



11 Jun 2020 - Scope Ratings GmbH

Scope upgrades Sandnes Sparebank's issuer rating to A- and changes Outlook to Stable

Rating upgrade reflects management's consistent execution of its strategy to de-risk and strengthen the bank's franchise. The bank's business and financial profile are expected to remain in line with other similarly rated Norwegian savings banks.

Rating action

Scope Ratings has today upgraded the issuer rating of Sandnes Sparebank to A- from BBB+. The senior unsecured debt rating was also upgraded to BBB+ from BBB. In addition, the issuer rating of the bank's covered bond issuing entity, Sandnes Sparebank Boligkreditt AS, was upgraded to A- from BBB+. Following the upgrades, the Outlook on all ratings was changed to Stable from Positive.

Rating rationale

Sandnes Sparebank is a well-established local savings bank operating in south-west Norway. The rating upgrade reflects management's consistent execution of its strategy to de-risk and strengthen the bank's business franchise. The bank has returned to its savings bank roots, with retail clients accounting for 70% of the loan portfolio (primarily mortgages). Indicators of customer satisfaction and market share in the retail business continue to increase. At the same time, the quality of the corporate loan book has improved as risk concentration has been reduced. These achievements have been acknowledged by the Norwegian FSA which recently lowered the bank's Pillar 2 capital requirement to 2.1% from 2.5%.

Similar to other banks, Sandnes Sparebank's 1Q 2020 results were impacted by the Covid-19 pandemic. As well, the bank operates in a region which is more exposed to the country's oil and gas industry although direct exposure is immaterial. Credit costs were NOK 20m (equivalent to 35bps of gross loans on an annualised basis), of which NOK 2m was for specific write-downs and NOK 18m was due to increased provisioning for Stage 1 and Stage 2 exposures. In addition, the bank's liquidity portfolio which consists primarily of high-quality government securities and covered bonds suffered from mark-to-market losses because of market volatility. Nevertheless, Norway has been gradually reopening its economy, with the rate of unemployment falling and house prices remaining resilient.

The bank's solvency metrics continue to be sound, driven in part by relatively stringent regulatory requirements. All Norwegian banks are subject to a minimum systemic risk buffer of 3% and a countercyclical capital buffer of 1%. As of 30 March 2020, the bank's CET1 capital and Tier 1 leverage ratios were 16.1% and 8.9%, respectively. With the revised Pillar 2 capital requirement, the bank's CET1 requirement will be 13.1% from 30 June 2020.

As deposits are sufficient to fund only about half of lending, Sandnes Sparebank must rely on market funding. The bank is a regular issuer in the domestic bond market, issuing directly and via its own covered bond issuing entity. With an ample liquidity position, the bank has no need to issue for the remainder of the year. The Stable Outlook reflects Scope's expectation that Sandnes Sparebank's business and financial profile will remain in line with other similarly rated Norwegian savings banks.

Rating-change drivers

Potential negative rating change drivers include a material deterioration in operating performance, a reversal in strategic direction which increases the bank's risk profile, and a loss of the benefits and advantages from being a member of the Eika Alliance. On the other hand, there would be upward pressure on the ratings if

Sandnes Sparebank were to sustainably strengthen its market position while generating consistent earnings and maintaining sound prudential metrics.

Stress testing & cash flow analysis

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

Methodology

The methodology used for this rating(s) and/or rating outlook(s) (Bank Ratings Methodology, 4 May 2020) is available on <https://www.scooperatings.com/#!/methodology/list>.

Information on the meaning of each rating category, including definitions of default and recoveries can be viewed in the "Rating Definitions - Credit Ratings and Ancillary Services" published on <https://www.scooperatings.com/#!/governance-and-policies/rating-scale>. Historical default rates of the entities rated by Scope Ratings can be viewed in the rating performance report on <https://www.scooperatings.com/#!/governance-and-policies/regulatory-ESMA>. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerp.esma.europa.eu/cerp-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope's definitions of default and rating notations can be found at <https://www.scooperatings.com/#!/governance-and-policies/rating-scale>. Guidance and information on how Environmental, Social or Governance factors (ESG factor) are incorporated into the rating can be found in the respective sections of the methodologies or guidance documents provided on <https://www.scooperatings.com/#!/methodology/list>.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The rated entity and/or its agents participated in the rating process.

The following substantially material sources of information were used to prepare the credit rating: public domain, the rated entity and third parties.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the rating or outlook action, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0.

Lead analyst: Pauline Lambert, Executive Director

Person responsible for approval of the rating: Dierk Brandenburg, Managing Director

The ratings/outlooks were first released by Scope on 19 December 2018.

Potential conflicts

Please see www.scooperatings.com for a list of potential conflicts of interest related to the issuance of credit ratings.

Conditions of use / exclusion of liability

© 2020 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Analysis GmbH, Scope Investor Services GmbH and Scope Risk Solutions GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to

purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5 D-10785 Berlin.

Scope Ratings GmbH, Lennéstraße 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Director: Guillaume Jolivet.

Analyst Contact: **Pauline Lambert**: p.lambert@scoperatings.com

Team Leader: **Dierk Brandenburg**: d.brandenburg@scoperatings.com