

Sparbanken Västra Mälardalen

Full Rating Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

PRIMARY ANALYST

Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

SECONDARY ANALYST

Geir Kristiansen
+4790784593
geir.kristiansen@nordiccreditrating.com

RATING RATIONALE

Our 'bbb+' long-term issuer rating on Sweden-based Sparbanken Västra Mälardalen (Sparbanken VM) reflects the bank's very strong capitalisation and local regional focus. The bank has a cooperation arrangement with Swedbank AB which provides diversification of product offerings, shared IT costs and the opportunity to finance retail mortgages via Swedbank Hypotek AB. We view this cooperation as significant as it supports Sparbanken VM's earnings, market position, funding, and liquidity.

Sparbanken VM lends primarily to regional private customers and SMEs, leading to high concentration in the local market and high levels of real estate collateral. Earnings metrics are weaker than those of more efficient and profit-driven Swedish peers but are in line with those of similar savings banks. We expect somewhat higher losses in full-year 2020 and 2021 due to the effects of COVID-19, but note that asset quality has shown stronger than expected resilience so far due in part to low interest rates and government stimulus measures.

STABLE OUTLOOK

The stable outlook reflects our expectations of a flatter U-shaped recovery rather than the sharp V- or W-shaped rebound that we anticipated previously. In addition, property prices have remained resilient after an initial downturn in March and April of this year, supporting a large majority of Sparbanken VM's collateral. We expect the bank to maintain a very strong balance sheet and prudent underwriting, while retaining its access to and relationship with Swedbank.

POTENTIAL POSITIVE RATING DRIVERS

- Reduced downside risk in local economy.
- Improved core earnings performance.
- Reduced reliance on income from shareholdings and fixed income investments.

POTENTIAL NEGATIVE RATING DRIVERS

- Long-term economic recession in the bank's operating region, affecting economic activity and employment.
- Weaker asset quality metrics and credit losses impacting capitalisation.
- Swedbank-related issues impacting the bank's capitalisation or cooperation with Swedbank.

Figure 1. Sparbanken VM key credit metrics, 2016–2022e

%	2016	2017	2018	2019	2020e	2021e	2022e
Net interest margin	1.49	1.48	1.41	1.50	1.53	1.50	1.55
Loan losses/gross loans	-0.01	-0.09	0.18	0.02	0.12	0.18	0.10
Pre-provision income/REA	2.0	2.1	1.9	2.7	1.6	2.0	2.2
Return on equity	5.7	6.3	5.3	8.5	4.4	5.9	7.0
Loan growth	21.9	9.2	4.4	9.3	6.0	6.0	6.0
CET1 ratio	23.4	23.1	22.3	24.0	22.5	22.6	23.0

Based on NCR estimates and company data. e–estimate. REA–risk exposure amount. CET1–common equity Tier 1. All metrics adjusted in line with NCR methodology

ISSUER PROFILE

Sparbanken VM is operated without an owner and focuses on customers in and around Köping municipality in central Sweden. Like most Swedish savings banks, the bank shares a history and cooperation with Swedbank, which provides product diversification, shared costs on IT solutions, and the opportunity to finance retail mortgages via Swedbank Hypotek, Sweden's largest issuer of covered bonds.

Sparbanken VM is based in Köping, with other core markets in Kungsör and Arboga municipalities in Västmanland county at the western end of Lake Mälaren, which extends to Stockholm in the east. These three communities have a total of 50,000 inhabitants and are centred within the Västra Mälardalen region, a geographical triangle comprised of the municipalities of Örebro, Eskilstuna and Västerås, which includes nearly 750,000 inhabitants and a strong manufacturing industry.

Figure 2. Sparbanken VM core markets

Municipality	Population, 2019	Expected population change among 16–64-year olds, 2018–2030	Unemployment, 2019
Köping	26,214	4.4%	9.0%
Kungsör	8,675	-0.4%	10.3%
Arboga	14,087	-0.8%	8.4%
Sweden	10,327,589	7.2%	7.0%

Source: Statistics Sweden, Arbetsförmedlingen (Swedish Public Employment Service) (based on population forecast by Statistics Sweden), Ekonomifakta (based on data from Arbetsförmedlingen).

OPERATING ENVIRONMENT

Operating environment assessment is 'bbb-'

NCR considers a balance of national and regional factors in its assessment of Sparbanken VM's operating environment. The bank's region has heightened unemployment as it copes with the impact of COVID-19 and has proven more volatile than much of the rest of the country given the relative volatility of the manufacturing sector.

National factors consider ongoing economic stress due to COVID-19

National factors score 'bbb+'

In April this year, NCR lowered its assessment of the Swedish banking sector to 'bbb+' from 'a-' due to the economic effects on domestic and international output growth and unemployment as a result of COVID-19. However, we view the outlook for Swedish banks as stable in the current environment. Swedish banks have thus far outperformed our expectations for earnings and asset quality and an initial fall in income due to capital market tightening was mostly corrected during the second quarter. Residential property prices have increased and commercial property values remain stable which supports the valuation of collateral behind much of Sweden's credit risk.

Monetary policy remains expansionary and conducive to low credit losses. For the most part, Sweden's banks have reported credit losses based on economic projections of potential impacts of higher unemployment rather than actual defaults. A sharp increase in customer deposits and improved capital positions due to withholding dividend payments for 2019 have also supported credit growth.

Small core markets benefit from proximity to Västra Mälardalen

Regional, sectoral, and cross-border factors score 'bb+'

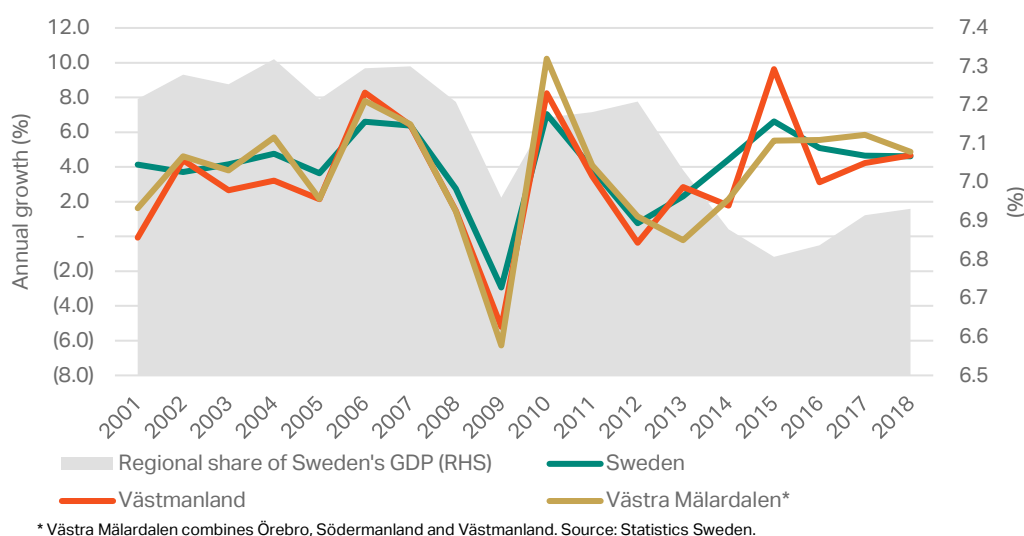
Despite Sparbanken VM's small core markets in Västmanland county, the bank's customers work and operate within the Västra Mälardalen region (the counties of Södermanland, Örebro and Västmanland). The Västra Mälardalen region is an important part of Sweden's manufacturing industry. Manufacturing represents 20-30% of employment in Sparbanken VM's three primary markets, compared with 12% at national level. This was a vulnerability in 2009, when a contraction in demand for vehicles and heavy equipment led to significant layoffs at local production plants and a severe contraction of the regional economy (see Figure 3).

Manufacturing suffered 15-20% declines in production during March and April 2020 due to supply chain disruptions but has rebounded materially since then, even though the most recent data exclude new shutdowns due to COVID-19. A resurgence of COVID-19 has the potential to further affect supply chains and demand for the type of large equipment produced in the region.

The bank's core markets have higher unemployment levels and slower growth than the Swedish average. Västmanland county has also seen a slightly higher increase in unemployment over the past year to 10.5% (8.7% in October 2019) than the rest of the country (8.8% as of October 2020 from 7.1% a year earlier). The regional population has been growing at about 0.6% per year since 2000, somewhat below Sweden's 0.8% average growth, driven almost exclusively by foreign-born migration. Projections by Statistics Sweden for the bank's core markets (Figure 2) indicate that the region will continue to have lower growth over the coming decade.

We consider that the bank's three core markets include about 50,000 of the 750,000 inhabitants in the Västra Mälardalen region. Furthermore, we reflect the slower economic and population growth and higher share of manufacturing in the region in our overall score of the bank's operating environment and weighting of regional impacts on our assessment.

Figure 3. Västra Mälardalen's annual economic growth and regional share of Sweden's GDP, 2001–2018



RISK APPETITE

Risk appetite assessment is 'a'

In our opinion, Sparbanken VM's low risk profile is driven by the bank's substantial capital buffers and its practice of maintaining at least 95% of earnings on its balance sheet. Sparbanken VM has a high share of diversified retail deposits, access to market funding, and the ability to transfer loans to Swedbank Hypotek. The bank also has natural portfolio concentrations in its local real estate market. The bank maintains a fixed income investment portfolio with some non-investment grade exposures which have impacted earnings during periods of capital market volatility.

Risk governance in line with risk profile

Risk governance scores 'bbb+'

We view Sparbanken VM's risk governance as somewhat less developed than that of its larger Nordic peers. The bank's risk appetite and limit structure are proportional to the its complexity and size, with the ability to access resources from Swedbank and in cooperation with other savings banks. The bank maintains its own risk resources for anti-money laundering and customer surveillance.

We note that the bank maintains a second-line risk resource through an external risk and compliance firm which is jointly owned with other savings banks. The firm, Svealands Risk & Compliance AB, employs former bank employees and other personnel with experience from savings banks. Svealands Risk & Compliance has direct access to the bank's board of directors via regular risk reporting and board meeting participation.

Sparbanken VM proactively manages its modest environmental, social and governance (ESG) risks and has incorporated sustainability into its business operations. The bank has a strong sense of social responsibility in its local communities and has contributed over SEK 100m to youth sports, education, integration and cultural projects since 2000. In addition, the bank operates a customer-bonus

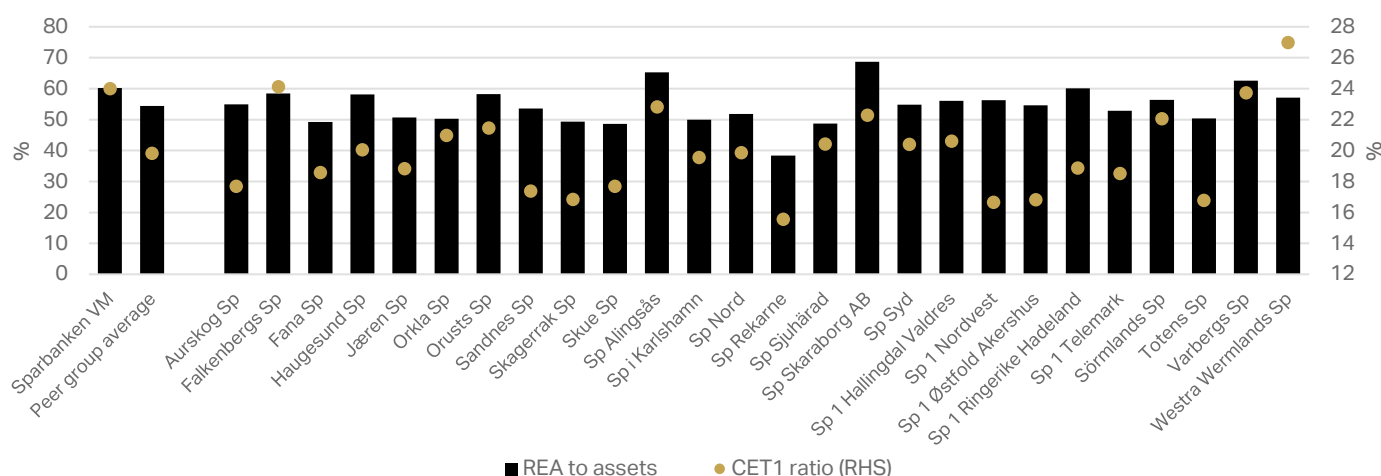
programme in which all bonus funds can be used only at local retailers and has increased its contributions in this area to support local retailers and cultural groups affected by COVID-19.

Sparbanken VM's environmental focus has been on using local, renewable energy, which powers all of the bank's branches. In addition, the bank also incentivises its industrial customers to invest in local and renewable power and supports projects aimed at developing a circular economy.

Strong capital buffers

Sparbanken VM's CET1 capital ratio was 21.6% as of 30 Sep. 2020 (22.4% including year to date profit). The bank uses the standardised model and has relatively high risk weights; accordingly the bank's 15% equity to total assets is outstanding among Nordic banks. Our capital projections reflect loan growth of 6%, increased cost discipline, and for the CET1 ratio to reach 22-23% by 2022. We also assume that Swedbank will resume dividend payments from 2021, which we address in the Earnings Performance section below. Sparbanken VM aims to maintain capital 5pp above its combined regulatory requirement of 10.5% plus Pillar 2 buffers of 2.2%. The regulatory removal of the countercyclical buffer in March 2020 reduced the requirement by 2.5pp. We note that recent guidance from the Swedish regulator could lead to a 5-10% increase in capital requirements given the introduction of Pillar 2 guidance for smaller banks.

Figure 4. Sparbanken VM REA/asset and CET1 ratios vs savings bank peers, 2019



Source: Company data. Sp-Sparbank (Sweden)/Sparebank (Norway).

Sparbanken VM's regulatory capital base excludes all its holdings of Swedbank shares that exceed 10% of its own CET1. As of 30 Sep. 2020, the amount deducted from the capital base stood at SEK 174m of the SEK 327m market value on the balance sheet. We note that Swedbank's share price has risen further since the end of the third quarter, effectively extending Sparbanken VM's capital buffers.

We note that the bank's capitalisation would still be above 19.0%, even if the entire market value of its Swedbank shares were reduced to zero. However, such an unlikely event would most certainly alter our overall assessment as it would directly affect the bank's cooperation agreement with Swedbank.

Improved liquidity due to increase in savings.

We view Sparbanken VM's management of funding and liquidity reserves as satisfactory. COVID-19 has incentivised Swedish bank customers to save and led to an influx in deposits. These fell in 2019 but have since increased by 11%, mostly from retail and public sector customers. Some 70% of the bank's customer deposits belong to household customers, with a majority of corporate deposits (18% of customer deposits) coming from small local businesses, which we view as loyal, but less permanent, funding sources.

As of 30 Sep. 2020 the bank's liquidity coverage ratio was 235% and its net stable funding ratio was 146%, indicating stable financing over the coming 12 months. The bank also maintains a credit facility with Swedbank. We expect the bank to maintain both ratios at well above regulatory requirements, in line with its internal risk limits and targets. Sparbanken VM's loan-to-deposit ratio has fluctuated

Capital scores 'aa-'

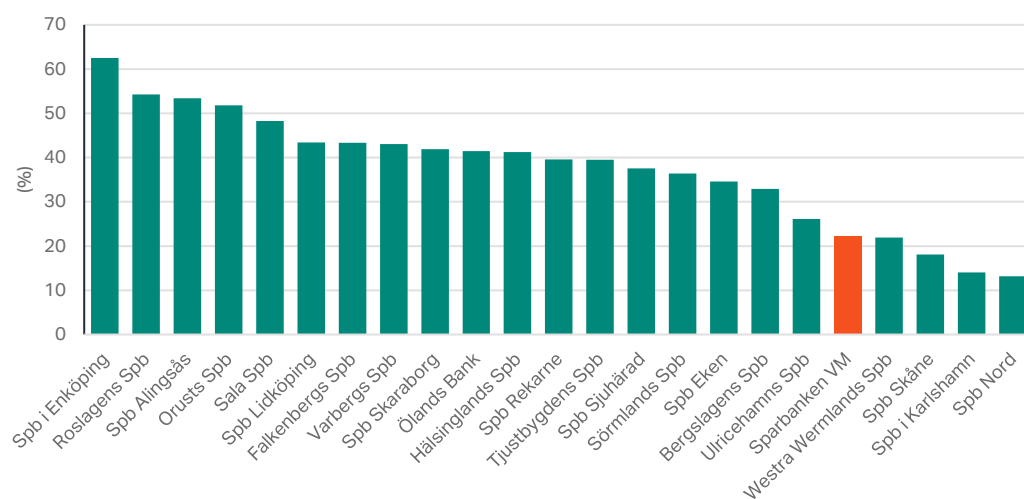
Funding and liquidity scores 'a'

between 90% and 110% in recent years and was 104% as of 30 Sep. 2020, still within the bank's stated appetite of 115%.

Since 2016, Sparbanken VM has had access to capital markets and senior unsecured financing in Swedish kronor. The bank's senior funding consists of three outstanding bonds totalling SEK 300m with a diverse maturity structure. We anticipate that the bank will be able to refinance outstanding senior unsecured bonds when they mature in March 2021, August 2022, and March 2023 and note that it has excess liquidity buffers due to the recent inflow of deposits to manage temporary closures in the capital markets such as in early 2020.

Sparbanken VM's cooperation with Swedbank provides various funding benefits. The bank can transfer residential mortgages to Swedbank Hypotek, which pays it a commission. The volume of transferred loans has been stable since 2017 with most of the bank's new lending growth on its own balance sheet. We note that a majority of Sparbanken VM's transferred loan volumes represent residential mortgages and that the bank has a relatively low proportion of loans held at Swedbank, increasing its flexibility during weak market conditions.

Figure 5. Sparbanken VM share of total loans transferred to Swedbank, 2019



Source: Bank reports. Spb-Sparbank(en).

Credit risk concentrated in regional real estate lending

Given that at least 80% of Sparbanken VM's customer base is based in its three core markets, there is a material concentration of regional real-estate collateral. Over half of the bank's credit exposures (see Figure 6) are residential mortgages and loans to housing associations (including SEK 2.3bn transferred to Swedbank), and its largest corporate exposures are to property management and agriculture. As a result, about 84% of on-balance sheet lending is associated with regional property. Regional housing prices have improved, as they have across most of Sweden, in the course of 2020 and commercial real estate and multi-family housing valuations have been stable, supporting the bank's credit exposures. With interest rates remaining low we believe that collateral levels will continue to support the loan book during 2021.

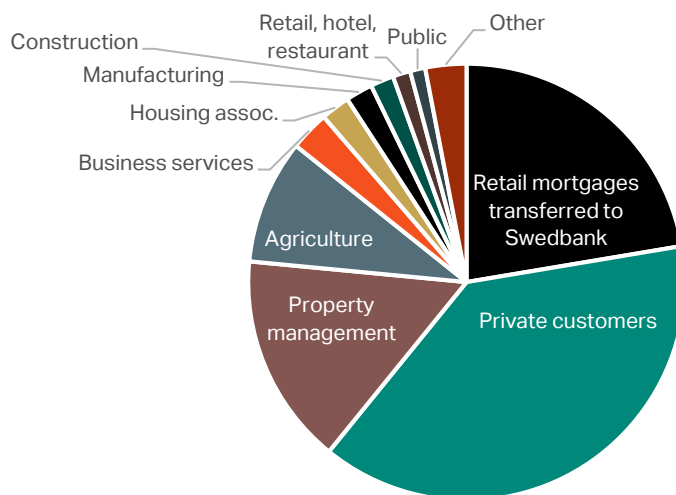
Sparbanken VM's lending is focused on private individuals and SMEs within their own core markets, which leads to geographical concentration. This is partly offset by its private and corporate customers' access to larger markets in Eskilstuna, Västerås and Örebro. Despite the significance of manufacturing in the region, lending directly to the sector is modest, although many of the bank's exposures would have secondary effects if there were significant layoffs at any of the region's largest manufacturers as evidenced by increases in unemployment rates in Västmanland and neighbouring Södermanland during 2020.

Aside from property-related lending, Sparbanken VM's loan book has low exposure to the high-risk industries most affected by COVID-19 and social distancing, with only 4% of net lending to construction, retail, and hotels and restaurants.

Credit risk scores 'bbb'

Sparbanken VM's mortgage loans transferred to Swedbank provide income via commission fees. The volume of transferred loans has fluctuated at between SEK2 and SEK2.3bn as the bank has increased and decreased lending in its own loan book. Sparbanken VM has a first-loss risk associated with the transferred loans that results in a reduction in paid commissions when writedowns of transferred loans occur. The maximum risk on transferred loans is SEK 18-19m per year, or the amount of reported loan commission income.

Figure 6. Sparbanken VM net loans by segment, 30 Sep. 2020



Source: company.

Reduced risk in the investment portfolio

Other risks score 'bbb+'

Sparbanken VM has reduced spread risk and default risk associated with its fixed-income investment portfolio during 2020. As a result, the rated investment grade share of the portfolio is now over 75% from nearly 50% at the end of 2019. However, despite having reduced the risk during 2019, the market value of these investments declined by SEK 25m during the first quarter of 2020 contributing to a SEK 13m loss during the quarter. Through the first three quarters of 2020 the bank reported a SEK 7m loss on interest-bearing securities, indicating that it has recovered much lost value after the bond markets reopened in May 2020. Despite the lower risk profile, we feel that the bank's fixed income investment portfolio differentiates it from its peers.

Interest rate risk in the banking book is another material risk, which is moderated by variable interest rates on a large portion of the bank's loans and the use of interest rate hedges. The hedges create some volatility in the bank's results, but we expect the values of the hedges to be zero at maturity. Sparbanken VM has low limits on interest rate risk and currency risk.

Sparbanken VM's ownership of 2.3m Swedbank shares ensures it has a meaningful voice alongside other savings banks that own shares either directly or via their owner foundations. We consider the importance of Swedbank dividends in our earnings performance assessment below. In addition, Sparbanken VM has strategic ownership in Indecap Holding AB (jointly owned with over 30 savings banks), Svealands Risk & Compliance (jointly owned with six savings banks), and holds 25% of the shares in Portfolio Försäkra AB.

COMPETITIVE POSITION

Competitive position assessment is 'bb+'

Sparbanken VM has a strong position in its core markets and among local individuals and SMEs, reporting 40,000 private and 4,000 corporate customers. The bank's primary local competition comes from Handelsbanken, Nordea, and Länsförsäkringar Bank, while larger corporations in the region are serviced by the larger banks. Collectively, savings banks have generated the highest customer satisfaction score among Sweden's banks, with Sparbanken VM scoring above the average savings bank. The bank's support of its local community is reciprocated by the loyalty of its customers. At national level, the bank has a very small footprint with about 0.2% of total deposits and 0.1% of total loans, including loans transferred to Swedbank.

Performance indicators assessment is 'a-'

Earnings scores 'bbb'

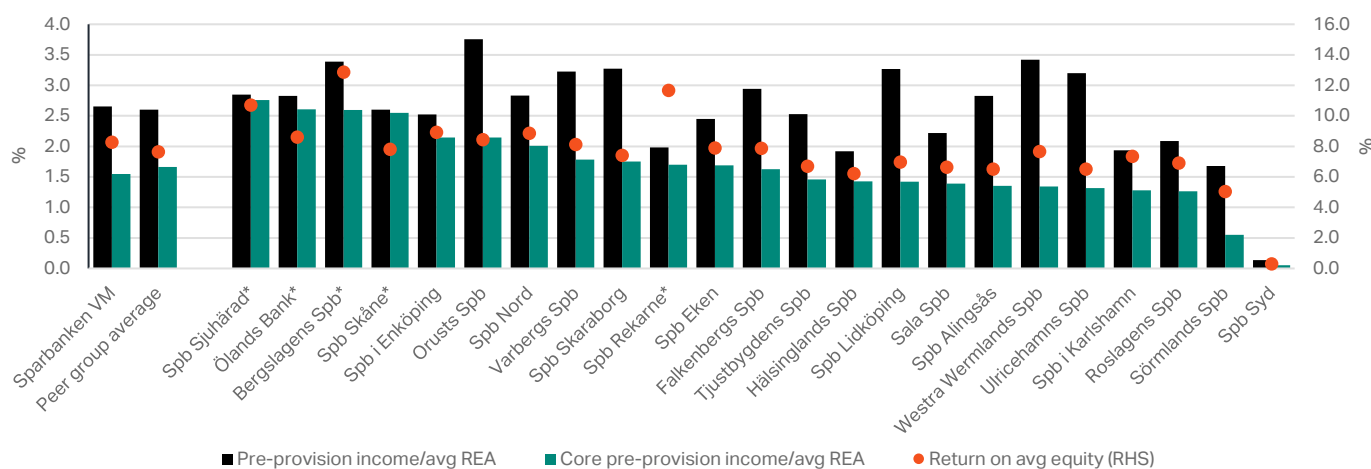
PERFORMANCE INDICATORS

Recent earnings have been buoyed by high dividends from Swedbank and loss performance has been good. We expect somewhat higher credit losses in 2021, but do not expect any considerable deterioration in the bank's asset quality given low interest rates.

Earnings steadily improving as balance sheet grows

We expect the bank's core earnings metrics and cost efficiency to improve further, though its core earnings metrics are somewhat weaker than those of its Nordic savings bank peers. The bank has some volatility in its reported results due to Swedbank's dividend payments and the changing valuation of its investment portfolio and interest rate hedges, which affect net profit. We note that the interest rate hedges create some volatility, but expect the swap values to be zero at maturity.

Figure 7. Sparbanken VM risk-adjusted core and total pre-provision income vs Swedish peers, 2019



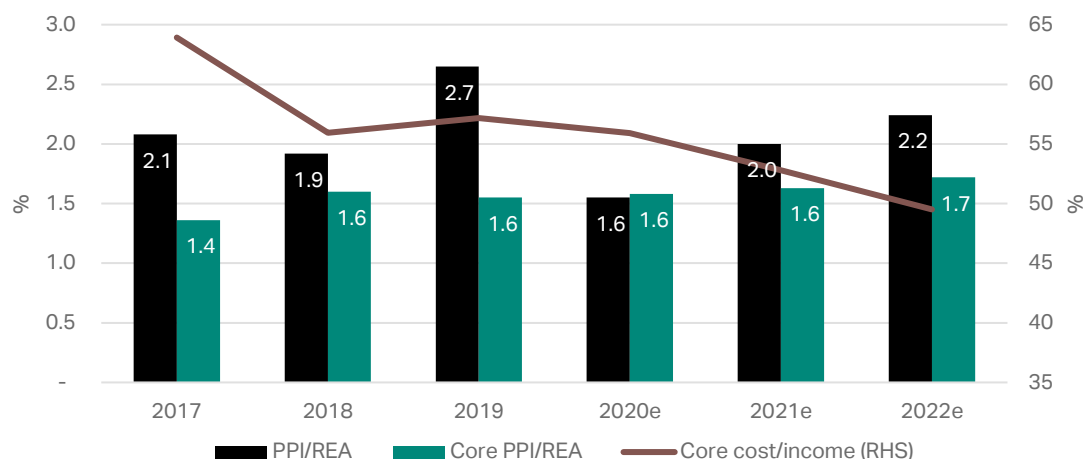
Source: Bank reports. Spb-Sparbank(en) *Use IRB models in capital calculations. Core pre-provision income considers only net interest income and net fee & commission income.

Sparbanken VM has lower reliance on Swedbank dividends than many other Swedish savings banks with a much higher share of dividend income. The bank's earnings are likely to improve further when Swedbank begins to pay dividends again, most probably in 2021, though the Finance Department expects banks to pursue restrictive dividend policies and is awaiting EU guidance. Our forecast includes about SEK 20m paid out in 2021 and an additional SEK 30m in 2022, when we expect Swedbank's dividends to return to 2018 levels. See [Swedish savings banks prepared for uncertain future](#), published 15 Jun. 2020 and [Q&A: Swedbank judgement and share price impacts on Swedish savings banks](#), 23 Mar. 2020 for more about the impact of Swedbank's dividend decision and how movements in its share price affect Sparbanken VM and other Swedish savings banks.

Sparbanken VM's earnings metrics are not outstanding by peer comparison, in part owing to the bank's ownership structure and its low emphasis on net profit. Net interest margins have been stable at 1.4–1.5% since 2015 following a rather dramatic reduction as policy rates fell below zero. Although a decision by the Swedish central bank to move the policy rate back to 0% in December 2019 helped earnings somewhat, increased margin pressure across the country's banking market is expected to affect margins in 2021 before the possibility of a rate increase in 2022. Fee income is driven by commissions on loans and savings transferred to Swedbank which we expect to remain relatively flat as the bank continues to refinance a higher share of its customer loans on its own balance sheet.

We note that Sparbanken VM is making improvements in core earnings metrics, despite a lower 2020 profit resulting from Swedbank's cancelled dividend and negative financial effects. The bank targets a 50% cost-to-income ratio and, excluding dividends and financial items, we estimate that its core cost-to-income ratio (considering only net interest and fee income) will be below 50% by end-2022, which would represent a material improvement from 64% in 2017. The efficiency gains are also reflected in improvements in risk-adjusted pre-provision income to REA, which we expect to continue to improve modestly given continued low interest rates.

Figure 8. Sparbanken VM earnings metrics, 2017–2022e

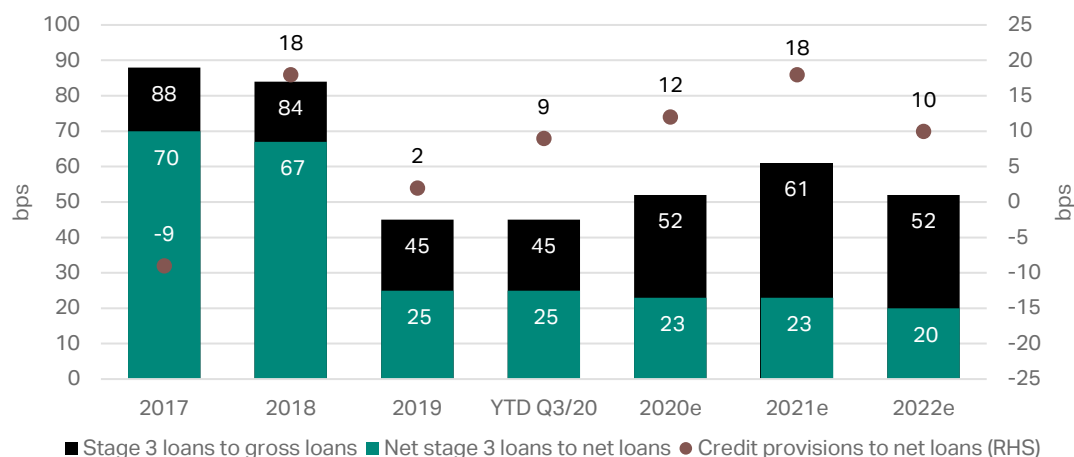


Source: Company data. Core includes only net interest and net fee & commission income.

Loss performance has exceeded expectations since COVID-19 outbreak

Sparbanken VM has outperformed our loss performance expectations since the onset of the COVID-19 pandemic. We anticipate that losses in 2020 and 2021 will be above the bank's outstanding recent averages (0 bps from 2014 to 2019) in 2020 and somewhat higher in 2021, with a corresponding increase in stage 3 non-performing loans. We project loan losses will increase due to weak economic activity which is likely to continue to affect the wider Swedish economy as well as the bank's local market well into 2021. Our view that loan losses will be moderate despite the severe economic impact of COVID-19 is largely due to our expectations that government support will continue until large-scale vaccination is achieved.

Figure 9. Sparbanken VM asset quality metrics, 2017–2022e



Source: company, e-estimate

ADJUSTMENT FACTORS

Peer comparison

We believe that the bank's relative strengths and weaknesses are well reflected in our 'bbb+' initial credit assessment. NCR has confidential credit assessments (not full credit ratings) on nearly 300 Nordic banks. The average assessment is 'bbb+', reflecting a high level of savings banks in the sample. See [Nordic bank creditworthiness stable despite COVID-19 impact](#), published 1 Jun. 2020.

Loss performance scores 'a-'

Peer comparison is neutral

Support analysis is
neutral

Support analysis

Sparbanken VM has no owners. Instead, it has 48 principals who act in the interests of depositors. Half of the principals are appointed by the municipalities of Köping, Arboga and Kungsör, and the other half by the principals themselves. The principals essentially take on the owner's role by appointing a board and allocating the bank's profit. Given the bank's status, there is no additional owner capital that resides in a foundation or within Swedbank, which is the case at a number of other Swedish savings banks. Consequently, we do not notch the rating up to reflect ownership support.

ISSUE RATINGS

Our rating on Sparbanken VM's unsecured senior debt is in line with the issuer rating, i.e. 'BBB+'. We also rate the bank's medium-term note programme 'BBB+', an indication of our ratings on future issuance from the programme.

Figure 10. Sparbanken VM key credit metrics and financials, 2015-Q3 2020 YTD

Key credit metrics (%)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Q3 2020 YTD
INCOME COMPOSITION						
Net interest income/op. revenue	49.8	54.2	54.1	59.1	51.8	76.0
Net fee income/op. revenue	31.3	29.9	29.8	32.7	24.7	32.8
Net trading income/op. revenue	7.4	4.6	1.8	-8.7	10.2	-12.3
Net other income/op. revenue	11.4	11.2	14.3	16.9	13.3	3.4
EARNINGS						
Net interest margin	1.5	1.5	1.5	1.4	1.5	1.5
Pre-provision income/REA	2.0	2.0	2.1	1.9	2.7	1.5
Return on ordinary equity	5.7	5.6	6.4	5.4	8.3	4.3
Return on assets	1.1	1.0	1.1	0.9	1.3	0.7
Cost-to-income ratio	57.8	55.9	53.6	51.3	43.7	56.0
Cost-to-income ratio, ex. trading	62.4	58.6	54.6	47.2	48.7	49.9
CAPITAL						
CET1 ratio	26.2	23.4	23.1	22.3	24.0	21.6
Tier 1 ratio	26.2	23.4	23.1	22.3	24.0	21.6
Capital ratio	26.2	23.4	23.1	22.3	24.0	21.6
REA/assets	59.3	58.8	59.2	59.1	60.2	59.5
Dividend payout ratio						
Leverage ratio	14.0	13.4	13.7	13.0	14.0	12.5
GROWTH						
Asset growth	3.5	19.6	9.3	9.9	-0.6	9.6
Loan growth	12.1	21.9	9.2	4.4	9.3	4.9
Deposit growth	5.6	13.0	12.4	12.2	-2.6	10.6
LOSS PERFORMANCE						
Credit provisions to net loans	-0.08	-0.01	-0.09	0.18	0.02	0.09
Impaired loans to gross loans	0.81	0.71	0.39	0.84	0.45	0.45
Net impaired loans to gross loans	0.41	0.42	0.20	0.53	0.15	0.11
Net problem loans to equity	1.62	1.85	0.92	2.45	0.73	0.58
Non-performing loan coverage ratio	49.90	40.95	49.57	36.43	67.10	74.83
Stage 3 loans/gross loans			0.88	0.84	0.45	0.45
Net stage 3 loans/gross loans			0.70	0.67	0.25	0.25
FUNDING & LIQUIDITY						
Loan/deposit ratio	100.7	108.7	105.6	98.3	110.2	104.5
Net stable funding ratio	0.0	0.0	147.0	147.0	145.0	146.0
Liquidity coverage ratio	85.7	159.7	211.5	159.4	212.1	235.1

Key financials (SEKm)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Q3 2020 YTD
BALANCE SHEET						
Total assets	6,654	7,961	8,699	9,563	9,510	10,426
Total tangible assets	6,654	7,961	8,699	9,563	9,510	10,426
Total financial assets	6,588	7,844	8,532	9,364	9,412	10,323
Net loans and advances to customers	4,987	6,081	6,639	6,932	7,578	7,948
Total securities	1,163	1,301	1,401	1,670	1,220	1,452
Customer deposits	4,951	5,594	6,286	7,054	6,873	7,604
Issued securities		725	725	844	925	900
of which covered bonds						
of which other senior debt		725	725	844	925	900
of which subordinated debt						
Total equity	1,255	1,384	1,427	1,512	1,520	1,566
Total ordinary equity	1,255	1,384	1,427	1,512	1,520	1,566
CAPITAL						
Common equity tier 1	1,033	1,097	1,191	1,261	1,372	1,342
Tier 1	1,033	1,097	1,191	1,261	1,372	1,342
Total capital	1,033	1,097	1,191	1,261	1,372	1,342
REA	3,947	4,679	5,147	5,649	5,729	6,207
INCOME STATEMENT						
Operating revenues	190	200	220	213	268	150
Pre-provision operating profit	80	88	102	104	151	66
Impairments	-4	-1	-5	12	2	5
Net Income	70	73	90	80	125	49

Source: company. FY–full year. YTD–year to date.

Figure 11. Sparbanken VM rating scorecard

Subfactors	Impact	Score
National factors	5.0%	bbb+
Regional, cross border, sector	15.0%	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%	bbb+
Risk appetite	50.0%	a
Market position	15.0%	bb+
Earnings	7.5%	bbb
Loss performance	7.5%	a-
Performance indicators	15.0%	bbb+
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+

Figure 12. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB+

DISCLAIMER

Disclaimer © 2020 Nordic Credit Rating AS (NCR, the agency). All rights reserved. All information and data used by NCR in its analytical activities come from sources the agency considers accurate and reliable. All material relating to NCR's analytical activities is provided on an "as is" basis. The agency does not conduct audits or similar warranty validations of any information used in its analytical activities and related material. NCR advises all users of its services to carry out individual assessments for their own specific use or purpose when using any information or material provided by the agency. Analytical material provided by NCR constitutes only an opinion on relative credit risk and does not address other forms of risk such as volatility or market risk and should not be considered to contain facts of any kind for the purpose of assessing an issuer's or an issue's historical, current or future performance. Analytical material provided by NCR may include certain forward-looking statements relating to the business, financial performance and results of an entity and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. Forward-looking statements contained in any analytical material provided by NCR, including assumptions, opinions and views either of the agency or cited from third-party sources are solely opinions and forecasts which are subject to risk, uncertainty and other factors that could cause actual events to differ materially from anticipated events. NCR and its personnel and any related third parties provide no assurance that the assumptions underlying any statements in analytical material provided by the agency are free from error, nor are they liable to any party, either directly or indirectly, for any damages, losses or similar, arising from use of NCR's analytical material or the agency's analytical activities. No representation or warranty (express or implied) is made as to, and no reliance should be placed upon, any information, including projections, estimates, targets and opinions, contained in any analytical material provided by NCR, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained in any analytical material provided by the agency. Users of analytical material provided by NCR are solely responsible for making their own assessment of the market and the market position of any relevant entity, conducting their own investigations and analysis, and forming their own view of the future performance of any relevant entity's business and current and future financial situation. NCR is independent of any third party, and any information and/or material resulting from the agency's analytical activities should not be considered as marketing or a recommendation to buy, sell, or hold any financial instruments or similar. Relating to NCR's analytical activities, historical development and past performance does not safeguard or guarantee any future results or outcome. All information herein is the sole property of NCR and is protected by copyright and applicable laws. The information herein, and any other information provided by NCR, may not be reproduced, copied, stored, sold, or distributed without NCR's written permission.

NORDIC CREDIT RATING AS

nordiccreditrating.com

OSLO

Biskop Gunnerus' gate 14A
0185 Oslo
Norway

STOCKHOLM

Engelbrektsgatan 9-11
114 32, Stockholm
Sweden