

Varbergs Sparbank AB (publ)

Rating Action Report

LONG-TERM RATING

A

OUTLOOK

Stable

SHORT-TERM RATING

N2

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Varbergs Sparbank long-term issuer rating raised to 'A'; Outlook stable

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

Rating rationale

The rating action reflects our view that Varbergs Sparbank has demonstrated prudent loan-book management and risk governance through a period of uncertainty and turbulence in the national and regional operating environment. We expect that the bank's asset quality metrics will remain strong, in part due to prudent past provisioning that is now serving as a cushion against the risk of additional losses. We also expect that the bank will be able at least partly to maintain recent improvements in its earnings metrics due to high interest rates even as interest rates fall. While we consider that risk in the Swedish property management sector has abated somewhat, we continue to view it as elevated.

We have raised our assessments of Varbergs Sparbank's loss performance and risk governance, reflecting our expectations of strong asset quality metrics over our forecast period through 2026, as well as the bank's proactive risk management.

The rating continues to reflect Varbergs Sparbank's exceptionally strong capitalisation, high proportion of secured lending, and history of strong asset quality. A cooperation agreement with Swedbank AB provides material diversification of the product offering, shared IT costs, and the opportunity to finance retail mortgages via Swedbank Hypotek AB.

The rating is constrained by Varbergs Sparbank's regional and sectoral concentration. While the bank's core market, Varberg municipality, has a diverse business sector, the bank faces geographic concentration risk, combined with sectoral concentration due to significant exposures to the property segment, both private and corporate.

Stable outlook

The stable outlook reflects our view that Varbergs Sparbank will maintain a prudent risk appetite despite our expectation that it will utilise its excess capital to grow. We expect that the bank will be able to protect some of a recent increase in risk-adjusted earnings if interest rates fall, as we expect. We believe that the bank's prudent provisioning will protect against any significant losses despite a risk of increasing non-performing loans in the construction sector. We further believe that the regional economy will continue to perform in line with, or better than, the domestic average and that Sweden does not face a major recession.

An upgrade is unlikely at this time, given the bank's regional and sectoral concentration.

We could lower the rating to reflect a decline in core earnings (core cost-to-income around 60% and risk-adjusted earnings around 2%). We could also lower the rating to reflect a material deterioration in the regional operating environment or increased risk appetite, or material changes in the bank's cooperation with Swedbank.

Rating list

	To	From
Long-term issuer credit rating:	A	A-
Outlook:	Stable	Positive
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+
Risk governance	5.0%	a	a-
Capital	17.5%	aa	aa
Funding and liquidity	15.0%	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	a
Loss performance	7.5%	a	a-
Performance indicators	15.0%	a	a-
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		Stable	Positive
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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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 14 Feb. 2024 NCR's Rating Principles published on 14 Feb. 2024 NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024 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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