

Credit Rating Announcement

12 March 2024

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

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

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 Boligkreditt with a Stable Outlook.

Rating rationale

The A- issuer rating on Sandnes Sparebank (Sandnes) reflects the following assessments:

- **Business model assessment: Focused (high).** Sandnes is a well-established local savings bank operating in the county of Rogaland in South-West Norway. The bank enjoys significant benefits from being a member of the Eika Alliance, including the ability to offer a broad range of financial services, economies of scale and strong digital capabilities. Further, the focus on retail clients and mortgage lending supports earnings stability. The planned merger with neighbouring savings bank Hjelmeland Sparebank in H2 2024 is not expected to materially change the bank's business model nor financial position.
- **Operating environment assessment: Very supportive (low).** Norway's operating environment remains very supportive for financial services activities. Norway is a relatively small open economy with one of the world's highest per capita income levels and low unemployment. A very robust government fiscal position provides ample capacity to support the economy when needed. The regulatory environment is well-established and rigorous, and the central bank has a strong record of providing refinancing facilities to banks in times of stress.
- **Initial mapping of bbb:** The initial mapping results from the combination of our business model and

operating environment assessments.

- **Long term sustainability assessment (ESG factor): Developing.** As a local savings bank, Sandnes' business franchise is underpinned by close ties to the local community. Management actively embraces developments in the area of sustainability. This includes developing further competence to evaluate and report on potential ESG risks in the loan portfolio, supporting the transition efforts of clients and investing in the bank's digital infrastructure.
- **Earnings and risk exposure assessment: Supportive.** Operating performance is consistently solid and is expected to remain so, with management targeting a return on equity of 10% for 2024. Sandnes reported a return on equity of 9.9% for 2023 which included costs for an IT conversion project. Following years of de-risking and a shift in focus to personal customers from corporate customers, asset quality remains sound. The bank has seen only a small increase in clients seeking forbearance despite elevated interest rates and a more uncertain economic backdrop. Further, property prices in Rogaland have not seen the same strong price appreciation in recent years as in other parts of the country. As of YE 2023, the Stage 3 ratio stood at 1.5%.
- **Financial viability management assessment: Comfortable.** Sandnes' solvency metrics remain reassuring on an absolute basis, with the CET1 capital ratio at 17.8% and the leverage ratio at 9% as of YE 2023. However, the combination of higher requirements and strong loan growth has reduced the distance to requirements. From YE 2023, the systemic risk buffer for Norwegian banks like Sandnes using the standardised approach increased to 4.5% from 3%. Management targets a buffer of at least 1% above the CET1 requirement of 15.2%. The bank expects the planned merger with Hjelmeland Sparebank to increase the CET1 capital ratio by 30 bp and the implementation of Basel 3.1 is estimated to have a positive impact of about 260 bp.

As with many other Norwegian banks, Sandnes has a material reliance on market funding, including more stable covered bonds. Customer deposits meet about half of funding needs. Sandnes maintains liquidity metrics comfortably above requirements.

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' business and operating performance to remain resilient over the next 12 to 18 months.

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
- The inability to balance business growth with maintaining sufficient buffers above regulatory capital requirements

Overview of rating construct

Operating environment: Very Supportive - low

Business model: Focused - high

Initial mapping: 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-

Sandnes Sparebank's debt ratings

The senior unsecured debt rating is at the same level as the issuer rating.

The senior unsecured (subordinated) debt rating is one notch below the issuer rating.

SSB Boligkreditt

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

SSB Boligkreditt's Outlook is aligned with that of Sandnes Sparebank. If there were a change in the rating and/or Outlook of Sandnes Sparebank, this would be reflected in the rating and/or Outlook of SSB Boligkreditt. In addition, if Scope's expectation of full support by Sandnes Sparebank were to change, this could also lead to a downward revision of the rating.

The covered bonds issued by SSB Boligkreditt are rated AAA/Stable.

Stress testing & cash flow analysis

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

Methodology

The methodology used for these Credit Rating 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.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 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 assigned to Sandnes Sparebank was first released by Scope Ratings on 19 December 2018. The Credit Rating/Outlook was last updated on 22 March 2023.

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 22 March 2023.

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 22 March 2023.

The issuer Credit Rating/Outlook assigned to Sandnes Sparebank Boligkreditt was first released by Scope Ratings on 19 December 2018. The Credit Rating/Outlook was last updated on 22 March 2023.

Potential conflicts

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