

Sparbanken Skaraborg AB (publ)

Full Rating Report

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N2

PRIMARY ANALYST

Ylva Forsberg
+46768806742
ylva.forsberg@nordiccreditrating.com

SECONDARY CONTACTS

Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

Geir Kristiansen
+4790784593
geir.kristiansen@nordiccreditrating.com

RATING RATIONALE

Our 'A-' long-term issuer rating on Sweden-based Sparbanken Skaraborg AB reflects the bank's strong capital position, moderate risk appetite, solid local market position 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 mortgage loans. We expect interest rates to continue to support the bank's relatively strong core earnings profile, complemented by dividend revenues from holdings of Swedbank shares.

The rating is constrained by the bank's relatively weak core markets, as well as significant exposure to regional commercial real-estate and agricultural exposures in its loan book. The rating is also constrained by our ongoing concerns about real-estate collateral values and its competitive position as it focuses growth on customers outside of its core markets.

STABLE OUTLOOK

The outlook is stable, reflecting our expectation that Sparbanken Skaraborg will offset a moderate increase in loan losses and non-performing loans with robust earnings even as interest rates fall from peak levels. It also reflects our expectation that the regional economy will experience a moderate decline over the next year. We expect the bank to further improve its very strong capital ratios due to modest credit growth and prudent dividends to its owner foundation, and to maintain its relationship with Swedbank.

POTENTIAL POSITIVE RATING DRIVERS

- An upgrade is unlikely at this time, given earnings and capitalisation are already strong.

POTENTIAL NEGATIVE RATING DRIVERS

- A deteriorating operating environment leading to reduced regional growth, asset quality and collateral values.
- A sustained decline in the common equity Tier 1 (CET1) capital ratio to below 22%.
- Increased risk appetite in the loan or liquidity portfolios.

Figure 1. Sparbanken Skaraborg key credit metrics, 2019–2025e

%	2019	2020	2021	2022	2023e	2024e	2025e
Net interest margin	1.5	1.6	1.4	1.7	2.5	2.2	1.9
Loan losses/net loans	0.07	-0.10	-0.30	0.13	-0.04	0.16	0.09
Pre-provision income/REA	3.3	1.8	3.4	3.5	5.1	4.9	3.9
Core pre-provision income/REA	1.8	1.8	1.8	2.4	3.9	3.2	2.5
Core cost-to-income	49.5	49.4	51.5	47.9	37.5	42.8	48.8
Return on ordinary equity	7.4	4.4	8.3	6.3	9.0	7.8	6.3
Loan growth	10.7	0.9	10.9	11.2	4.0	3.0	5.0
CET1 ratio	22.3	23.5	28.7	32.1	33.5	34.9	35.8

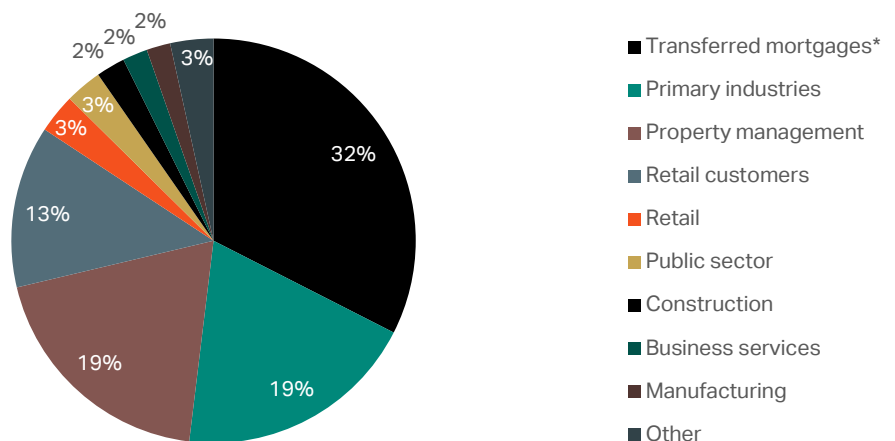
Based on NCR estimates and company data. e–estimate. REA–risk exposure amount. CET1–common equity Tier 1. All metrics adjusted in line with NCR methodology. Core represents net interest income and net fee & commission income.

ISSUER PROFILE

Sparbanken Skaraborg is one of Sweden's 10 largest savings banks in terms of total business volumes (including transferred loans and savings to Swedbank), which amounted to SEK 42.5bn at 30 Sep. 2023. This included SEK 11.7bn in net loans on the bank's own books and an additional SEK 5.6bn in transferred loans. It operates primarily in four municipalities in the county of Västra Götaland in southwestern Sweden; Skara, Vara, Essunga, and Götene. The bank is also active in other areas of what was previously Skaraborg county, including the municipalities of Falköping, Skövde and Mariestad. The bank was established in 1847 and is wholly owned by Sparbanksstiftelsen Skaraborg, a foundation that receives dividends from the bank.

Sparbanken Skaraborg has a history of cooperation with Swedbank, which enables material product diversity and shared IT costs, as well as providing the opportunity to finance commercial and retail mortgage lending via Swedbank Hypotek AB (publ), Sweden's largest issuer of covered bonds. The bank has transferred one-third of its total loan book, including transferred loans, to Swedbank Hypotek, which is among the highest proportions for Swedish savings banks. On its own books, Sparbanken Skaraborg's main loan exposures are to retail mortgages, the property management sector and agriculture.

Figure 2. Sparbanken Skaraborg gross loans by sector, including transferred loans, 30 Sep. 2023



Source: company.*to Swedbank Hypotek AB.

OPERATING ENVIRONMENT

Operating environment assessment 'bbb'

We consider a balance of national and regional factors in our assessment of the operating environment. Sparbanken Skaraborg has a high share of agricultural exposures and operates in a small, regional market, with about two-thirds of its exposures associated with its core markets and over one-third of its customers in closely linked communities in the former Skaraborg county.

National economy weakening

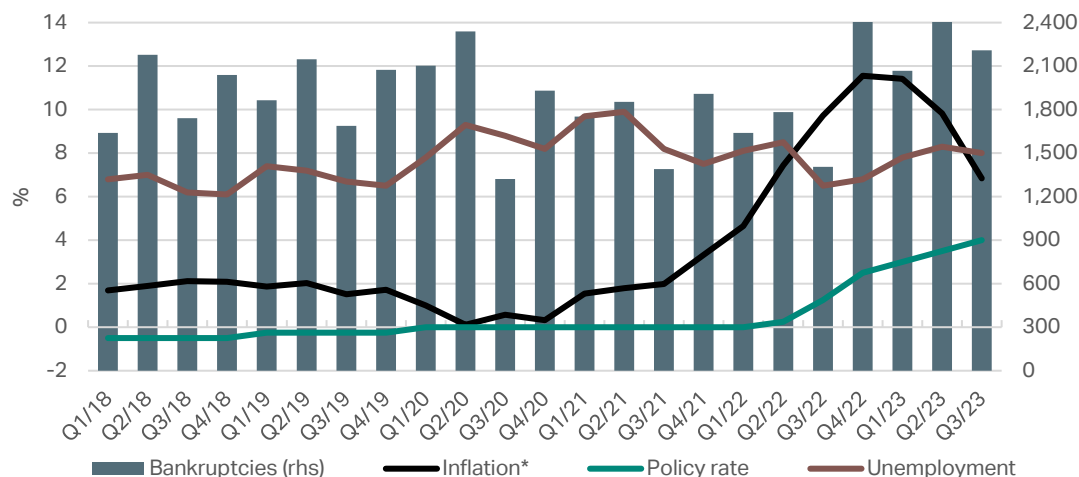
National factors 'a-'

Despite slowing economic activity and falling housing prices driven by high inflation and interest rates, we anticipate that Swedish banks will benefit from higher net interest margins and remain stable during a continued economic downturn through 2024. Due to the slowing economy, we anticipate lower demand for corporate and retail credit, as well as higher unemployment.

Higher interest rates have increased core earnings for most Swedish banks, though we expect falling inflation to lead to several revisions of policy rates in 2024. Looking ahead, the anticipated slowdown in credit growth, a reduction in deposit growth and increased market funding costs imply that net interest margins are approaching their peak for most banks. However, we expect most conventional banks to be able to maintain most of the recent increase in net interest margins into 2024, despite projections of falling rates in the coming years. Higher earnings and slow credit growth have boosted capital ratios and increased the headroom for increased loan losses.

Swedish retail banks' high exposure to both the private and corporate real-estate sector imposes some risks, as both households and companies are struggling with rising interest costs due to being highly leveraged. Following a steep decline in 2022, housing prices have levelled out, but we expect only modest, if any, growth in 2024, with large regional differences. Bankruptcies have increased sharply in recent quarters and more companies are experiencing cash flow issues. Sectors that are heavily reliant on private consumption are likely to continue to struggle, in turn negatively impacting property managers, which are already under pressure in terms of interest coverage and property valuations. Large tax debts, deferred at the height of the COVID-19 pandemic, are also coming due, impacting both businesses' cash flow and banks' deposit volumes. However, we expect actual loan losses to remain manageable due to generally high levels of securitisation backing conventional bank lending.

Figure 3. Swedish economic indicators, Q1 2018–Q3 2023



Sources: Statistics Sweden, Riksbanken. *average monthly inflation during the quarter.

Growing proportion of exposures outside core markets

Sparbanken Skaraborg's markets are among Sweden's most active agricultural regions, which is reflected in the bank's high share of agricultural lending. Skara has a more industrial profile than the other core markets, as do the neighbouring municipalities in which the bank has nearly one-third of its customer base and in which it has established satellite offices for employees active in these non-core markets. The four core municipalities combined had only 54,000 inhabitants as of December 2022, which is a relatively small market compared with those of the larger savings banks in Sweden. All four municipalities have lower unemployment rates than the national average (see Figure 4), but are also projected to have materially lower population growth over the next couple of decades.

Figure 4. Sparbanken Skaraborg core markets

Municipality	Population, Dec. 2022	Expected population change, 2022–2040	Unemployment, Nov. 2023	Unemployment, Nov. 2022
Skara	18,689	-4.5	5.3%	5.7%
Vara	16,215	3.2	4.6%	4.6%
Essunga	5,728	2.8	4.9%	5.4%
Götene	13,245	-8.2	3.9%	4.0%
Falköping*	33,332	-0.8	5.9%	6.6%
Mariestad*	24,720	-1.6	4.6%	4.9%
Skövde*	57,344	7.7	4.6%	4.9%
Sweden	10,452,326	5.5	6.5%	6.6%

Source: Statistics Sweden, Swedish Public Employment Service. *Not officially a core market but still important for the bank.

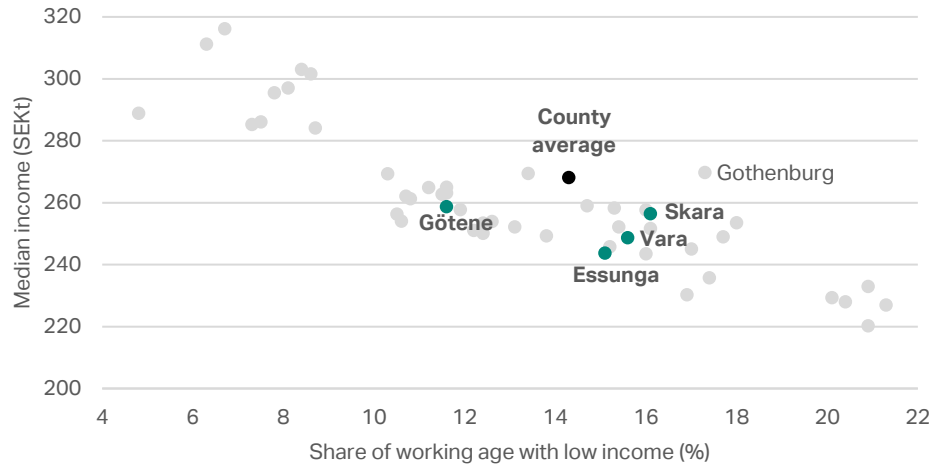
The lack of growth in the local market has contributed to the bank's high share of customers outside its core markets, primarily in Falköping, Mariestad, and Skövde, which supports our view of the bank's overall market. Many of the bank's core customers commute to the larger towns and cities, and the entire region is expected to benefit from Volvo's plans to establish a battery factory in Mariestad, to

Regional, sectoral, and cross-border factors 'bbb-'

the north of the bank's core markets. We consider the presence of a small number of important industrial employers and the high share of agricultural lending in our weighting of sectoral and regional factors compared with national factors.

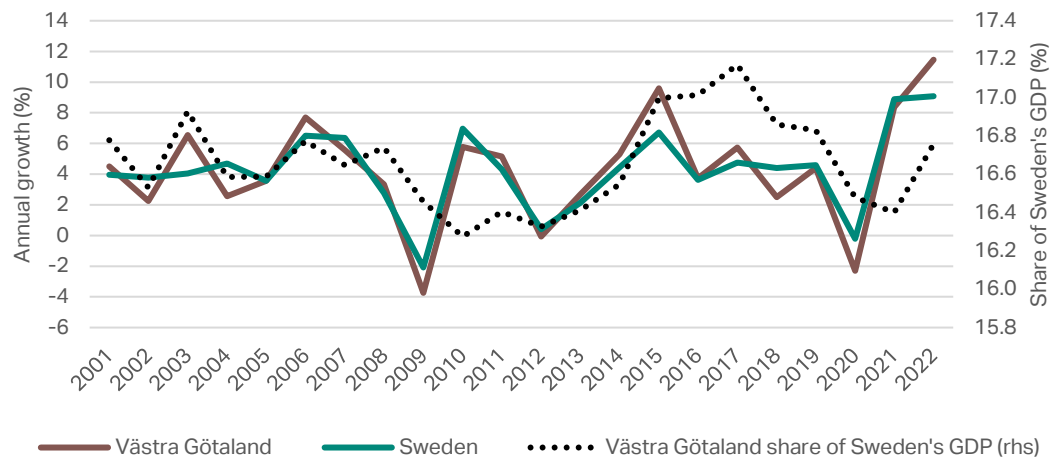
The bank's core regions are in Västra Götaland County, which is Sweden's second-largest county in terms of population and gross regional domestic product. The county accounts for around 17% of Sweden's GDP and has demonstrated strong growth in recent years. However, the bank's core regions make up only 3% of Västra Götaland's 1.7 million population and have lower median incomes and a higher share of low-income workforce than the Västra Götaland average.

Figure 5. Median income and share of working age with low income in Västra Götaland municipalities, 2021



Source: Kolada data.

Figure 6. Västra Götaland's annual economic growth and share of Sweden's GDP, 2001–2022



Source: Statistics Sweden.

RISK APPETITE

Risk appetite assessment 'a'

Sparbanken Skaraborg has a low risk profile, which reflects the bank's substantial capital and liquidity buffers, retail deposit base and ability to transfer loans to Swedbank. The bank has a relatively low proportion of residential lending on its own balance sheet, and, consequently has a relatively high share of agricultural, multifamily housing and commercial real-estate exposures.

Risk governance largely proportional to the bank's complexity

Risk governance 'a-'

Sparbanken Skaraborg's risk governance, risk appetite and limit structure are adequate and proportional to its complexity and size, although less developed than those of larger Nordic banks. In our view, Sparbanken Skaraborg's risk appetite, limit monitoring and risk reporting are largely in line with those of other large savings banks, and the bank has a good track record of solid risk performance

and low risk tolerance. The bank manages anti-money laundering activities and know-your-customer processes internally, in addition to cooperation with Swedbank.

Sparbanken Skaraborg has established a green bond framework under which we expect senior debt issuance in 2024. Establishing the framework has increased the internal focus on the environmental impact of customers' lending, and the bank is actively working to increase the share of loans that qualify under the framework. The bank incorporates sustainability factors into its relationships with corporate customers over SEK 8m and hired a sustainability coordinator in 2022 to oversee its internal efforts in this area. In addition, the bank began reporting its Scope 1, 2 and 3 impacts, putting it at the forefront of Swedish savings banks in this area.

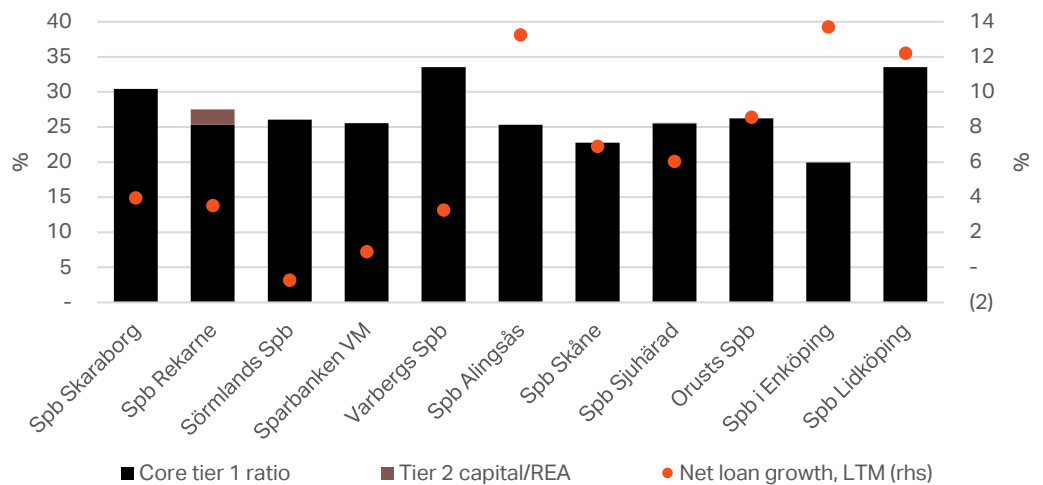
Very strong capital buffers

Capital 'aa'

Sparbanken Skaraborg's CET1 ratio was 32.1% as of 30 Sep. 2023 (34.3% including year-to-date net profit). We expect the capital ratio to increase through 2025, due to moderate loan growth, robust core earnings and dividends from the bank's holdings in Swedbank shares. The bank's CET1 ratio stands out even among the strong capital ratios of its peers and is well above the regulatory capital requirement of 12.5%, excluding yet-to-be published Pillar 2 guidance from the regulator. As of 30 Jun. 2023, Sweden increased its domestic countercyclical capital buffer by 1pp to 2%. We expect a positive effect from the implementation of the EU's Capital Requirements Regulation (CRR/CRD IV) on risk weights, most likely in mid-2025, but do not include this in our forecast due to uncertainty over the timing and effect.

We expect net loans to grow by 3% in 2024 and 5% in 2025, as the economy stabilises and investment appetite returns. Including net profits, the bank's capital ratios have increased by around 10pp since 2020 due to a decline in the average risk weight of SME loans and the significant increase in on-balance-sheet mortgage lending with lower risk weights (see Figure 12). Over the same period, the bank's unweighted regulatory leverage ratio has been stable at just above 16%.

Figure 7. Sparbanken Skaraborg and domestic savings bank peers' capital ratios, 30 Jun. 2023



Source: bank reports.

Sparbanken Skaraborg's regulatory capital base excludes its holdings of Swedbank shares, which exceed 10% of its CET1, reducing the impact of share price volatility on the bank's capital ratios. As of 30 Sep. 2023, the reported value of the bank's Swedbank shares was SEK 1.9bn, compared with its CET1 capital of SEK 2.5bn, implying that SEK 1.6bn of the value is excluded from CET1 and the regulatory leverage ratio. We note that Sparbanken Skaraborg's CET1 ratio would have been 27.6% as of 30 Sep. 2023 if the entire market value of the shares were deducted from the capital base.

Liquidity supported by a high share of loyal customer savings

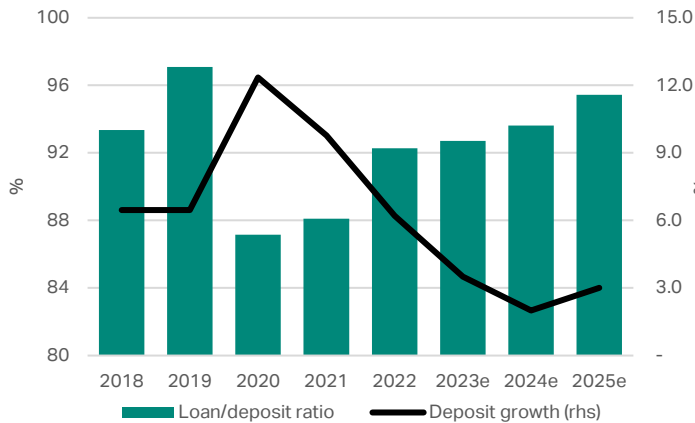
Funding and liquidity 'a'

We view Sparbanken Skaraborg's management of funding and liquidity as in line with its savings bank peers, due to a high share of relationship-based retail deposits and the ability to transfer mortgage loans to Swedbank's mortgage arm, Swedbank Hypotek. As of 30 Sep. 2023, the bank's liquidity coverage ratio was 211% and its net stable funding ratio was 128%. Both ratios are well above

regulatory requirements and the bank's internal policy of 110%. As of 30 Sep. 2023, the bank held liquid assets of over 40%, including shares in Swedbank, and had a loan-to-deposit ratio of 93%, well below the bank's limit of 120%. We expect this ratio to increase due to low growth in customer deposits across Sweden and as the bank returns to the capital markets and issues bonds to diversify its funding base.

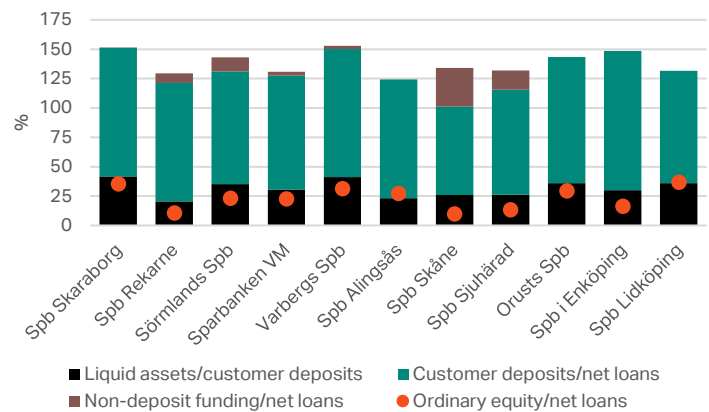
Despite a current lack of bond financing, Sparbanken Skaraborg has previously issued bonds under its SEK 1.5bn medium-term note programme. The bank has also established a green bond framework with a 'medium green' second opinion from Cicero. We expect the bank to issue a green bond in early 2024 but believe market funding will remain a small part of the bank's overall financing structure.

Figure 8. Sparbanken Skaraborg deposit metrics, 2019–2025e



Source: companv. e-estimate.

Figure 9. Sparbanken Skaraborg funding profile vs domestic savings bank peers, 30 Jun. 2023



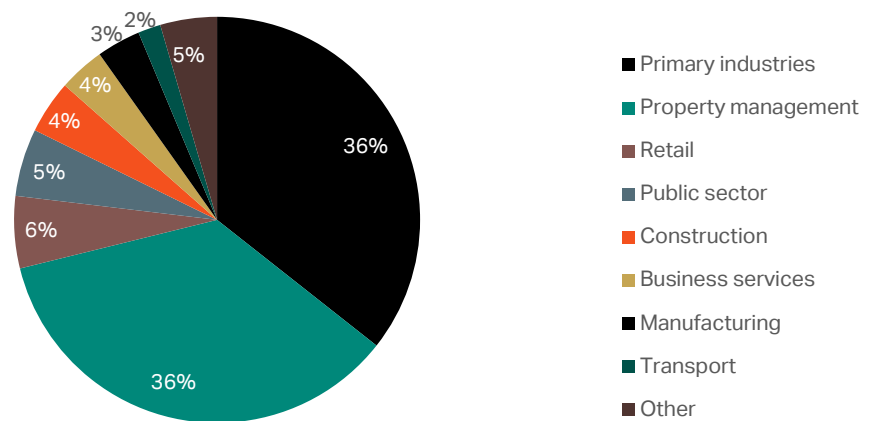
Source: bank reports.

Sparbanken Skaraborg's cooperation with Swedbank provides various funding benefits. The bank had transferred SEK 5.6bn in residential mortgage loans to Swedbank Hypotek as of 30 Sep. 2023, compared with SEK 11.7bn in net loans on its own balance sheet. The bank maintains about SEK 1.9bn in mortgage lending on its own books, some of which could be transferred to Swedbank Hypotek, if necessary. While further transfers are possible (and would effectively decrease liquidity risk), we believe the low proportion of mortgage lending on the bank's own books makes further significant transfers unlikely. The bank also has an SEK 500m credit facility with Swedbank.

High share of agricultural and real-estate lending

Figure 10. Sparbanken Skaraborg corporate gross loans by sector, 30 Sep. 2023

Credit risk 'bbb-'



Source: company.

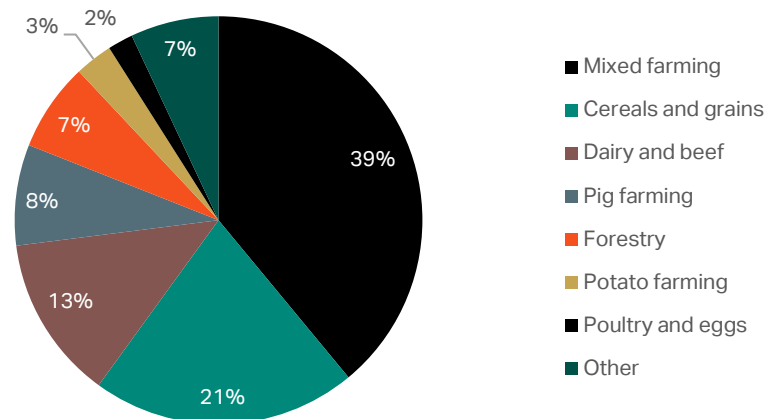
Sparbanken Skaraborg has natural geographic and sectoral risk concentrations, which are addressed with various sector limits in the bank's risk appetite framework. Due to the high share of residential mortgages transferred to Swedbank Hypotek, the bank's on-balance-sheet loan book has a higher proportion of agriculture and corporate lending than those of Swedish savings bank peers. This results in higher single-name concentration than other Swedish savings bank peers. The bank's geographic focus is not only on its core markets, where it holds a dominant market share, but also on the

neighbouring communities, to which it has turned to spur future growth. While providing additional diversification, we believe that the communities of Skaraborg have material associations in terms of employers, industries and commuters.

The bank's exposures are largely collateralised by local property, with 62% of on-balance-sheet loans associated with residential, commercial or agricultural properties, 74% when including transferred loans. We are concerned about risk in the commercial real-estate sector, due to high interest rates, high inflation and a widely expected economic downturn in 2024. We believe that interest coverage and liquidity is under pressure for many real-estate companies, and that reported commercial real-estate values will fall further, increasing the likelihood of loss provisions, in particular, single-name loan-loss provisions. While housing prices in the bank's region are much lower, and have been much less volatile than the national averages, significant risk remains in terms of collateral valuations of commercial real estate.

The concentration of agricultural exposures is natural, given the bank's role in the local economy and the high percentage of employment in the farming segment compared with national averages. However, rising costs and less predictable weather have added pressure to this segment. The segment does add an element of volatility, despite a history of relatively low credit risk, though the bank has diversity within the segment, as well as within specific customers. In addition, increases in climate volatility and higher temperatures could worsen the performance of agricultural businesses to which the bank has significant exposures. We believe the bank's sustainability efforts are a step in the right direction in identifying areas of concern and reducing risk over time.

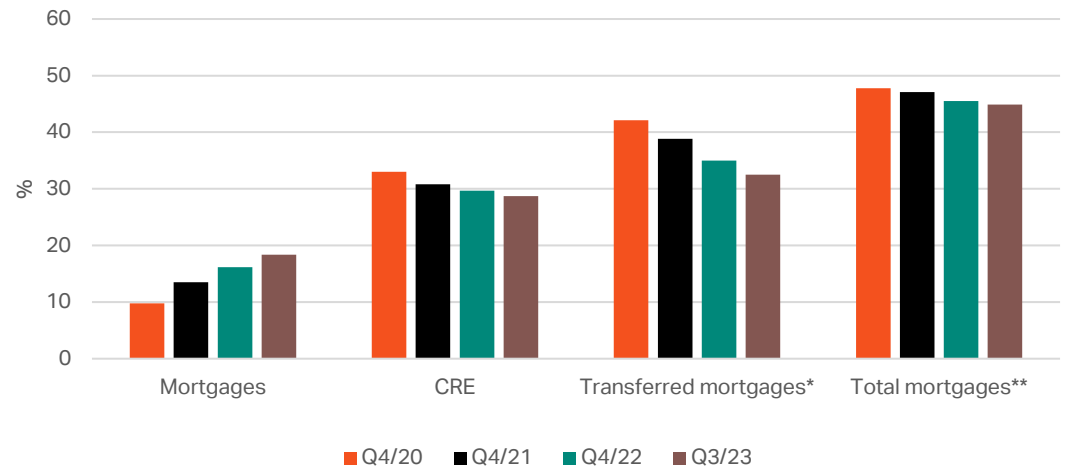
Figure 11. Sparbanken Skaraborg agricultural loans by segment, 30 Sep. 2023



Source: company.

The bank's growth in recent years has been driven by financing a larger proportion of transferred mortgage loans on its own balance sheet. The SEK 5.6bn in mortgage lending transferred to Swedbank Hypotek has a first-loss risk associated with the transferred loans that results in a reduction in commission fees paid when write-downs of transferred loans are necessary. The maximum risk associated with transferred loans is capped at the bank's annual commission, which was SEK 36m at year-end 2022 and is expected to fall toward SEK 25m in 2023 due to lower volumes and margin pressure from Swedbank.

Figure 12. Sparbanken Skaraborg loan portfolio composition 2020–Q3/2023



Source: company. CRE-commercial real estate. *to Swedbank Hypotek AB. **out of balance sheet net loans and transferred mortgages.

Modest investment portfolio risk

Other risks 'a'

Sparbanken Skaraborg has reduced the spread and credit risk in its fixed-income investment portfolio in recent years, which we see as positive for reducing the bank’s exposure to volatility in the capital markets. Interest rate risk in the banking book is moderated by variable interest rates on a large proportion of the bank’s loans and the use of interest rate hedges.

Sparbanken Skaraborg's relatively large holding of Swedbank shares (9.25m shares at 30 Sep. 2023) ensures it has a meaningful voice alongside other savings banks that own Swedbank shares, either directly or via their respective owner foundations. Our assessment of Sparbanken Skaraborg's earnings performance focuses on core earnings, though we include projected dividends in our forecast of the bank’s capital. As well as its holdings of Swedbank shares, the bank has holdings in Indecap Holding AB and Sparbankernas Försäkrings AB, which provide its customers alternatives to Swedbank Robur for their savings.

COMPETITIVE POSITION

Competitive position assessment 'bb+'

At the end of 2022, Sparbanken Skaraborg was the ninth-largest savings bank in Sweden terms of net loans and the 11th-largest including transferred loans. It has a very strong position in its core markets, with a market share of around 60%, according to the bank. The low level of competition in its core markets is due in part to large Swedish banks closing branches or reducing branch access, but also due to low growth prospects. As a result, the bank has a higher share of lending outside its core market than many other savings banks. Of the bank’s 40,000 retail and 6,000 commercial customers, about 17,000 are outside its four core municipalities. Efforts to grow outside the home market are well established in the bank’s strategy, and satellite offices are available for customer-facing employees in neighbouring towns. Our view of the bank’s competitive position is weakened somewhat by the high percentage of customers and future growth prospects outside its core markets, where it faces more intense competition.

Like its savings bank peers, the bank benefits from community involvement. Sparbanken Skaraborg pays out a proportion of its profit in dividends to its owner foundation, which uses the proceeds to support local activities. This proportion is generally 15%, which allows the foundation to invest in local community initiatives. We believe the bank's increased focus on sustainability and its environmental footprint supports its standing in the community.

PERFORMANCE INDICATORS

Performance indicators assessment 'a-'

We expect Sparbanken Skaraborg’s earnings to remain somewhat stronger than its peer group even as market interest rates begin to fall in 2024, as is widely expected. The bank has historically maintained better-than-average cost efficiency in its core business, with dividends from Swedbank adding additional funds and building up the capital base. Due to reported loan loss reversals through 30 Sep. 2023, we expect the bank to have ended 2023 with net reversals for the full year. However, we

project an increase in losses in 2024 and 2025 due to a weaker economy and projections of higher unemployment.

History of core cost efficiency, improved further by higher net interest margins

Earnings 'a'

Through 30 Sep. 2023, Sparbanken Skaraborg reported a sharp increase in its net interest margin to 2.5% from 1.7% for the full year 2022, due to higher policy rates. We believe that the bank's margins peaked in 2023 and expect interest margins to decline but to remain above recent historical levels over the course of our forecast period. The decline in interest margins is expected to stem both from increased competition for both lending and deposits, and likely decreases in policy interest rates in 2024 and possibly 2025. Margins on loans transferred to Swedbank are based on Swedbank's market funding costs and have not increased, which has reduced commissions and contributed to the bank's strategy to grow its own balance sheet. We expect net fee and commission income growth to be modest due to lower commissions from savings products as a result of volatile market conditions and lower savings growth.

The bank has a relative advantage in terms of cost efficiency over its savings bank peers, particularly with regard to fee and interest income. While we project the ratio to increase from the 37.4% reported through the third quarter of 2023, we believe that the bank will maintain its relative advantage in this area as it continues to add low-maintenance mortgage loans to its loan book at higher margins than available via Swedbank.

Figure 13. Swedish savings banks' cost efficiency metrics, LTM to 30 Jun. 2023

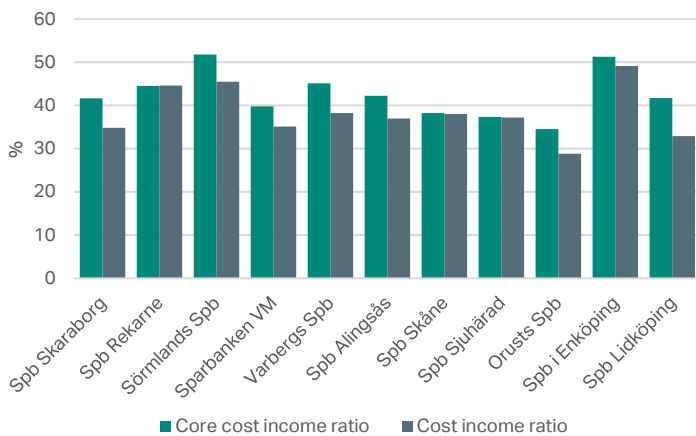
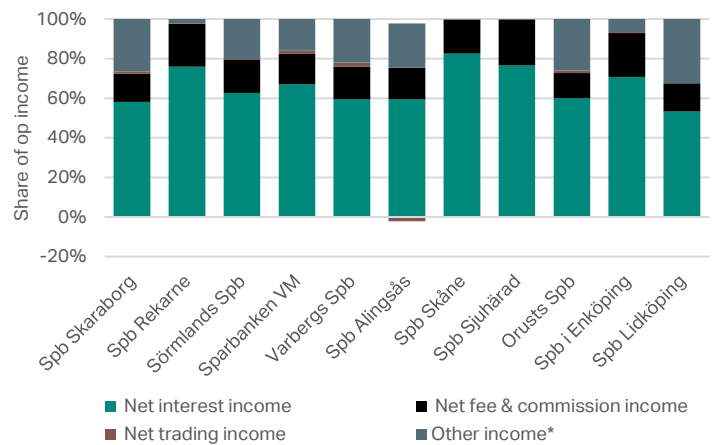


Figure 14. Swedish savings banks' split between income groups, LTM to 30 Jun. 2023



Source: bank reports. LTM—last 12 months. Core represents net interest income and net fee & commission income.

Source: bank reports. *Includes dividends from Swedbank AB.

Dividends from Swedbank increase Sparbanken Skaraborg's other earnings significantly, with SEK 89m received in 2023. Our forecast includes payments of about SEK 125-150m annually for 2024 and 2025, as strong earnings should offset higher loan losses from Swedbank. However, we believe that Swedbank could reduce or cancel its dividend payments over the next few years to offset fines by US and European authorities in connection with alleged money laundering. Because Sparbanken Skaraborg has no control over such income and dividend payments are not guaranteed, we focus on core earnings performance and pre-provision income, including and excluding dividends and other income, in our forecast.

Figure 15. Swedish savings banks' PPI to REA, LTM to 30 Jun. 2023

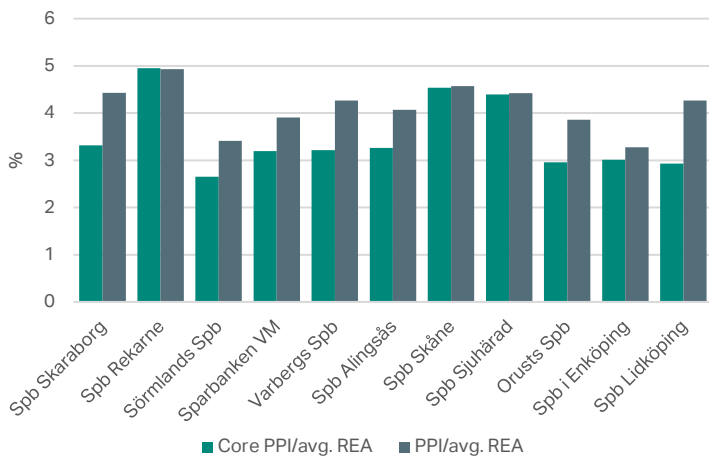
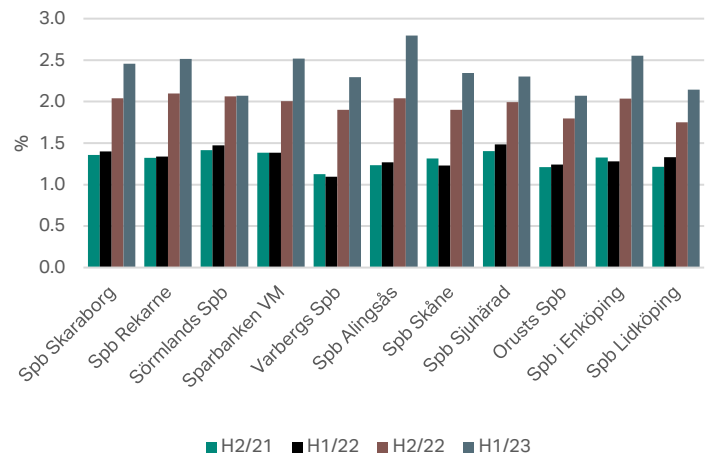


Figure 16. Swedish savings banks' annualised net interest margins, H2 2021–H1 2023



Source: bank reports.

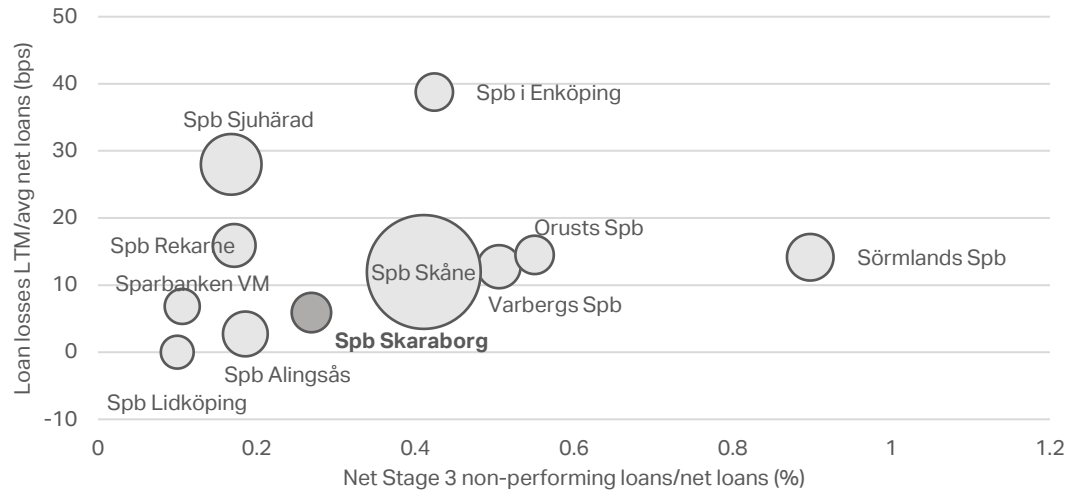
Source: bank reports.

High securitisation levels mitigate risk of realised credit losses

Loss performance 'a-'

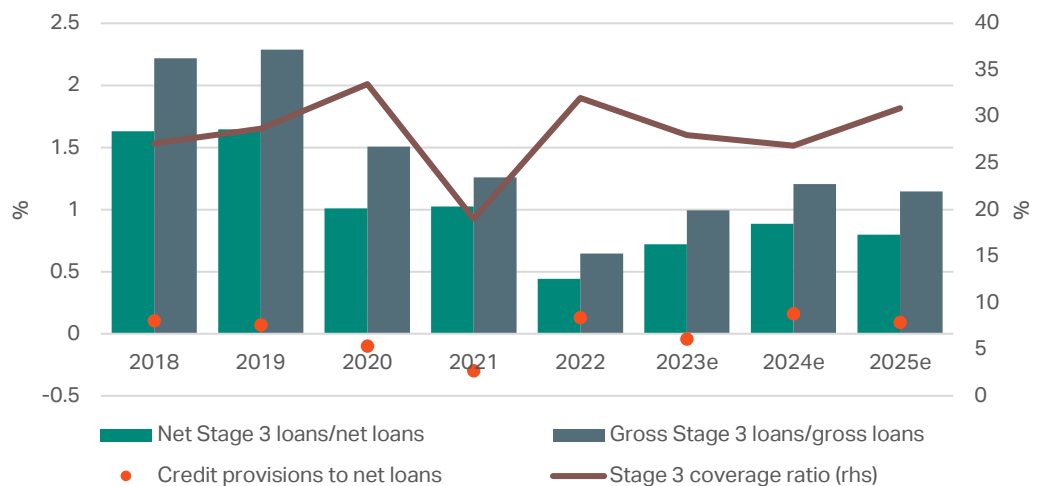
Despite a higher share of corporate loans than its peers, Sparbanken Skaraborg's asset quality metrics have performed well in recent years. In our view, the high securitisation levels mitigate the somewhat higher concentration risk in the on-balance-sheet loan book. The bank has had temporary increases in non-performing loans in recent years, but has maintained low average annual loan losses of below 10bps since 2010 and 0bps since 2015, including the year-to-date net reversal of 6bps. In our base case view, the bank is likely to experience increased, albeit modest, loan losses through 2025, with the potential for more than the 1.2% projected gross non-performing loans due to the nature of the loan book.

Figure 17. Swedish savings banks' asset quality metrics, 30 Jun. 2023



Source: bank reports. Bubble sizes reflect net loan volumes.

Figure 18. Sparbanken Skaraborg asset quality metrics, 2018–2025e



Source: company, e-estimate.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

Positive aggregate ESG impact

ESG factors are considered throughout our analysis, where material to the credit assessment. In aggregate, we view the bank’s ESG profile as having a moderately positive impact on its creditworthiness.

Figure 19. Sparbanken Skaraborg priority ESG factors

Issue/area	Risk/opportunity	Impacted subsections (impact on credit assessment*)
Physical climate risk	Increased weather volatility impacting cash flow stability for primary industries. Climate-related damage to real-estate and agricultural collateral. Long-term effects on market values in flood zones.	Credit risk (-) Loss performance (0)
Social engagement in local community	Close connection to narrow regional markets provides a benefit.	Competitive position (++) Funding & liquidity (+) Earnings (+)
Risk management frameworks	Risk-taking beyond limits in bank operations. Insufficient customer checks and risk of fraudulent customer behaviour.	Risk governance (0)
Sustainable/green bond framework	Diversity of funding sources, access to additional markets/investors.	Funding & liquidity (0)
Control of sustainability issues	Risk of overlooking sustainability impacts in the bank’s underwriting, operations, and customer base.	Risk governance (0) Credit risk (0)

*Defined based on a five-step scale ranging from double minus (--) to double plus (++), with (-) representing the most negative impact and (++) the most positive. See [ESG factors in financial institution ratings](#).

ADJUSTMENT FACTORS

Support analysis

Support analysis neutral

Sparbanken Skaraborg is 100% owned by its owner foundation, Sparbanksstiftelsen Skaraborg, whose main income comes from dividends from the bank. These are used to fund various activities in the local community. The foundation has limited resources to support the bank.

ISSUE RATINGS

Sparbanken Skaraborg has no outstanding senior unsecured debt. We expect to rate future issues under the bank's medium-term note programme in line with the 'A-' long-term issuer rating.

SHORT-TERM RATING

The 'N2' short-term rating is the higher of the two alternatives, given the long-term issuer rating of 'A', which reflects our assessment that the bank's liquidity is adequate, based on an average liquidity coverage ratio of 212% over the last four quarters.

METHODOLOGIES USED

- (i) [Financial Institutions Rating Methodology](#), 18 Feb. 2022.
- (ii) [Rating Principles](#), 24 May 2022.
- (iii) [Group and Government Support Rating Methodology](#), 18 Feb. 2022.

RELEVANT RESEARCH

- (i) [Norwegian savings banks face margin squeeze in 2024](#), 11 Dec. 2023.
- (ii) [Higher interest rates generate strong first-half earnings for Swedish saving banks](#), 26 Oct. 2023.
- (iii) [Swedish savings banks well positioned for economic downturn in 2023](#), 19 Dec. 2022.
- (iv) [Swedish savings banks get dividend boost after solid 2020](#), 21 Jun. 2021.
- (v) [Q&A: Swedbank judgement and share price impacts on Swedish savings banks](#), 23 Mar. 2020.

Figure 20. Sparbanken Skaraborg key financial data, 2018–Q3 2023 YTD

Key credit metrics (%)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Q3 2023 YTD
INCOME COMPOSITION						
Net interest income to op. revenue	45.1	45.8	64.7	44.3	57.1	64.5
Net fee income to op. revenue	26.9	23.8	32.9	26.0	23.2	15.4
Net trading income to op. revenue	0.7	2.9	1.6	2.2	-2.8	0.8
Net other income to op. revenue	27.3	27.6	0.8	27.4	22.5	19.3
EARNINGS						
Net interest income to financial assets	1.4	1.5	1.6	1.4	1.7	2.5
Net interest income to net loans	2.1	2.3	2.3	2.2	2.5	3.6
Pre-provision income to REA	2.9	3.3	1.8	3.4	3.5	5.5
Core pre-provision income to REA (NII & NF&C)	1.6	1.8	1.8	1.8	2.4	3.9
Return on ordinary equity	6.1	7.4	4.4	8.3	6.3	9.5
Return on assets	1.6	1.9	1.0	2.0	1.5	2.3
Cost-to-income ratio	37.6	34.4	48.2	36.2	38.5	29.9
Core cost-to-income ratio (NII & NF&C)	52.3	49.5	49.4	51.5	47.9	37.4
CAPITAL						
CET1 ratio	22.7	22.3	23.5	28.7	32.1	30.6
Tier 1 ratio	22.7	22.3	23.5	28.7	32.1	30.6
Capital ratio	22.7	22.3	23.5	28.7	32.1	30.6
REA to assets	64.9	68.7	67.7	54.1	48.6	48.1
Dividend payout ratio	14.7	15.1		98.0	15.5	15.2
Leverage ratio	15.6	15.5	16.2	16.0	16.1	15.3
GROWTH						
Asset growth	5.6	2.5	8.1	11.4	4.8	6.3
Loan growth	4.6	10.7	0.9	10.9	11.2	4.3
Deposit growth	6.5	6.5	12.3	9.8	6.2	3.6
LOSS PERFORMANCE						
Credit provisions to net loans	0.10	0.07	-0.10	-0.30	0.13	-0.08
Stage 3 coverage ratio	27.09	28.68	33.47	19.00	31.99	24.04
Stage 3 loans to gross loans	2.22	2.29	1.51	1.26	0.65	0.97
Net stage 3 loans to net loans	1.63	1.65	1.01	1.02	0.44	0.74
Net stage 3 loans/ordinary equity	3.99	4.83	2.83	2.77	1.29	2.01
FUNDING & LIQUIDITY						
Loan to deposit ratio	93.4	97.1	87.2	88.1	92.3	92.9
Liquid assets to deposit ratio	49.1	40.2	45.1	45.9	39.4	41.9
Net stable funding ratio	132.6	131.4	135.9	124.9	131.5	128.0
Liquidity coverage ratio	275.9	196.9	420.8	176.0	216.2	210.8
Key financials (SEKm)						
BALANCE SHEET						
Total assets	12,489	12,801	13,843	15,417	16,156	17,171
Total tangible assets	12,489	12,801	13,843	15,417	16,156	17,171
Total financial assets	12,401	12,717	13,768	15,315	15,982	16,949
Net loans and advances to customers	8,124	8,995	9,072	10,065	11,197	11,680
Total securities	3,882	3,327	3,728	4,809	4,086	4,738
Customer deposits	8,703	9,264	10,408	11,425	12,134	12,569
Issued securities	300	300	-	-	-	-
of which other senior debt	300	300	-	-	-	-
of which subordinated debt	-	-	-	-	-	-
Total equity	3,320	3,069	3,241	3,720	3,824	4,309
of which ordinary equity	3,320	3,069	3,241	3,720	3,824	4,309
CAPITAL						
Common equity tier 1	1,841	1,958	2,199	2,391	2,521	2,528
Tier 1	1,841	1,958	2,199	2,391	2,521	2,528
Total capital	1,841	1,958	2,199	2,391	2,521	2,528
REA	8,110	8,788	9,366	8,336	7,844	8,253
INCOME STATEMENT						
Operating revenues	376	421	322	474	466	476
Pre-provision operating profit	235	276	167	302	287	334
Impairments	8	6	-9	-28	14	-7
Net Income	198	237	138	290	237	289

Source: company. FY–full year. YTD–year to date.

Figure 21. Sparbanken Skaraborg rating scorecard

Subfactors	Impact	Score
National factors	5.0%	a-
Regional, cross border, sector	15.0%	bbb-
Operating environment	20.0%	bbb
Capital	17.5%	aa
Funding and liquidity	15.0%	a
Risk governance	5.0%	a-
Credit risk	10.0%	bbb-
Market risk	-	-
Other risks	2.5%	a
Risk appetite	50.0%	a
Competitive position	15.0%	bb+
Earnings	7.5%	a
Loss performance	7.5%	a-
Performance indicators	15.0%	a-
Indicative credit assessment		a-
Transitions		Neutral
Peer calibration		Neutral
Borderline assessments		Neutral
Stand-alone credit assessment		a-
Material credit enhancement		Neutral
Rating caps		Neutral
Support analysis		Neutral
Issuer rating		A-
Outlook		Stable
Short-term rating		N2

Figure 22. Capital structure ratings

Seniority	Rating
Senior unsecured	A-

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