

📅 WEDNESDAY, 11/12/2024 - Scope Ratings UK Ltd

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

Rating affirmation reflects the bank's continued resilient performance and financial metrics.

Rating action

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

The full list of rating actions and rated entities is at the end of this rating action release.

Key rating drivers

Business model assessment: Focused (high). SpareBank 1 Nordmore is an established medium-sized savings bank operating in the More and Romsdal region of Norway with a focus on personal customers and mortgage lending. As a member of the SpareBank 1 Alliance, the bank can meet the broad financial needs of clients and benefits from important economies of scale, particularly in digital capabilities.

Operating environment assessment: Very supportive (low). Norway is a relatively small open economy with one of the highest levels of per capita income in the world and low unemployment. A very strong government fiscal position provides ample capacity to support the economy when needed. The regulatory framework is well established and rigorous, and the central bank has a good track record of providing refinancing facilities to banks in times of stress. While competition is high, there is also a long history of cooperation among domestic banks.

Scope arrives at an initial mapping of 'bbb' based on a combined assessment of the issuer's operating environment and business model.

Long-term sustainability assessment (ESG factor): Developing. The bank actively manages ESG-related risks and opportunities. Strong digital capabilities are driven by its alliance membership and in line with the Norwegian banking sector. The bank's efforts to cement ties with local communities are tangible, a common feature among Norwegian savings banks. Following an onsite inspection in April 2024, the Norwegian FSA highlighted room for improvement in several aspects, including compliance with supervisory capital expectations, compliance with internal policies and second line controls. The bank is actively addressing the FSA's remarks.

The long-term sustainability assessment leads to an adjusted rating anchor of 'bbb'.

Earnings capacity and risk exposures assessment: Supportive (+1 notch). The bank generates solid profitability and has a record of sound asset quality. The bank is currently running a profitability program aimed at achieving more ambitious targets, a return on equity of 8-12% over time and a cost income ratio of 40%. In the first 9 months of 2024 the bank reported a return on equity of 12.5% and a cost-to-income ratio of 39.1%. Asset quality continues to be sound with the Stage 3 ratio at 1.8% at Q3 2024, despite some corporate exposure to the commercial real estate sector.

Financial viability management assessment: Comfortable (+1 notch). SpareBank 1 Nordmore maintains a sound solvency position. As of Q3 2024, the bank's CET1 ratio was 16.95% while the

leverage ratio was 9% (proportional consolidation basis), above current supervisory expectations. The bank's liquidity metrics remain above requirements and the funding profile remains sound. The bank is primarily funded by retail customer deposits although market funding continues to be important, including covered bonds issued by the funding vehicles of the SpareBank 1 Alliance.

One or more key drivers of the credit rating action are considered an ESG factor.

Outlook and rating sensitivities

The **Stable Outlook** reflects Scope's view that the risks to the current rating are balanced.

The **upside scenario** for the ratings and Outlooks is:

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

The **downside scenario** for the ratings and Outlooks is:

1) A material deterioration in asset quality and earnings, potentially stemming from a weaker operating environment

Debt ratings

Preferred senior unsecured debt: A-. The rating is aligned with the issuer rating and applies to senior unsecured debt ranking above other classes of senior unsecured debt.

Non-preferred senior unsecured debt: BBB+. The rating is one notch lower than the issuer rating, reflecting statutory subordination.

Environmental, social and governance (ESG) factors

Please refer to the 'long-term sustainability assessment' under the 'key rating drivers' section above for the ESG analysis.

All rating actions and rated entities

SpareBank 1 Nordmore

Issuer rating: A-/Stable, Affirmed

Preferred senior unsecured debt rating: A-/Stable, Affirmed

Non-preferred senior unsecured debt rating: BBB+/Stable, Affirmed

Stress testing & cash flow analysis

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

Methodology

The methodology used for these Credit Ratings and Outlooks, (Financial Institutions Rating Methodology, 6 February 2024), is 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.scooperatings.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://scooperatings.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 and Outlooks were not amended before being issued.

Regulatory disclosures

These Credit Ratings and 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 Outlooks are EU-endorsed.

Lead analyst: Andre Hansen, Analyst

Person responsible for approval of the Credit Ratings: Marco Troiano, Managing Director

The issuer Credit Rating/Outlook was first released by Scope Ratings on 9 December 2019. The Credit Rating/Outlook was last updated on 12 January 2024.

The preferred senior unsecured Credit Rating/Outlook was first released by Scope Ratings on 9 December 2019. The Credit Rating/Outlook was last updated on 12 January 2024.

The non-preferred senior unsecured Credit Rating/Outlook was first released by Scope Ratings on 28 September 2021. The Credit Rating/Outlook was last updated on 12 January 2024.

Potential conflicts

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ISSUERS **1**

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