

Sparbanken Västra Mälardalen

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB+' long-term and 'N-1+' short-term issuer credit ratings on Sweden-based [Sparbanken Västra Mälardalen](#) (Sparbanken VM). The outlook is stable.

Rationale

The ratings reflect Sparbanken VM'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.

We have improved our view of other risks to reflect the bank's progress in reducing the risk in its fixed income portfolio which includes now over 75% investment grade exposures. In our view, the bank's strong capital position reduces the downside risk of the portfolio.

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. We could raise the rating if downside risks in the local economy are reduced and the bank is able to improve core earnings and reduce reliance on dividend and non-core income. We could lower the rating to reflect a long-term economic recession in the Västra Mälardalen region, reduced cooperation with Swedbank, or materially lower capitalisation and/or asset quality.

Rating list

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

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

Figure 1. Sparbanken VM rating scorecard

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

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BBB+	BBB+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 09 Jan. 2019.
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, Bond prospectuses, 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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