically, that asset risk is sensitive to disruptions in the fishing industries. Although the economies have fared well during the pandemic, allowing the bank to reduce its problem loan ratio to 3.0% at the end of 2021 from 5.5% in 2018, fishing industries have historically experienced periodic difficulties. However, these risks are partly mitigated by the fact that processes in the Faroese fishing industries have been improved since the beginning of 2002 due to consolidation and improved disease control in aquaculture.

BankNordik's funding profile is geared toward deposits, with a strong deposit base in the Faroe Islands and a number two position in Greenland. However, due to its classification as a SIFI, the bank will need to issue junior senior unsecured funding to comply with MREL requirement. The bank currently has limited experience tapping international capital markets, and with limited issuance volumes, the refinancing risks could materialize during market stress or during downturns in the Faroese economy. The bank however has ample liquidity to manage refinancing hurdles and has a cautious approach to liquidity stress.

Governance is highly relevant for BankNordik, as it is to all competitors in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. BankNordik's Governance risks relate, in other, to the relatively small size of the management, which was pointed out by the Danish FSA in its 2020 investigation. Since the investigation, the bank has recruited a designated Chief Risk Officer and addressed other issues, reversing the additional capital requirement that the bank needed to meet. Overall, Moody's views the prudent liquidity and capital buffers that the bank targets over minimum requirements a sound mitigant to some of the risks associated with the small management team.

LOSS GIVEN FAILURE

BankNordik is subject to the EU's Bank Recovery and Resolution Directive (BRRD), which Moody's considers an operational resolution regime. Therefore, in accordance with its methodology, Moody's applies its Advanced LGF analysis to BankNordik's liabilities, considering the risk exposures of the different debt and deposit classes across its liability structure if the group enters resolution.

BankNordik's A2 long-term Deposit and Issuer ratings have a very low loss given failure as indicated by LGF, leading to two notches of rating uplift from the entity's baa1 Adjusted BCA. The CRR and CRA both include three notches of uplift as per LGF.

GOVERNMENT SUPPORT

Moody's assumes a low probability of support from the Government of Denmark for BankNordik, resulting in no uplift incorporated in its A2 long-term Deposit and Issuer ratings. This reflects that although BankNordik is of systemic importance in the Faroese banking system, with a high market share of 38.4% in deposits as of year-end 2020, the bank is small in the context of the Danish banking system. Due to Denmark's precedence of not extending government support to failing banks, it is likely that BankNordik would not receive direct government support from Denmark in case of failure.

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

A continued reduction in problem loans and prudent underwriting standards combined with strong capitalisation and strong recurring profitability could lead to an upgrade of the BCA, and consequently also of the other ratings and assessments. Furthermore, significant issuances of junior senior unsecured notes could lead to one additional positive notch in the Deposit and Issuer ratings according to LGF.

Factors that could lead to a downgrade include low profitability and significant deterioration in capitalization. Lower volumes of loss absorbing liabilities could lead to a downgrade in the Deposit and Issuer ratings.

LIST OF AFFECTED RATINGS

Issuer: P/F BankNordik

..Assignments:

-Long-term Counterparty Risk Ratings, assigned A1
-Short-term Counterparty Risk Ratings, assigned P-1
-Long-term Bank Deposits, assigned A2, outlook Positive
-Short-term Bank Deposits, assigned P-1
-Long-term Counterparty Risk Assessment, assigned A1(cr)
-Short-term Counterparty Risk Assessment, assigned P-1(cr)

...Long-term Issuer Ratings, assigned A2, outlook Positive

...Baseline Credit Assessment, assigned baa1

...Adjusted Baseline Credit Assessment, assigned baa1

..Outlook Action:

...Outlook assigned Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody.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.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moody.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moody.com.

Please see www.moody.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Niclas Boheman
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service (Nordics) AB
Norrandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Simon Ainsworth
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service (Nordics) AB
Norrandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



© 2022 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.