

Sörmlands Sparbank AB (publ)

Rating Action Report

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N2

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Sörmlands 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 [Sörmlands Sparbank](#) to 'A-' from 'BBB+'. The outlook is stable. At the same time, we raised the short-term issuer rating to 'N2' from 'N3'. The senior unsecured issue rating was raised to 'A-' from 'BBB+'.

Rating rationale

The rating action reflects our view that Sörmlands Sparbank's steady gains in its earnings and asset quality have strengthened the bank's overall creditworthiness. We view more positively the bank's loss performance given its continued progress with legacy loan resolution and our projections for declining net non-performing loans and modest credit losses in our forecast period through 2026. We expect that the bank will maintain some of its recent progress in its earnings metrics, even as interest rates fall, given its focus on tighter cost efficiency. These improvements have occurred while the bank strengthened its capital position. We have raised our assessment of the bank's capital given that we expect further improvement in its common equity Tier 1 (CET1) capital ratio to above 30%.

The rating continues to reflect Sörmlands Sparbank's exceptional capital position, moderate risk appetite, 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 mortgages. We expect the bank's recent improvements in core earnings, cost efficiency and projected dividend revenues from holdings of Swedbank shares to continue to complement capital generation.

The rating is constrained by the relative volatility of the bank's local market in the county of Södermanland due to its historical role as a key manufacturing region. We anticipate that credit risk will remain elevated but expect losses to remain modest over the next two years as the bank steadily reduces non-performing loans and recovers loss provisions associated with legacy credit losses.

Stable outlook

The outlook is stable, reflecting our view that Sörmlands Sparbank's capital and improved earnings provide solid buffers for managing an economic downturn in its core markets. Downside credit risks associated with commercial and residential real estate in the region remain given the weak economy. We consider these risks to be manageable in light of the bank's solid capital position. Although we project increasing capital ratios, we believe that the bank may use its excess capital resources to support increased growth by reducing its share of transferred loans or expanding its lending.

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

We could lower the rating to reflect a material deterioration in the regional operating environment, leading to weaker asset quality, core pre-provision earnings sustainably below 1.5% of the risk exposure amount or a sustained reduction in the CET1 ratio to below 25%.

Rating list

	To	From
Long-term issuer credit rating:	A-	BBB+
Outlook:	Stable	Positive
Short-term issuer credit rating:	N2	N3
Senior unsecured issue rating:	A-	BBB+

Figure 1. Sörmlands Sparbank rating scorecard

Subfactors	Impact	To	From
National factors	10.0%	a-	a-
Regional, cross border, sector	10.0%	bb+	bb+
Operating environment	20.0%	bbb	bbb
Risk governance	5.0%	bbb+	bbb+
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-	bbb
Performance indicators	15.0%	a-	bbb+
Indicative credit assessment		a-	bbb+
Transitions		Neutral	Neutral
Peer calibration		Neutral	Neutral
Borderline assessments		Neutral	Neutral
Stand-alone credit assessment		a-	bbb+
Material credit enhancement		Neutral	Neutral
Rating caps		Neutral	Neutral
Support analysis		Neutral	Neutral
Issuer rating		A-	BBB+
Outlook		Stable	Positive
Short-term rating		N2	N3

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	A-	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 02 Nov. 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, 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: https://nordiccreditrating.com/governance/policies
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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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