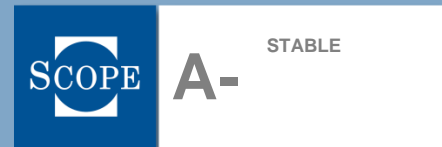


# SpareBank 1 Nordvest Issuer Rating Report



## Scope's credit view (summary)

The **A- issuer rating** reflects SpareBank 1 Nordvest's (SB1 Nordvest) well-established market position in its local area in north-west Norway and a sound financial profile. In a year where the economy suffered from the pandemic and the policy rate was lowered to 0% from 1.5%, the bank's performance was resilient. In 2020, the bank reported a return on equity of 6.5% while Stage 3 loans remained low at 1.3% of the loan book.

Key to the bank's competitive position is its membership in the SpareBank 1 Alliance. In addition to enabling SB1 Nordvest to meet the broader financial needs of clients, the alliance is a source of expertise and provides important economies of scale, particularly in digital capabilities. As well, the covered bond issuing vehicles of the alliance are a critical source of funding. The bank's solvency metrics remain at solid levels. As of YE 2020, the CET1 capital ratio was 16.7% while the leverage ratio was 8.9% on a proportional consolidation basis.

## Outlook

The **Stable Outlook** reflects the ongoing resilience of the bank's business and operating performance in a challenging operating environment. The upcoming merger with Surnadal Sparebank is expected to be supportive of the bank's credit profile.

### Credit strengths

- Well-established market position supported by management's in-depth knowledge of the local market.
- Resilient profitability underpinned by sound asset quality and membership in SpareBank 1 Alliance.
- Solid solvency metrics guided by relatively stringent regulatory demands.

### Credit weaknesses

- As with other Norwegian banks, a reliance on market funding.
- Operations are limited to 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.
- Poor execution of the planned merger with Surnadal Sparebank.

## Ratings & Outlook

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

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Bloomberg: RESP SCOP

### Issuer profile

SB1 Nordvest is a well-established local savings bank in north-west Norway. The bank 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. Through ten offices in its primary market of Møre og Romsdal, the bank serves approximately 30,000 personal and 3,500 business customers. In Kristiansund, the bank enjoys 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%. The bank has been a member of the SpareBank 1 Alliance since 1999.

Merger expected to be completed in May 2021

### Upcoming merger with Surnadal Sparebank

In February 2021, the Norwegian FSA approved a merger between SB1 Nordvest and Surnadal Sparebank. The merger is being facilitated through the issuance of new equity capital certificates and is expected to be completed in May 2021. The current CEO of Surnadal Sparebank will become CEO of the new bank while the current chairman of SB1 Nordvest will become chairman of the new bank.

The merger entails transferring the operations of Surnadal Sparebank to SB1 Nordvest, creating a new bank to be named Sparebank 1 Nordmøre. Following the merger, the bank's market area will expand across Møre og Romsdal and into Trondheim, with its presence in the region being strengthened. With approximately 200 employees, the new bank will have 13 branch offices and be part of the SpareBank 1 Alliance.

Surnadal Sparebank has similar business and financial profile

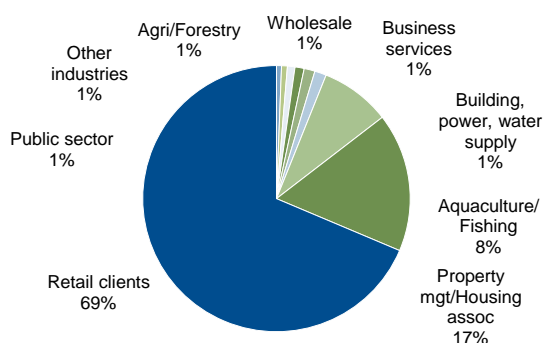
Like SB1 Nordvest, Surnadal Sparebank's business model is that of a local savings bank focused on retail customers and mortgage lending (Figures 2 and 3). The new bank is expected to display sound asset quality and solvency metrics. Due to increased operational risks in connection with the merger, the Norwegian FSA has set a Pillar 2 requirement of 2.7% for the merged bank until a new SREP assessment is done in 2022. SB1 Nordvest's current Pillar 2 requirement is 2.4%.

**Figure 1: Key metrics of two banks (YE 2020)**

	SB1 Nordvest	Surnadal
Total assets (NOK bn)	17.4	7.1
Total assets including covered bond assets (NOK bn)	21.8	8.7
Profit before tax (NOK m)	175.1	92.3
Return on average equity (%)	6.5%	8.4%
Costs % Income	56.3%	41.8%
Problem loans % Gross loans	0.6%	0.2%
Loan provisions % Average loans	0.2%	0.2%
CET1 capital ratio (%)	16.7%	18.5%
Leverage ratio (%)	8.9%	9.5%

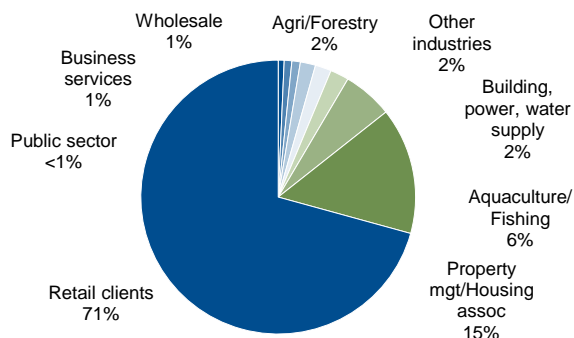
Note: CET1 and leverage ratio figures are based on proportional consolidation basis.  
Source: Company data, SNL, Scope Ratings.

**Figure 2: SB1 Nordvest loan portfolio (NOK 14.2bn)**



Note: Data as of YE 2020.  
Source: Company data, Scope Ratings.

**Figure 3: Combined loan portfolio (NOK 20bn)**



Note: Data as of YE 2020.  
Source: Company data, Scope Ratings.

### Ties to local market reinforced by governance structure

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

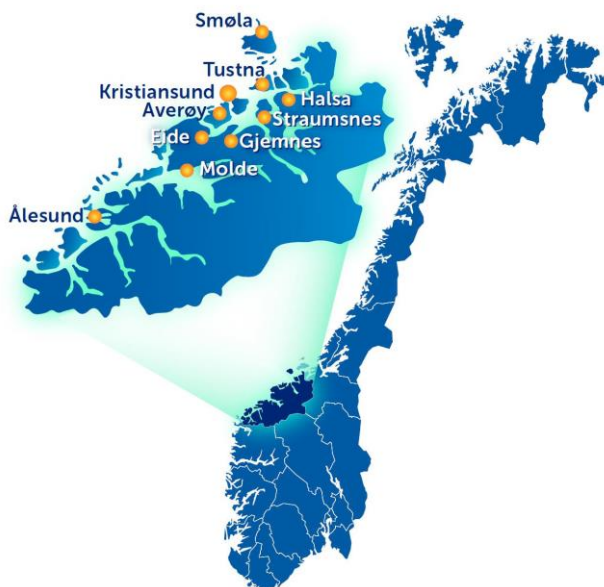
As a savings bank, SB1 Nordvest maintains close ties to its local market and its various stakeholders. This is reflected in the governance structure, where the general assembly, the bank's highest body is comprised of 20 members of which 11 represent customers and five represent employees. The general assembly is responsible for electing the bank's board which also includes employee representatives. In turn, the board is responsible for electing the bank's CEO. As well, the bank supports the local community through numerous sponsorships and a gift fund. In 2020, the bank distributed NOK 10.2m from the gift fund.

### Outlook for local area is mixed due to pandemic

For more than ten years, SB1 Nordvest along with two other banks have performed 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 600 CEOs are also surveyed on their expectations regarding future employment, turnover and profitability.

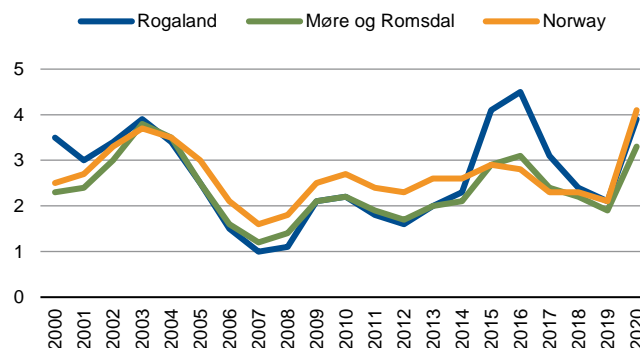
In the latest edition of the business survey released in November 2020, the outlook for the coming year was changed to slightly negative from neutral. The Covid-19 pandemic has affected a number of industries to varying degrees. The outlook for the maritime industry remains negative after the outlook was downgraded in 2019. Meanwhile, prospects for fisheries and aquaculture remain strong despite the pandemic. Unemployment in Møre og Romsdal experienced a spike in 2020 although to a lesser extent than the national average (Figure 5).

**Figure 4: Current network of 10 branches**



Source: Company data.

**Figure 5: 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.

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

#### Resilient performance in 2020

In a challenging environment, SB1 Nordvest's reported a return on equity of 6.5% in 2020. Net interest income declined by more than 9% following cuts in the policy rate to 0% from 1.5%. Meanwhile, commissions and other income continued to be material contributors to revenues (Figure 7). These stem from the bank's 70% stake in an accounting firm as well as commissions earned from services provided through the SpareBank 1 Alliance product companies (e.g., insurance, asset management, factoring).

Although there have been limited signs of asset quality deterioration in the loan portfolio, management has made additional discretionary credit provisions. In 2020, about 50% of credit provisions were for loans classified as Stage 1 and 2.

#### Nearly 75% of lending is to retail customers

Including loans transferred to the alliance's covered bond funding vehicles, nearly 75% of the bank's lending is to retail customers (Figure 2). The on-balance sheet retail portfolio is comprised entirely of residential mortgages, with 95% of loans having a loan-to-value below 85% as of YE 2020.

The bank has no direct exposure to the oil industry and has limited indirect exposure via tenants from the oil servicing industry. Exposure to the sectors most impacted by the Covid-19 pandemic is low. 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. Meanwhile, the bank is working on incorporating potential risks from climate change into its credit processes.

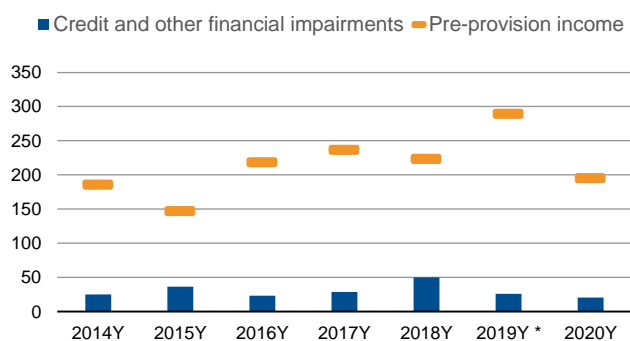
#### Membership in alliance supports competitiveness

SB1 Nordvest's membership in the SpareBank 1 Alliance brings 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.

### Digital capabilities are a priority

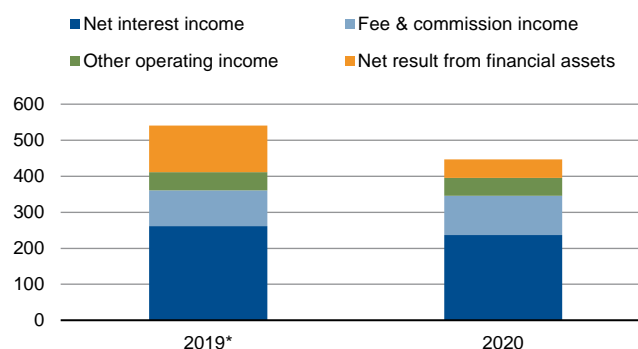
The 14 members of the alliance collectively represent the second largest player in the Norwegian banking market, with shares of 21% and 17% in retail and corporate lending, respectively<sup>1</sup>. The member banks collaborate in key areas such as branding, risk management, and IT operations. One of 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.

**Figure 6: Pre-provision income vs impairments (NOK m)**



Note: In 2019, there were NOK 84m in 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. Source: Company data, Scope Ratings.

**Figure 7: Revenue breakdown (NOK m)**



Note: In 2019, there were NOK 84m in 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. Source: Company data, Scope Ratings.

### Deposits insufficient to fully fund lending activities

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

SB1 Nordvest's main source of funding is customer deposits, of which nearly 70% are covered under Norway's deposit guarantee scheme as of YE 2020 (Figure 8). While the focus remains on increasing smaller, more stable deposits, the bank in recent years has expanded its deposit base by joining a marketplace platform serving corporate and institutional customers. Management remains 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 updates investors regularly. The bank also has a line of credit with Kredittforeningen for Sparebanker, a non-profit credit institution providing loans to savings banks.

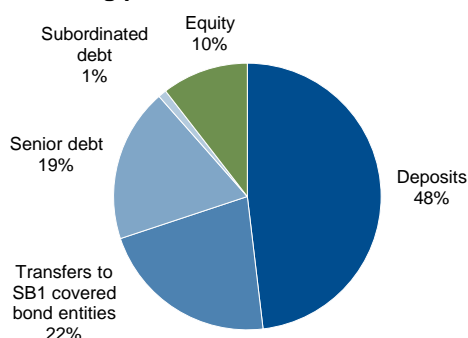
### Covered bond issuing entities of alliance are important funding source

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 NOK 4bn in additional loans which could be readily transferred if needed for funding purposes. As of YE 2020, NOK 4.8bn in loans have been transferred, equivalent to about 25% 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 YE 2020, over 900 ECC holders owned about 16% of the bank.

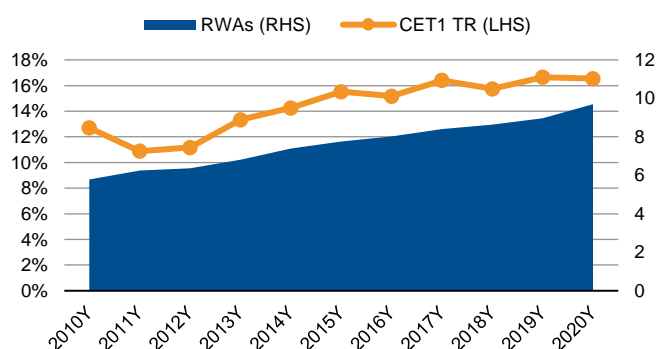
<sup>1</sup> 2020 Financial Stability Report, data as of 30 June 2020.

**Figure 8: Funding profile**



Note: Data as of YE 2020.  
Source: Company data, Scope Ratings.

**Figure 9: CET1 capital (%) and RWA (NOK bn) development**



Source: Company data, Scope Ratings.

### Solvency metrics comfortably above requirements

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

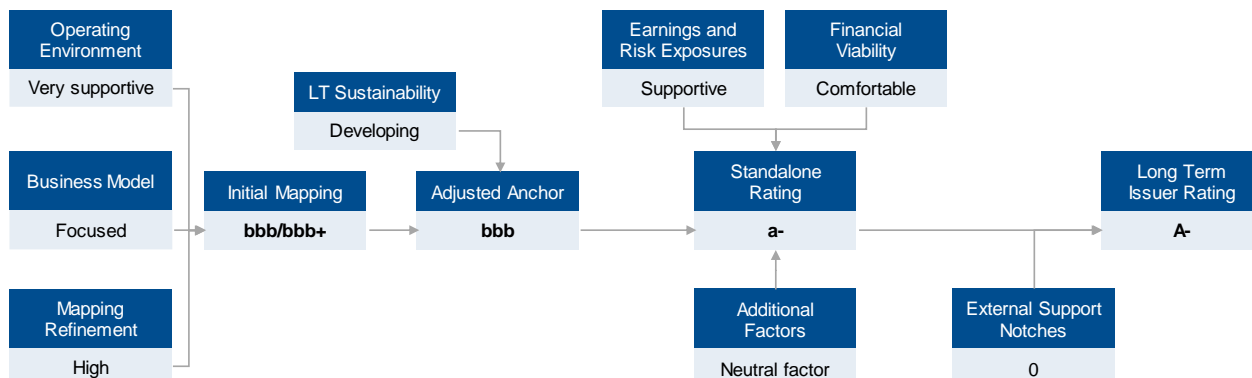
As part of its strategic planning, SB1 Nordvest manages growth to preserve sound solvency metrics and to meet regulatory requirements. As of YE 2020, the group's CET1 ratio was 16.7% while the leverage ratio was 8.9% on proportional consolidation basis<sup>2</sup>. These figures sit comfortably above the bank's requirements of 13.4% and 5%, respectively.

The minimum CET1 requirement for all Norwegian banks is a relatively high 11%, which includes a 3% systemic risk buffer and a countercyclical buffer of 1%. In response to the Covid-19 pandemic, the countercyclical buffer rate was lowered to 1% from 2.5% in March 2020. In addition, SB1 Nordvest is currently subject to a Pillar 2 requirement of 2.4%.

The bank's CET1 position at YE 2020 includes a negative 0.5% impact from the latest Norwegian FSA guidance on the appropriate risk weight for financing real estate development. The Norwegian FSA's interpretation of the Capital Requirements Regulation and EBA guidelines is that these activities are considered high risk and should be subject to a risk weight of 150%, up from 100% under the standardised approach.

<sup>2</sup> Since January 2018, investments in associated companies of collaborative groups, like the SpareBank 1 Alliance must be proportionately consolidated for capital adequacy calculations.

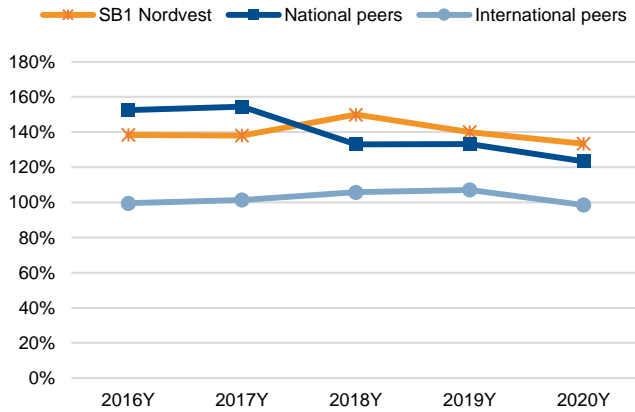
### I. Appendix: Overview of the rating process



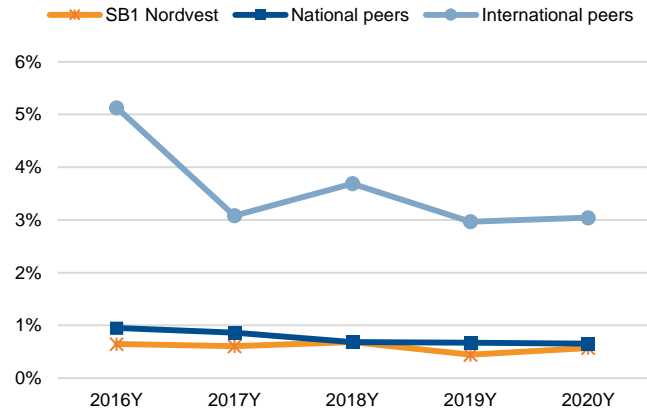
Step		Assessment	Summary rationale
STEP 1	Operating environment	Very supportive	<ul style="list-style-type: none"> <li>Wealthy economy with well-developed capital markets and a solid track record of economic resilience to shocks</li> <li>Supportive competitive environment</li> <li>Relatively stringent and active regulator</li> </ul>
		Supportive	
		Moderately supportive	
		Constraining	
		Very constraining	
	Business model	Very resilient	<ul style="list-style-type: none"> <li>Operations focused in north-west Norway</li> <li>Strong orientation to retail banking</li> </ul>
Resilient			
Consistent			
Focused			
Mapping refinement	High	<ul style="list-style-type: none"> <li>Well-established in local market with resilient operating performance</li> </ul>	
	Low		
<b>Initial mapping</b>		<b>bbb/bbb+</b>	
Long-term sustainability	Best in class	<ul style="list-style-type: none"> <li>Digital capabilities at an advanced level in line with domestic peers</li> <li>In process of integrating sustainability in credit risk process</li> </ul>	
	Advanced		
	Developing		
	Lagging		
<b>Adjusted anchor</b>		<b>bbb</b>	
STEP 2	Earnings capacity & risk exposures	Very supportive	<ul style="list-style-type: none"> <li>Resilient earnings</li> <li>Sound asset quality with low credit losses</li> </ul>
		Supportive	
		Adequate	
		Constraining	
		Very constraining	
	Financial viability management	Ample	<ul style="list-style-type: none"> <li>Comfortably meets regulatory requirements</li> <li>Reliance on market funding but includes more stable covered bonds</li> </ul>
		Comfortable	
		Adequate	
		Limited	
		Stretched	
Additional factors	Significant support factor	<ul style="list-style-type: none"> <li>No further considerations</li> </ul>	
	Material support factor		
	Neutral		
	Material downside factor		
<b>Standalone</b>		<b>a-</b>	
STEP 3	External support	Not applicable	
<b>Issuer rating</b>		<b>A-</b>	

### II. Appendix: Peer comparison

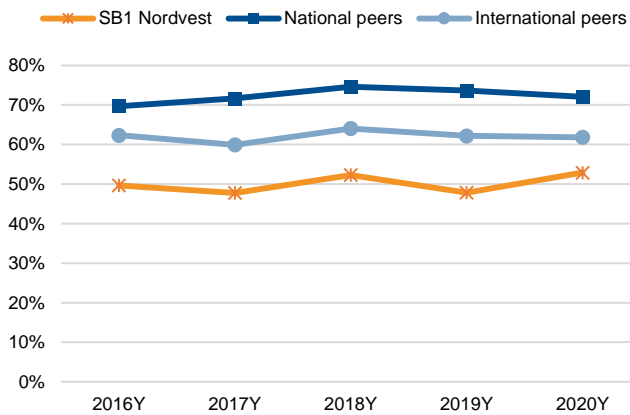
**Net customer loans % Deposits**



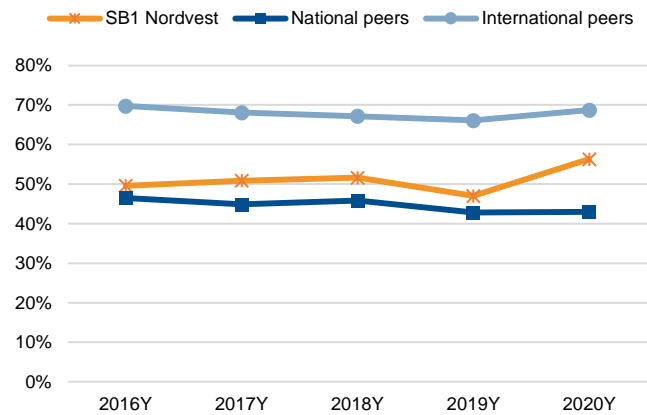
**Problem loans % Net loans**



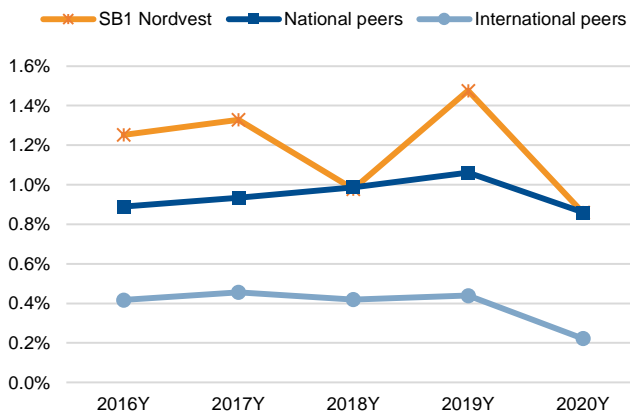
**Net interest income % Operating income**



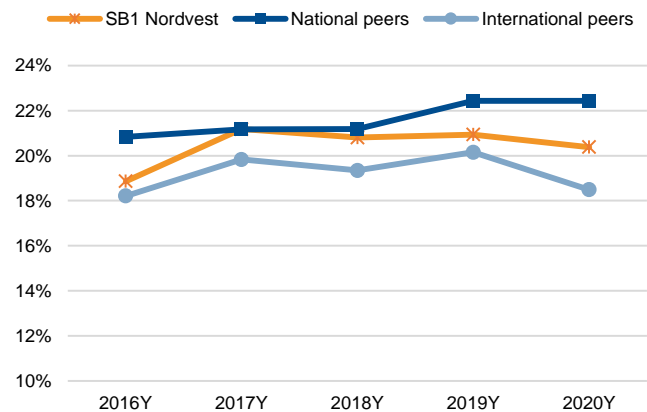
**Costs % Income**



**Return on average assets (%)**



**Total capital ratio (% , transitional)**



National peers: BN Bank, DNB, Landkredit Bank, Sandnes Sparebank, Totens Sparebank, Surnadal Sparebank, Jaeren Sparebank, SpareBank 1 SMN, Sparebanken More.

International peers: Bausparkasse Wustenrot AG, Oberbank AG, Banca Popolare di Sondrio, Credito Emiliano, Kutxabank, Unicaja Banco, TSB Banking Group plc, Principality Building Society, Sparbanken Skane AB.

Note: 2020 data unavailable for Bausparkasse Wustenrot, Oberbank, Kutxabank, and Principality Building Society.  
Source: SNL





### III. Appendix: Selected Financial Information – SpareBank 1 Nordvest

	2016Y	2017Y	2018Y	2019Y	2020Y
<b>Balance sheet summary (NOK m)</b>					
<b>Assets</b>					
Cash and interbank assets	504	526	473	832	1,208
Total securities	1,606	1,495	1,484	1,634	1,586
of which, derivatives	2	0	1	4	0
Net loans to customers	10,310	11,046	12,122	13,068	14,153
Other assets	541	537	412	405	444
<b>Total assets</b>	<b>12,961</b>	<b>13,603</b>	<b>14,490</b>	<b>15,940</b>	<b>17,391</b>
<b>Liabilities</b>					
Interbank liabilities	0	0	0	0	0
Senior debt	3,470	3,254	3,995	4,064	4,108
Derivatives	2	2	0	0	24
Deposits from customers	7,450	8,003	8,086	9,333	10,609
Subordinated debt	311	311	273	224	223
Other liabilities	124	114	101	132	121
<b>Total liabilities</b>	<b>11,357</b>	<b>11,685</b>	<b>12,455</b>	<b>13,753</b>	<b>15,084</b>
Ordinary equity	1,464	1,726	1,840	1,990	2,109
Equity hybrids	135	185	185	185	185
Minority interests	5	7	10	11	13
<b>Total liabilities and equity</b>	<b>12,961</b>	<b>13,603</b>	<b>14,490</b>	<b>15,940</b>	<b>17,391</b>
<i>Core tier 1/ common equity tier 1 capital</i>	<i>1,218</i>	<i>1,379</i>	<i>1,361</i>	<i>1,494</i>	<i>1,603</i>
<b>Income statement summary (NOK m)</b>					
Net interest income	215	230	242	261	236
Net fee & commission income	102	116	106	99	110
Net trading income	32	37	25	67	NA
Other income	84	99	89	119	NA
<b>Operating income</b>	<b>434</b>	<b>482</b>	<b>462</b>	<b>546</b>	<b>447</b>
Operating expenses	215	245	238	257	252
<b>Pre-provision income</b>	<b>219</b>	<b>237</b>	<b>224</b>	<b>289</b>	<b>195</b>
Credit and other financial impairments	23	29	50	26	20
Other impairments	0	0	0	0	0
Non-recurring income	NA	NA	NA	NA	NA
Non-recurring expense	NA	NA	NA	NA	NA
<b>Pre-tax profit</b>	<b>195</b>	<b>208</b>	<b>173</b>	<b>263</b>	<b>175</b>
Income from discontinued operations	0	0	0	0	0
Income tax expense	38	29	34	32	30
Other after-tax items	0	0	0	0	0
Net profit attributable to minority interests	1	2	2	1	2
<b>Net profit attributable to parent</b>	<b>157</b>	<b>177</b>	<b>138</b>	<b>230</b>	<b>143</b>

Source: SNL



#### IV. Appendix: Selected Financial Information – SpareBank 1 Nordvest

	2016Y	2017Y	2018Y	2019Y	2020Y
<b>Funding and liquidity</b>					
Net loans/ deposits (%)	138%	138%	150%	140%	133%
Liquidity coverage ratio (%)	169%	136%	147%	286%	267%
Net stable funding ratio (%)	NA	NA	NA	NA	NA
<b>Asset mix, quality and growth</b>					
Net loans/ assets (%)	79.5%	81.2%	83.7%	82.0%	81.4%
Problem loans/ gross customer loans (%)	0.6%	0.6%	0.7%	0.4%	0.6%
Loan loss reserves/ problem loans (%)	80.2%	86.9%	81.2%	92.2%	63.9%
Net loan growth (%)	8.8%	7.1%	9.7%	7.8%	8.3%
Problem loans/ tangible equity & reserves (%)	4.1%	3.4%	4.0%	2.6%	3.5%
Asset growth (%)	5.8%	4.9%	6.5%	10.0%	9.1%
<b>Earnings and profitability</b>					
Net interest margin (%)	1.8%	1.8%	1.7%	1.7%	1.4%
Net interest income/ average RWAs (%)	2.7%	2.7%	2.8%	2.9%	2.6%
Net interest income/ operating income (%)	49.7%	47.8%	52.3%	47.9%	52.9%
Net fees & commissions/ operating income (%)	23.6%	24.1%	23.0%	18.2%	24.5%
Cost/ income ratio (%)	49.6%	50.9%	51.6%	47.0%	56.3%
Operating expenses/ average RWAs (%)	2.7%	2.9%	2.8%	2.8%	2.7%
Pre-impairment operating profit/ average RWAs (%)	2.8%	2.8%	2.6%	3.2%	2.1%
Impairment on financial assets / pre-impairment income (%)	10.6%	12.2%	22.4%	9.0%	10.4%
Loan loss provision/ average gross loans (%)	0.1%	0.1%	0.2%	0.2%	0.1%
Pre-tax profit/ average RWAs (%)	2.5%	2.5%	2.0%	2.9%	1.9%
Return on average assets (%)	1.3%	1.3%	1.0%	1.5%	0.9%
Return on average RWAs (%)	2.0%	2.1%	1.6%	2.6%	1.6%
Return on average equity (%)	10.9%	10.4%	7.0%	10.9%	6.4%
<b>Capital and risk protection</b>					
Common equity tier 1 ratio (% , fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (% , transitional)	15.2%	16.4%	15.7%	16.6%	16.5%
Tier 1 capital ratio (% , transitional)	16.7%	18.6%	18.0%	18.8%	18.5%
Total capital ratio (% , transitional)	18.9%	21.2%	20.8%	20.9%	20.4%
Leverage ratio (%)	9.8%	11.4%	10.8%	10.7%	10.3%
Asset risk intensity (RWAs/ total assets, %)	62.0%	61.8%	59.6%	56.3%	55.7%

Source: SNL



## SpareBank 1 Nordvest

### Issuer Rating Report

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