Sparebanken Vest

Update

Ratings

Foreign Currency	
Long-Term IDR	A–
Short-Term IDR	F2
Viability Rating	a–
Support Rating	3
Support Rating Floor	BB+
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

Sparebanken Vest

	30 Sep 16	31 Dec 15
Total assets (USDm)	19,877	18,349
Total assets (NOKm)	160,045	161,663
Total equity (NOKm)	11,844	10,737
Operating profit (NOKm)	1,478	1,320
Published net income (NOKm)	1,251	1,047
Comprehensive income (NOKm)	1,237	1,085
Operating profit / RWA (%)	2.6	1.8
Operating ROAE (%)	17.6	13.7
Internal capital generation (%)	14.1	9.2
FCC / weighted risk (%)	15.3	14.0
Common equity Tier 1 ratio (%)	13.5	13.7
Impaired loans / gross loans (%)	1.0	1.1

Related Research

Sparebanken Vest – Ratings Navigator (November 2016)

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Key Rating Drivers

Strong Franchise, Regional Concentration: Sparebanken Vest's (SV) ratings reflect its strong regional franchise around the Bergen area, healthy profitability, resilient asset quality and sound capital ratios. They also factor in significant property price increases in recent years, geographically concentrated lending, and liquidity management in the context of wholesale funding reliance. SV's geographical concentration has a higher influence on the ratings than for larger, more diversified peers.

Resilient Profitability: Profitability is strong and SV's local franchise supports stable revenue generation. Operational efficiency is acceptable. Fitch Ratings expects relatively modest loan impairment charges (LICs) in 2017, despite continued low oil prices. Lending margins for retail mortgage loans are under pressure from increased competition, but should partly recover in 2017.

Focus on Retail and SMEs: Fitch expects SV to continue to implement a low-risk business model, and to focus on retail and small- and medium-sized customers. Concentration risks relating to larger corporates should continue to fall.

Solid Mortgage-Weighted Loan Book: Well-performing mortgage loans make up three-quarters of total lending, and Fitch expects continued strong asset quality. SV has prudent underwriting standards, and the operating environment remains benign despite an oil-related economic slowdown. SV's direct exposure to the oil and offshore sector is limited.

Wholesale Funding Reliance: Like most Nordic peers, SV is reliant on wholesale markets for it funding. It mainly issues covered bonds via Sparebanken Vest Boligkreditt (SVB), its wholly owned funding vehicle. Fitch expects SV to have continued access to debt capital markets. Maintaining a large liquidity buffer is critical to mitigating refinancing risks.

Good Capitalisation: SV's risk-weighted capital ratios compare well with European and domestic peers. Leverage is solid in a European context, although weaker than at some other Fitch-rated Norwegian savings banks due to the full consolidation of SV's covered bonds subsidiary.

Moderate Probability of Support: SV's Support Rating and Support Rating Floor reflect Fitch's view that there is a moderate probability of support, if required, from the Norwegian authorities, given SV's strong regional franchise.

Rating Sensitivities

Upgrade Unlikely: The Stable Outlook reflects Fitch's expectation that the operating environment in Norway will remain strong. We expect SV to further reduce its single-name concentration, continue to strengthen capital ratios and maintain healthy liquidity buffers. An upgrade is unlikely given the already high ratings in the context of SV's company profile and geographical concentration.

Asset Quality, Funding Access: SV's ratings are primarily sensitive to deteriorating asset quality, particularly if prolonged low oil prices lead to higher unemployment, a deterioration in CRE exposure or a significant property price correction, if the bank is unable to absorb losses via earnings. This scenario would probably be followed by difficulties in obtaining competitively priced funding.

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)