

## Sparbanken Lidköping AB

Full Rating Report

## LONG-TERM RATING

BBB+

## OUTLOOK

Stable

## SHORT-TERM RATING

N3

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## RATING RATIONALE

Our 'BBB+' long-term issuer rating on Sweden-based Sparbanken Lidköping AB reflects the bank's exceptional capital position, moderate risk appetite, good market position in Lidköping in West Sweden, and its 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 that interest rates will decline but remain above the low levels of the past decade going forward, implying continued support for the bank's strengthened core earnings profile, which is complemented by dividend revenues from holdings of Swedbank shares.

The rating is constrained by Sparbanken Lidköping's concentration in its core market and the related exposure to regional commercial and residential real estate and farming in its loan book. The rating is also constrained by our ongoing concerns about real-estate collateral values.

## STABLE OUTLOOK

The outlook is stable, reflecting our expectation that Sparbanken Lidköping will offset a moderate increase in loan losses and non-performing loans from very low levels with robust earnings, even as interest rates fall from peak levels. It also takes account of our expectation that the regional economic performance will experience a moderate decline over the next year. We believe that the bank will maintain its modest risk appetite, with prudent dividends to its owner foundation and improved liquidity management, as well as its relationship with Swedbank.

## POTENTIAL POSITIVE RATING DRIVERS

- Improved economic prospects in the bank's core market.
- Maintained core pre-provision income to risk exposure amount (REA) above 2.5% and a core cost-to-income ratio below 45% over a protracted period.
- Reduced single-name concentration in the loan book.

## 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 Lidköping key credit metrics, 2020–2026e

	%	2020	2021	2022	2023	2024e	2025e	2026e
Net interest margin		1.4	1.3	1.5	2.1	1.9	1.7	1.7
Loan losses/net loans		0.04	-0.03	0.08	0.12	0.21	0.13	0.08
Pre-provision income/REA		1.5	3.5	3.9	4.7	4.8	3.6	3.5
Core pre-provision income/REA		1.4	1.7	2.3	3.4	2.8	2.2	2.2
Core cost-to-income		53.2	52.4	48.1	39.6	46.4	53.2	54.2
Return on ordinary equity		3.0	7.0	6.0	6.7	6.2	4.8	4.8
Loan growth		8.2	8.0	13.3	8.6	2.0	4.0	5.0
CET1 ratio		25.0	35.8	34.6	39.7	38.8	39.8	40.6

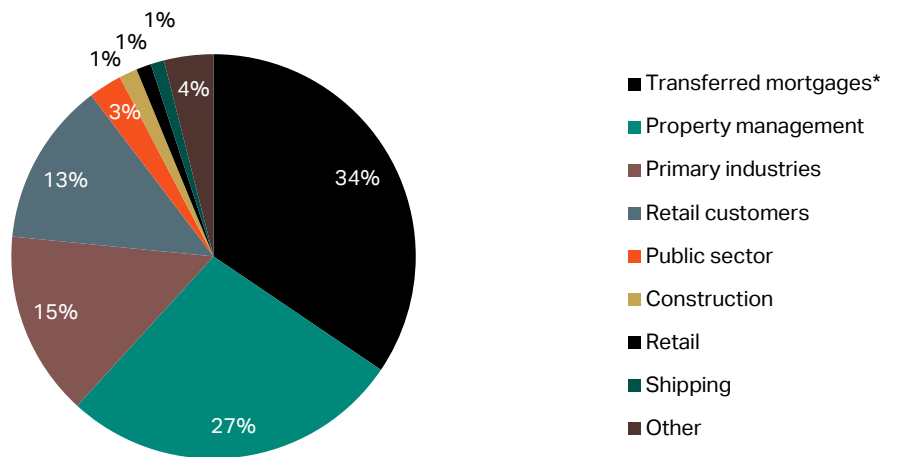
Based on NCR estimates and company data. e—estimate. REA—risk exposure amount. CET1—common equity Tier 1. All metrics adjusted in line with NCR methodology. Core represents net interest income and net fee & commission income.

**ISSUER PROFILE**

Sparbanken Lidköping is a mid-sized Swedish savings bank, with total business volumes (including transferred loans and savings to Swedbank) amounting to SEK 28.3bn at 31 Dec. 2023. This included SEK 8.1bn in net loans on the bank's own books and an additional SEK 4.3bn in transferred loans. The bank operates out of its headquarters in Lidköping Municipality in Västra Götaland County, with close connections to the Skaraborg region, which includes Skövde, Mariestad and other towns. The bank was established in 1834 and is wholly owned by Sparbankstiftelsen Lidköping, a foundation that receives dividends from the bank.

Sparbanken Lidköping has a history of cooperation with Swedbank, which enables material product diversity and shared IT costs. The cooperation also provides the opportunity to finance commercial and retail mortgage lending via Swedbank Hypotek AB (publ), Sweden's largest issuer of covered bonds. Sparbanken Lidköping has transferred just over 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 Lidköping's main loan exposures are to the property management sector, agriculture and retail mortgages.

**Figure 2. Sparbanken Lidköping gross loans by sector, including transferred loans, 31 Dec. 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 Lidköping has a high share of exposures to commercial and residential real-estate, as well as agricultural loans, with most of its exposures associated with its core market of Lidköping.

**National economy weakening**

National factors 'a-'

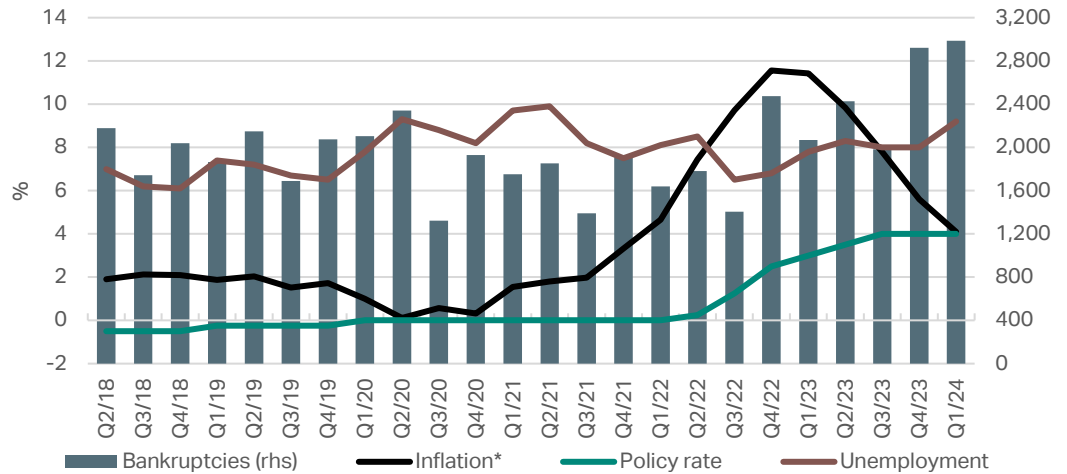
We anticipate that Swedish banks will continue to benefit from higher net interest margins even as the Swedish central bank revises its policy rates over the coming quarters. Signs of economic growth in 2024 and expectations for 2025 should also support credit risk and ensure that unemployment levels stabilise. We believe that investment decisions continue to depend on higher economic certainty and expect low demand for corporate and retail credit to continue in 2024.

Bankruptcies remain at high levels, and companies are experiencing cash flow issues due to continued high interest rates and higher prices. The sectors most affected are those that are heavily reliant on private consumption, as well as highly indebted property managers. However, lower rates will bring some relief, and we expect actual loan losses to remain elevated but manageable, given high levels of collateralisation backing across the sector.

Looking ahead, market participants' growth projections for 2025 reflect expectations that investments will start recovering in 2025 and lead to a rebound in credit growth. Lower interest rates should support disposable income and a further recovery in housing prices. We also believe banks will see a

recovery in retail deposit growth, though competition will continue to pressure margins, supporting our belief that net interest margins have passed their peak for most banks. However, we do not expect Sweden to return to extremely low interest rates in the next few years, which should allow most conventional banks to maintain strong net interest margins and robust cost efficiency.

Figure 3. Swedish economic indicators, Q2 2018–Q1 2024



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

**Primary focus on Lidköping, with some exposures to neighbouring municipalities**

Lidköping is located on the southern shore of the third-largest lake in Europe, Vänern, in Västra Götaland County in West Sweden. Lidköping and neighbouring municipalities, constituting the Skaraborg region, make up one of Sweden's most active farming regions, which is reflected in Sparbanken Lidköping's high share of agricultural lending. Lidköping municipality has around 40,000 inhabitants, which is a relatively small market compared with those of larger savings banks in Sweden but broadly in line with those of similarly sized peers.

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

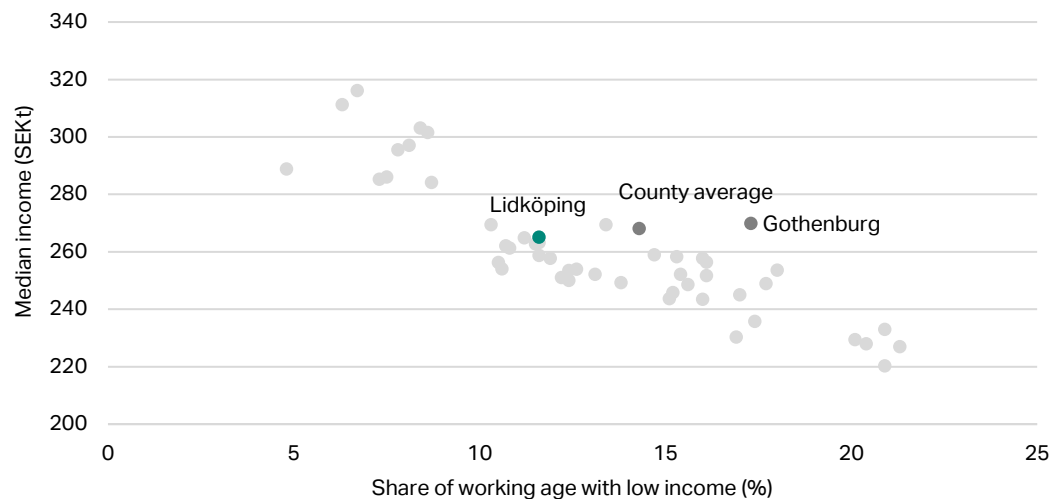
Figure 4. Sparbanken Lidköping's core markets

Municipality	Population, Dec. 2023	Expected population change*, 2023–2045	Unemployment, May 2024	Unemployment, May 2023
Lidköping	40,539	3.6	3.9%	3.7%
Sweden	10,551,707	6.7	6.5%	6.1%

Source: Statistics Sweden, Swedish Public Employment Service. \*15–64 year-olds.

A number of the bank's retail customers commute to neighbouring towns and cities, and the entire region is expected to benefit from Volvo's plans to establish a vehicle battery factory in Mariestad, to the north of the bank's core markets. Lidköping has lower unemployment than the national average and unemployment has remained stable over the past year. The city is projected by Statistics Sweden to have materially lower rate of population growth than Sweden as a whole over the next couple of decades, although this likely does not take the aforementioned investments into account. Consequently, we believe that growth prospects are higher than indicated in the table above but note that there is uncertainty over the impact on Lidköping specifically, as well as some risk associated with the dependence on one company for this potential boost in growth.

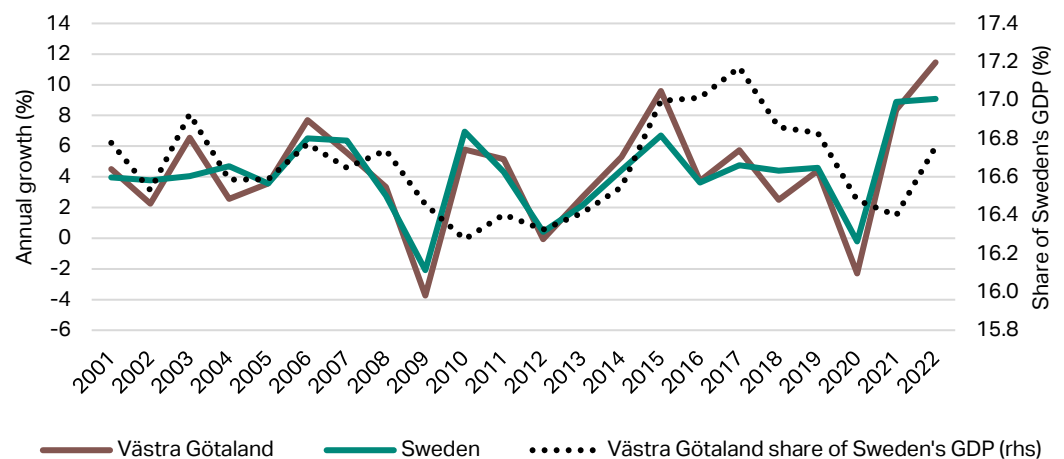
Figure 5. Median income and share of working age population with low income in Västra Götaland municipalities, 2021



Source: Kolada data.

Lidköping is located in Västra Götaland County, Sweden's second-largest county in terms of population and gross regional domestic product, accounting for around 17% of Sweden's GDP and demonstrating strong growth in recent years. However, the bank's market accounts for only a small part of Västra Götaland's 1.7 million population and has lower median incomes and a higher share of low-income workforce than the Västra Götaland average.

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 Lidköping has a moderate risk profile and exceptional capital ratios. It has a decent liquidity portfolio, including a shareholding in Swedbank, but a slightly weaker liquidity management track record than peers, which is partly mitigated a loyal retail deposit base and the ability to transfer mortgage loans to Swedbank. The bank has a low proportion of residential lending on its own balance sheet compared with peers and, consequently, a relatively high share of residential and commercial real-estate and agricultural exposures on its balance sheet.

**Risk governance largely proportional to the bank's complexity**

Risk governance 'bbb+'

Sparbanken Lidköping's risk governance, risk appetite and limit structure are adequate and proportional to its complexity and size, albeit less developed than those of larger Nordic banks. In our view, Sparbanken Lidköping's risk appetite, limit monitoring and risk reporting are largely in line with those of other mid-sized Swedish savings banks. The bank manages anti-money laundering activities

and know-your-customer processes internally and in collaboration with other savings banks, in addition to cooperation with Swedbank.

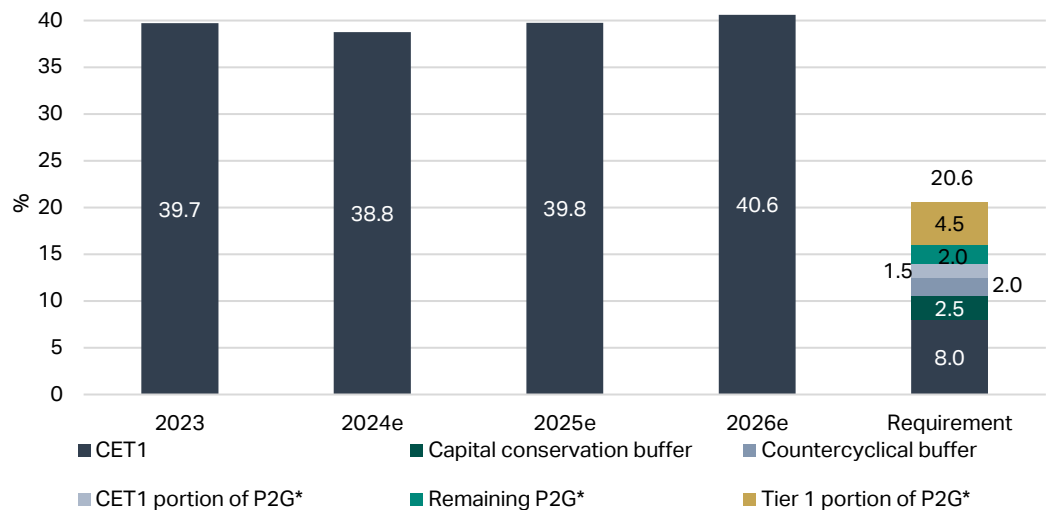
As of late 2023, Sparbanken Lidköping had adapted the new Swedbank tool for assessing environmental, social, and governance (ESG) risks in credit decisions for exposures above SEK 8m, and hired a sustainability manager in early 2024. We are expecting continued development in the bank's formalised procedures for assessing and managing ESG risks by the end of 2024.

**Exceptional capital buffers to high regulatory requirement**

Capital 'aa'

Sparbanken Lidköping's CET1 ratio was 37.9% as of 31 Mar. 2024, excluding year-to-date net profit. We expect the capital ratio to increase through 2026, 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, providing a strong buffer against the unusually high capital requirement of 20.57%, as of 31 Mar. 2024. This capital requirement is caused by the high 8.07% Pillar 2 guidance (P2G) from the regulator, received in the fourth quarter of 2022. The major reason for the high P2G relates to the change in the standardised approach for credit risk in investment portfolios, which called for higher risk weights on unrated securities, and the, at the time, relatively large volume of unrated instruments in Sparbanken Lidköping's portfolio. While Sparbanken Lidköping's investment portfolio contains some higher-risk securities, we do not view the high P2G as proportionally indicative of Sparbanken Lidköping having a higher risk appetite than peers.

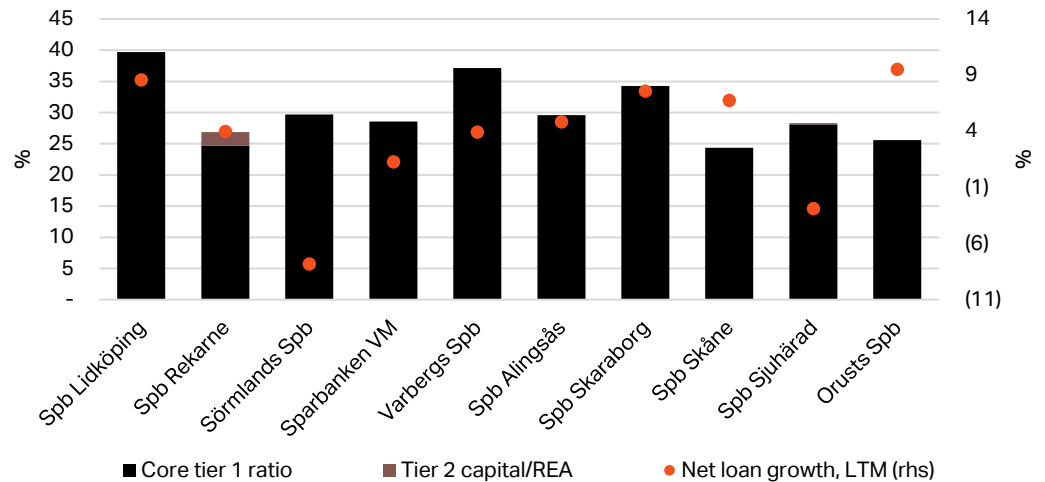
Figure 7. Sparbanken Lidköping forecast capital ratios vs requirements, 2023–2026e



Source: company, e-estimate. \*Total Pillar 2 guidance (P2G) of 8.1%.

Since 30 Jun. 2023, Sweden's domestic countercyclical capital buffer has been 2%. We expect a positive effect from the implementation of the EU's Capital Requirements Regulation (CRR 3) on risk weights from 1 Jan. 2025 but have not included this in our forecast due to uncertainty over the effect. We expect net loans to grow by a modest 2% in 2024, with growth increasing to 5–6% in 2025 and 2026 as the economy stabilises and investment appetite returns. As of 31 Mar. 2024, the bank's capital ratios have increased by around 15pp since 2020, when changes in regulation lowered risk weights on SME loans. The bank's unweighted regulatory leverage ratio was a very strong 19.7% as of 31 Mar. 2024.

Figure 8. Sparbanken Lidköping and domestic savings bank peers' capital ratios, 31 Dec. 2023



Source: bank reports.

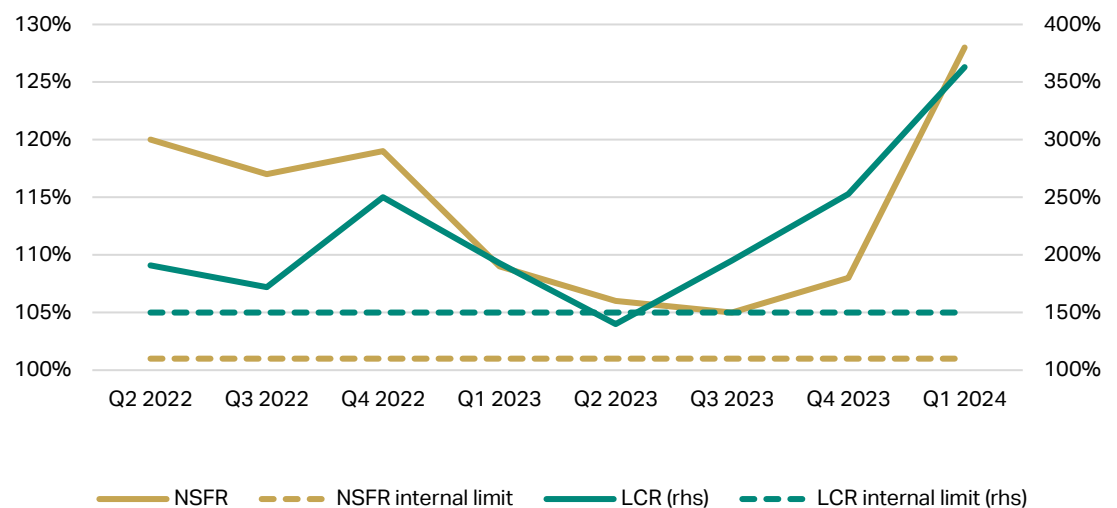
Sparbanken Lidköping's regulatory capital base excludes its holdings of Swedbank shares, which exceed 10% of its CET1, reducing the impact of share price volatility on the bank's capital ratios. As of 31 Mar. 2024, the estimated value of the bank's Swedbank shares (given its holdings of 7.1m shares) was SEK 1.5bn, compared with its CET1 capital of SEK 2.1bn, implying that around SEK 1.2bn of the value is excluded from CET1 and the regulatory leverage ratio. Consequently, we estimate that Sparbanken Lidköping's CET1 ratio would have been 32.0% if the entire market value of the shares were deducted from the capital base.

**Liquidity supported by a high share of loyal customer savings**

We view Sparbanken Lidköping's management of funding and liquidity as largely in line with its savings bank peers. The bank's funding primarily consists of deposits, with a high share of relationship-based retail deposits, and the ability to transfer mortgage loans to Swedbank's mortgage arm, Swedbank Hypotek. The bank held a large share of liquid assets to deposits of 39%, including Swedbank shares, as of 31 Dec. 2023. Deposit concentration is moderate with some overweighting of the top few. In addition to deposits, the bank has a SEK 250m credit facility with Swedbank AB.

Funding and liquidity 'a'

Figure 9. Sparbanken Lidköping's net stable funding ratio (NSFR), Q2 2022–Q1 2024



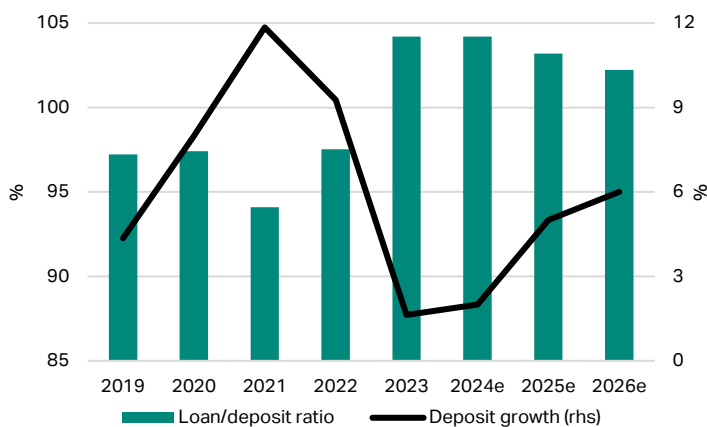
Source: company.

As of 31 Mar. 2024, the bank's liquidity coverage ratio (LCR) was 363% and its net stable funding ratio (NSFR) was 128% after the bank revised its calculation in the first quarter of 2024. The NSFR has been volatile in recent years, largely owing, as we understand it, to technical aspects rather than a funding issue. While the LCR temporarily going below internal limits is not as severe a concern, we consider the volatility in the ratio to be elevated compared with savings bank peers. Buffers to LCR

requirements are especially relevant for a bank without access to capital markets and with limited mortgage volumes on its balance sheet that can be transferred to Swedbank Hypotek AB to free up liquidity. The loan-to-deposit ratio has historically been below 100%, at 94–97% in recent years, but was reported at 104% as of 31 Dec. 2023, and we expect it to remain above 100% in our forecast, due to low deposit growth.

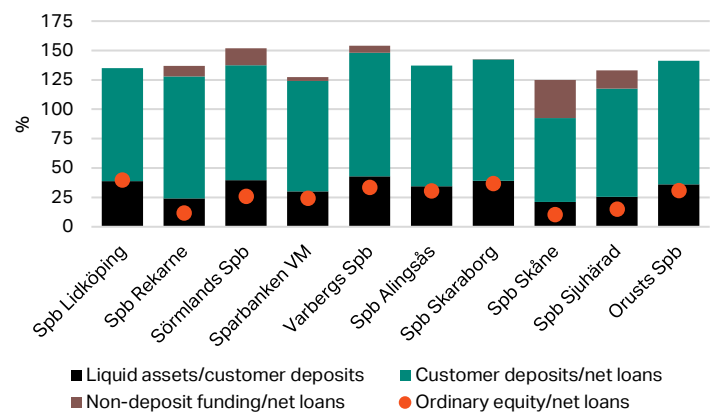
Sparbanken Lidköping's cooperation with Swedbank provides various funding benefits. The bank has funded its growth to a large extent by transferring the majority of its mortgages to Swedbank Hypotek AB. Transferred volumes were SEK 4.3bn in residential mortgage loans as of 31 Dec. 2023, compared with SEK 8.1bn in net loans on its own balance sheet. The bank maintains some mortgage lending on its own books, some of it likely to be transferred to Swedbank Hypotek if necessary. However, we believe the low proportion of mortgage lending on the bank's own books makes further significant transfers unlikely, limiting the benefit to the bank's funding and liquidity management going forward.

Figure 10. Sparbanken Lidköping deposit metrics, 2019–2026e



Source: company, e-estimate.

Figure 11. Sparbanken Lidköping funding profile vs domestic savings bank peers, 31 Dec. 2023



Source: bank reports.

### High share of real-estate and agricultural lending

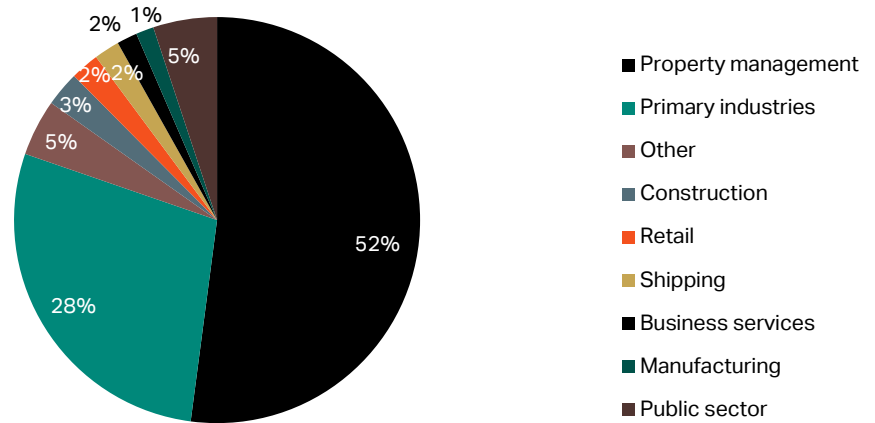
Sparbanken Lidköping has natural geographic and sectoral risk concentrations, which are addressed with various sector limits in the bank's risk appetite framework. Due to the high share of residential mortgages transferred to Swedbank Hypotek, the bank's on-balance-sheet loan book has a higher proportion of agriculture and corporate lending than those of Swedish savings bank peers, resulting in higher single-name concentrations. While the bank is not actively targeting growth in the wider Skaraborg region, it has a significant share of its exposure outside its core market of Lidköping, and we expect this to continue, due to the close interconnections in the region.

The bank's exposures are largely collateralised by local property, with 84% of on-balance-sheet loans associated with residential, commercial or agricultural properties, or 90% including transferred loans. We remain concerned about the property management sector, which has been hard hit by the sharp rise in interest rates, affecting both interest coverage ratios and cash flow, as well as property valuations. We believe that the smaller, non-listed property managers that are heavily represented in Sparbanken Lidköping's loan book overall have more conservative valuations than their larger, listed peers. The bank's high proportion of residential property managers reduces vacancy risk, but also implies a generally weaker ability to compensate for increased interest costs through raised rents.

Credit risk 'bb+'



Figure 12. Sparbanken Lidköping corporate gross loans by sector, 31 Dec. 2023



Source: company.

The concentration of agricultural exposures is natural, given the bank's role in the local economy and the high share of arable land in the region. However, rising costs and more extreme weather events have added pressure to this segment. While realised loan losses are historically very low, the segment as a whole faces frequent strains on cash flow, and profitability can be a concern. The bank's agriculture exposure is fairly diverse, with an overweighting of cereals and moderate single-name concentrations. Increases in climate volatility and higher temperatures could lead to greater volatility in this segment, and we consider the bank's increased efforts in this area to be a step in the right direction in identifying areas of concern and reducing risk over time. The bank's geographic location implies an elevated risk to long-term valuations of collateral, due to the possibility of climate change impacting flooding and landslide risk in the area.

The bank has transferred the majority of its retail mortgages to Swedbank Hypotek, but has primarily been keeping new mortgages on balance sheet for the past few years. The SEK 4.3bn 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 15m in 2023, down from SEK 25m in 2022, due to margin pressure and a decrease in volume.

**Slightly elevated investment portfolio risk**

Other risks 'bbb+'

Sparbanken Lidköping 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. Some high-yield exposures remain in the portfolio, and while this is not a major concern for our overall assessment of the bank, we believe the portfolio contains somewhat higher risk than peers. 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 Lidköping's relatively large holding of Swedbank shares (7.1m shares as of year-end 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 Lidköping'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 Sparbankernas Försäkrings AB, which provides its customers with an alternative to Swedbank Robur for their savings.

**COMPETITIVE POSITION**

Competitive position assessment 'bbb-'

Sparbanken Lidköping is among the 20 largest savings banks in Sweden both in terms of net loans and including transferred loans. The bank has a market share of just above 50% in the Lidköping area, where it competes with all the major Nordic banks except Danske Bank. This sets it apart from those peers whose markets, while similar in population, consist of several smaller municipalities that some of the larger banks have left. However, while the bank faces competition, it has strong ties to Lidköping



and the surrounding area, and we believe it has a strong position in its market. The bank has approximately 24,000 retail and 3,000 corporate customers.

Like its savings bank peers, the bank benefits from community involvement. Sparbanken Lidköping 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 increasing focus on discussing ESG risks with its customers further supports its position in its market.

**PERFORMANCE INDICATORS**

Performance indicators assessment 'a-'

We expect Sparbanken Lidköping's earnings to weaken somewhat from their currently strong levels, as market interest rates have begun to fall and are likely to fall further in 2024 and 2025. The bank has a slightly weaker net interest margin than peers, but has reported comparatively strong core cost efficiency in recent years. Apart from core earnings, dividends from Swedbank add additional funds and build up the capital base. The bank reported higher loan loss provisions in 2023 than in recent years, and we expect provisions to remain elevated in 2024 and 2025 due to a weaker economy, before falling back in 2026.

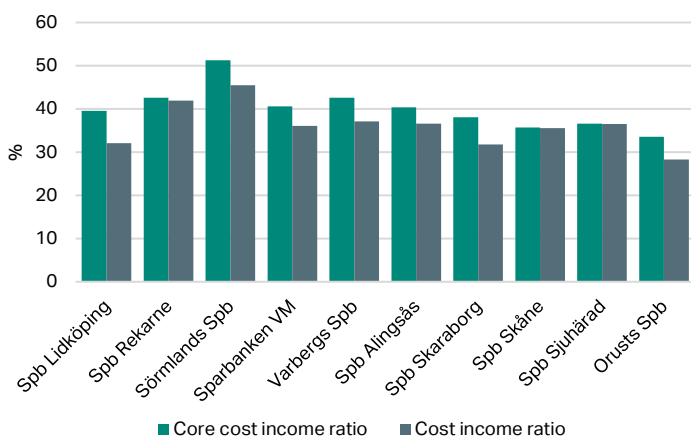
**Earnings should remain strong, despite expectations of lower interest rates**

Earnings 'a-'

In 2023, Sparbanken Lidköping reported a sharp increase in its net interest margin to 2.1% from 1.5% in 2022, due to higher policy rates. We believe that the bank's margins have peaked and will decline over the course of our forecast period, but will remain above recent historical levels. The decline in interest margins is expected to stem both from increased competition for both lending and deposits, and decreases in policy interest rates in 2024 and 2025. Margins on loans transferred to Swedbank are based on Swedbank's market funding costs and, as with savings bank peers, were very low in 2023, which reduced commission and contributed to the bank's strategy to keep new mortgages on its own balance sheet. Combined with lower commission from savings products as a result of volatile market conditions and lower savings growth, we expect net fee and commission income growth to be modest over our forecast period of 2024–2026.

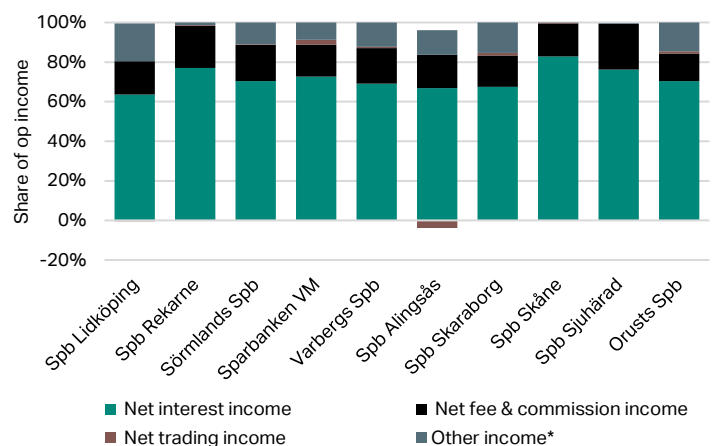
The bank has shown stable cost efficiency over the past couple of years, with further improvements to cost-to-income ratios driven by the increase in net interest income. We expect this ratio to increase in the coming years due to lower interest income and rising IT costs, partly mitigated by maintained stronger earnings and cost efficiency efforts.

Figure 13. Swedish savings banks' cost efficiency metrics, 2023



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

Figure 14. Swedish savings banks' income split, 2023

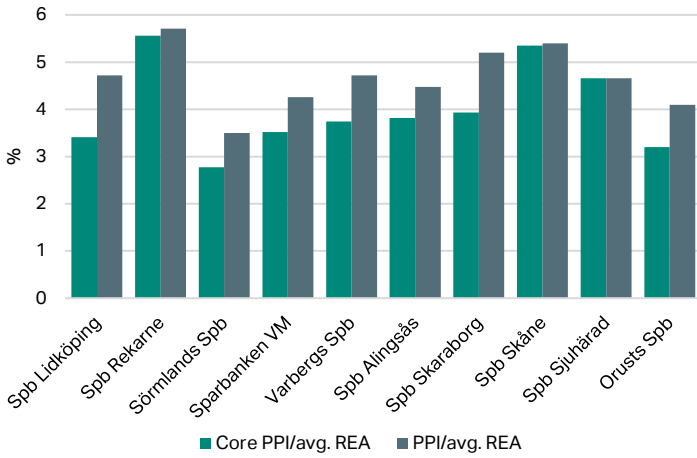


Source: bank reports. \*Includes dividends from Swedbank AB.

Dividends from Swedbank increase Sparbanken Lidköping's other earnings significantly, with SEK 69m received in 2023 and an estimate of over SEK 100m received thus far in 2024. Our forecast includes payments of about SEK 80m annually for 2025 and 2026. However, the issue of the ongoing investigations by US authorities into money laundering by Swedbank remains. We believe that Swedbank is likely to reduce or suspend its dividend payment in connection with the payment of a potential fine or fines. Because Sparbanken Lidköping has no control over the dividend, our forecast

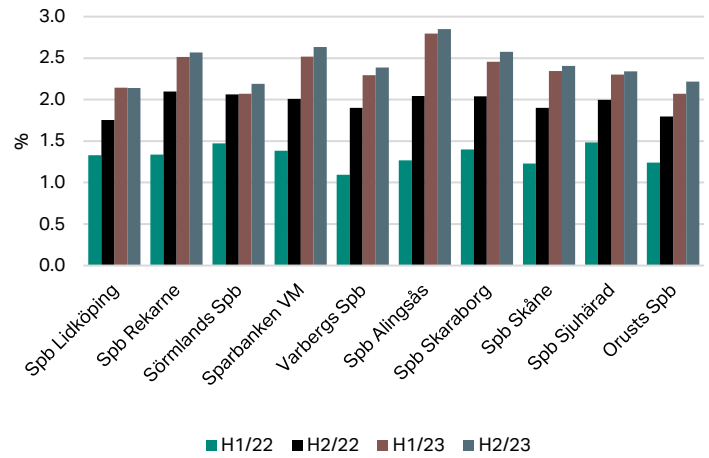
focuses on core earnings performance and pre-provision income, excluding dividends and other income.

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



Source: bank reports. PPI—pre-provision income. REA—risk exposure amount.

Figure 16. Swedish savings banks' annualised net interest margins, H1 2022–H2 2023



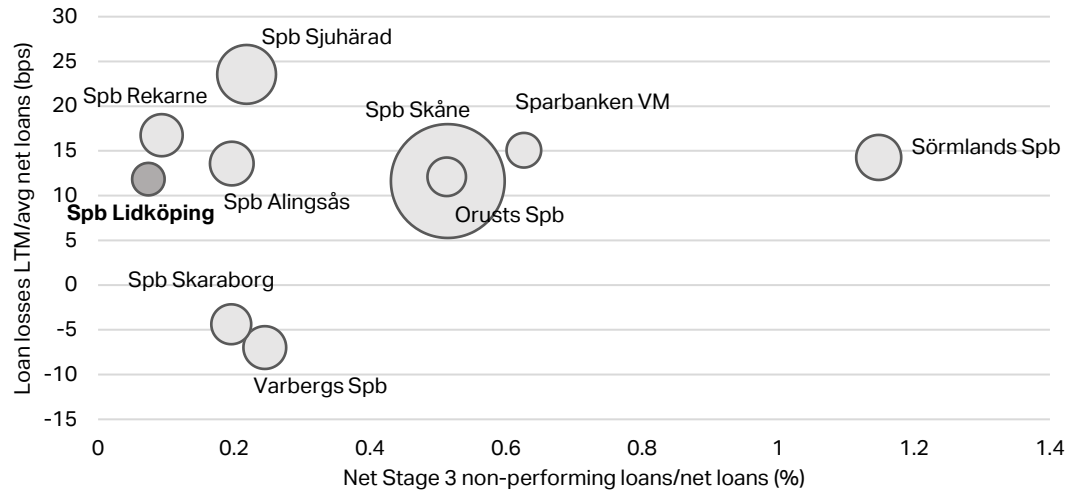
Source: bank reports.

Loss performance 'a-'

**High collateralisation levels mitigate risk of increasing credit losses**

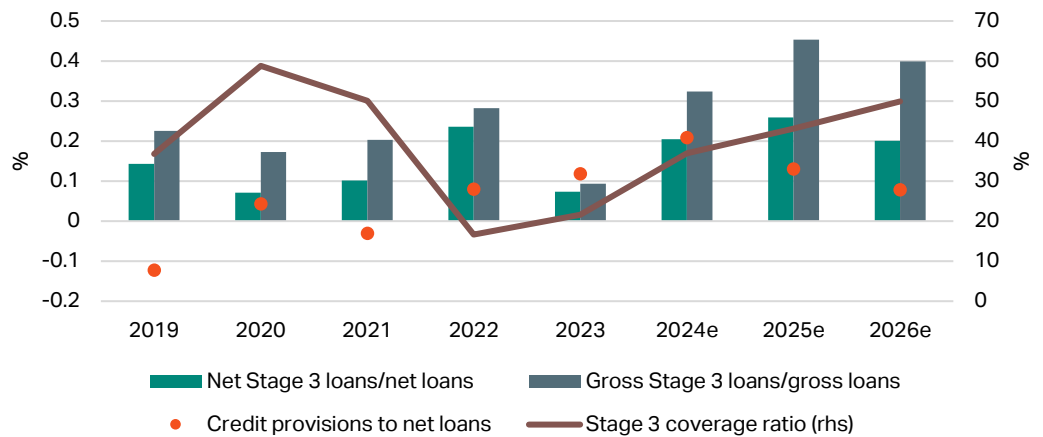
Despite a higher share of corporate loans than its peers, Sparbanken Lidköping's asset quality metrics have performed well in recent years. In our view, the high collateralisation levels mitigate the somewhat higher concentration risk in the on-balance-sheet loan book, and the bank has reported an average of -1bps in credit losses between 2019 and 2023. The bank has seen an increase in Stage 2 loans and reserves in 2023, which could indicate that there are higher losses to come. We expect an increase in loan loss provisions in 2024 and 2025 due to a weaker economy and continued strained cash flow for both retail and corporate customers. However, we believe the bank will maintain prudent reserves in case of non-performing loans, keeping the share of net Stage 3 loans modest.

Figure 17. Swedish savings banks' asset quality metrics, 31 Dec. 2023



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

Figure 18. Sparbanken Lidköping asset quality metrics, 2019–2026e



Source: company e-estimate

**ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS**

Neutral 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 neutral impact on its creditworthiness.

Figure 19. Sparbanken Lidköping 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 (0)
Risk management frameworks	Risk-taking beyond limits in bank operations. Insufficient customer checks and risk of fraudulent customer behaviour.	Risk governance (-)
Control of sustainability issues	Risk of overlooking sustainability impacts in the bank's underwriting, operations, and customer base.	Risk governance (-) 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 Lidköping is 100% owned by its owner foundation, Sparbankstiftelsen Lidköping, whose main income comes from dividends from the bank. These dividends are used to fund various activities in the local community. The foundation has limited resources to support the bank.

**ISSUE RATINGS**

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

**SHORT-TERM RATING**

The 'N3' short-term rating is the lower of the two alternatives available under NCR's methodology, given the long-term issuer rating of 'BBB+'. This reflects the fact that the bank does not have direct

access to emergency liquidity assistance from the central bank, as well as its adequate average liquidity coverage ratio of 238% over the four quarters to 31 Mar. 2024.

#### METHODOLOGIES USED

- (i) [Financial Institutions Rating Methodology](#), 14 Feb. 2024.
- (ii) [Rating Principles](#), 14 Feb. 2024.
- (iii) [Group and Government Support Rating Methodology](#), 14 Feb. 2024.

#### RELEVANT RESEARCH

- (i) [Webinar: Det våras för sparbankerna](#) (Swedish only), 23 Apr. 2024
- (ii) [Swedish savings banks face weaker earnings and low loan growth in 2024](#), 6 Feb. 2024
- (iii) [Higher interest rates generate strong first-half earnings for Swedish saving banks](#), 26 Oct. 2023.
- (iv) [Swedish savings banks well positioned for economic downturn in 2023](#), 19 Dec. 2022.
- (v) [High real-estate exposure poses climate risk for Swedish and Norwegian banks](#), 12 Apr. 2022.
- (vi) [Swedish savings banks get dividend boost after solid 2020](#), 21 Jun. 2021.
- (vii) [Q&A: Swedbank judgement and share price impacts on Swedish savings banks](#), 23 Mar. 2020.

**Figure 20. Sparbanken Lidköping key financial data, 2021–2023**

Key credit metrics (%)	FY 2021	FY 2022	FY 2023
<b>INCOME COMPOSITION</b>			
Net interest income to op. revenue	38.9	51.2	64.1
Net fee income to op. revenue	26.4	22.5	17.0
Net trading income to op. revenue	0.6	-0.2	-0.5
Net other income to op. revenue	34.1	26.4	19.3
<b>EARNINGS</b>			
Net interest income to financial assets	1.3	1.5	2.1
Net interest income to net loans	1.8	2.2	3.0
Pre-provision income to REA	3.5	3.9	4.7
Core pre-provision income to REA (NII & NF&C)	1.7	2.3	3.4
Return on ordinary equity	7.0	6.0	6.7
Return on assets	1.9	1.6	1.9
Cost-to-income ratio	34.2	35.5	32.1
Core cost-to-income ratio (NII & NF&C)	52.4	48.1	39.6
<b>CAPITAL</b>			
CET1 ratio	35.8	34.6	39.7
Tier 1 ratio	35.8	34.6	39.7
Capital ratio	35.8	34.6	39.7
REA to assets	48.7	49.5	46.4
Dividend payout ratio	43.4	11.3	6.0
Leverage ratio	21.2	17.7	19.9
<b>GROWTH</b>			
Asset growth	13.0	8.1	5.3
Loan growth	8.0	13.3	8.6
Deposit growth	11.8	9.3	1.6
<b>LOSS PERFORMANCE</b>			
Credit provisions to net loans	-0.03	0.08	0.12
Stage 3 coverage ratio	50.03	16.65	21.57
Stage 3 loans to gross loans	0.20	0.28	0.09
Net stage 3 loans to net loans	0.10	0.24	0.07
Net stage 3 loans/ordinary equity	0.25	0.63	0.19
<b>FUNDING &amp; LIQUIDITY</b>			
Loan to deposit ratio	94.1	97.5	104.2
Liquid assets to deposit ratio	40.5	40.5	38.9
Net stable funding ratio	101.8	118.8	108.0
Liquidity coverage ratio	221.2	221.2	221.2
<b>Key financials (SEKm)</b>			
<b>BALANCE SHEET</b>			
Total assets	9,881	10,685	11,255
Total tangible assets	9,881	10,685	11,255
Total financial assets	9,479	10,621	11,192
Net loans and advances to customers	6,625	7,503	8,147
Total securities	2,585	2,562	2,583
Customer deposits	7,041	7,693	7,819
Issued securities	-	-	-
of which other senior debt	-	-	-
of which subordinated debt	-	-	-
Total equity	2,734	2,820	3,221
of which ordinary equity	2,734	2,820	3,221
<b>CAPITAL</b>			
Common equity tier 1	1,726	1,829	2,073
Tier 1	1,726	1,829	2,073
Total capital	1,726	1,829	2,073
REA	4,816	5,284	5,220
<b>INCOME STATEMENT</b>			
Operating revenues	298	303	365
Pre-provision operating profit	196	195	248
Impairments	-2	6	9
Net Income	177	166	203

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

**Figure 21. Sparbanken Lidköping 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%	bbb+
Credit risk	10.0%	bb+
Market risk	-	-
Other risks	2.5%	bbb+
Risk appetite	50.0%	a-
Competitive position	15.0%	bbb-
Earnings	7.5%	a-
Loss performance	7.5%	a-
Performance indicators	15.0%	a-
<b>Indicative credit assessment</b>		<b>bbb+</b>
Transitions		Neutral
Peer calibration		Neutral
Borderline assessments		Neutral
<b>Stand-alone credit assessment</b>		<b>bbb+</b>
Material credit enhancement		Neutral
Rating caps		Neutral
Support analysis		Neutral
<b>Issuer rating</b>		<b>BBB+</b>
Outlook		Stable
<b>Short-term rating</b>		<b>N3</b>

**Figure 22. Capital structure ratings**

Seniority	Rating
Senior unsecured	BBB+

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