

SPARBANKEN VÄSTRA MÄLARDALEN

Sweden
Financial institutions29 Apr. 2019
Result comment

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

PRIMARY ANALYST

Sean Cotten
+46 732 324 378
sean.cotten@nordiccreditrating.com

SECONDARY ANALYST

Geir Kristiansen
+47 907 845 93
geir.kristiansen@nordiccreditrating.com

CLIENT SERVICES

Gustav Liedgren
+46 736 496 543
gustav.liedgren@nordiccreditrating.com

This commentary does not reflect a rating action.

Our 'BBB+' issuer and issue ratings for Sparbanken Västra Mälardalen (SBVM) are unchanged following the publication of its first quarter 2019 results. The quarter saw an improvement in core earnings, a rebound in financial valuations, Swedbank's annual dividend, lower costs (Q-on-Q) and net credit loss recoveries, resulting in the bank's highest recorded quarterly profit.

CAPITAL UNAFFECTED BY SWEDBANK SHARE PRICE FALL

SBVM reported profits of SEK 59m for the first quarter, an all-time high for the bank. The most significant contributions came from higher net interest income margin and loan volumes, a SEK 28m dividend payment from Swedbank and the material improvement in financial instrument valuations described below. SBVM maintained its CET 1 ratio at 22.3%. This despite a material loss of value in Swedbank shares and reduction on equity approaching SEK 130m which was similarly offset in the calculation of CET1 (see "[Swedbank's controversy spills over to Swedish savings banks](#)", 29 Mar. 2019 for how Swedbank's share price affects associated savings banks).

STABLE GROWTH

SBVM reported increased business and lending volumes during the quarter, growing 2.5% and 2.4%, respectively, and 5.8% and 7.4% compared to first quarter 2018. Including loans transferred to Swedbank Hypotek loan volumes increased 1.2% during the quarter and 6.1% over the last four quarters.

VALUATION OF FINANCIAL ASSETS

The market volatility during December 2018 was replaced by tightened credit spreads in the first quarter of 2019. As a result, SBVM reported a higher valuation of its fixed income portfolios and reported SEK 12.6m in net result of financial transactions, compared to a SEK 23.9m loss in the fourth quarter of 2018.

OUTLOOK¹

Our stable outlook for SBVM reflects expectations of population and economic growth in the region and the bank's modest risk appetite. We expect the bank to maintain a very strong balance sheet, prudent underwriting and retain its access to and relationship with Swedbank.

POTENTIAL POSITIVE RATING DRIVERS:

- Improved core earnings performance resulting in higher capital generation.
- Reduced reliance on income from shareholdings and fixed income investments.

POTENTIAL NEGATIVE RATING DRIVERS:

- Material changes in the regional environment, such as factory closures, leading to reduced economic activity and employment.
- Reduced cooperation with Swedbank.
- Material changes in underwriting leading to increased credit risk concentration.

¹ The outlook and rating factors have not changed since our latest full report from January 9, 2019, available at nordiccreditrating.com.

NORDIC CREDIT RATING AS**OSLO****Biskop Gunnerus' gate 14A****0185 Oslo****Norway**www.nordiccreditrating.compost@nordiccreditrating.com**STOCKHOLM****Engelbrektsgatan 9-11****114 32 Stockholm****Sweden**

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