

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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Sörmlands Sparbank assigned 'BBB+' long-term issuer rating; Outlook stable

Nordic Credit Rating (NCR) said today that it had assigned a 'BBB+' long-term issuer rating to Sweden-based Sörmlands Sparbank. The outlook is stable.

"The rating reflects the bank's very strong capital position, low risk appetite, and relationship-based funding profile," said NCR credit analyst Sean Cotten.

Rationale

The rating is constrained by Sörmlands Sparbank's relatively weak core earnings metrics, which are somewhat weaker than those of similar Nordic savings banks. Like most Swedish savings banks, the bank has a cooperation arrangement with Swedbank AB, which provides material diversification of product offerings, shared IT costs, and the opportunity to finance retail mortgages. We view this cooperation as significant and note that Sörmlands Sparbank has historically benefited from dividend revenues through its holdings of Swedbank shares, despite dividend restrictions in effect for 2020.

Sörmlands Sparbank is based in Katrineholm in the eastern Swedish county of Södermanland. Other core markets include the city of Nyköping and other, smaller communities in southern Södermanland, which is important for Sweden's manufacturing industry. The bank focuses on regional private customers and SMEs, with a strong focus on property loans. With total assets of SEK 16.6bn (SEK 23bn including mortgage loans transferred to Swedbank) it is Sweden's sixth largest savings bank, measured by total business volumes. Despite the uncertain economic environment, our projections for losses and non-performing loans are only slightly above historic levels given our expectation that a small number of legacy credit losses will be resolved in the next two years.

Outlook

The stable outlook reflects our view that Sörmlands Sparbank will maintain its strong balance sheet despite higher credit losses and ongoing uncertainty related to COVID-19. We assume that the bank will reduce its cost base and retain its access to and relationship with Swedbank and that the ownership of Swedbank shares will not materially affect capitalisation. We could raise the rating to reflect an improvement in economic conditions in Sweden and the bank's local market, sustainable and material improvements in core earnings metrics, or improved asset quality metrics. We could lower the rating to reflect a long-term economic recession in the Södermanland region that affected economic activity and employment, a deterioration in asset quality metrics and credit losses that impacted capitalisation, or Swedbank-related issues that impacted capitalisation or cooperation with Swedbank.

Rating list

	Rating
Long-term issuer credit rating:	BBB+
Outlook:	Stable
Short-term issuer credit rating:	N-1+
Senior unsecured issue rating:	BBB+

All research for this issuer is available [here](#).

Figure 1. Sörmlands Sparbank rating scorecard

Subfactors	Impact	Score
National factors	10.0%	bbb+
Regional, cross border, sector	10.0%	bb+
Operating environment	20.0%	bbb-
Capital	17.5%	aa-
Funding and liquidity	15.0%	a
Risk governance	5.0%	bbb+
Credit risk	10.0%	bbb
Market risk	-	n/a
Other risks	2.5%	a
Risk appetite	50.0%	a
Market position	15.0%	bbb
Earnings	7.5%	bb-
Loss performance	7.5%	bbb
Performance indicators	15.0%	bb+
Indicative credit assessment		bbb+
Peer comparisons		Neutral
Transitions		Neutral
Borderline assessments		Neutral
Stand-alone credit assessment		bbb+
Support analysis		Neutral
Material credit enhancement		Neutral
Rating caps		Neutral
Issuer rating		BBB+
Outlook		Stable
Short-term rating		N-1+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
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Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Financial Institutions Rating Methodology published on 14 Aug. 2018 NCR's Rating Principles published on 16 Sep. 2019 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies . The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA) .
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test or cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies .
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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