

SpareBank 1 Nordmore Issuer Rating Report



A- STABLE

Scope's credit view (summary)

The **A- issuer rating** reflects sound credit fundamentals and a well-established local savings bank franchise in central Norway. In May 2021, SpareBank 1 Nordvest and Surnandal Sparebank merged, with the new bank being named SpareBank 1 Nordmore (SB1 Nordmore). The merged bank benefits from a further strengthened market position in its local area and growth opportunities.

SB1 Nordmore's focus on retail customers and mortgage lending supports earnings resilience. In addition, membership in the SpareBank 1 Alliance enables the bank to meet the broader financial needs of clients and provides important economies of scale and expertise, particularly in digital capabilities.

The bank has a track record of solid profitability underpinned by good cost efficiency and low credit losses. While the economic uncertainty caused by the pandemic has had a limited impact on the loan book to date, the bank maintains discretionary credit provisions.

Driven in part by relatively high regulatory requirements, SB1 Nordmore maintains reassuring prudential metrics. Minimum solvency requirements are set to rise following announced increases in the countercyclical buffer rate and the systemic risk buffer for banks using standardised models such as SB1 Nordmore.

Outlook

The **Stable Outlook** reflects the ongoing resilience of the bank's business and operating performance as well as the successful completion of the merger between the former SpareBank 1 Nordvest and Surnandal Sparebank.

Ratings & Outlook

Issuer rating	A-
Senior unsecured debt rating	A-
Non-preferred senior unsecured debt rating	BBB+
Outlook	Stable

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Credit strengths

- Well-established market position in local area.
- Resilient profitability underpinned by sound asset quality and membership in SpareBank 1 alliance.
- Solid solvency metrics.

Credit weaknesses

- As with other Norwegian banks, a reliance on market funding.
- Operations are focused in one region of Norway where the maritime and oil and gas industries are important drivers of the local economy.

Positive rating-change drivers

- Sustainable and profitable growth with greater diversification of the loan portfolio.

Negative rating-change drivers

- Deterioration in operating environment which materially impacts profitability.
- Change in strategic direction which increases the bank's risk profile.

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Bloomberg: RESP SCOP

Issuer profile

In May 2021, SpareBank 1 Nordvest and Surnadal Sparebank merged to become SpareBank 1 Nordmore (SB1 Nordmore). The two former savings banks have roots going back more than 180 years. SpareBank 1 Nordvest traces its origins to the founding of Christiansunds Sparebank in 1835, the first bank between Bergen and Trondheim, while Surnadal Sparebank was established in 1842.

The bank's primary market is More og Romsdal in north-western Norway. With 12 branches spanning from Trondheim in the north to Alesund in the south, the bank serves approximately 45,000 personal and 5,000 business customers. In Kristiansund and Surnadal, the historical bases of the former banks, SB1 Nordmore enjoys leading market positions.

In addition, SB1 Nordmore holds 70% stakes in two accounting firms, SpareBank 1 Regnskapshuset Nordvest and Trio Regnskapsservice AS, which adds revenue diversification. The bank has been a member of the SpareBank 1 Alliance since 1999.

The former SpareBank 1 Nordvest first issued equity capital certificates (ECCs) in 2013 and has been listed on the Oslo Stock Exchange since 2017. Further capital was raised in 2021 to facilitate the merger with Surnadal Sparebank. As of year-end 2021, the ECC holders' ownership share was 40%.

Local savings bank business model

Well-established local savings bank operating in north-west Norway

As a savings bank, SpareBank 1 Nordmore (SB1 Nordmore) focuses on retail customers and mortgage lending in its local area. The bank maintains close ties to the local market and its various stakeholders. This is reinforced by the governance structure, where the general assembly, the bank's highest body is comprised of 32 members, with 14 representing customers and 8 representing employees. The general assembly elects the bank's board which in turn elects the bank's CEO.

Further, SB1 Nordmore supports the local community through numerous sponsorships and a gift fund. In 2021, the bank distributed NOK 10m from its gift fund.

The group benefits from in-depth knowledge of the local market. For more than ten years, SB1 Nordmore along with two other banks have performed regular and detailed assessments of businesses operating in the region. The studies include information on businesses by industry sector as well as analysis on the accounts of over 40,000 companies. As part of the assessment, approximately 600 CEOs are surveyed on their expectations regarding future employment, turnover, and profitability.

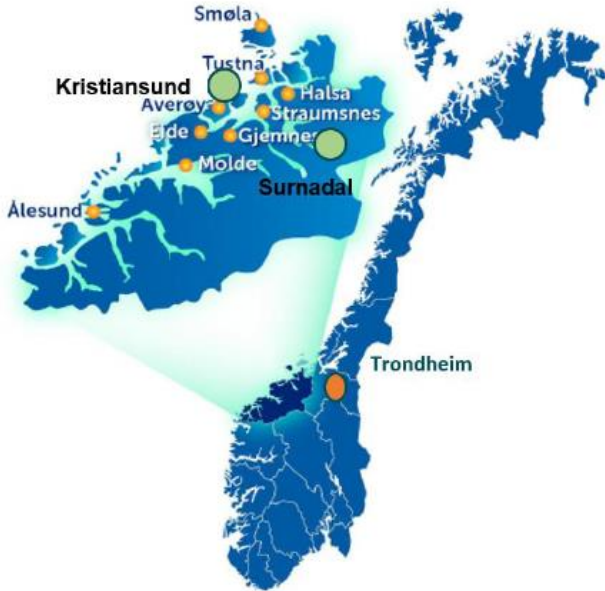
Supportive economic environment in region

In the latest business survey, the outlook for the region in 2022 has been upgraded to positive from negative, with optimism being at high levels.¹ The Covid-19 pandemic, however, has not affected all industries to the same extent. The outlook for the commercial real estate (CRE) sector has now been changed to neutral, having been negative since the start of the pandemic. Meanwhile, the prospects for fisheries and aquaculture remain strong.

Unemployment in Møre og Romsdal experienced a spike in 2020 although to a lesser extent than the national average and has been declining to pre-pandemic levels since (Figure 2).

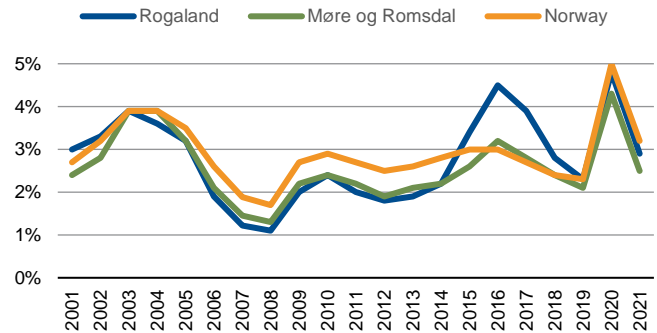
¹ SpareBank 1 SMN Bransjeindikator SMN, 2. halvår 2021, 26 October 2021.

Figure 1: Operations focused in north-west Norway



Source: Company data.

Figure 2: Unemployment in More og Romsdal tends to be lower than national average



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

2021 performance impacted by merger costs

Resilient profitability supported by sound asset quality and membership in SpareBank 1 alliance

In 2021, SB1 Nordmore's performance was impacted by merger costs of NOK 118m. On a pro forma basis assuming the merger happened in January 2021, the group would have generated a profit after tax of NOK 235m. Pro forma figures indicate that the group's performance has developed positively over the last year.

Figure 3: Pro forma figures (NOK m)

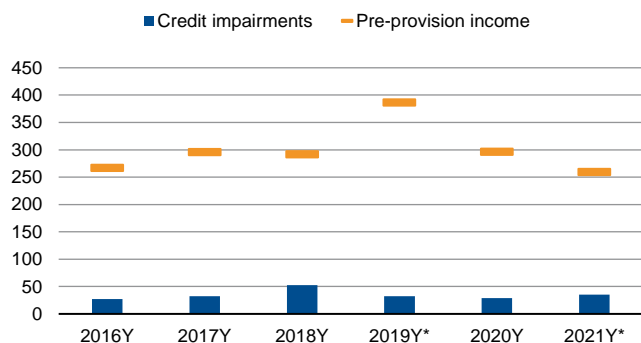
	2021Y	2020Y
Net interest income	377	354
Net fee and other income	249	199
Net result from financial instruments	59	67
Total income	685	621
Personnel costs	191	166
Other operating expenses	166	149
Merger costs	118	9
Credit costs	35	29
Operating profit before tax	294	276
Tax	59	53
Profit after tax	235	223

Notes: 2021 figures assume that the merger happened in January 2021. 2020 figures are the combined figures of the two former banks for the year 2020. Source: Company data, Scope Ratings.

Tailwinds to support 2022 performance

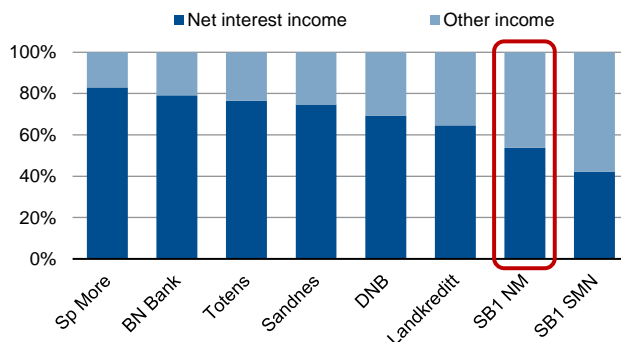
All merger costs were incurred in 2020 and 2021, and as the former Surnadal Sparebank has moved onto the SpareBank 1 Alliance technology platform, management expects to realise material cost savings going forward. Meanwhile, anticipated policy rate increases should also be supportive, with the central bank projecting a policy rate of 0.8% in 2022 and 1.5% in 2023.²

Figure 4: Pre-provision income vs impairments (NOK m)



Notes: Figures reflect combined results of the former SpareBank 1 Nordvest and Surnadal Sparebank. In 2019, SpareBank 1 Nordvest had extraordinary gains of NOK 84m. 2021 figure is pro forma assuming merger happened in January 2021. Source: Company data, Scope Ratings calculations.

Figure 5: Revenue breakdown - peer comparison (FY 2021)



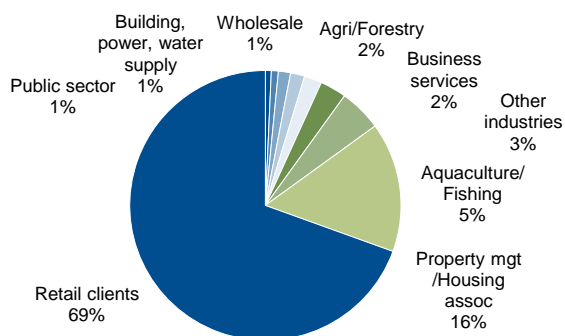
Source: Company data, SNL, Scope Ratings.

The bank's asset quality remains sound and there have been limited signs of deterioration due to the Covid-19 pandemic. Management, nevertheless, continues to maintain additional discretionary credit provisions. As of year-end 2021, the Stage 3 ratio was 1.7%, with more than 50% of credit provisions for loans classified as Stage 1 and 2.

Loan portfolio dominated by residential mortgages

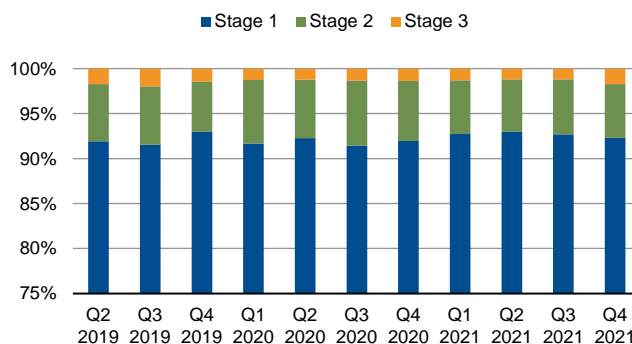
Nearly 70% of the loan portfolio is comprised of residential mortgages to personal customers. Most of these loans have loan-to-values below 60%. As with other Norwegian savings banks, SB1 Nordmore has exposure to the commercial real estate sector. This sector has so far proven to be resilient while the 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 sustainable management practices. There is no direct exposure to the oil industry and only limited indirect exposure via tenants from the oil servicing industry.

Figure 6: Loan portfolio – YE 2021



Source: Company data, Scope Ratings.

Figure 7: Loan portfolio by stage (%)



Note: Figures reflect merger from Q2 2021. Source: Company data, Scope Ratings.

² Norges Bank, Monetary Policy Report, December 2021.

Membership in alliance brings material benefits

SB1 Nordmore's membership in the SpareBank 1 Alliance provides significant advantages, 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. Further, the bank's ownership share in the alliance and its various product companies is a source of dividend income.

The 14 banks in the alliance collectively represent the second largest player in the Norwegian banking market, with shares of 21% and 17% in retail and corporate lending, respectively³. 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 demands.

Ongoing efforts in the area of sustainability**Strong awareness of ESG risks**

SB1 Nordmore is increasingly focused on addressing both the risks and opportunities related to sustainability. Management recognises potential ESG risks and is adopting strategies to manage them. The bank has started assessing climate risk in its loan portfolio at industry level based on models developed by the SpareBank 1 Alliance. As well, the bank is working on integrating ESG risks into the credit process, including physical climate risk exposure.

Through policies for managing operational risks, including AML, compliance and business practices, the bank is also addressing potential risks stemming from a failure to comply with regulatory requirements or market expectations related to employee rights and good business practices.

... as well as a focus on impact

SB1 Nordmore's approach to sustainability is driven by management and is anchored in the bank's strategy. A materiality analysis has been performed to identify priorities important for the bank and external stakeholders. The three focus areas relate to being an attractive employer, contributing to sustainable development, and supporting the local community. In addition to formulating a sustainability strategy, the bank participates in initiatives such as the UNEP FI, UN Global Compact, TCFD, and the Norwegian Roadmap for Green Competitiveness in the Financial Sector.

After establishing a green bond framework, the bank issued a NOK 150m green bond in November 2021. The framework has been externally assessed by CICERO (Centre for International Climate and Environmental Research).

Comfortably positioned against regulatory requirements**Well positioned against current and future requirements**

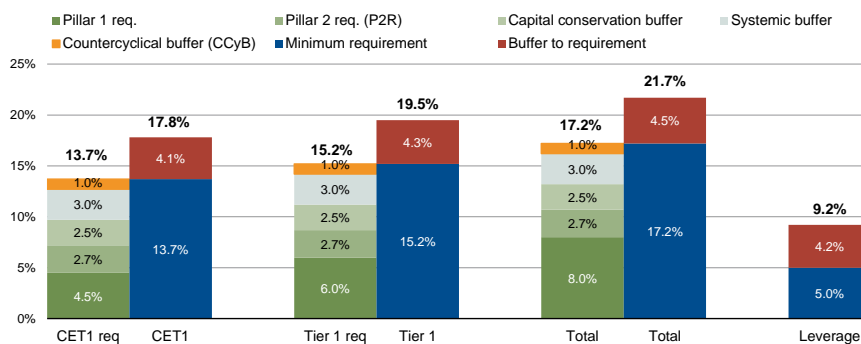
As part of its strategic planning, SB1 Nordmore manages growth to preserve sound solvency metrics and to meet regulatory requirements. As of year-end 2021, the group's CET1 ratio was 17.8% while the leverage ratio was 9.2% (proportional consolidation basis). These figures sit comfortably above the bank's current requirements of 13.7% and 5%, respectively.

The current CET1 requirement of 13.7% includes a 3% systemic risk buffer, 1% countercyclical buffer, and a Pillar 2 requirement of 2.7%. Due to operational risks related to the merger, the Norwegian FSA had increased the Pillar 2 requirement to 2.7% from 2.4% in 2021. The bank expects to receive an updated Pillar 2 requirement this year.

³ 2021 Financial Stability Report, data as of 30 June 2021.

From 30 June 2022, the countercyclical buffer will increase to 1.5% and then to 2% at year-end 2022. In addition, the systemic risk buffer will increase to 4.5% from 3%. Consequently, by year-end, the bank's CET1 requirement is estimated to be around 16%. Management intends to maintain a 1% buffer above minimum requirements.

Figure 8: Positioning against requirements as of YE 2021



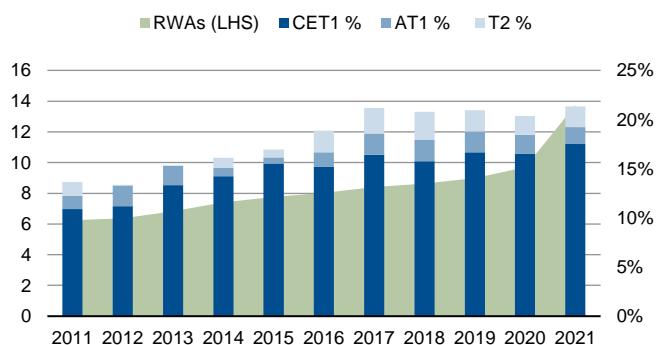
Note: Figures on proportional consolidation basis.
Source: Company data, Scope Ratings.

Good access to domestic funding market

SB1 Nordmore's primary source of funding is customer deposits, of which over 60% are from personal customers as of year-end 2021 (Figure 10). Like with other Norwegian banks, the use of market funding is meaningful, with SB1 Nordmore being a regular issuer in the domestic market.

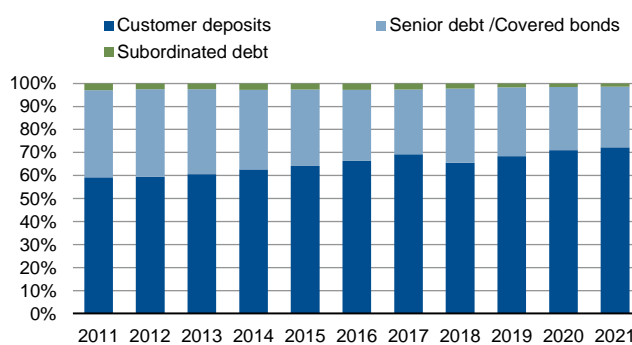
In addition, the bank benefits from covered bond funding through the issuing vehicles of the SpareBank 1 Alliance. As of year-end 2021, NOK 6.4bn in loans have been transferred, equivalent to about 25% of total lending.

Figure 9: RWA (NOK bn) and capital (%) development



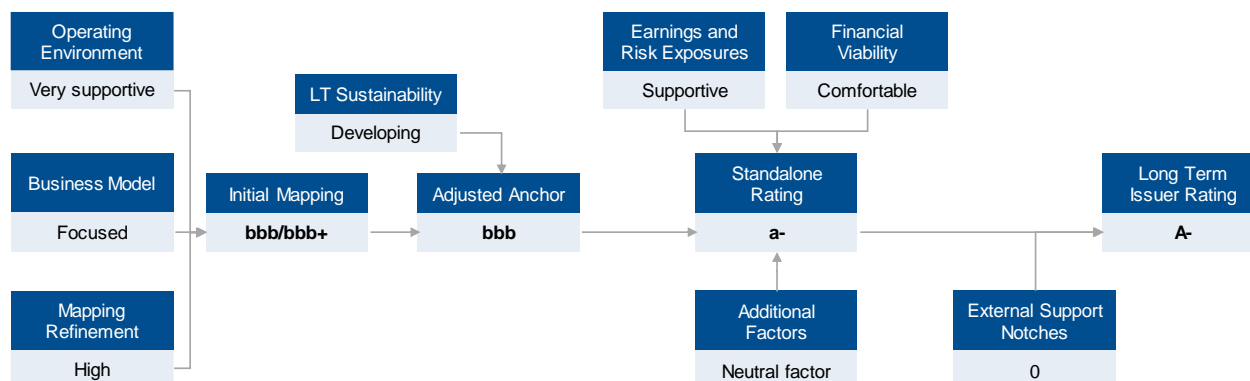
Note: Figures reflect merger from 2021.
Source: Company data, Scope Ratings.

Figure 10: Funding profile



Note: Figures reflect merger from 2021.
Source: Company data, Scope Ratings.

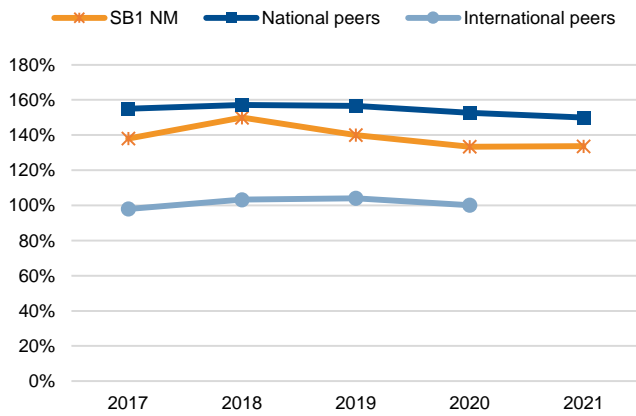
I. Appendix: Overview of the rating process



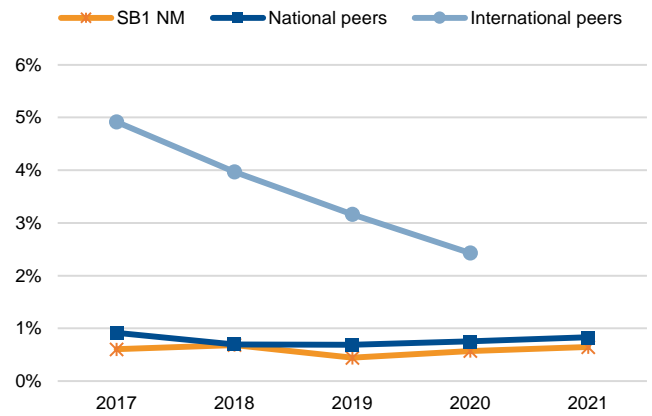
Step		Assessment	Summary rationale
STEP 1	Operating environment	Very supportive	<ul style="list-style-type: none"> Norway is a wealthy economy with well-developed capital markets and a solid track record of economic resilience Supportive competitive environment Relatively stringent and active financial regulator
		Supportive	
		Moderately supportive	
		Constraining	
		Very constraining	
	Business model	Very resilient	<ul style="list-style-type: none"> Savings bank with a focus on retail customers Membership in alliance brings significant benefits Operations concentrated in one region
		Resilient	
Consistent			
Mapping refinement	Focused	<ul style="list-style-type: none"> Strong market position in local area with resilient operating performance 	
	Narrow		
Initial mapping		bbb/bbb+	
Long-term sustainability	Best in class	<ul style="list-style-type: none"> Digital capabilities at an advanced level in line with domestic peers In process of integrating sustainability in credit risk process 	
	Advanced		
	Developing		
Adjusted anchor		bbb	
STEP 2	Earnings capacity & risk exposures	Very supportive	<ul style="list-style-type: none"> Solid earnings capabilities with a relatively high level of fee income Sound asset quality and low credit losses
		Supportive	
		Neutral	
		Constraining	
		Very constraining	
	Financial viability management	Ample	<ul style="list-style-type: none"> Comfortably meets regulatory requirements Customers deposits are main source of funding. Benefits from market access, including covered bond funding
		Comfortable	
Adequate			
Limited			
Additional factors	Stretched	<ul style="list-style-type: none"> No further considerations 	
	At risk		
	Significant support factor		
	Material support factor		
Standalone		a-	
STEP 3	External support	Not applicable	
	Issuer rating		A-

II. Appendix: Peer comparison

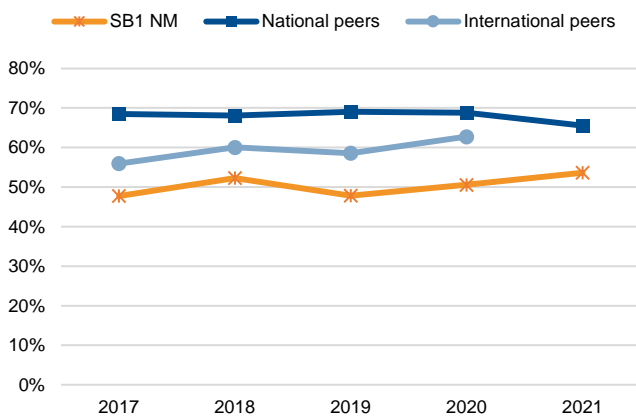
Net customer loans % Deposits



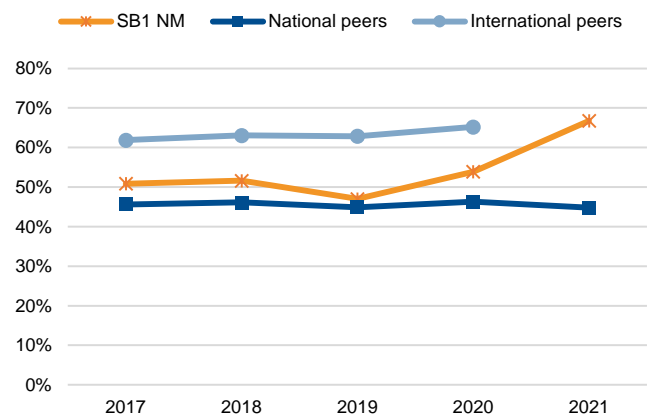
Problem loans % Gross customer loans



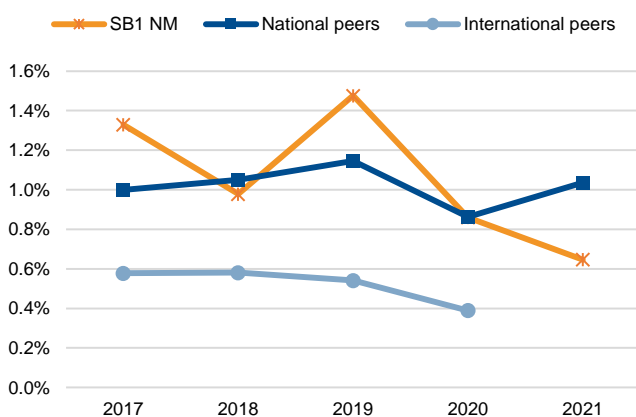
Net interest income % Operating income



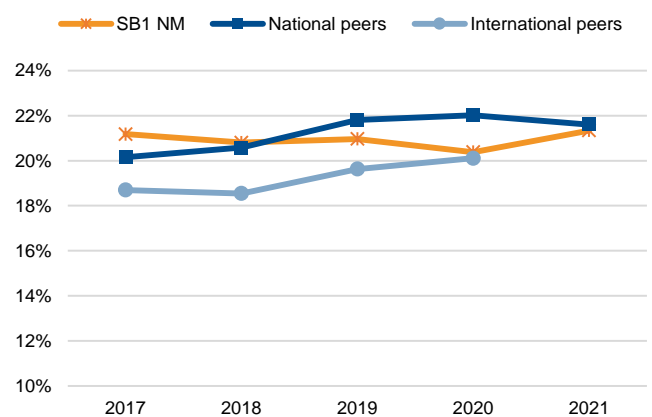
Costs % Income



Return on average assets (%)



Total capital ratio (%)



Note: Insufficient 2021 data for international peers.
 National peers: Landkreditt, Sandnes Sparebank, Totens Sparebank, Jaeren Sparebank, SpareBank 1 Ringerike Haldeland, Sparebanken More, SpareBank 1 SMN, DNB Bank.
 International peers: Bausparkasse Wustenrot AG, Oberbank AG, Banca Popolare di Sondrio SCpa, Credito Emiliano SpA, Kutxabank SA, Unicaja Banco SA, Principality Building Society, Sparbanken Sjuharad AB.
 Source: SNL.



III. Appendix: Selected financial information – SpareBank 1 Nordmore

	2017	2018	2019	2020	2021
Balance sheet summary (NOK m)					
Assets					
Cash and interbank assets	526	473	832	1,208	1,119
Total securities	1,495	1,484	1,634	1,586	2,573
of which, derivatives	0	1	4	0	2
Net loans to customers	11,046	12,122	13,068	14,153	21,311
Other assets	537	412	405	444	580
Total assets	13,603	14,490	15,940	17,391	25,583
Liabilities					
Interbank liabilities	0	0	0	0	0
Senior debt	3,254	3,995	4,079	4,119	5,822
Derivatives	2	0	0	24	18
Deposits from customers	8,003	8,086	9,333	10,609	15,950
Subordinated debt	311	273	224	223	301
Other liabilities	114	101	117	109	161
Total liabilities	11,685	12,455	13,753	15,084	22,252
Ordinary equity	1,726	1,840	1,990	2,109	3,081
Equity hybrids	185	185	185	185	245
Minority interests	7	10	11	13	5
Total liabilities and equity	13,603	14,490	15,940	17,391	25,583
<i>Core tier 1/ common equity tier 1 capital</i>	<i>1,379</i>	<i>1,361</i>	<i>1,498</i>	<i>1,603</i>	<i>2,404</i>
Income statement summary (NOK m)					
Net interest income	230	242	261	236	339
Net fee & commission income	116	106	99	110	154
Net trading income	37	25	67	18	NA
Other income	99	89	119	104	NA
Operating income	482	462	546	467	632
Operating expenses	245	238	257	252	422
Pre-provision income	237	224	289	216	210
Credit and other financial impairments	29	50	26	41	35
Other impairments	0	0	0	0	0
Non-recurring income	NA	NA	NA	NA	NA
Non-recurring expense	NA	NA	NA	NA	NA
Pre-tax profit	208	173	263	175	175
Income from discontinued operations	0	0	0	0	0
Income tax expense	29	34	32	30	29
Other after-tax items	0	0	0	0	0
Net profit attributable to minority interests	2	2	1	2	4
Net profit attributable to parent	177	138	230	143	142

Note: In May 2021, the former SpareBank 1 Nordvest and Surnadal Sparebank merged. Figures for 2021 reflect the merged bank from May while from January to April they only reflect the former SpareBank 1 Nordvest. Figures for 2017-2020 have not been restated and are only for SpareBank 1 Nordvest.
Source: SNL



IV. Appendix: Selected financial information – SpareBank 1 Nordmore

	2017	2018	2019	2020	2021
Funding and liquidity					
Net loans/ deposits (%)	138%	139%	130%	42%	40%
Liquidity coverage ratio (%)	136%	147%	286%	267%	219%
Net stable funding ratio (%)	NA	NA	NA	NA	NA
Asset mix, quality and growth					
Net loans/ assets (%)	81.2%	83.7%	82.0%	81.4%	83.3%
Problem loans/ gross customer loans (%)	0.6%	0.7%	0.4%	0.6%	0.6%
Loan loss reserves/ problem loans (%)	86.9%	81.2%	92.2%	63.9%	58.0%
Net loan growth (%)	7.1%	9.7%	7.8%	8.3%	50.6%
Problem loans/ tangible equity & reserves (%)	3.4%	4.0%	2.6%	3.5%	4.1%
Asset growth (%)	4.9%	6.5%	10.0%	9.1%	47.1%
Earnings and profitability					
Net interest margin (%)	1.8%	1.7%	1.7%	1.4%	1.5%
Net interest income/ average RWAs (%)	2.7%	2.8%	2.9%	2.6%	2.7%
Net interest income/ operating income (%)	47.8%	52.3%	47.9%	50.6%	53.6%
Net fees & commissions/ operating income (%)	24.1%	23.0%	18.2%	23.5%	24.4%
Cost/ income ratio (%)	50.9%	51.6%	47.0%	53.9%	66.8%
Operating expenses/ average RWAs (%)	2.9%	2.8%	2.8%	2.7%	3.4%
Pre-impairment operating profit/ average RWAs (%)	2.8%	2.6%	3.2%	2.3%	1.7%
Impairment on financial assets / pre-impairment income (%)	12.2%	22.4%	9.0%	18.8%	16.7%
Loan loss provision/ average gross loans (%)	0.1%	0.2%	0.2%	0.1%	0.2%
Pre-tax profit/ average RWAs (%)	2.5%	2.0%	2.9%	1.9%	1.4%
Return on average assets (%)	1.3%	1.0%	1.5%	0.9%	0.6%
Return on average RWAs (%)	2.1%	1.6%	2.6%	1.6%	1.2%
Return on average equity (%)	10.4%	7.0%	10.9%	6.4%	4.9%
Capital and risk protection					
Common equity tier 1 ratio (% , fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (% , transitional)	16.4%	15.7%	16.7%	16.5%	17.5%
Tier 1 capital ratio (% , transitional)	18.6%	18.0%	18.8%	18.5%	19.2%
Total capital ratio (% , transitional)	21.2%	20.8%	21.0%	20.4%	21.3%
Leverage ratio (%)	11.4%	10.8%	10.7%	10.3%	10.3%
Asset risk intensity (RWAs/ total assets, %)	61.8%	59.6%	56.4%	55.7%	53.7%

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Source: SNL



SpareBank 1 Nordmore

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