Varbergs Sparbank AB (publ)

Rating Action Report

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N2

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Varbergs Sparbank AB (publ) 'A-' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'A-' long-term issuer rating on Sweden-based Varbergs Sparbank AB (publ). The outlook is stable. The 'N2' short-term issuer rating was also affirmed. At the same time NCR affirmed the 'A-' senior unsecured issue rating.

Rating rationale

The long-term rating reflects Varbergs Sparbank's exceptionally strong capitalisation and prudent loan portfolio management. The bank has a high proportion of secured lending and a history of strong asset quality. Varbergs Sparbank has a cooperation agreement with Swedbank AB, which provides material diversification of its product offering, shared IT costs, and the opportunity to finance retail mortgages via Swedbank Hypotek AB. We view this cooperation as significant because it supports Varbergs Sparbank's earnings, market position, product offering, funding and liquidity.

Varbergs Sparbank's earnings metrics are weaker than those of its more efficient and profit-driven Swedish peers, but in line with those of its Nordic savings bank peers. We expect the bank's margins to improve over the near term due to higher interest rates. Varbergs Sparbank is based in Varberg Municipality, on Sweden's west coast. While the Varberg region has a diverse business sector, the bank has notable risk concentrations in the local real estate market.

Stable outlook

The stable outlook reflects our expectations of population and economic growth in the Varberg region. It also reflects the bank's modest risk appetite. We believe that Swedish savings banks will prove resilient to an economic slowdown, supported by strong capital and improving margins. We expect the bank's primary market to remain relatively stable with low unemployment. We also expect the bank's capital ratios and asset quality to remain strong, and that its access to and relationship with Swedbank will continue. We could raise the rating to reflect improved core earnings performance, for example core cost/income below 50% or core pre-provision earnings sustainably above 2.5%. We could lower the rating to reflect a deteriorating operating environment leading to reduced regional growth, asset quality and collateral values. We could also lower the rating to reflect weaker asset quality metrics and higher loan losses or Swedbank-related issues that negatively impact capitalisation or the cooperation agreement.

Rating list	**To**	**From**
Long-term issuer credit rating:	A-	A-
Outlook:	Stable	Stable
Short-term issuer credit rating:	N2	N2
Senior unsecured issue rating:	A-	A-

Figure 1. Varbergs Sparbank rating scorecard

Subfactors	Impact	To	From
National factors	10.0%	a-	a-
Regional, cross border, sector	10.0%	bbb+	bbb+
Operating environment	20.0%	bbb+	bbb+
Capital	17.5%	aa	aa
Funding and liquidity	15.0%	a	a
Risk governance	5.0%	a-	a-
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%	bbb+	bbb+
Loss performance	7.5%	a-	a-
Performance indicators	15.0%	bbb+	bbb+
Indicative credit assessment		**a-**	**a-**
Transitions		Neutral	Neutral
Peer comparisons		Neutral	Neutral
Borderline assessments		Neutral	Neutral
Stand-alone credit assessment		**a-**	**a-**
Material credit enhancement		Neutral	Neutral
Rating caps		Neutral	Neutral
Support analysis		Neutral	Neutral
Issuer rating		**A-**	**A-**
Outlook		Stable	Stable
Short-term rating		**N2**	**N2**

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	A-	A-

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 21 Sep. 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 18 Feb. 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022 NCR's Rating Principles published on 24 May 2022 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, Meetings with management of the rated entity, Non-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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