

Credit Rating Announcement

12 January 2024

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

Rating affirmation reflects the ongoing resilience of the banks business and operating performance.

The latest information on the rating, including rating reports and related methodologies, is available on this [LINK](#).

Rating action

Scope Ratings UK Limited (Scope) has affirmed SpareBank 1 Nordmore's issuer rating of A-, its senior unsecured debt rating of A- and its senior unsecured subordinated debt rating of BBB+, all with a 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 medium-sized 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 broad 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.

SpareBank 1 Nordmore generates solid profitability and has a record of sound asset quality. For 9M 2023, the reported return on equity was 8.1% which is high given the large capital base. Strong net interest income attributable to the higher interest rate environment and loan growth have supported operating performance. Management is currently developing a profitability program aimed at achieving more ambitious targets, a return on equity of 10-12% over time and a cost income ratio of 40%.

The bank's operations are concentrated in More & Romsdal, a region characterised by more moderate business cycles and lower unemployment. Asset quality continues to be resilient despite a weakening macroeconomic outlook. The bank has revised its loss models to incorporate more negative economic assumptions, resulting in increased model-related provisions. Relatively low risk residential mortgages accounting for about 65% of on-balance sheet gross loans support the bank's asset quality. At Q3 2023, the Stage 3 ratio stood at 2.2%.

SpareBank 1 Nordmore maintains a reassuring solvency position. As of Q3 2023, the bank's CET1 ratio was 17.5% while the leverage ratio was 9% (proportional consolidation basis), above current supervisory

expectations. At end-2023, the systemic risk buffer increased to 4.5% from 3% for banks like SpareBank 1 Nordmore using the standardised approach. Meanwhile, the bank has been able to meet its Pillar 2 requirement of 2.2% with a mix of capital since June 2023. The bank also has a Pillar 2 guidance of 1.5%.

The bank's liquidity and funding profile continues to be sound, with the liquidity coverage ratio and net stable funding ratio comfortably above requirements. Retail customer deposits remain the primary funding source although market funding continues to be important, including covered bonds issued by the funding vehicles of the SpareBank 1 Alliance.

Outlook and rating-change drivers

The Stable Outlook reflects Scope's expectation that SpareBank 1 Nordmore's credit fundamentals will remain robust despite a softer economic environment.

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

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 methodology used for these Credit Ratings and Outlooks, (Financial Institutions Rating Methodology, 7 February 2023), 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.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.

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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: 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 19 January 2023.

The senior unsecured debt Credit Rating/Outlook was first released by Scope Ratings on 9 December 2019. The Credit Rating/Outlook was last updated on 19 January 2023.

The senior unsecured subordinated Credit Rating/Outlook was first released by Scope Ratings on 28 September 2021. The Credit Rating/Outlook was last updated on 19 January 2023.

Potential conflicts

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