

Sparbanken Skaraborg AB (publ)

Rating Action Report

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N2

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Sparbanken Skaraborg AB (publ) 'A-' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating said today that it had affirmed its 'A-' long-term issuer rating on Sweden-based savings bank [Sparbanken Skaraborg AB \(publ\)](#). The outlook is stable. The 'N2' short-term issuer rating and the 'A-' senior unsecured issue rating were also affirmed.

Rating rationale

The affirmation reflects continued performance largely in line with our expectations. Sparbanken Skaraborg has benefited from still-high interest rates, despite recent declines. Together with modest loan growth, these have boosted capitalisation from already high levels. In February 2024, the bank issued a first senior unsecured bond since 2020. While we expect the bank to have limited need for market funding, we view the issue as a positive diversification of financing.

In the third quarter of 2024, Sparbanken Skaraborg reported a sharp increase in net Stage 3 loans, which returned to levels of 1.5-2% of total net lending last seen in 2018-2020. The bank has relatively high exposure to agriculture, a sector that generally provides strong collateral but faces periods of weak cash flows. While we expect modest, if any, realised losses from the bank's elevated Stage 3 loans, we have revised our assessment of loss performance to reflect a risk that such loans could remain at current levels.

The long-term issuer rating reflects Sparbanken Skaraborg's moderate risk appetite, solid 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.

The rating is constrained by Sparbanken Skaraborg's relatively weak core markets and significant exposure to regional commercial real-estate and agriculture. It is also constrained by our ongoing concerns about real-estate collateral values, and the bank's competitive position as it focuses on customers outside its core markets.

Stable outlook

The stable outlook reflects our expectation that Sparbanken Skaraborg's strong capitalisation and improved earnings are sufficient to offset the possibility of higher loan losses following sharp increases in Stage 3 lending in 2024. The outlook also reflects our base-case expectation that the proportion of Stage 3 lending will decline from 2025, and that current levels of Stage 3 lending will not lead to significant realised losses. It further reflects our expectation that the regional economy where the bank operates will remain relatively weak for most of 2025. We expect the bank to improve its already strong capital ratios due to modest credit growth and prudent dividend payments to its owner, and to maintain its relationship with Swedbank.

A higher rating is unlikely at this time as earnings and capitalisation are already strong.

We could lower the rating to reflect continued elevated Stage 3 loans (1.5-2% of total net loans over a protracted period), a deteriorating operating environment leading to reduced regional growth, asset quality and collateral values, or a decline in the common equity Tier 1 capital ratio to below 22%.

Rating list

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

Figure 1. Sparbanken Skaraborg rating scorecard

Subfactors	Impact	To	From
National factors	5.0%	a-	a-
Regional, cross border, sector	15.0%	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%	bb+	bb+
Earnings	7.5%	a	a
Loss performance	7.5%	bbb+	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	Stable
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 01 Feb. 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.
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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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