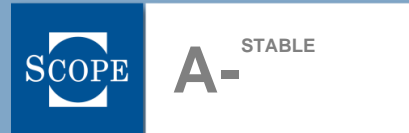


# SpareBank 1 Nordvest Issuer Rating Report



## Overview

Scope assigns a first-time Issuer Rating of A- to SpareBank 1 Nordvest. The rating agency also assigns a first-time rating to the bank's senior unsecured debt at BBB+. All ratings have a Stable Outlook.

As Norway is part of the EEA, its banks are expected to comply with BRRD, including MREL requirements. In line with our bank rating methodology (May 2019) and when the Norwegian FSA clarifies which debt is MREL-eligible, we expect to rate senior unsecured MREL-eligible debt one notch below the Issuer Rating and senior unsecured non-MREL-eligible debt at the same level as the Issuer Rating.

## Highlights

- ✓ In operations since 1835, SpareBank 1 Nordvest (SB1 Nordvest) is a well-established local savings bank in north-west Norway. Macroeconomic conditions are supportive, with the country having recovered from the fall in oil prices in 2014 and the key policy rate at 1.5%. The bank operates primarily in the county of Møre og Romsdal, where the maritime sector, fishing as well as oil and gas are major industries.
- ✓ SB1 Nordvest has maintained solid profitability and sound asset quality through the recent economic downturn. Around 70% of the bank's lending concerns residential mortgages and management has good knowledge of the local market.
- ✓ Key to maintaining the bank's competitive position is its membership in the SpareBank 1 Alliance. Collectively, the alliance represents the second largest provider of financial products and services in the Norwegian market. In addition to enabling SB1 Nordvest to meet the broader financial needs of clients, the alliance is a source of expertise and an important driver of cost efficiency.
- ✓ The bank's ownership share in the alliance and its various product companies is also a source of dividend income. This year there have been extraordinary gains due to the sale of a stake in a related bank and a merger of the alliance's insurance company with that of DNB's.
- ✓ Like with other Norwegian banks, deposits are insufficient to fully support lending and SB1 Nordvest must rely on market funding – directly on its own and indirectly through the covered bond funding vehicles of the alliance.
- ✓ The full implementation of CRD IV /CRR in Norway is ongoing, however the bank continues to maintain a solid solvency position in line with the country's relatively stringent requirements.

## Ratings & Outlook

Issuer Rating	A-
Senior unsecured debt rating	BBB+
Outlook	Stable

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Bloomberg: SCOP


### Rating drivers (summary)


The rating drivers, in decreasing order of importance in the rating assignment, are:


- Well-established savings bank in north-west Norway supported by management's in-depth knowledge of the local market.
- Resilient profitability supported by good cost efficiency and sound asset quality.
- As with other Norwegian banks, there is a reliance on market funding.
- Solid solvency metrics guided by relatively stringent regulatory demands.

### Rating change drivers

 **A deterioration in SB1 Nordvest's operating environment which materially impacts profitability.** The bank operates in one region of Norway and its performance is dependent on economic conditions in the local area as well as in the country more generally. The maritime and oil and gas industries which are important drivers for the local economy tend to be more cyclical.

 **A loss of services and economies of scale that the bank enjoys from being a member of the SpareBank 1 Alliance.** Without access, the bank would have challenges meeting the various needs of its customers and would unlikely be able to achieve the same levels of cost efficiency.

 **Inability to access market funding at a reasonable cost.** The bank accesses the market directly on its own and indirectly through the covered bond funding vehicles of the SpareBank 1 Alliance.

 **Sustainable and profitable growth.** Stronger earnings underpinned by greater diversification of the loan portfolio while maintaining sound asset quality and a robust solvency position would be viewed favourably.

### Rating drivers (details)

#### Well-established savings bank in north-west Norway supported by management's in-depth knowledge of the local market

Bank's primary market is Møre og Romsdal

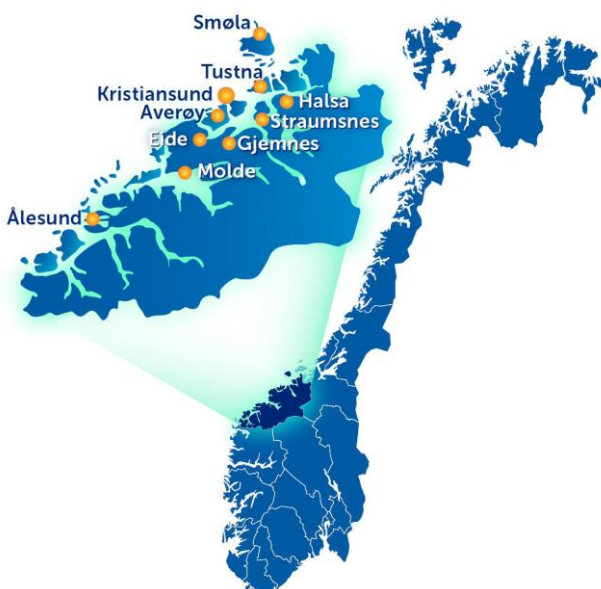
SB1 Nordvest traces its origins to the founding of Kristiansunds Savings Bank in 1835, the first bank between Bergen and Trondheim, and subsequent mergers with 11 other savings banks in the 1960s and 1970s. The bank currently has ten offices in its primary market of Møre og Romsdal serving 30,000 personal and 3,500 business customers (Figure 1). In Kristiansund, the bank has a leading market share of more than 35% in residential mortgages while in the broader north-west area the bank is one of four major players with a market share of about 15%. Competitors include Sparebanken Møre, Sparebank 1 SMN, Nordea, DNB and other smaller savings banks.

For more than ten years, SB1 Nordvest along with two other banks have been performing in-depth annual assessments of their local market. The studies include data on businesses by industry sector, the number of new businesses, the number of bankruptcies as well as analysis on the accounts of over 40,000 companies. As part of the assessment, approximately 700 CEOs are also surveyed on their expectations regarding future employment, turnover and profitability.

Outlook for local area is neutral

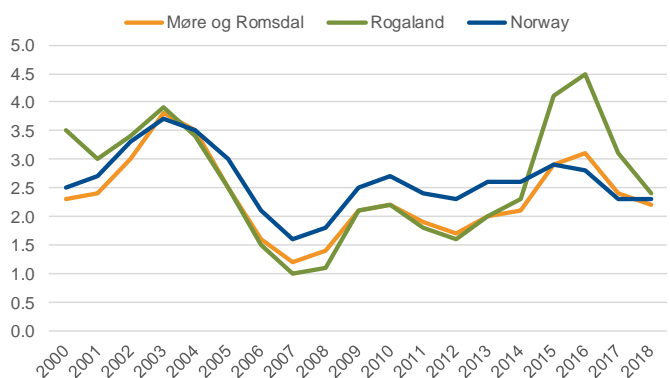
In this year's edition of the business survey, the outlook for the coming year was changed to neutral from positive. After two strong years, there is some uncertainty as to whether the level of activity will remain as high in 2020. The offshore and maritime industries continue to face challenges, with the outlook for the maritime industry being downgraded to negative from neutral. Meanwhile, the prospects for fisheries and aquaculture remain strong. After peaking in 2016, unemployment in Møre og Romsdal has recovered to the national level (Figure 2).

Figure 1: Network of 10 branches



Source: Company data.

Figure 2: Unemployment rates (%)



Notes: SB1 Nordvest operates primarily in Møre og Romsdal. Rogaland is the county most exposed to the oil sector.  
Source: Statistics Norway, Scope Ratings.

### Significant benefits from being part of SpareBank 1 Alliance

### Resilient profitability supported by good cost efficiency and sound asset quality

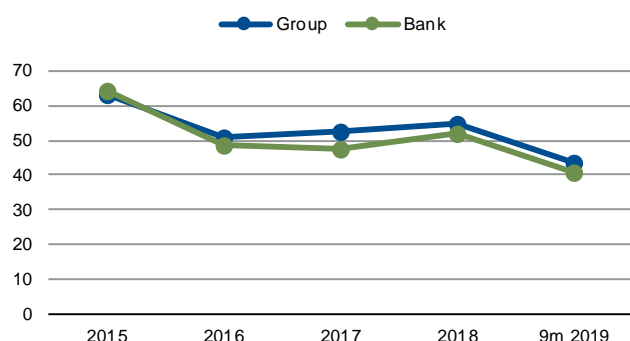
SB1 Nordvest has been a member of the SpareBank 1 Alliance since 1999. The bank enjoys significant advantages from being part the alliance, including the ability to meet the broader financial needs of customers, increased efficiency and enhanced digital capabilities as well as competence development. These benefits ensure the competitiveness of the bank despite its relatively modest size.

The 14 members of the alliance collectively represent the second largest player in the Norwegian banking market, with shares of 20% and 16% in retail and corporate lending, respectively.<sup>1</sup> The member banks collaborate in key areas such as branding, risk management, and IT operations. One of the key goals of the alliance is to ensure that member banks are at the forefront of digital developments to meet evolving customer needs. For example, there is a dedicated team focused on the challenges and opportunities stemming from PSD2.

### Fee and commission income a material part of revenues

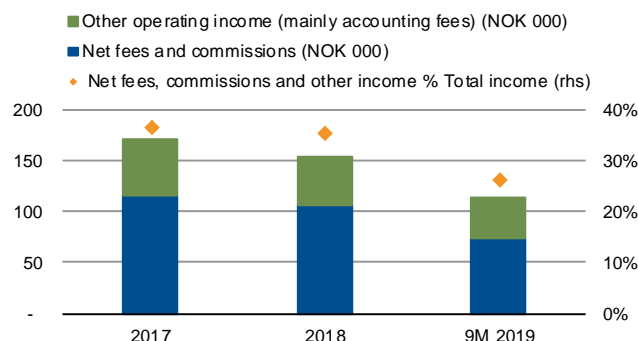
Supported by the alliance's various product companies (e.g. credit cards, insurance, asset management, factoring), fees and commissions are a meaningful contributor to the bank's revenues. In addition, SB1 Nordvest holds a 70% stake in SpareBank 1 Regnskapshuset Nordvest, an accounting firm. While this firm has a higher cost structure than the bank, it generates about a third of the group's net commission and other income. The bank effectively manages costs by sharing premises with the accounting firm and certain branches are only open by appointment.

Figure 3: Cost income ratio for group vs bank (%)



Source: Company data, Scope Ratings.

Figure 4: Importance of non-interest income



Source: Company data, Scope Ratings.

### 70% of lending is to retail customers

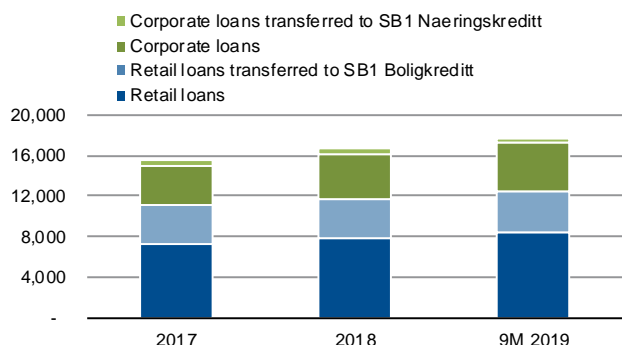
Including loans transferred to the alliance's covered bond funding vehicles, about 70% of the bank's lending is to retail customers (Figure 5). The retail portfolio is comprised entirely of residential mortgages, with over 95% of loans having a loan-to-value below 85%.

### No direct loan exposure to oil and gas industry

Within the corporate portfolio, the largest exposure is to commercial real estate (about 30%) (Figure 6). The bank has no direct exposure to the oil industry and has limited indirect exposure via tenants from the oil servicing industry. The housing cooperative sector is considered very low risk. The fisheries sector also tends to be quite stable due to the high level of regulation involving licenses and quotas as well as the practice of sustainable management. Of note, SB1 Nordvest uses the common credit models of the alliance which include the four large member banks employing the internal ratings-based approach.

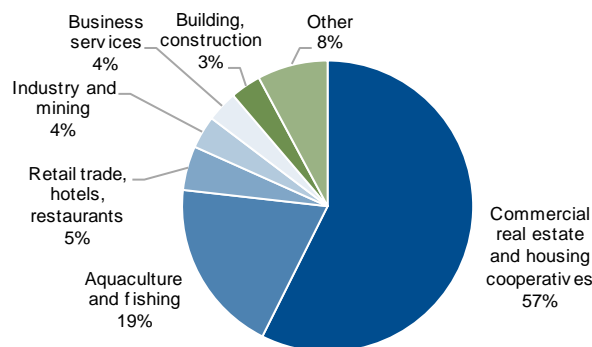
<sup>1</sup> 2019 Financial Stability Report, Norges Bank. Data as of 30 June 2019.

**Figure 5: Total lending activity (NOK 000)**



Note: SB1 Boligkreditt is for residential mortgages and SB1 Naeringskreditt is for commercial mortgages. Source: Company data, Scope Ratings.

**Figure 6: Composition of corporate portfolio (NOK 4.8bn)**



Note: Data as of 30 September 2019. Excludes NOK 0.5bn in loans transferred to SB1 Naeringskreditt. Other includes various sectors with exposures below 3% each. Source: Company data, Scope Ratings.

### As with other Norwegian banks, there is a reliance on market funding

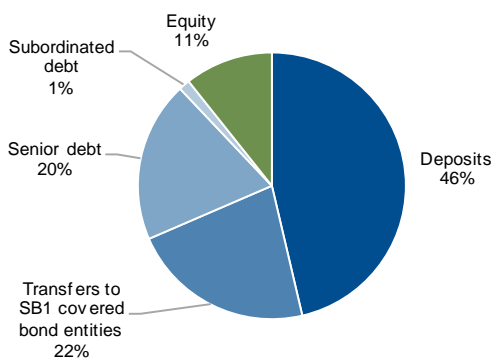
SB1 Nordvest's main source of funding is customer deposits, of which over 70% are covered under Norway's current deposit guarantee scheme (Figure 7). While the focus remains on increasing smaller, more stable deposits, the bank last year expanded its deposit base by joining a marketplace platform serving corporate and institutional customers. At this time, management is comfortable with the proportion of deposits from this additional channel but continues to monitor their size and flows.

Like with other Norwegian banks, the use of market funding is material, with SB1 Nordvest being a recurring issuer in the domestic market. Management maintains relationships with a number of investment banks for debt issuance and meets investors on a regular basis. The bank also has a line of credit with Kredittforeningen for Sparebanker, a non-profit credit institution providing loans to savings banks.

Another important source of funding is the covered bond issuing vehicles of the SpareBank 1 Alliance. While management limits the proportion of loans that are transferred, the bank has approximately another NOK 4bn in loans which could be readily transferred if needed for funding purposes. As of 30 September 2019, NOK 4.5bn in loans have been transferred, equivalent to about 22% of total lending.

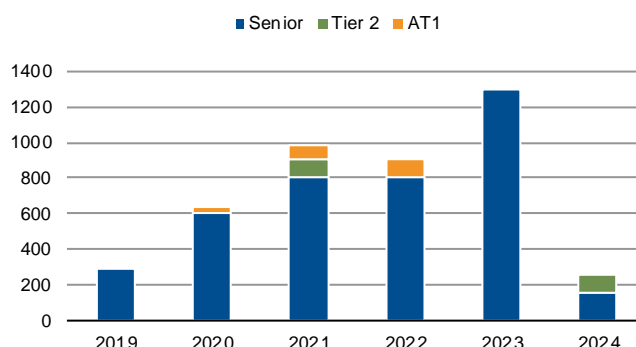
SB1 Nordvest has been listed on the Oslo Stock Exchange since 2017. The bank first issued equity capital certificates (ECCs) in 2013 and further strengthened its equity position by issuing again in 2017. As of 30 September 2019, 745 ECC holders owned just over 16% of the bank.

**Figure 7: Funding profile**



Note: Data as of 30 September 2019. Source: Company data, Scope Ratings.

**Figure 8: Debt maturity profile (NOK 000)**



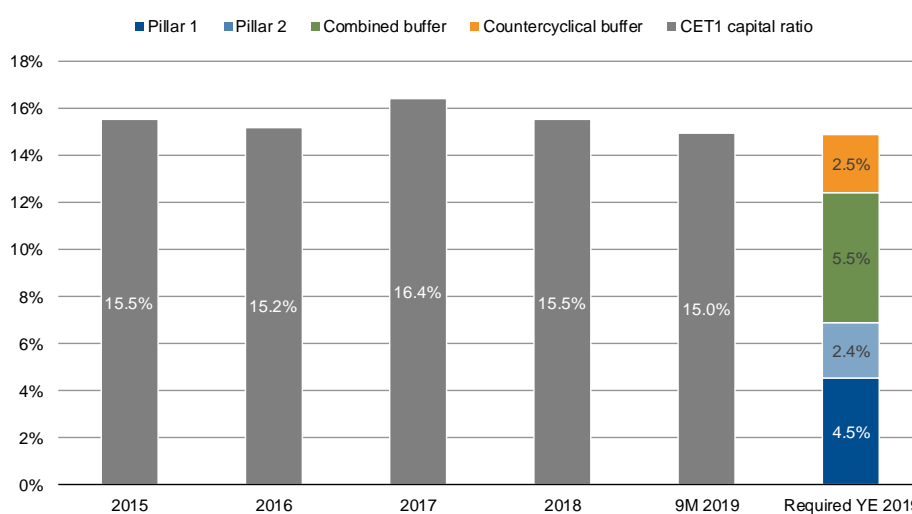
Note: Data as of 30 September 2019. For Tier 2 and AT1 securities, maturity profile reflects call dates. Source: Company data, Scope Ratings.

Minimum CET1 requirement of 12.5% for Norwegian banks

### Sound solvency metrics guided by relatively stringent regulatory demands

As part of its strategic planning, SB1 Nordvest manages growth to preserve sound solvency metrics and to meet regulatory requirements. The minimum CET1 requirement for all Norwegian banks is a relatively high 12.5%, which includes a 3% systemic risk buffer and a countercyclical buffer of 2.5% by year-end. With the addition of a Pillar 2 requirement of 2.4%, SB1 Nordvest's minimum CET1 requirement will be 14.9% by year-end. As of 3Q 2019, the group's CET1 ratio was 15%, which includes only 50% of the retained earnings generated during the first six-months of the year. At the same time, the leverage ratio was also sound at 9%.

Figure 9: CET1 capital development vs. requirements



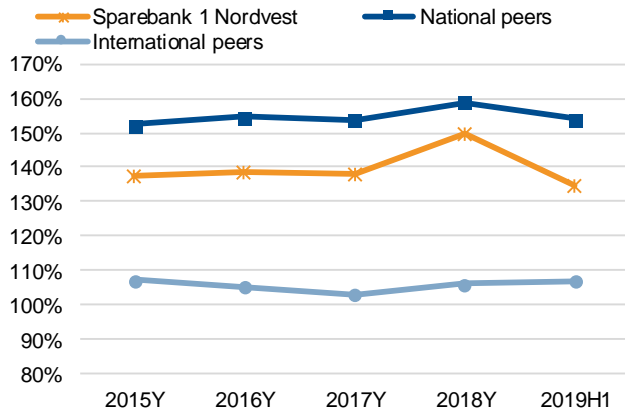
Notes: In 2017, SB1 Nordvest issued additional ECCs. In 2018, new consolidation rules came into effect. Source: Company data, Scope Ratings.

Introduction of SME discount factor expected to have positive CET1 impact

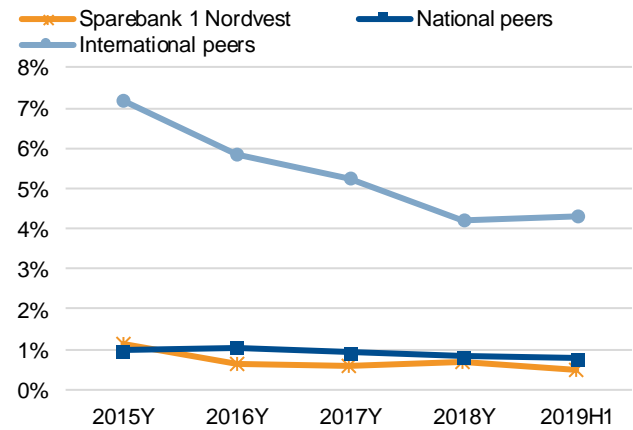
There are ongoing discussions about the implementation of CRD IV / CRR in Norway, with the FSA proposing measures to offset the impact of removing the Basel 1 transitional floor and introducing the SME discount factor. Before any offsetting measures, management's estimate of the positive impact on CET1 capital is 120 bps. The removal of the Basel 1 transitional floor is expected to have an indirect effect via the bank's investments in associated companies of the SB1 Alliance using IRB-models (e.g. SB1 Boligkreditt). Since January 2018, investments in associated companies of collaborative groups, like the SB1 Alliance, must be proportionately consolidated for capital adequacy calculations.

### I. Appendix: Peer comparison

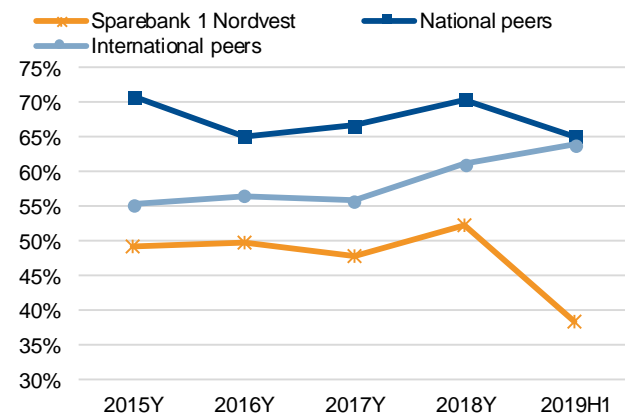
**Net loans % Deposits**



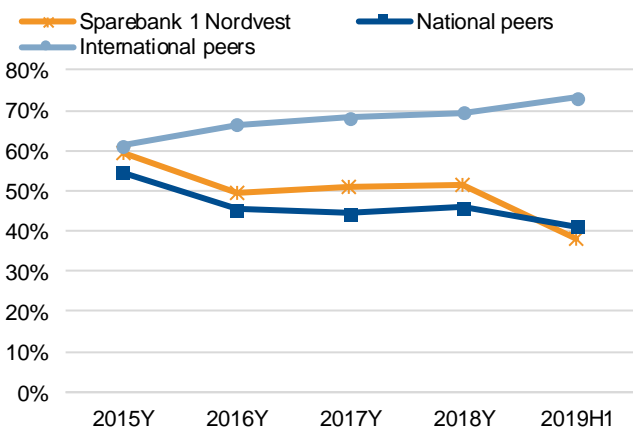
**Problem loans % Gross loans**



**Net interest income % Operating income**

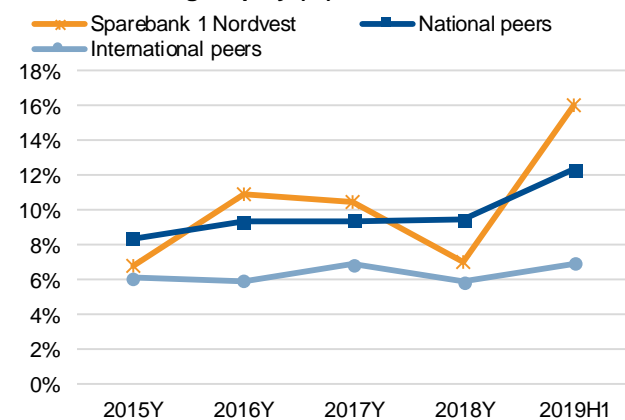


**Costs % Income**

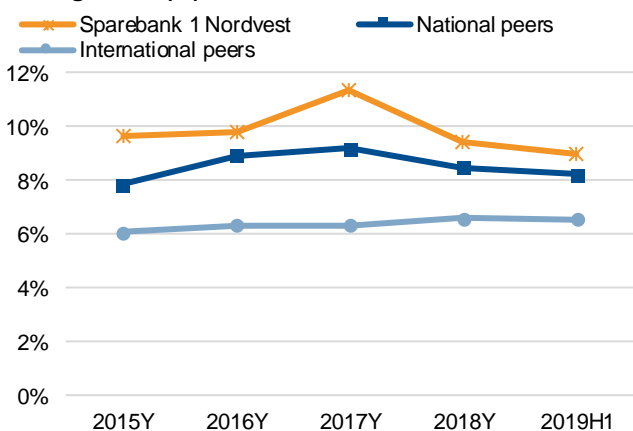


Note: In 2019H1, SpareBank 1 Nordvest's operating income included one-off gains. Excluding them, the figure would be in line with historical trend.

**Return on average equity (%)**



**Leverage ratio (%)**



National peers: SpareBank 1 Nordvest, Totens Sparebank, Sandnes Sparebank, Jaeren Sparebank, Landkredit Bank, BN Bank ASA, SpareBank 1 SMN, SpareBank 1 SR-Bank, DNB.  
 International peers: SpareBank 1 Nordvest, Hypo-Bank Burgenland, Bausparkasse Wustenrot, Banca Popolare di Sondrio, Credito Emiliano, Kutxabank, Unicaja, Principality Building Society.

Note: 1H 2019 data is not available for Hypo-Bank Burgenland and Bausparkasse Wustenrot.  
 Source: SNL



## II. Appendix: Selected Financial Information – SpareBank 1 Nordvest group

	2015Y	2016Y	2017Y	2018Y	9M 2019
<b>Balance sheet summary (NOK m)</b>					
<b>Assets</b>					
Cash and interbank assets	378	504	526	473	751
Total securities	1,796	1,606	1,495	1,484	1,590
of which, derivatives	1	2	0	1	2
Net loans to customers	9,480	10,310	11,046	12,122	13,233
Other assets	600	541	537	412	406
<b>Total assets</b>	<b>12,253</b>	<b>12,961</b>	<b>13,603</b>	<b>14,490</b>	<b>15,980</b>
<b>Liabilities</b>					
Interbank liabilities	0	0	0	0	0
Senior debt	3,572	3,470	3,254	3,995	3,954
Derivatives	5	2	2	0	0
Deposits from customers	6,907	7,450	8,003	8,086	9,401
Subordinated debt	286	311	311	273	273
Other liabilities	112	124	114	101	186
<b>Total liabilities</b>	<b>10,882</b>	<b>11,357</b>	<b>11,685</b>	<b>12,455</b>	<b>13,815</b>
Ordinary equity	1,367	1,464	1,726	1,840	1,969
Equity hybrids	0	135	185	185	185
Minority interests	4	5	7	10	11
<b>Total liabilities and equity</b>	<b>12,253</b>	<b>12,961</b>	<b>13,603</b>	<b>14,490</b>	<b>15,980</b>
<i>Core tier 1/ common equity tier 1 capital</i>	1,205	1,218	1,379	1,712	1,723
<b>Income statement summary (NOK m)</b>					
Net interest income	178	215	230	242	190
Net fee & commission income	107	102	116	106	74
Net trading income	14	32	37	25	61
Other income	62	84	99	89	104
<b>Operating income</b>	<b>363</b>	<b>434</b>	<b>482</b>	<b>462</b>	<b>430</b>
Operating expenses	215	215	245	238	188
<b>Pre-provision income</b>	<b>147</b>	<b>219</b>	<b>237</b>	<b>224</b>	<b>242</b>
Credit and other financial impairments	36	23	29	50	16
Other impairments	0	0	0	0	0
Non-recurring items	NA	NA	NA	NA	NA
<b>Pre-tax profit</b>	<b>111</b>	<b>195</b>	<b>208</b>	<b>173</b>	<b>226</b>
Discontinued operations	0	0	0	0	0
Other after-tax items	0	0	0	0	0
Income tax expense	26	38	29	34	28
Net profit attributable to minority interests	1	1	2	2	1
<b>Net profit attributable to parent</b>	<b>84</b>	<b>157</b>	<b>177</b>	<b>138</b>	<b>197</b>

Source: SNL





### III. Appendix: Ratios – SpareBank 1 Nordvest group

	2015Y	2016Y	2017Y	2018Y	9M 2019
<b>Funding and liquidity</b>					
Net loans/ deposits (%)	137.3%	138.4%	138.0%	149.9%	140.8%
Liquidity coverage ratio (%)	146.0%	169.0%	136.0%	147.0%	174.0%
Net stable funding ratio (%)	135.3%	151.5%	143.2%	143.6%	138.1%
<b>Asset mix, quality and growth</b>					
Net loans/ assets (%)	77.4%	79.5%	81.2%	83.7%	82.8%
Problem loans/ gross customer loans (%)	1.1%	0.6%	0.6%	0.7%	0.5%
Loan loss reserves/ problem loans (%)	50.3%	80.2%	86.9%	81.2%	94.5%
Net loan growth (%)	6.8%	8.8%	7.1%	9.7%	12.2%
Problem loans/ tangible equity & reserves (%)	7.7%	4.1%	3.4%	4.0%	3.0%
Asset growth (%)	5.1%	5.8%	4.9%	6.5%	13.7%
<b>Earnings and profitability</b>					
Net interest margin (%)	1.5%	1.8%	1.8%	1.7%	1.7%
Net interest income/ average RWAs (%)	2.3%	2.7%	2.7%	2.2%	2.2%
Net interest income/ operating income (%)	49.2%	49.7%	47.8%	52.3%	44.3%
Net fees & commissions/ operating income (%)	29.6%	23.6%	24.1%	23.0%	17.3%
Cost/ income ratio (%)	59.4%	49.6%	50.9%	51.6%	43.7%
Operating expenses/ average RWAs (%)	2.8%	2.7%	2.9%	2.2%	2.2%
Pre-impairment operating profit/ average RWAs (%)	1.9%	2.8%	2.8%	2.1%	2.9%
Impairment on financial assets / pre-impairment income (%)	24.7%	10.6%	12.2%	22.4%	6.7%
Loan loss provision/ average gross loans (%)	0.2%	0.1%	0.1%	0.2%	0.2%
Pre-tax profit/ average RWAs (%)	1.4%	2.5%	2.5%	1.6%	2.7%
Return on average assets (%)	0.7%	1.3%	1.3%	1.0%	1.7%
Return on average RWAs (%)	1.1%	2.0%	2.1%	1.3%	2.3%
Return on average equity (%)	6.7%	10.9%	10.4%	7.0%	12.5%
<b>Capital and risk protection</b>					
Common equity tier 1 ratio (% , fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (% , transitional)	15.5%	15.2%	16.4%	15.5%	15.0%
Tier 1 capital ratio (% , transitional)	16.2%	16.7%	18.6%	17.5%	16.9%
Total capital ratio (% , transitional)	17.0%	18.9%	21.2%	20.1%	19.3%
Leverage ratio (%)	9.7%	9.8%	11.4%	9.4%	9.0%
Asset risk intensity (RWAs/ total assets, %)	63.3%	62.0%	61.8%	76.5%	72.1%

Source: SNL



## SpareBank 1 Nordvest

### Issuer Rating Report

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