Sparbanken Västra Mälardalen

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N3

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Sparbanken Västra Mälardalen 'BBB+' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB+' long-term issuer rating on Sweden-based Sparbanken Västra Mälardalen. The outlook is stable. The 'N3' short-term issuer rating and 'BBB+' senior unsecured issue rating were also affirmed.

Rating rationale

The long-term issuer rating reflects Sparbanken VM's strong capital position, low risk appetite, and relationship-based deposit profile. The bank has a cooperation arrangement with Swedbank AB which enables material diversification 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 its holdings of Swedbank shares.

The rating is constrained by the bank's concentrated exposure to the Västra Mälardalen region, which has historically demonstrated volatility associated with its key role as a centre of manufacturing, and by its regional retail banking and SME customers and real-estate collateral. We project that credit losses and non-performing loans will increase over the next two years, given the uncertain economic environment.

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 also expect an increase in credit risk due to the bank's high level of property exposure.

Stable outlook

The stable outlook reflects our expectation that Sparbanken VM will maintain strong capital buffers through a harsher economic climate. It also reflects projections of below-average population and economic growth in its core markets and the bank's modest risk appetite. The outlook also takes account of the bank's continuing relationship with Swedbank and expectations of increased credit losses in our forecast.

We could raise the rating to reflect sustainable improvements in core earnings metrics (pre-provision income to risk exposure above 2.5%) with maintained asset quality, or a material improvement in economic conditions and growth prospects in the bank's local market.

We could lower the rating to reflect a sustained reduction in the common equity capital ratio to below 18%, a material deterioration in asset quality metrics, or a long-term economic recession in the bank's operating region that negatively affects economic activity and employment.

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

Figure 1. Sparbanken VM rating scorecard

Subfactors	Impact	To	From
National factors	5.0%	a-	a-
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	-	-	-
Other risks	2.5%	a-	bbb+
Risk appetite	50.0%	a	a
Market position	15.0%	bb+	bb+
Earnings	7.5%	a-	bbb+
Loss performance	7.5%	a	a
Performance indicators	15.0%	a-	a-
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	Stable
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 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 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
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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