Nordic Credit Rating

Sparbanken Västra Mälardalen

Rating Action Report

LONG-TERM RATING

BBB+

Watch Positive

SHORT-TERM RATING

N3

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Sparbanken Västra Mälardalen 'BBB+' long-term issuer rating placed on watch positive

Nordic Credit Rating has placed its 'BBB+' long-term issuer rating on Sweden-based savings bank Sparbanken Västra Mälardalen on watch positive following the announcement of a merger agreement with Sparbanken Rekarne AB (publ) ('A-' long-term issuer rating). The 'N3' short-term issuer rating and the 'BBB+' senior unsecured issue rating were also placed on watch positive.

Rating rationale

The watch placement follows the announcement on 24 Jan. 2025 that Sparbanken VM and Sparbanken Rekarne have entered into a conditional merger agreement. The boards of both banks, as well as the owners of Sparbanken Rekarne (Sparbanksstiftelsen Rekarne and Swedbank AB) have all indicated support for the merger. The transaction should be completed by Q4 2025 and must receive formal approval from Sparbanken VM's principal representatives. Approval from the Swedish Financial Supervisory Authority (*Finansinspektionen*) and competition authority (*Konkurrensverket*) is also required, which we consider likely given recent approvals of similar mergers between Swedish savings banks.

Technically, Sparbanken VM will be merged into Sparbanken Rekarne. Sparbanksstiftelsen Rekarne (30%), a newly formed Sparbanken VM ownership foundation (40%), and Swedbank (30%) will own the combined bank. Given that Swedbank is an owner in the merged bank, Sparbanken VM will have to divest its 3.1 million Swedbank shares.

The announced link-up of the two banks would enhance their competitive position and provide diversification by expanding the bank's core market. The combined bank's market would serve approximately 180,000 people across five municipalities, covered by six offices. It would rank among Sweden's four largest savings banks. As of Q3 2024, the merged bank would have a total balance sheet of SEK 30bn, with an additional SEK 10bn in transferred mortgages. Joint business volumes would total around SEK 85bn, placing it second among savings banks. We believe the merging banks expect the transaction to improve growth opportunities.

We expect the combined bank will have a significantly lower capital ratio than Sparbanken VM (32% as of year-end 2024). We note, however, that the banks have communicated their aim for a capital ratio above 24% post-merger. While merger-related costs might initially hamper efficiency, we anticipate the merged bank will maintain strong earnings in the long run.

On a stand-alone basis, our 'BBB+' long-term issuer rating on Sparbanken VM continues to reflect the bank's low risk appetite and relationship-based deposit profile, as well as its cooperation arrangement with Swedbank AB. The rating is 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.

Watch positive

The watch placement reflects our view that Sparbanken VM's merger with Sparbanken Rekarne, currently rated 'A-' by NCR, would create a stronger bank. The merged entity would gain a larger market with better growth prospects, an enhanced competitive position, and greater business diversity. Additionally, we anticipate the merger would diversify the bank's risk profile and exposures, thereby reducing geographic credit risk concentrations. We also recognise the advantage of adding a strong owner like Swedbank to the ownership group. We expect to resolve the watch placement upon notice of all necessary approvals, or if the merger agreement is terminated.

We could raise the rating to reflect approval of the merger from Sparkbanken VM's principal representatives and the relevant authorities and confirmation that the merger will take place.

We could affirm the rating and assign a stable outlook if the transaction is not approved as we expect, or it is otherwise terminated.

Related publications
i) Sparbanken Västra Mälardalen 'BBB+' long-term issuer rating affirmed; Outlook stable, 17 Dec. 2024.
ii) Sparbanken Rekarne AB (publ) 'A-' long-term issuer rating affirmed; Outlook stable, 13 Dec. 2024.
iii) NCR Comments: Ratings for Swedish savings banks unchanged after Swedbank's revised dividend policy, 23 Jan 2025.

Rating list	**To**	**From**
Long-term issuer credit rating:	BBB+	BBB+
Outlook:		Stable
Watch:	Watch Positive	
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
Watch		Watch Positive	
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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