Sandnes Sparebank

Update

Ratings

Local Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
Viability Rating	bbb
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

Outlooks

Foreign-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

Financial Data

Sandnes Sparebank

	30 Sep	31 Dec 15
Total assets (USDm)	3,303	3,097
Total assets (NOKm)	26,594	27,283
Total equity (NOKm)	2,543	2,082
Operating profit (NOKm)	158.8	-109
Published net income (NOKm)	145.1	-74.4
Comprehensive income (NOKm)	131.1	-41
Operating profit / risk weighted assets (%)	1.34	-0.69
Operating ROAE (%)	9.59	-5.07
Internal capital generation (%)	7.62	-3.57
FCC / weighted risks (%)	15.35	12.8
Common equity Tier 1 ratio (%)	14.30	12.10
Impaired loans / gross loans (%)	3.88	2.53

Related Research

Sandnes Sparebank – Ratings Navigator (November 2016)

Analysts

Bjorn Norrman
+44 20 3530 1330
bjorn.norrman@fitchratings.com

David Bengtsson
+44 20 3530 1664
david.bengtsson@fitchratings.com

Key Rating Drivers

Niche Franchise Constrain Ratings: Sandnes Sparebank's ratings reflect good pre-impairment profitability, adequate asset quality and good capitalisation, and its entrenched regional presence in south-west Norway. The bank's ratings are constrained by its smaller franchise than domestic peers, and by still significant geographical and obligor loan concentration.

Good Pre-impairment Profitability: Sandnes has good pre-impairment profitability and its regional franchises support stable revenue generation. Net interest income is the main source of revenue, but the bank is gradually strengthening fee income from ancillary products. Cost efficiency is acceptable. Sandnes reported a net loss in 2015 due to some specific large loan impairment charges (LICs) relating to certain large exposures, which we do not expect to be repeated. However, they demonstrate the risks of its material obligor concentration.

Legacy Impaired CRE Loans: Sandnes's impaired loans increased to 3.9% of gross loans at end-September 2016 (end-2015: 2.5%). A significant share of the impaired loans relate to legacy commercial real estate (CRE) loans, which in our assessment include building and construction, and property management lending. This remains a key risk, despite management reducing concentration in this segment since its peak in 2008.

Net direct lending to the oil and gas sector is minimal. However, Sandnes's lending is focused on south-west Norway, where the oil industry is concentrated, and the bank is therefore also sensitive to more widespread contagion effects from lower oil activity, although this is not expected.

Good Capital Ratios, Small Volume: The bank's capital ratios compare well with its domestic and international peers, despite its use of the standardised approach to calculate capital requirements. Leverage is low in a European context. Nonetheless, the small absolute volume of equity makes it vulnerable to shocks.

Wholesale Funding Reliance: Like most Nordic peers, Sandnes relies on the capital markets for part of its structural funding, primarily through its wholly owned covered bond issuing vehicle. Maintaining a large liquidity buffer is key to mitigating this risk.

Rating Sensitivities

Still Strong Operating Environment: The Stable Outlook reflects Fitch Ratings' expectation that the operating environment in Norway will remain fairly strong, and that the bank will continue to work out its impaired legacy CRE exposures and maintain access to market funding.

Asset Quality, Funding Access: Sandnes's ratings are sensitive to reduced activity in the region should it lead to a significant property price correction or increased corporate losses. A dislocation in debt capital markets making Sandnes unable to obtain competitively priced funding is also a sensitivity.

Upgrade Unlikely: An upgrade is unlikely because the bank's small size makes it relatively sensitive to shocks, particularly in the context of its narrow geographical operating market and CRE exposures.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Related Criteria

Global Bank Rating Criteria (November 2016)