

Credit Rating Announcement

19 January 2023

Scope affirms SpareBank 1 Nordmore's A- issuer rating with Stable Outlook

Rating affirmation reflects the ongoing resilience of the bank's business and operating performance.

Rating action

Scope Ratings UK Limited (Scope) has today affirmed SpareBank 1 Nordmore's issuer rating of A-, its preferred senior unsecured debt rating of A- and its non-preferred senior unsecured debt rating of BBB+, all with Stable Outlook.

Rating rationale

Sparebank 1 Nordmore's A- issuer rating reflects its local savings bank business model and sound credit fundamentals. The bank is a well-established savings bank operating in central Norway with a focus on personal customers and mortgage lending. As a member of the SpareBank 1 Alliance, the bank can meet the broader financial needs of clients and benefits from important economies of scale, particularly in digital capabilities. Collectively, the alliance represents the second largest provider of financial products and services in the country.

The bank's solid profitability is underpinned by good cost efficiency and low credit losses. For 9M 2022, the reported return on equity was 8.5%, with performance supported by higher net interest income and lower costs. The bank successfully completed the merger with Surnadal Sparebank in 2021, which entailed about NOK 127m in integration costs. An enlarged market presence is providing business opportunities. Following the merger, the bank's loan growth has been above the market rate. Meanwhile, the benefit from repricing loans after the central bank's policy rate hikes has yet to be fully reflected in revenues. Management targets a return of 10%.

While the more uncertain economic environment has had a limited impact on the loan book to date, the bank is maintaining discretionary credit provisions and has intensified client monitoring. The bank's operations are concentrated in More og Romsdal, a region characterized by more moderate business cycles and lower unemployment. As of Q3 2022, the Stage 3 ratio stood at 2.3% (1.7% at year-end 2021), with more than 50% of balance sheet provisions being for Stage 1 and 2 exposures.

SpareBank 1 Nordmore maintains a reassuring solvency profile, with a policy to manage growth to preserve sound prudential metrics and meet regulatory requirements. As of Q3 2022, the bank's CET1 capital and leverage ratios were 17.6% and 9.3%, respectively (proportional consolidation basis), comfortably above the current requirements of 14.2% and 5%, respectively. Minimum solvency requirements for Norwegian banks

are comparatively high and are set to rise following announced increases in the countercyclical buffer rate as well as the systemic risk buffer for banks using standardised models such as SpareBank 1 Nordmore.

The bank's liquidity coverage ratio (139%) and net stable funding ratio were also well above the minimum requirement of 100% as of Q3 2022. The primary source of funding remains customer deposits. As well, the bank benefits from access to the covered bond funding vehicles of the SpareBank 1 Alliance.

Outlook and rating-change drivers

The Stable Outlook reflects Scope's expectation for the bank's business and operating performance to remain resilient despite a more challenging macroenvironment.

What could move the rating up:

- Sustained and profitable growth with greater geographic diversification of the loan portfolio

What could move the rating down:

- A deterioration in the operating environment which impacts earnings
- A change in strategic direction which increases the bank's risk profile

Overview of rating construct

Operating environment: Very supportive

Business model: Focused

Initial mapping refinement: High

Initial mapping: bbb/bbb+

Long-term sustainability (ESG-D): Developing

Adjusted anchor: bbb

Earnings capacity and risk exposures: Supportive

Financial viability management: Comfortable

Additional rating factors: Neutral factor

Stand-alone assessment: a-

External support: Not applicable

Issuer rating: A-

Stress testing & cash flow analysis

No stress testing was performed. No cash flow analysis was performed.

Methodology

The methodologies used for these Credit Ratings and Outlooks, (Financial Institutions Rating Methodology, 28 January 2022), are available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions - Credit Ratings, Ancillary and Other Services', published on <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://scoperatings.com/governance-and-policies/regulatory/uk-regulation>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity, and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting these Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and Outlooks and the principal grounds on which the Credit Ratings and Outlooks are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlooks are issued by Scope Ratings UK Limited at 52 Grosvenor Gardens, London, United Kingdom, SW1W 0AU, Tel +44 20 7824 5180. The Credit Ratings and/or Outlooks are EU-endorsed.

Lead analyst: Pauline Lambert, Executive Director.

Person responsible for approval of the Credit Ratings: Nicolas Hardy, Executive Director.

The issuer Credit Rating/Outlook was first released by Scope Ratings on 9 December 2019. The Credit Rating/Outlook was last updated on 21 January 2022.

The preferred senior unsecured debt Credit Rating/Outlook was first released by Scope Ratings on 9 December 2019. The Credit Rating/Outlook was last updated on 21 January 2022.

The non-preferred senior unsecured debt Credit Rating/Outlook was first released by Scope Ratings on 28 September 2021. The Credit Rating/Outlook was last updated on 21 January 2022.

Potential conflicts

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