

Sörmlands Sparbank

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Positive

SHORT-TERM RATING

N-1+

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NCR revises its outlook on Sörmlands Sparbank to positive; 'BBB+' ratings affirmed

Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB+' long-term issuer rating on Sweden-based [Sörmlands Sparbank](#). The outlook has been revised to positive from stable to reflect projected improvement in earnings metrics which could support a higher rating if achieved while maintaining strong capital and asset quality. At the same time NCR affirmed the 'N-1+' short-term rating and the 'BBB+' senior unsecured issue rating.

Rationale

Our long-term issuer rating on the bank reflects the bank's very strong capital position, low risk appetite, and relationship-based funding profile. We view the bank's cooperation arrangement with Swedbank AB as positive, as it provides material diversification of product offerings, shared IT costs and the opportunity to finance retail mortgages. In addition, Sörmlands Sparbank benefits from dividend revenues through its holdings of Swedbank shares, which have resumed in 2021.

The rating is constrained by the bank's relatively weak core earnings metrics, which remain weaker than those of similar Nordic savings banks. The rating also reflects the relative volatility of the bank's local market, which has historically demonstrated volatility associated with being a key region for Sweden's manufacturing industry. Despite the uncertain economic environment, our projections for losses and non-performing loans are only slightly above historic levels after the resolution of a small number of legacy credit losses have been resolved in the past year.

Positive outlook

Our positive outlook on Sörmlands Sparbank reflects our expectation that the bank will continue to improve its core earnings metrics, while maintaining strong capital ratios as it grows its loan book. It also takes account of the bank's maintenance of its relationship with Swedbank and its low risk appetite, with normalised credit losses as the local economy improves. We could raise our rating if the bank is able to demonstrate sustainable improvements in core earnings metrics, with core pre-provision income to risk exposure above 1.5%. A positive rating action would also reflect continued improvement in the economic conditions in Sweden and in the bank's local market and asset quality metrics in line with the bank's peer group. We could return the outlook to stable if core earnings metrics fall below our estimates, if growth plans lead to a sustained reduction in the common equity capital ratio to below 21% or if there is a material deterioration in asset quality metrics.

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

Figure 1. Sörmlands Sparbank rating scorecard

Subfactors	Impact	To	From
National factors	10.0%	a-	bbb+
Regional, cross border, sector	10.0%	bbb-	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
Other risks	2.5%	a	a
Risk appetite	50.0%	a	a
Market position	15.0%	bbb	bbb
Earnings	7.5%	bb	bb-
Loss performance	7.5%	a-	bbb
Performance indicators	15.0%	bbb-	bb+
Indicative credit assessment		bbb+	bbb+
Transitions		Neutral	Neutral
Peer comparisons		Neutral	Neutral
Borderline assessments		Neutral	Neutral
Stand-alone credit assessment		bbb+	bbb+
Material credit enhancement		Neutral	Neutral
Rating caps		Neutral	Neutral
Support analysis		Neutral	Neutral
Issuer rating		BBB+	BBB+
Outlook		Positive	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 02 Nov. 2020.
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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