

Sörmlands Sparbank AB (publ)

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N3

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Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB+' long-term issuer rating on Sweden-based [Sörmlands Sparbank AB \(publ\)](#). The outlook is stable. The 'N3' short-term issuer rating and the 'BBB+' senior unsecured issue rating were also affirmed.

Rating rationale

The long-term rating reflects Sörmlands Sparbank's strong capital position, low risk appetite, and relationship-based funding profile. The bank has a cooperation arrangement with Swedbank AB which we view as positive, as it provides material diversity of product offerings, shared IT costs, and the opportunity to finance retail mortgages. We expect higher interest rates to support the bank's core earnings profile which is complemented by dividend revenues from holdings of Swedbank shares.

The rating is constrained by the relative volatility of the bank's local market due to its historical role as a key manufacturing region. We anticipate that credit losses will increase over the next two years reflecting the bank's relatively high levels of non-performing loans associated with legacy credit losses.

In our base-case assessment, we expect the bank to make material improvements in its earnings, despite projections of higher credit losses. However, downside risk has increased due to uncertainty about the wider Swedish economy and the bank's local region of operation. We have also seen an increase in credit risk associated with the bank's property exposures.

Stable outlook

The stable outlook reflects our expectation that Sörmlands Sparbank's core earnings metrics will improve over the next two years, offsetting the likelihood of considerable economic uncertainty over the same period. We base our view on our assessment of the bank's region of operation and exposure to the local property market. In our base-case assessment, we expect continued strong capital ratios, supported by Swedbank dividends, even as the bank expands its loan book by financing a larger proportion of mortgage loans on its own balance sheet. The outlook also reflects the bank's continuing relationship with Swedbank and its low risk appetite, despite our expectations that credit losses will rise through 2024.

We could raise the rating to reflect reduced economic uncertainty in the bank's region of operation and the local property market, core pre-provision income sustainably above 2.5% of the risk exposure amount and modest credit losses, or a common equity capital ratio sustainably above 25%.

We could lower the rating to reflect a material deterioration in the local operating environment that negatively affects the bank's asset quality, a sustained reduction in the common equity capital ratio to below 18%, or core risk-adjusted earnings metrics sustainably below 1.0% of the risk exposure amount.

Rating list

	To	From
Long-term issuer credit rating:	BBB+	BBB+
Outlook:	Stable	Positive
Short-term issuer credit rating:	N3	N3
Senior unsecured issue rating:	BBB+	BBB+

Figure 1. Sörmlands 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%	bbb+	bbb+
Credit risk	10.0%	bbb-	bbb
Market risk	-	-	-
Other risks	2.5%	a	a
Risk appetite	50.0%	a	a
Market position	15.0%	bbb	bbb
Earnings	7.5%	bbb	bb
Loss performance	7.5%	bbb	a-
Performance indicators	15.0%	bbb	bbb-
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		Stable	Positive
Short-term rating		N3	N3

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 18 Feb. 2022 NCR's Rating Principles published on 24 May 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 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, 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
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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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