Nordic Credit Rating

FINANCIAL INSTITUTION

Sweden
17 Dec. 2024

Sparbanken Västra Mälardalen

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N3

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Sparbanken Västra Mälardalen 'BBB+' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB+' long-term issuer rating on Sweden-based savings bank Sparbanken Västra Mälardalen. The outlook is stable. At the same time, NCR affirmed its 'N3' short-term issuer rating and 'BBB+' senior unsecured issue rating.

Rating rationale

The affirmation reflects Sparbanken VM's continued performance in line with our expectations. We expect that earnings metrics will fall in our forecast period through 2026 as interest rates decline, but that the bank will maintain stronger ratios than in recent years while achieving moderate loan growth. Together, we believe these factors will prompt further strengthening of the bank's capital ratios, to above 35% in our forecast, including the likely impact of the upcoming implementation of the EU's Capital Requirements Regulation III.

The long-term rating continues to reflect Sparbanken VM's low risk appetite and relationship-based deposit profile, as well as its cooperation arrangement with Swedbank AB. Given the bank's stable loss performance through recent turbulent years, and our expectations of modest Stage 3 non-performing loans and loan losses, we have revised our assessment of the bank's loss performance. The rating continues to be constrained by the bank's concentrated exposure to the Västra Mälardalen region, which has historically demonstrated volatility associated with its key role as a manufacturing centre.

Stable outlook

The stable outlook reflects our expectation that Sparbanken VM will maintain stronger earnings metrics than historically even as they decline from their peak. It also reflects our expectations of stable asset quality metrics and continued strengthening of capital ratios. In addition, it factors in likely negative population growth and muted economic growth in the bank's core markets and the bank's modest risk appetite. Lastly, the outlook incorporates Sparbanken VM's continuing relationship with Swedbank and expected increased credit losses in our forecast.

We could raise our rating on the bank if we observe a material improvement in local economic conditions and growth prospects in the bank's market, with core risk-adjusted earnings maintained above 2.5% and core cost-income below 50%.

We could lower our rating on Sparbanken VM if we see a more significant downturn in its operating environment than we currently expect, negatively affecting asset quality, loan growth, and/or funding access. We could also lower the rating to reflect a material deterioration in asset quality metrics or a decrease in the common equity capital ratio to below 22%.

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

Figure 1. Sparbanken VM rating scorecard

Subfactors	Impact	To	From
National factors	5.0%	a-	a-
Regional, cross border, sector	15.0%	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%	bb+	bb+
Earnings	7.5%	a	a
Loss performance	7.5%	a	a-
Performance indicators	15.0%	a	a-
Indicative credit assessment		**bbb+**	**bbb+**
Transitions		Neutral	Neutral
Peer calibration		Neutral	Neutral
Borderline assessments		Neutral	Neutral
Stand-alone credit assessment		**bbb+**	**bbb+**
Material credit enhancement		Neutral	Neutral
Rating caps		Neutral	Neutral
Support analysis		Neutral	Neutral
Issuer rating		**BBB+**	**BBB+**
Outlook		Stable	Stable
Short-term rating		**N3**	**N3**

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BBB+	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 09 Jan. 2019.
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
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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