

## Sparbanken Lidköping AB

Rating Action Report

## LONG-TERM RATING

BBB+

## OUTLOOK

Stable

## SHORT-TERM RATING

N3

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## Sparbanken Lidköping AB assigned 'BBB+' long-term issuer rating; Outlook stable

Nordic Credit Rating (NCR) said today that it had assigned a 'BBB+' long-term issuer rating to Sweden-based [Sparbanken Lidköping AB](#). The outlook is stable. At the same time, NCR assigned an 'N3' short-term issuer rating, as well as 'BBB+' issue ratings to Sparbanken Lidköping's senior unsecured bonds.

### Rating rationale

The long-term issuer rating reflects Sparbanken Lidköping'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 stable outlook reflects 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.

We could raise the rating to reflect improved economic prospects in the bank's core market, sustainable core pre-provision income to risk exposure amount above 2.5% and core cost-to-income ratio below 45%, or reduced single-name concentration in the loan book.

We could lower the rating to reflect a deteriorating operating environment leading to reduced regional growth, asset quality and collateral values. We could also lower the rating to reflect a sustained decline in the common equity Tier 1 (CET1) capital ratio to below 22%, or an increased risk appetite in the loan or liquidity portfolios.

### Rating list

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

**Figure 1. 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 2. Capital structure ratings**

Seniority	Rating
Senior unsecured	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 03 Jul. 2024.
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.
Primary analyst:	Ylva Forsberg, +46768806742, <a href="mailto:ylva.forsberg@nordiccreditrating.com">ylva.forsberg@nordiccreditrating.com</a>
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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:	<a href="#">NCR's Financial Institutions Rating Methodology published on 14 Feb. 2024</a> <a href="#">NCR's Rating Principles published on 14 Feb. 2024</a> <a href="#">NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024</a> 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 <a href="https://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> . The historical default rates of entities and securities rated by NCR will be viewed on <a href="#">the central platform (CEREP) of the European Securities and Markets Authority (ESMA)</a> .
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, 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: <a href="https://nordiccreditrating.com/governance/policies">https://nordiccreditrating.com/governance/policies</a>
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: <a href="https://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> .
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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