

Credit Rating Announcement

22 March 2023

Scope affirms A- issuer rating of Sandnes Sparebank with Stable Outlook

Rating continues to reflect resilient and sound credit fundamentals.

Rating action

Scope Ratings UK Limited (Scope) has today affirmed the ratings of Sandnes Sparebank with a Stable Outlook:

- Issuer rating of A-
- Senior unsecured debt rating of A-
- Senior unsecured debt (subordinated) rating of BBB+. This category includes debt statutorily issued as non-preferred senior.

Scope has also affirmed the A- issuer rating on SSB Boligkredit with a Stable Outlook.

Rating rationale

Sandnes Sparebank is a well-established local savings bank operating in south-west Norway. The bank enjoys significant benefits from being a member of the Eika Alliance, a strategic alliance of around 50 local banks in the country. These include the ability to offer a broad range of financial services, economies of scale and strong digital capabilities. Further, the bank's focus on retail clients and mortgage lending supports earnings stability.

Sandnes Sparebank is actively embracing developments in the area of sustainability (ESG factor). This includes further developing capabilities to assess and report on potential ESG risks in the loan portfolio, assisting the transition efforts of clients and upgrading the bank's digital infrastructure. Sustainability is also a key component of the bank's 2021-2024 strategic plan.

Following de-risking efforts and a focus on strengthening the business franchise in recent years, Sandnes Sparebank's operating performance continues to be solid. For 2022, the bank reported a return on equity of 8.5% while absorbing NOK 12m in IT conversion costs. Asset quality remains sound with the Stage 3 ratio at 1.0%. While operating in a region more exposed to the country's oil and gas industry, the bank's direct exposure is immaterial.

The bank maintains sound solvency levels and has incorporated expected increases in requirements in its capital planning. Minimum solvency requirements for Norwegian banks are comparatively high and are set to

rise by a further 2% following announced increases in the countercyclical buffer rate as well as the systemic risk buffer for banks using standardized models such as Sandnes Sparebank. As of year-end 2022, the bank's CET1 capital and leverage ratios were 17.8% and 9.0%, respectively (proportional consolidation basis).

Like with other Norwegian banks, Sandnes Sparebank relies on market funding, including covered bonds. Customer deposits account for about half of funding needs. At the same time, the bank maintains liquidity metrics comfortably above requirements. As of year-end 2022, the LCR and NSFR ratios were 293% and 131%, respectively.

The A- issuer rating of SSB Boligkreditt, a wholly owned subsidiary, is aligned with that of Sandnes Sparebank. With the issuance of covered bonds, SSB Boligkreditt provides secured funding for its parent. Scope expects it would likely benefit from full support from its parent in case of need. Scope rates the covered bonds of SSB Boligkreditt, currently at AAA¹.

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

Outlook and rating-change drivers

The Stable Outlook reflects Scope's expectation for Sandnes Sparebank's operating performance and credit fundamentals to remain sound.

What could move the rating up:

- Sustained strengthening of market position accompanied by consistent earnings generation and sound prudential metrics

What could move the rating down:

- A deterioration in the operating environment which materially impacts earnings
- An inability to balance business growth with maintaining sufficient buffers above regulatory capital requirements

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-

1. SSB Boligkredit's covered bond ratings.

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, 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.

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 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, Deputy Head Financial Institutions

The issuer Credit Rating/Outlook assigned to Sandnes Sparebank was first released by Scope Ratings on 19 December 2018. The Credit Rating/Outlook was last updated on 20 April 2022.

The senior unsecured debt Credit Rating/Outlook assigned to Sandnes Sparebank was first released by Scope Ratings on 19 December 2018. The Credit Rating/Outlook was last updated on 20 April 2022.

The senior unsecured (subordinated) debt Credit Rating/Outlook assigned to Sandnes Sparebank was first released by Scope Ratings on 28 September 2021. The Credit Rating/Outlook was last updated on 20 April 2022.

The issuer Credit Rating/Outlook assigned to Sandnes Sparebank Boligkredit was first released by Scope Ratings on 19 December 2018. The Credit Rating/Outlook was last updated on 20 April 2022.

Potential conflicts

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About Scope Group

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