

Varbergs Sparbank AB (publ)

Rating Action Report

LONG-TERM RATING

A-

OUTLOOK

Positive

SHORT-TERM RATING

N2

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Varbergs Sparbank AB (publ) outlook revised to positive; 'A-' long-term issuer rating affirmed

Nordic Credit Rating (NCR) said today that it had revised the outlook on its 'A-' long-term issuer rating on Sweden-based savings bank [Varbergs Sparbank AB \(publ\)](#) to positive from stable. At the same time, the long-term rating and the 'N2' short-term issuer rating were affirmed. The 'A-' senior unsecured issue rating was also affirmed.

Rating rationale

The outlook revision reflects a significant improvement in earnings and capital over the past year. While we consider Varbergs Sparbank to be well equipped to manage higher credit losses, lower credit growth, and increased competition for customer deposits, we remain cautious about the downside risks for the wider economy and their likely impact on the bank's performance. Consequently, we would want to see reduced uncertainty about the national and local economy and the direction of interest rates, before raising the rating. A higher rating would also be contingent on a continued strong financial performance, outstanding capital ratios, and a conservative risk appetite.

We have lowered our assessment of credit risk to reflect pressure on the commercial and residential real estate sectors due to persistent inflation and sharp interest rate increases over the past 18 months. We have raised our assessment of earnings due to an improvement in key ratios over the past year and reflected this in our forecast through 2025. While we expect net interest margins to peak later this year, we project earnings will remain strong given high interest rates and interest margins.

Positive outlook

The positive outlook reflects our view that Varbergs Sparbank is well equipped to handle a regional economic downturn, with solid underwriting and a strong improvement in earnings and capital. However, uncertainty about the local economy, as well as credit risk to commercial and residential real estate in the region, implies continued downside risk that is currently reflected in the rating. We would likely raise the rating to reflect continued elevated earnings and capital levels.

We could raise the rating to reflect core cost to income below 50% and core risk-adjusted earnings above 2.5% over a protracted period. We could also raise the rating to reflect reduced economic uncertainty, improved asset quality and interest rate predictability, and an improved outlook for commercial and residential real estate exposures.

We could revise the outlook to stable to reflect a decline in core earnings, with core cost-to-income around 60% and risk-adjusted earnings around 2%. We could also revise the outlook to stable to reflect a significant downturn in the operating environment, that negatively impacts asset quality, loan growth, and funding access, or material changes in the bank's cooperation arrangements with Swedbank AB.

Rating list

	To	From
Long-term issuer credit rating:	A-	A-
Outlook:	Positive	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	-	-	-
Other risks	2.5%	a	a
Risk appetite	50.0%	a	a
Competitive position	15.0%	bbb+	bbb+
Earnings	7.5%	a	bbb+
Loss performance	7.5%	a-	a-
Performance indicators	15.0%	a-	bbb+
Indicative credit assessment		a-	a-
Transitions		Neutral	Neutral
Peer calibration		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		Positive	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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Rating committee chairperson responsible for approval of the credit rating:	Geir Kristiansen, +4790784593, geir.kristiansen@nordiccreditrating.com
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, 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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