Scope Ratings

Sandnes Sparebank

Issuer Rating Report

Issuer rating

A-

Outlook

Stable

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Summary and Outlook

Scope's credit view

Sandnes Sparebank's **A- issuer rating** is anchored by its well-established local savings bank franchise in the county of Rogaland in South-West Norway. The rating also reflects the 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 bank's 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 Sandnes' business model nor financial position.

As a local savings bank, Sandnes' business franchise is underpinned by close ties to the local community. Further, management actively embraces developments in the area of sustainability. This includes developing additional 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.

Operating performance is consistently solid and is expected to remain so, with management targeting a return on equity of 10% for 2024. 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.

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. Management targets a buffer of at least 1% above the CET1 requirement of 15.2%.

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. The bank maintains liquidity metrics comfortably above requirements.

Outlook

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

Rating drivers overview table

Step		Assessment			Summary rationale
STEP 1	Operating environment	Very supportive	H	L	♦ Norway is a wealthy economy with well-developed capital markets and a strong record of economic resilience ♦ Conducive market conditions for banking activities ♦ Relatively stringent and active financial regulator
		Supportive	H	L	
		Moderately supportive	H	L	
		Constraining	H	L	
		Very constraining	H	L	
	Business model	Very resilient	H	L	♦ Savings bank with a focus on personal customers and mortgage lending ♦ Well-established in local market with resilient operating performance ♦ Membership in an alliance brings significant benefits and strengthens the business franchise ♦ Operations are concentrated in one region of Norway
		Resilient	H	L	
		Consistent	H	L	
		Focused	H	L	
		Narrow	H	L	
	Initial mapping	**bbb**			
	Long-term sustainability	Best in class			♦ Business model is underpinned by sustaining close ties to the local community ♦ Significant investments made to improve digital capabilities ♦ Further developing expertise to assess ESG risks and prepare for sustainability reporting
		Advanced			
		Developing			
		Constrained			
		Lagging			
	Adjusted anchor	**bbb**			
STEP 2	Earnings capacity & risk exposures	Very supportive			♦ De-risking and strengthening of business franchise in recent years underpins operating performance resilience ♦ Sound asset quality with low credit losses
		Supportive			
		Neutral			
		Constraining			
		Very constraining			
	Financial viability management	Ample			♦ Sound solvency metrics ♦ Reliance on market funding, including more stable covered bonds. Deposits meet about half of funding needs ♦ Liquidity metrics are maintained comfortably above requirements
		Comfortable			
		Adequate			
		Limited			
		Stretched			
		At risk			
	Additional factors	Significant upside factor			♦ No further considerations
		Material upside factor			
		Neutral			
		Material downside factor			
		Significant downside factor			
	Standalone	**a-**			
STEP 3	External support	Not applicable			
Issuer rating		**A-**			

Issuer profile

Founded in 1875, Sandnes Sparebank is a savings bank operating in the county of Rogaland in South-West Norway. The bank serves about 42,000 personal customers and 5,000 business customers from its head office in Sandnes and a branch in Stavanger.

Since the autumn of 2021, the bank has been operating under the brand name of Den Gule Banken. Sandnes Sparebank remains the legal name.

The bank has been part of the Eika Alliance since October 2015 and is its largest member. The bank's CEO is the deputy chair of the alliance's board.

Sandnes Sparebank has its own covered bond issuing entity, SSB Boligkreditt. In addition, the bank owns 60% of Aktiv Eiendomsmegling Jaeren AS, a real estate broker, and 49.5% of Kjell Haver Regnskapsservice AS, an accounting firm. As of YE 2023, the group had total assets of NOK 34bn and about 150 employees.

Sandnes Sparebank has equity capital certificates (ECC) outstanding and has been listed on the Oslo Stock Exchange since 1995. As of YE 2023, the equity certificate capital ratio[1] was about 64%, with the largest ECC holder being Sparebank 1 SR-Bank with a stake of around 15%. The bank itself is the second largest holder with a stake of 8.7%.

Recent events

- **Q4 2023 results**. Sandnes Sparebank reported a net profit of NOK 69m in the quarter, up from NOK 48m in Q4 2022. Results were supported by higher net interest income and contained credit costs. Expenses were elevated due to an IT conversion project and the planned merger with Hjelmeland Sparebank. The bank's stake in Eika Gruppen increased in value by NOK 101m following the merger of the respective insurance companies of the Eika and SpareBank 1 Alliances, with a positive impact on the CET1 capital ratio of 0.3%. As of YE 2023, the CET1 capital ratio stood at 17.8%.
- **January 2024.** The respective boards of trustees of Sandnes Sparebank and Hjelmeland Sparebank approved a merger of the two banks to create Rogaland Sparebank. The assets and liabilities of Hjelmeland Sparebank will be transferred to Sandnes Sparebank. The completion of the merger is targeted for 1 August 2024. Regulatory approvals are pending.

[1] Equity certificate capital ratio: equity certificate capital as a share of total equity.

Rating drivers

Well-established local savings bank operating in South-West Norway

The 'focused- high' business model assessment reflects Sandnes' well-established savings bank franchise in its local area and the focus on retail customers. The bank's competitive position is further enhanced by its membership in the Eika Alliance.

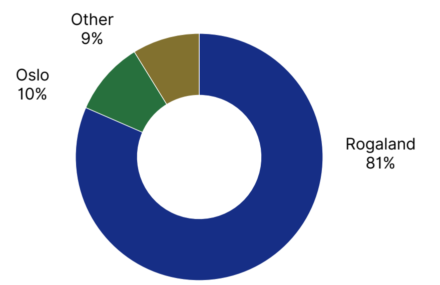
The 'very supportive - low' operating environment assessment reflects Norway's wealthy and resilient economy as well as the conducive market conditions for banking activities. The bank's operations are concentrated in Rogaland, the third largest urban area in Norway and the centre of the country's oil and gas industry.

Activities concentrated in Rogaland

Sandnes Sparebank operates primarily in the county of Rogaland in Norway. Given its position in the heart of the oil and gas region, the local economy is exposed to the cyclical nature of the energy industry. Prior to the Covid-19 pandemic in 2020, Rogaland had been steadily recovering from the impact of the 2014-2015 downturn in oil prices. Consequently, house prices in the area remain lower than in other parts of the country and have experienced more moderate price inflation (Figure B). Similar dynamics are evident in the local commercial real estate market.

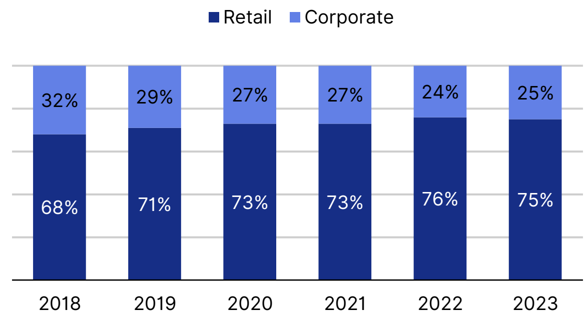
Currently, the local economy is benefiting from the high level of activity in the energy sector. Unemployment is below the national average and growth prospects in the region are stronger than elsewhere in the country[2].

Figure 1: Loan book by geography



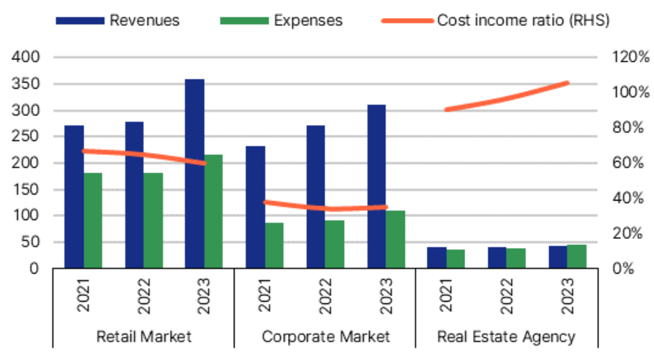
Note: Loans of NOK 29.5bn as of YE 2023
Source: Company data, Scope Ratings

Figure 2: Loan book by customer segment



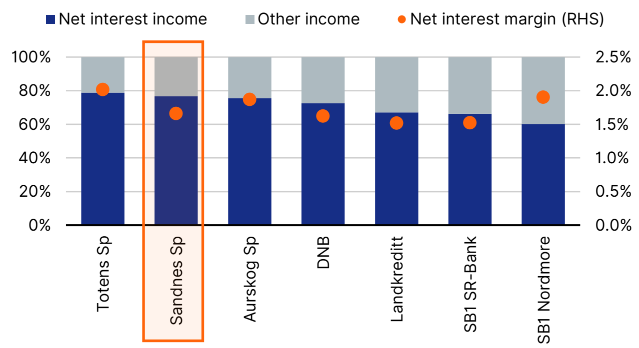
Source: Company data, Scope Ratings

Figure 3: Key segment information (NOK m)



Source: Company data, Scope Ratings

Figure 4: Revenue composition – peer comparison



Note: Three-year average for 2021-2023
Source: SNL, Scope Ratings

[2] Norges Bank Regional Network Report, March 2024

Sandnes had historically focused on corporate lending and real estate development. Over the last five years, however, management has successfully returned the bank to its savings bank roots, with retail customers now accounting for 75% of lending activity (Figure 2). The bank is the second largest savings bank in Rogaland, competing with SpareBank 1 SR-Bank, DNB Bank, and other smaller players.

Retail customers account for 75% of lending activity

Sandnes continues to develop and strengthen its business franchise. The rebranding to Den Gule Banken has enhanced the bank's visibility to customers in a broader geographic area and is supporting growth. The bank has successfully expanded in the retail market in Stavanger, the administrative capital of Rogaland and the fourth largest city in the country.

Management is executing on its 2021-2024 strategic plan, which builds on the achievements of the last few years. The focus remains on enhancing the customer experience to generate profitable growth. A key target is achieving a customer satisfaction score of 80 based on a third-party assessment. The bank was above this target in 2022 and 2023 with retail customers, underpinning market share gains. The bank also achieved this target in 2023 with corporate customers, driven by investments in advisors and technology to improve the customer experience.

Membership in alliance strengthens business model

Sandnes is a member of the Eika Alliance, a strategic alliance of about 40 local banks that collectively account for about 10% of retail lending in the country. Being a member of the alliance enables the bank to meet the broad financial needs of its customers, including asset management, insurance, credit cards, car loans and leasing. It also supports cost efficiency, particularly in banking operations and IT infrastructure.

Planned merger presents new business opportunities

In December 2023, Sandnes announced its intention to merge with neighboring savings bank Hjelmeland Sparebank to create Rogaland Sparebank. The merger will expand the bank's market area to include Ryfylke and Nord Jaeren and strengthen its presence in Rogaland County. Hjelmeland Sparebank has total assets of NOK 4.2bn (including about NOK 0.8bn in loans transferred to Eika Boligkreditt) and 25 employees. Pending regulatory approvals, the merger is expected to be completed in the second half of 2024.

The transaction is not expected to materially change the bank's business model nor financial profile. Retail customers will continue to account for about 75% of lending activity. Management expects to realise approximately NOK 30m per annum in synergies from 2026, including about NOK 15m in cost synergies. These will come from more efficient operations, lower funding costs and increased business opportunities. The Rogaland Sparebank group will have on-balance sheet assets of about NOK 38bn and 185 employees.

Box A: Focus on Sandnes Sparebank's country of domicile: Norway

Economic assessment:

- With a population of 5.4m and a nominal GDP of USD 490bn, Norway is a relatively small open economy with one of the world's highest per capita incomes.
- The Norwegian economy recovered quickly from the Covid-19 pandemic, with continued strong GDP growth in 2022 but a slowdown in 2023. The impacts of high inflation were partially offset by the strong performance of the oil sector.
- Investment in the oil sector is expected to remain high in 2024, while falling inflation and a recovery in real earnings should support a gradual recovery in private consumption. GDP growth is expected to rise to 1.2% in 2024 and 2.0% in 2025 before converging towards Norway's growth potential of around 1.8%.
- A very strong government fiscal position provides ample capacity to support the economy as needed. Savings are accumulated through the world's largest sovereign wealth fund.
- The high home ownership rate of around 80% is a driver for high levels of household debt, both in historical terms and in comparison, to other countries. Macroprudential measures concerning mortgages and consumer debt are in place to manage risks. Mortgage debt is primarily on floating rate terms.
- Exposure to commercial real estate firms is a longstanding vulnerability of the financial system.
- The reliance on the oil and gas sector exposes the country to long-run transition risks.

Soundness of the banking sector:

- The Norwegian banking system is dominated by DNB Bank, with a market share of around 30%. Nordea and other foreign banks account for about 20% of the retail market and 30% of the corporate market. There are also nearly 90 savings banks, with their size ranging from less than NOK 5bn to NOK 365bn in assets. Savings banks tend to operate locally or regionally and are part of alliances (SpareBank 1, Eika, DSS).
- Smaller savings banks are consolidating due to increasing competitive and regulatory pressures.
- Residential mortgages account for more than half of total lending while the commercial real estate sector accounts for 15% of total lending (or nearly half of corporate lending).
- Digitalisation is high and the use of cash is amongst the lowest in the world.
- A rigorous regulatory framework, with some of the highest solvency requirements amongst European banks.
- Norwegian banks are generally profitable, cost efficient and exhibit sound asset quality and solvency metrics.
- While customer deposits are the primary source of funding, the use of market funding is material, especially covered bonds.

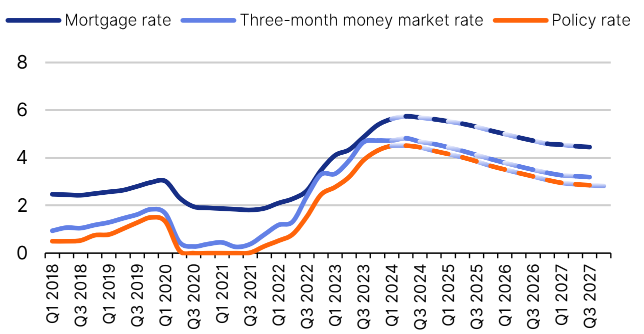
Key economic indicators	2020	2021	2022	2023 E	2024 F
Real GDP growth, %	-1.8	4.0	3.0	0.8	1.2
Inflation, % change	1.3	3.5	5.8	5.5	3.8
Unemployment rate, %	4.8	4.4	3.2	3.6	4.0
Policy rate, %	0.0	0.5	2.75	4.5	4.0
Public debt, % of GDP	45	43	37	37	36
General government balance, % of GDP	-2.6	10.6	26.0	21.5	14.4

Source: Scope Ratings

Banking system indicators	2019	2020	2021	2022	2023
ROAA, %	1.1	0.8	1.0	1.0	1.1
ROAE, %	11.2	8.5	10.1	10.9	12.2
Net interest margin, %	1.8	1.7	1.6	1.7	2.0
CET1 ratio, %	17.8	18.3	18.4	18.1	18.0
Problem loans/gross customer loans, %	1.3	1.6	1.4	1.2	1.1
Loan-to-deposit ratio, %	163.3	152.2	143.7	144.7	145.0

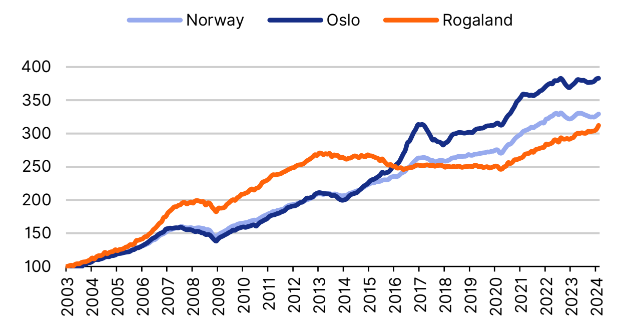
Source: SNL, Scope Ratings

Figure A: Interest rates (%)



Source: Norges Bank, March 2024 Monetary Policy Report

Figure B: House price index

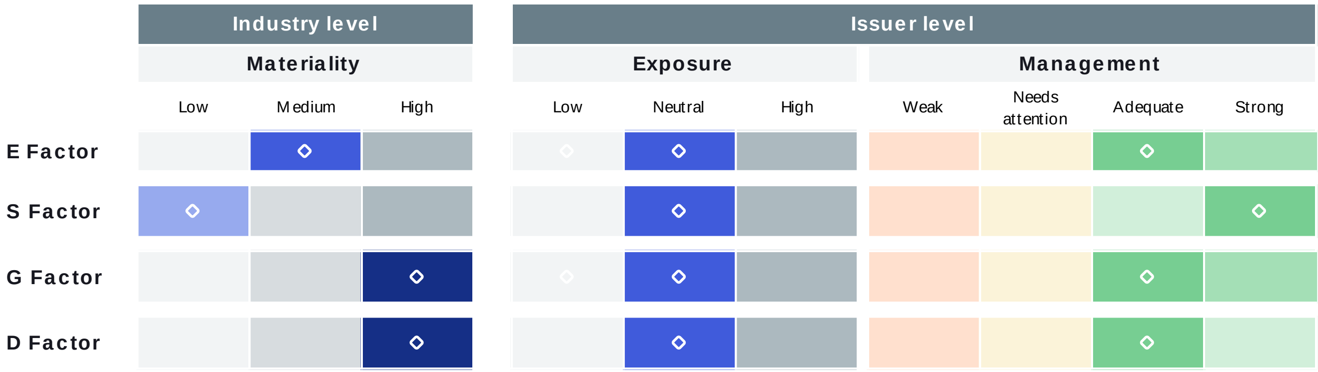


Source: Macrobond, Eiendom Norge, Scope Ratings

Addressing ESG-related risks and opportunities

The 'developing' long-term sustainability assessment reflects Sandnes' ongoing and active management of ESG-related risks and opportunities. Strong digital capabilities are in line with the Norwegian banking sector. The bank's efforts to cement ties with local communities are tangible and a common feature among Norwegian savings banks.

Figure 3: Long-term sustainability overview table[3]



Source: Scope Ratings

Sustainability is a key part of Sandnes' 2021-2024 strategic plan. Management believes that integrating sustainability and social responsibility within the business will eventually lead to outperformance against peers who are not addressing these issues.

Sandnes has developed its sustainability strategy with input from employees and other stakeholders, including the local community, the Norwegian FSA and the Eika Alliance. Key priorities include supporting the transition efforts of customers through advice and product offerings, ensuring responsible lending and investment, and managing ESG risks.

Social: close ties to local community sustain business franchise

Inherent to its savings bank business model, Sandnes is an active participant in its community, supporting schools, associations, and local events through its gift fund. For 2023, the bank plans to allocate NOK 12m to the gift fund. These efforts along with the use of customer dividends are important for sustaining the bank's business franchise. Sandnes has been distributing customer dividends since 2017.

Governance: employees, customers and the local community are important stakeholders

In common with other Norwegian savings banks, Sandnes' governance structure further reinforces its close relationship with customers and the local community. The board of trustees is the highest governing body and supervises the board of directors' management of the bank. The board of trustees represent employees, customers, equity capital certificate holders, and the municipality of Sandnes.

Of the board of trustees' 40 members, employees and customers each have ten representatives, equity certificate holders have 15 representatives, and the municipality of Sandes has five representatives. In addition, two of the eight members of the bank's board of directors are employee representatives.

[3] The ESG-D heatmap is not a scorecard but illustrates how each factor informs our overall assessment. The Materiality table shows how we assess the credit relevance of each factor for the entire European banking industry. The Exposure table shows to what extent the bank is exposed to risks or benefits from opportunities compared to peers, given its business model and countries of operation. The Management table shows how we view the bank's navigation through transitions.

Digitalisation: significant investments to maintain digital capabilities

Between 2021 and 2023, Sandnes spent NOK 67m on upgrading its digital infrastructure to ensure that it continues to meet the evolving demands of customers and to increase efficiency. The conversion to a new technology provider and core platform was done through the Eika Alliance and completed in April 2023. The changes have increased customer satisfaction and supported business growth.

Environmental: developing risk management expertise and preparing for reporting requirements

Sandnes has included ESG factors, including climate-related risks, in its credit process for corporate customers since 2020. With a tool developed by the Eika Alliance, all corporate customers regardless of size undergo an ESG assessment. In 2022, sector-specific credit modules for agricultural and commercial property were introduced to enhance bank advisors' understanding of the potential impact of climate change and transition.

Since 2022, Sandnes has included a qualitative assessment of ESG risks as part of the corporate market credit assessment in the internal capital adequacy process (ICAAP). Work is ongoing to develop capabilities to calculate exposures and determine capital needs for climate-related risks.

Other focus areas include further developing risk management/pricing models to incorporate the probability of default related to stranded assets and loss given default related to collateral. Sandnes is also contributing to a project within the Eika Alliance to prepare for CSRD reporting.

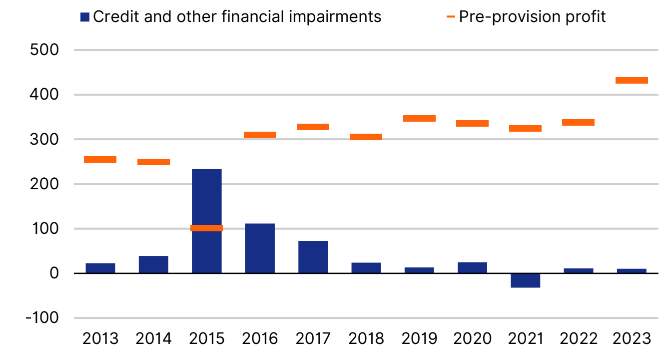
The group's green bond framework has been independently assessed as being aligned with the 2021 Green Bond Principles administered by the International Capital Market Association. The framework allows for the issuance of both green senior unsecured and green covered bonds. Sandnes is aiming to increase the proportion of green lending in all business segments. As of YE 2023, green loans (as classified under the green bond framework) accounted for about 20% of the loan portfolio.

Solid operating performance and sound asset quality profile

The 'supportive' earnings capacity and risk exposures assessment reflects the bank's consistently solid earnings and low credit losses. Asset quality remains sound, following years of de-risking and the strategic shift in focus to personal customers from corporates.

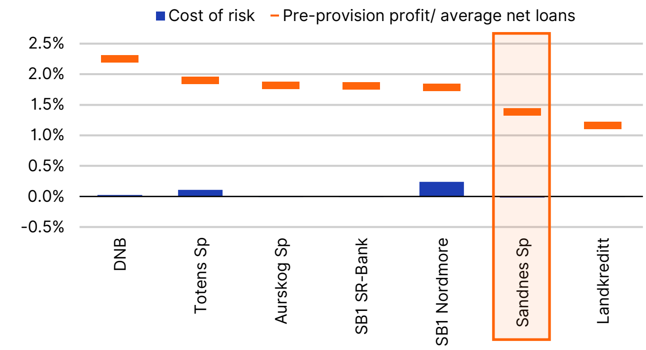
Figure 6: Pre-provision income and provisions

6.1 Historical development (NOK m)



Source: Company data, Scope Ratings

6.2 Peer comparison



Note: Three-year averages for 2020-2023.
Source: SNL, Scope Ratings

Sandnes consistently generates solid earnings which are more than sufficient to absorb credit costs. Over the years, management has strengthened the business franchise and internal capabilities as well as addressed previous more aggressive and riskier business practices. For example, the bank no longer has a trading portfolio and foreign currency loans are no longer actively marketed to clients. Consequently, earnings generation is resilient, and impairments have fallen (Figure 6.1).

Return target of more than 10%

Over the 2021-2024 strategy period, management targets a return on equity of at least 10%. The reported return on equity was 9.9% for 2023 or 10.5% excluding IT conversion costs. Results were underpinned by higher margins and loan growth of 9% year-over-year. At the same time, expenses were elevated due to inflation and IT conversion costs. The completed IT conversion project entailed NOK 67m in costs over a three-year period (2021-2023). In addition to improving the user experience for customers, IT costs will be materially reduced going forward.

De-risked loan book and close monitoring support asset quality

Sandnes' loan portfolio has become more granular as the share of lending to personal customers has increased. Since 2020, the bank's internal target is to have at least two-thirds of loans being from personal customers, up from 65% in 2018. Personal customers accounted for 75% of total loans as of YE 2023 (Figure 7.1).

At the same time, the magnitude and concentration of large business exposures have been significantly reduced and replaced by smaller loans to SMEs. Management's policy of avoiding direct exposure to the oil and gas industry as well as to more cyclical industries such as hotels and restaurants has also supported asset quality.

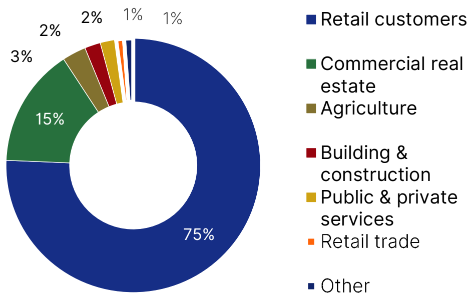
In line with the Norwegian banking sector, commercial real estate accounts for 15% of the loan book. The exposure is diversified and continues to perform well (Figure 7.2). The exposure is secured by first-lien mortgages and benefits from high occupancy rates and LTVs below 80%. Commercial vacancy rates in the Stavanger area have been in decline, due to increased economic activity and limited new construction after the 2014-2015 downturn in oil prices.

With the de-risking of the loan book and the close monitoring of risk exposures, asset quality remains sound. The bank has only seen a small increase in customers seeking forbearance despite higher interest rates and the economic slowdown. The Stage 3 ratio stood at 1.5% at YE 2023, up from 1% at YE 2022 (Figure 8).

The increase in the Stage 3 ratio was driven primarily by the Balansebank portfolio which has a higher risk profile as it serves personal customers in more complex financial situations. This portfolio represented about 4% of the total loan book, with all loans secured by residential buildings with an LTV of 85% of less. Sandnes has been active in this business since 2016 and it has been consistently profitable.

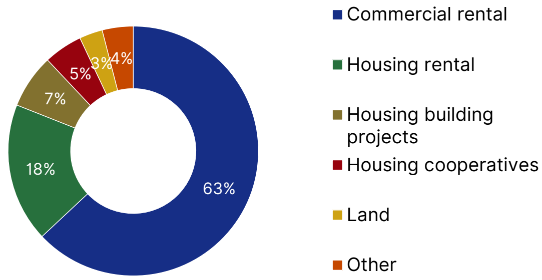
Figure 7: Loan book

7.1 Composition of loan book



Note: NOK 29.5bn as of YE 2023
Source: Company data, Scope Ratings

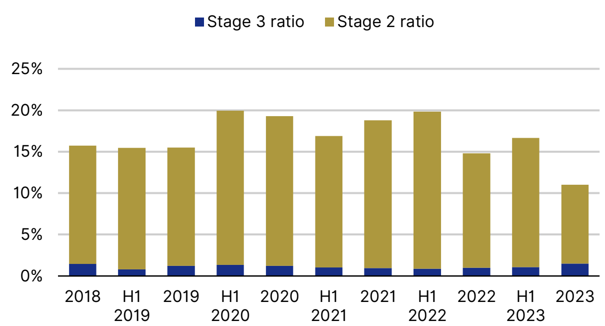
7.2 Focus on commercial real estate exposures



Note: NOK 4.5bn as of YE 2023
Source: Company data, Scope Ratings

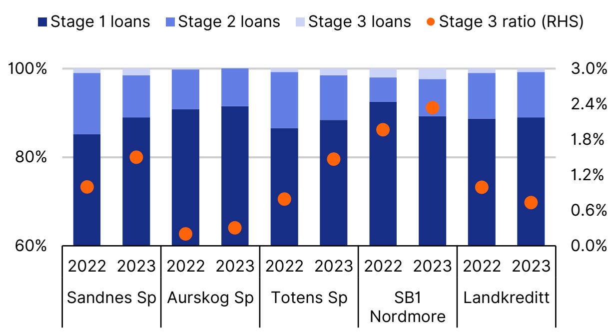
Figure 8: Asset quality indicators

8.1 Stage 2 and Stage 3 ratio development



Source: Company data, SNL, Scope Ratings

8.2 IFRS 9 loan staging – peer comparison

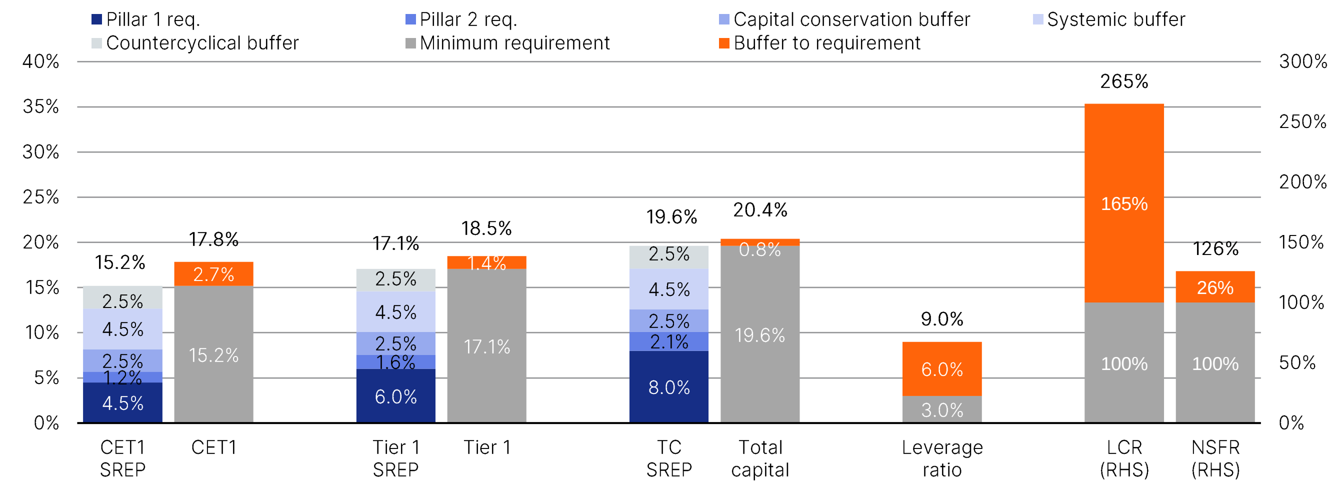


Source: Company data, SNL, Scope Ratings

Sound capital, funding and liquidity metrics

The 'comfortable' financial viability management assessment reflects Sandnes' sound solvency and liquidity positions. As with many other Norwegian banks, there is a reliance on market funding, including covered bonds.

Figure 9: Overview of distance to requirements, as of YE 2023



Note: Following the issuance of a NOK 150m Tier 2 bond in January 2024, the buffer to total capital requirements is estimated to be 1.7%
Source: Company data, Scope Ratings

Maintaining sound solvency position as requirements evolve

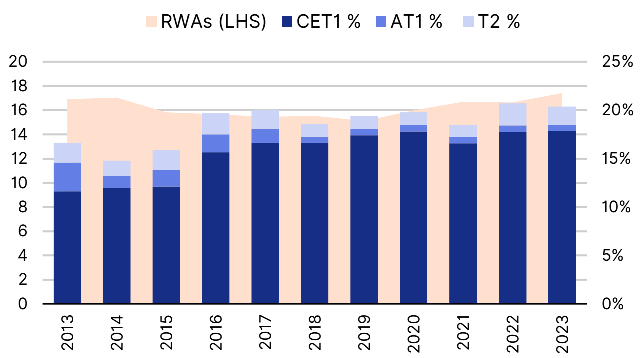
While Sandnes' solvency metrics remain sound on an absolute basis, the combination of higher requirements and strong loan growth has reduced the distance to requirements. In January 2024, the bank issued a NOK 150m Tier 2 bond which has increased the buffer to total capital requirements. Management targets a buffer of at least 1% above the CET1 requirement of 15.2%.

From YE 2023, the minimum CET1 capital requirement for Norwegian banks like Sandnes using the standardised approach increased as the systemic risk buffer was raised to 4.5% from 3%. At the same time, banks are now permitted to meet their Pillar 2 requirement with a mix of capital instead of just CET1 capital, in line with CRR.

The bank expects the planned merger with Hjelmeland Sparebank in H2 2024 to increase the CET1 capital ratio by about 20 bp. Further, Sandnes estimates that its CET1 capital ratio would benefit by about 260 bp with the implementation of Basel 3.1. In line with the EU, implementation in Norway is targeted for 1 January 2025. The additional capital will provide a basis for further business growth.

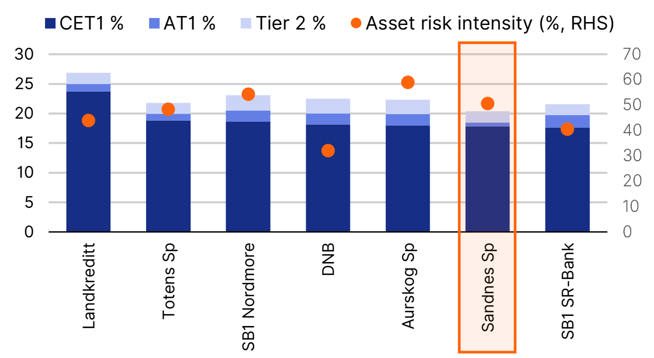
Figure 10: Key capital metrics

10.1 Historical evolution (NOK bn)



Source: Company data, Scope Ratings

10.2 Peer comparison (YE 2023)



Source: SNL, Scope Ratings

Over the 2021-2024 strategic period, Sandnes aims for a dividend pay-out ratio of 50%-75%. This includes distributions to equity capital certificate holders, the community through the gift fund, and customer dividends. Sandnes makes use of customer dividends to support customer retention and its business franchise. When determining the level of dividend distributions, the board of directors' priority is to ensure the group's balance sheet strength.

Covered bonds are important funding source

Like with many other Norwegian banks, Sandnes relies to a substantial degree on market funding, with deposits meeting about half of funding needs (Figure 11). Management considers a 50% deposit-to-loan ratio to be the natural level for the bank. While more deposits could be gathered, this would likely mean attracting less stable, larger deposits or being more aggressive with deposit pricing.

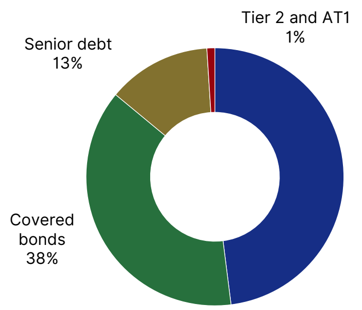
Covered bonds which have proven to be a reliable source of market funding account for nearly 40% of total funding. Sandnes has its own covered bond issuing entity, SSB Boligkreditt, but also has the flexibility to issue from the covered bond issuing entity of the Eika Alliance.

Liquidity metrics remain comfortably above requirements

To mitigate refinancing risks, Sandnes maintains a high-quality liquidity portfolio. As of YE 2023, the liquidity portfolio amounted to NOK 3.5bn excluding cash and was comprised primarily of high quality domestic covered bonds, municipal bonds and government guaranteed bonds. Additionally, the bank prefers to issue debt in smaller size to manage refinancing risks.

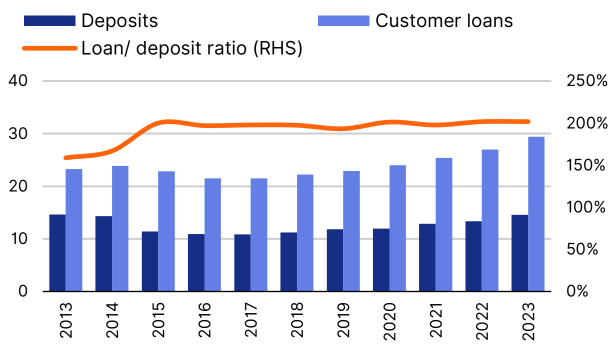
The group's liquidity policy entails having sufficient liquid assets to allow for at least six months of operations without new market funding. Sandnes' liquidity metrics remain comfortably above requirements, with the LCR at 265% and the NSFR at 126% as of YE 2023 (Figure 13).

Figure 11: Funding profile (YE 2023)



Source: Company data, Scope Ratings

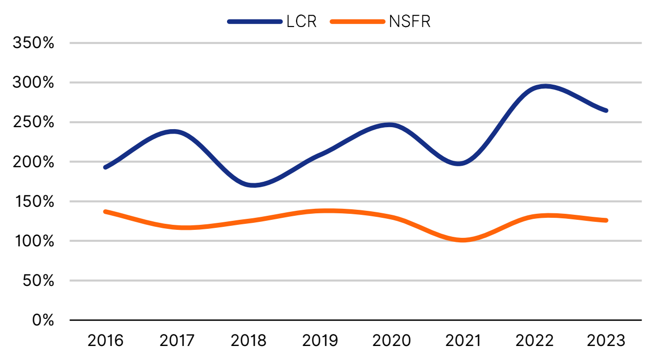
Figure 12: Loans and deposits (NOK bn)



Source: Company data, Scope Ratings

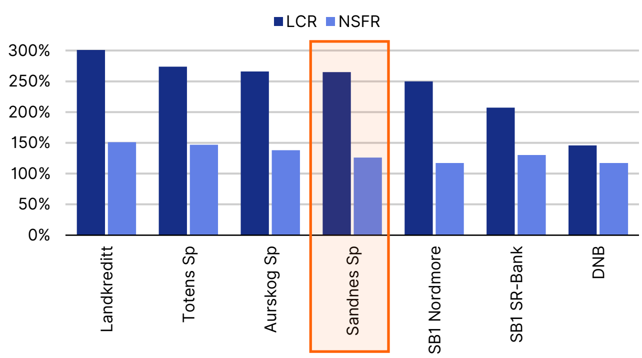
Figure 13: Key liquidity and funding metrics

13.1 Historical evolution



Source: Company data, Scope Ratings

13.2 Peer comparison (YE 2023)



Note: Landkreditt's LCR is 444%
Source: Company data, SNL, Scope Ratings

Rated group members

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.

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, reflecting statutory subordination.

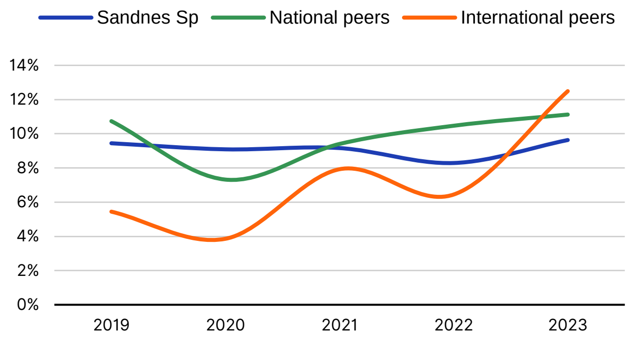
Credit rating list

		Credit rating	Outlook
Issuer	**Sandnes Sparebank**		
	Issuer rating	A-	Stable
	Senior unsecured debt rating	A-	Stable
	Senior unsecured (subordinated) debt rating	BBB+	Stable
Issuer	**SSB Boligkreditt**		
	Issuer rating	A-	Stable

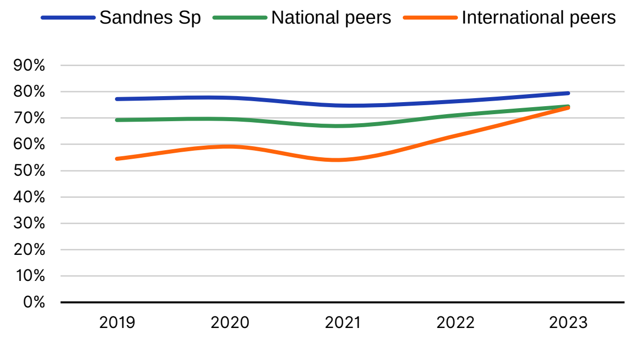
Financial appendix

I. Appendix: Peer comparison

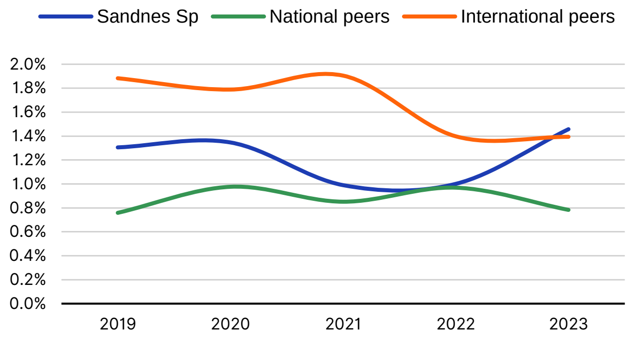
Return on average equity (%)



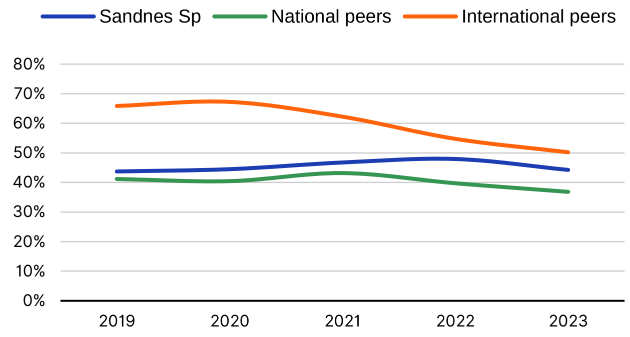
Net interest income/ operating income (%)



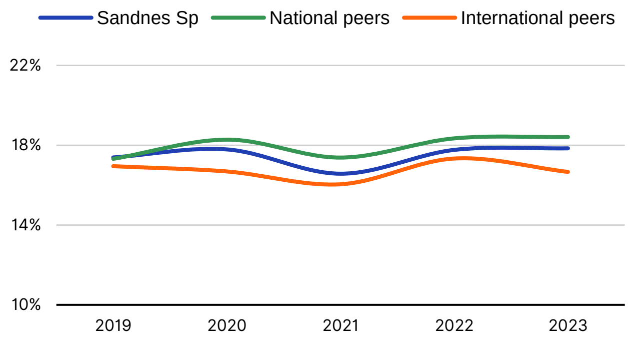
Problem loans/ gross customer loans (%)



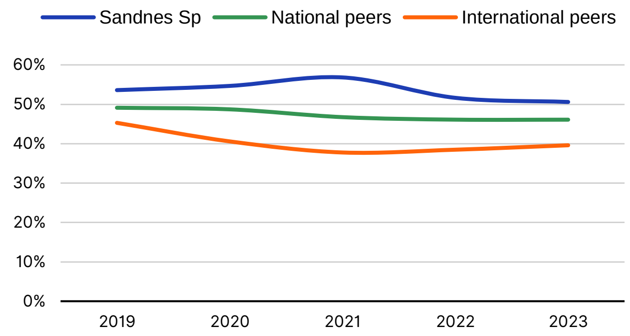
Cost to income ratio (%)



Common equity tier 1 ratio (%)



Asset risk intensity (RWAs/total assets, %)



National peers: Aurskog Sparebank, Totens Sparebank, SpareBank 1 Nordmore, Landkreditt, SpareBank 1 SR-Bank, DNB
International peers: Bausparkasse Wustenrot AG (2023 data not yet available), Banca Popolare de Sondrio SpA, Credito Emiliano SpA, Kutxabank SA, TSB Banking Group plc, Sparbanken Sjuharad AB
Source: SNL, Scope Ratings

II. Appendix: Selected financial information – Sandnes Sparebank

	2019	2020	2021	2022	2023
Balance sheet summary (NOK m)					
Assets					
Cash and interbank assets	574	489	440	502	463
Total securities	4,524	4,567	3,374	4,582	4,423
of which, derivatives	113	326	142	151	97
Net loans to customers	22,878	24,000	25,392	26,964	29,391
Other assets	182	180	167	173	139
Total assets	**28,158**	**29,235**	**29,373**	**32,221**	**34,415**
Liabilities					
Interbank liabilities	44	1,472	99	104	51
Senior debt	12,800	12,379	12,911	14,651	15,514
Derivatives	111	146	47	147	118
Deposits from customers	11,833	11,926	12,842	13,365	14,562
Subordinated debt	201	201	201	369	322
Other liabilities	150	159	198	187	223
Total liabilities	**25,139**	**26,283**	**26,298**	**28,824**	**30,790**
Ordinary equity	2,916	2,847	2,970	3,293	3,522
Equity hybrids	100	100	100	100	100
Minority interests	3	5	5	4	3
Total liabilities and equity	**28,158**	**29,235**	**29,373**	**32,221**	**34,415**
Core tier 1/ common equity tier 1 capital	*2,625*	*2,843*	*2,766*	*2,956*	*3,107*
Income statement summary (NOK m)					
Net interest income	476	470	456	496	616
Net fee & commission income	77	80	90	93	96
Net trading income	14	-3	15	-9	6
Other income	49	58	50	70	58
Operating income	**616**	**605**	**610**	**649**	**775**
Operating expenses	269	269	285	311	343
Pre-provision income	**347**	**336**	**325**	**338**	**432**
Credit and other financial impairments	13	25	-32	11	11
Other impairments	0	0	0	1	NA
Non-recurring income	0	0	0	0	NA
Non-recurring expense	0	0	29	12	26
Pre-tax profit	**333**	**311**	**328**	**314**	**396**
Income from discontinued operations	0	0	0	0	0
Income tax expense	56	50	47	48	66
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	0	1	1	0	-1
Net profit attributable to parent	**277**	**260**	**280**	**266**	**331**

Source: SNL

III. Appendix: Selected financial information – Sandnes Sparebank

	2019	2020	2021	2022	2023
Funding and liquidity					
Net loans/ deposits (%)	198%	198%	197%	203%	203%
Liquidity coverage ratio (%)	209%	247%	198%	293%	265%
Net stable funding ratio (%)	138%	130%	101%	131%	126%
Asset mix, quality and growth					
Net loans/ assets (%)	81.2%	82.1%	86.4%	83.7%	85.4%
Problem loans/ gross customer loans (%)	1.3%	1.3%	1.0%	1.0%	1.5%
Loan loss reserves/ problem loans (%)	46.3%	44.7%	35.7%	33.0%	22.4%
Net loan growth (%)	3.0%	4.9%	5.8%	6.2%	9.0%
Problem loans/ tangible equity & reserves (%)	9.6%	10.5%	8.0%	7.8%	11.6%
Asset growth (%)	3.5%	3.8%	0.5%	9.7%	6.8%
Earnings and profitability					
Net interest margin (%)	1.7%	1.6%	1.5%	1.6%	1.8%
Net interest income/ average RWAs (%)	3.0%	3.0%	2.8%	3.0%	3.6%
Net interest income/ operating income (%)	77.2%	77.7%	74.7%	76.3%	79.4%
Net fees & commissions/ operating income (%)	12.5%	13.2%	14.7%	14.4%	12.3%
Cost/ income ratio (%)	43.7%	44.5%	46.8%	47.9%	44.2%
Operating expenses/ average RWAs (%)	1.7%	1.7%	1.7%	1.9%	2.0%
Pre-impairment operating profit/ average RWAs (%)	2.2%	2.1%	2.0%	2.0%	2.5%
Impairment on financial assets / pre-impairment income (%)	3.9%	7.4%	-10.0%	3.4%	2.5%
Loan loss provision/ average gross loans (%)	0.1%	0.1%	-0.1%	0.0%	0.0%
Pre-tax profit/ average RWAs (%)	2.1%	2.0%	2.0%	1.9%	2.3%
Return on average assets (%)	1.0%	0.9%	1.0%	0.9%	1.0%
Return on average RWAs (%)	1.8%	1.7%	1.7%	1.6%	1.9%
Return on average equity (%)	9.4%	9.1%	9.2%	8.3%	9.6%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	17.4%	17.8%	16.6%	17.8%	17.8%
Common equity tier 1 ratio (%, transitional)	17.4%	17.8%	16.6%	17.8%	17.8%
Tier 1 capital ratio (%, transitional)	18.1%	18.5%	17.2%	18.4%	18.5%
Total capital ratio (%, transitional)	19.4%	19.8%	18.5%	20.7%	20.4%
Leverage ratio (%)	9.3%	9.5%	9.2%	9.0%	9.0%
Asset risk intensity (RWAs/ total assets, %)	53.6%	54.7%	56.8%	51.6%	50.6%
Market indicators					
Price/ book (x)	0.8x	0.8x	1.1x	0.9x	0.9x
Price/ tangible book (x)	0.8x	0.8x	1.1x	0.9x	0.9x
Dividend payout ratio (%)	63.3%	NA	62.9%	74.7%	75.0%

Source: SNL

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