Nordic
Credit
Rating

Swedish savings banks steadfast amid increasing headwinds

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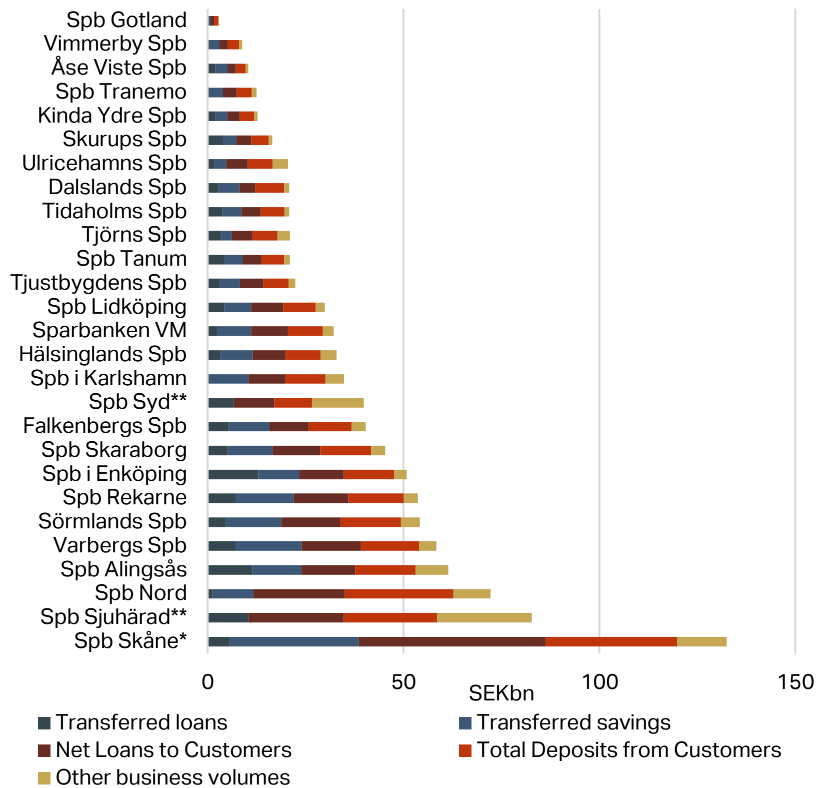
Summary

- We review developments in the Swedish savings bank sector in 2024, and present our expectations for 2025 onwards. We also focus on the Swedbank collaboration.
- Our sample consists of 27 Swedish savings banks, including Sparbanken Syd which is not part of the Swedish Savings Bank Association.
- 2024 was characterised by continued strong profitability, despite net interest margins reducing from their peak in 2023. Consequently, growth was stable but muted and capitalisation remained strong for the sector. Many banks reported net reversals of loss provisions.
- While the Swedish savings bank sector is generally characterised by high capital ratios, they vary considerably between banks. We found a strong connection between a bank's capitalisation and its shareholding in Swedbank–potentially connected to the magnitude of dividend accumulation each year.
- 2025 has been characterised by a high degree of uncertainty, which is likely to continue. We are not overly concerned about asset quality in the savings bank sector. However, prudency in underwriting will be key as banks may face lower loan demand than we expect through 2025.

Business volumes, 2024



Source: bank reports. *Spb Skåne volumes divided by two. **Do not report transferred savings.

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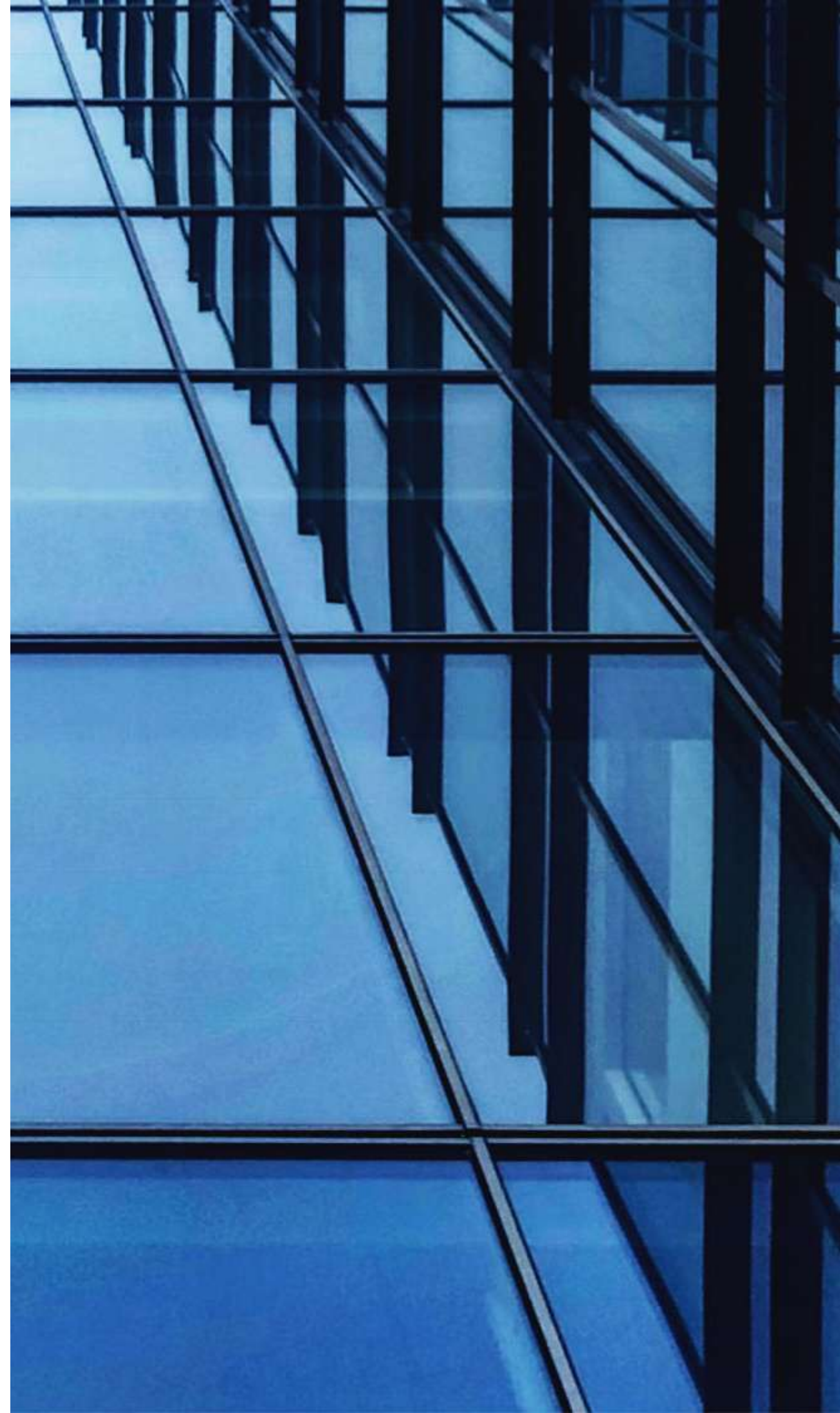
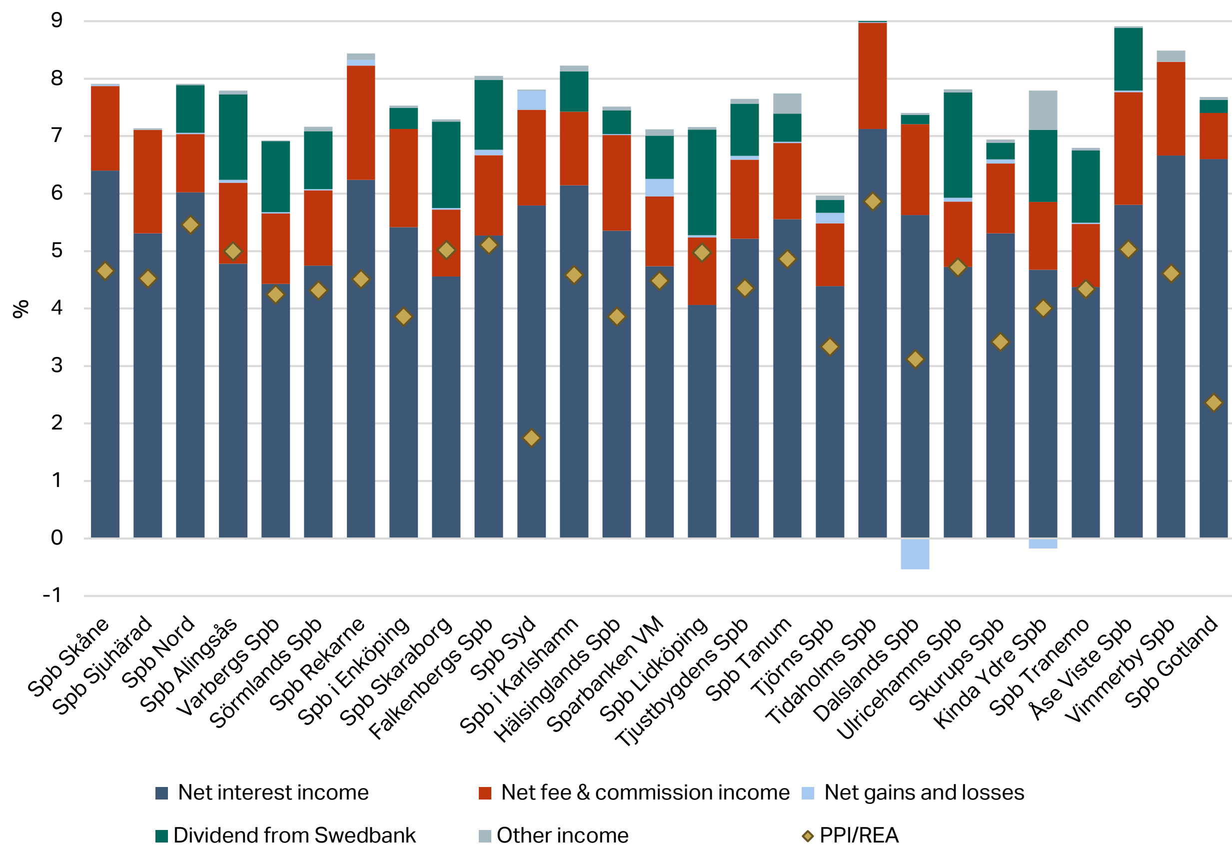


Profitability remained strong in 2024

Despite net interest margins peaking in 2023

- 2024 marked another strong year for Swedish savings banks, with average risk-adjusted earnings at 4.4%.
- A significant contributing factor for most banks was dividends received from Swedbank.
- Net interest margins peaked in 2023, but strong capital market returns in 2024 have boosted banks' net fee and commission income.

Income by risk exposure amount, 2024



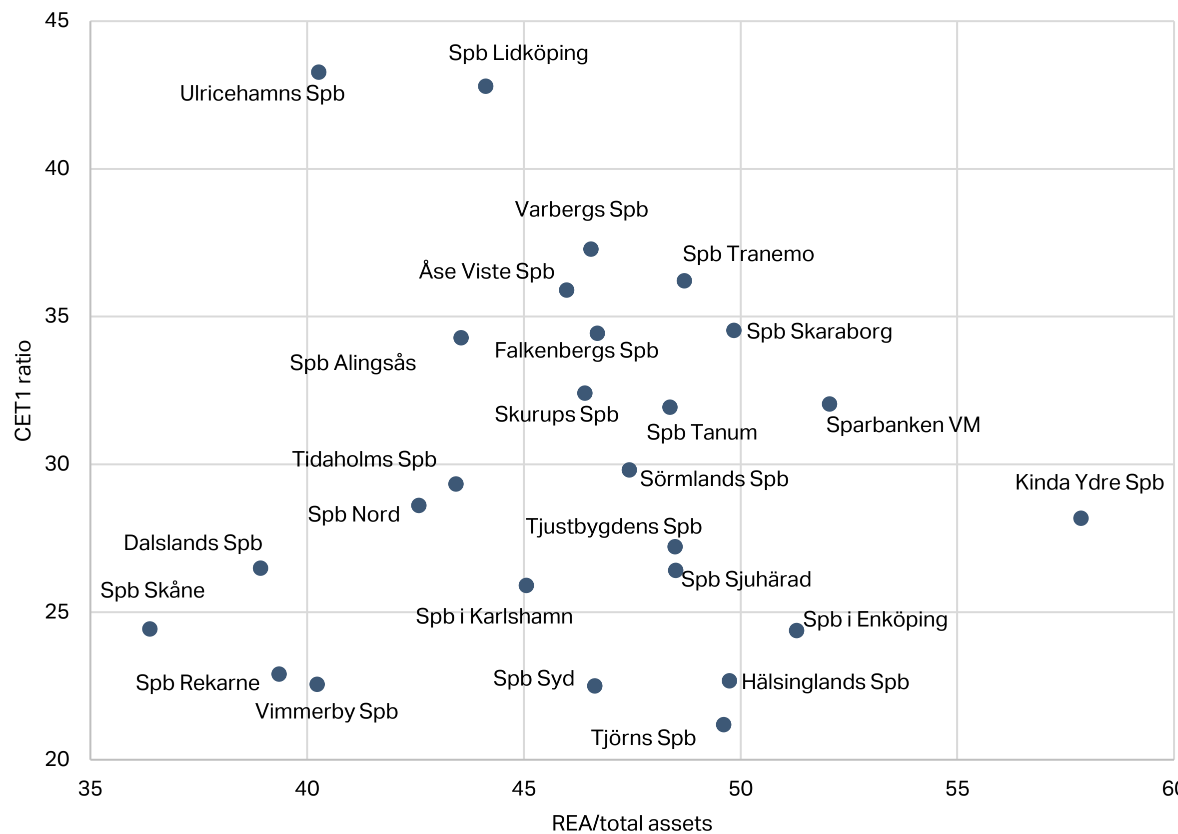
Source: bank reports.

Strong capitalisation in the sector

Most banks improved their capital ratios in 2024

- Swedish savings banks are generally very well capitalised but this varies considerably between banks.
- Due to the lack of traditional dividends, and limited payouts to the savings banks foundations, the recent years' strong earnings have supported capital ratios.
- There is no clear connection between average risk weight for the banks. One reason could be differences in dividend payouts received from Swedbank.
- Pillar 2 guidance varies considerably between banks, with an average guidance of 2.9% in our sample. This leads to an average CET1 requirement of 10.5%, which is far from the lowest capital ratio in our sample.

Capital metrics, 2024



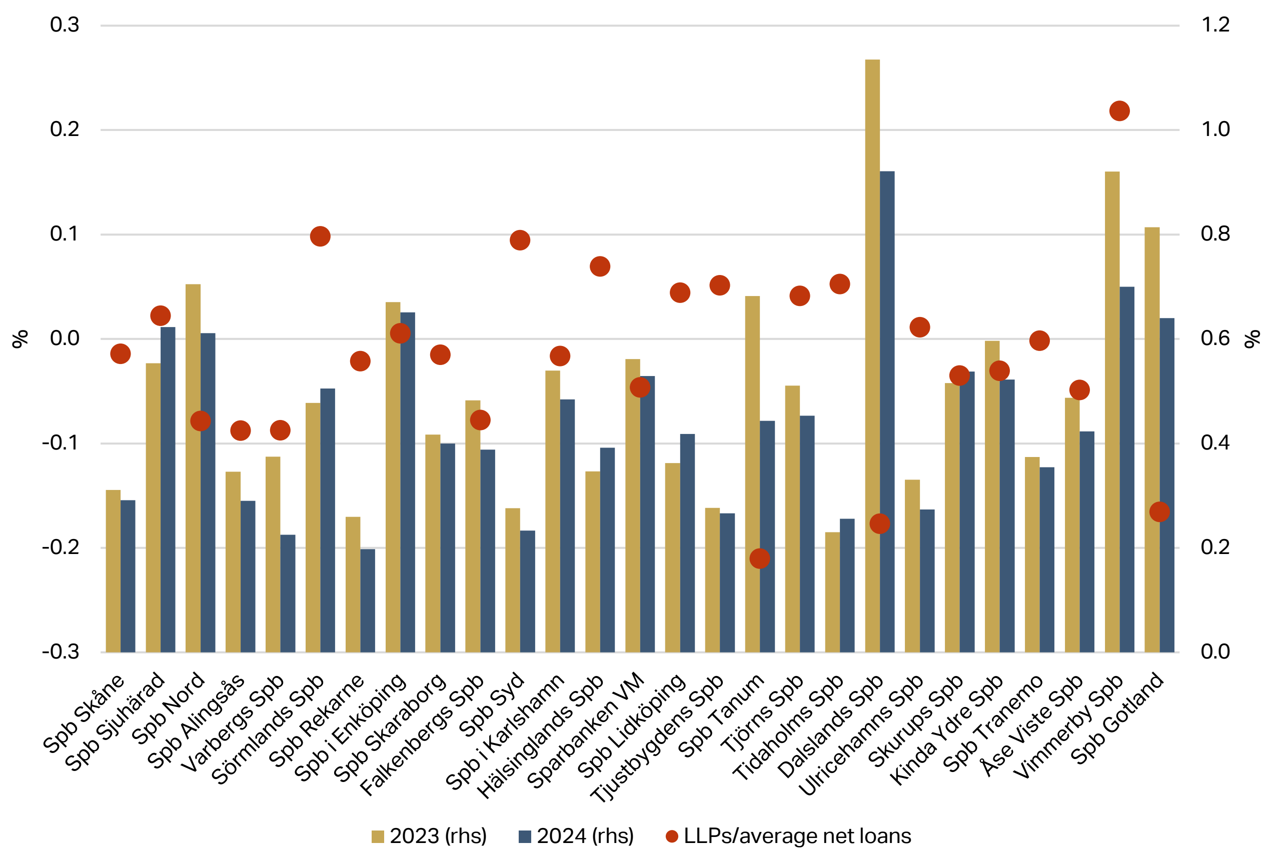
Source: bank reports. CET1-common equity tier 1. REA – average risk weight of assets.

Reservations decrease as outlook improves

Majority of our sample banks reported net loss reversals in 2024

- 2024 was a fairly quiet year for asset quality– many banks reported net loss reversals due to lowered, or zeroed out, extraordinary provisions.
- For our sample, average loss provisions were close to zero.
- Changes in the share of net Stage 3 loans to total lending between 2024 and 2023 varied more between banks. Savings banks' asset quality metrics can be sensitive to movements in individual exposures due to the bank's relatively small size.
- While it can be of concern if issues persist in these exposures, low loan-to-values in the loan book generally protect against larger realised losses.

Loss reserves as a share of gross loans, 2023-2024

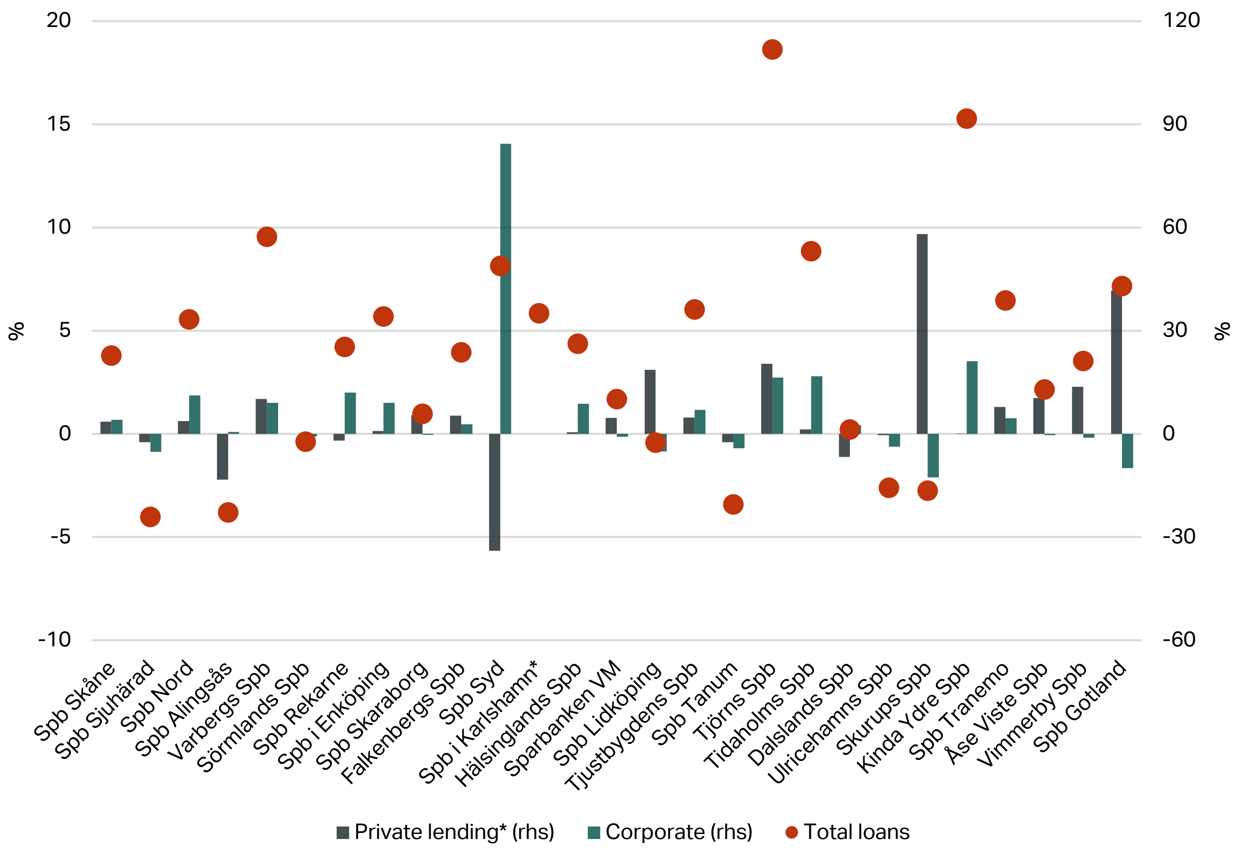


Source: bank reports.

Solid loan growth in a year of muted demand

- Average loan growth on-balance was 3.9% in 2024, with 20 of 27 sample banks reporting positive loan growth.
- Including transferred mortgages, average total loan growth was roughly half of on-balance growth.
- Average loan growth rate of lending to property management was 8.5% in 2024. Average loan growth rate of lending to households and tenant associations was at 6% in 2024, outpacing average total loan growth.
- Mortgage growth likely supported by a shift in strategy to keep more loans on-balance, as opposed to transferring to covered bond companies.

On-balance loan growth per segment, 2023 to 2024

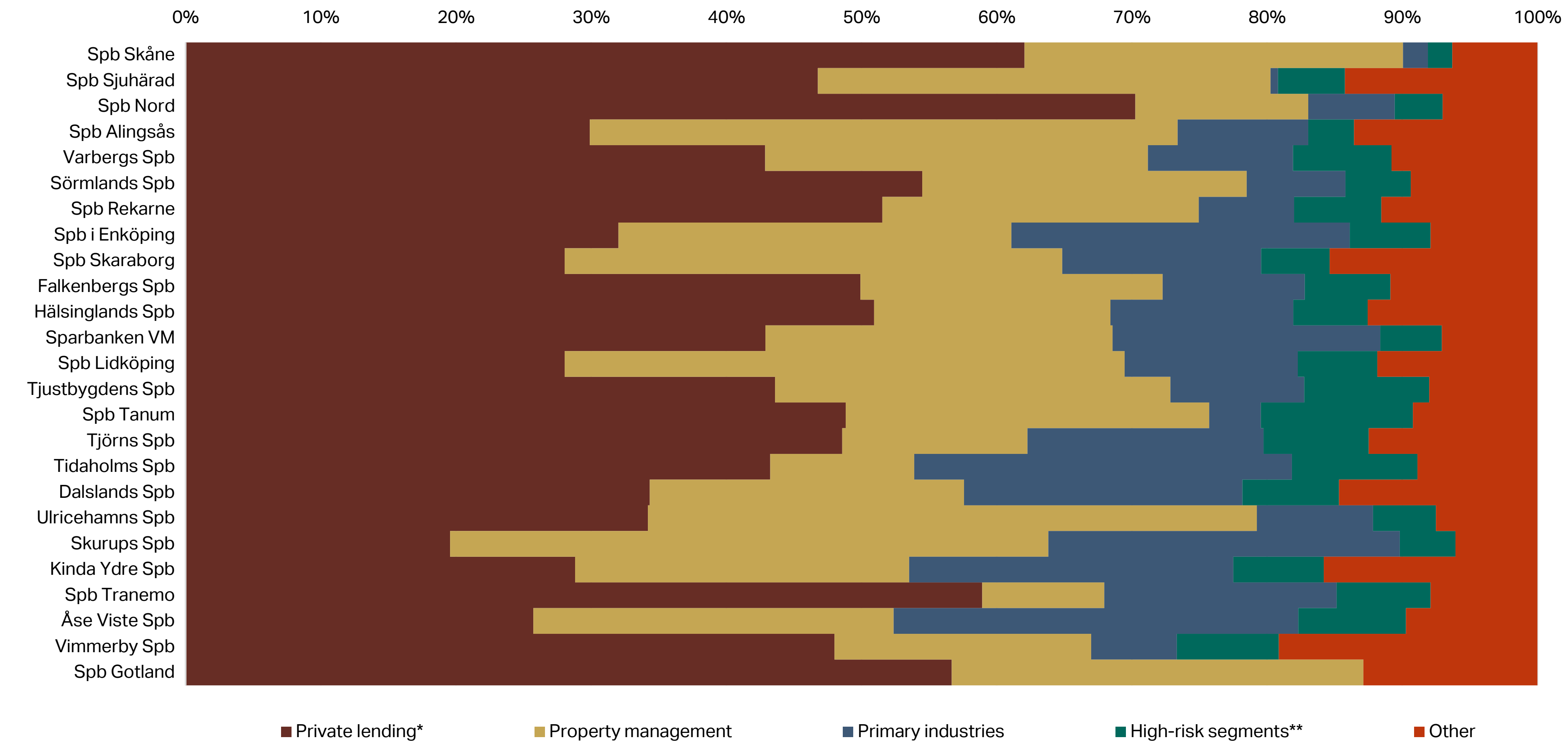


Source: bank reports. *mortgages, other lending to individuals, and loans to tenant associations. **construction, retail, and hotel & service.
Spb i Karlshamn and Spb Syd do not report detailed sector split.

Loan split largely similar between banks

On-balance retail lending related to share of transferred mortgages

Income split over risk exposure amount, 2024



Source: bank reports. *mortgages, other lending to individuals, and loans to tenant associations. **construction, retail, and hotel & service. Spb i Karlshamn does not report on segment split.

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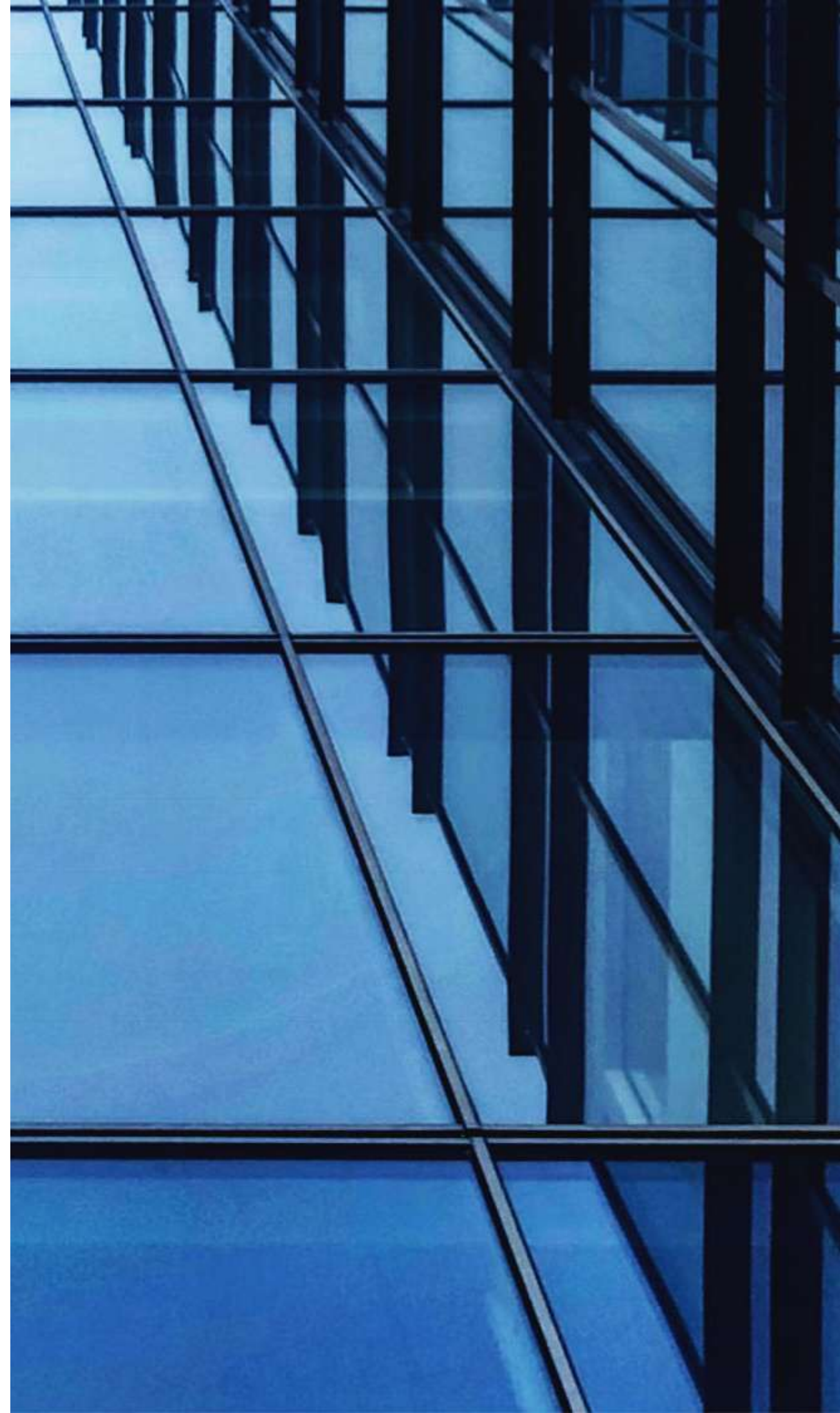
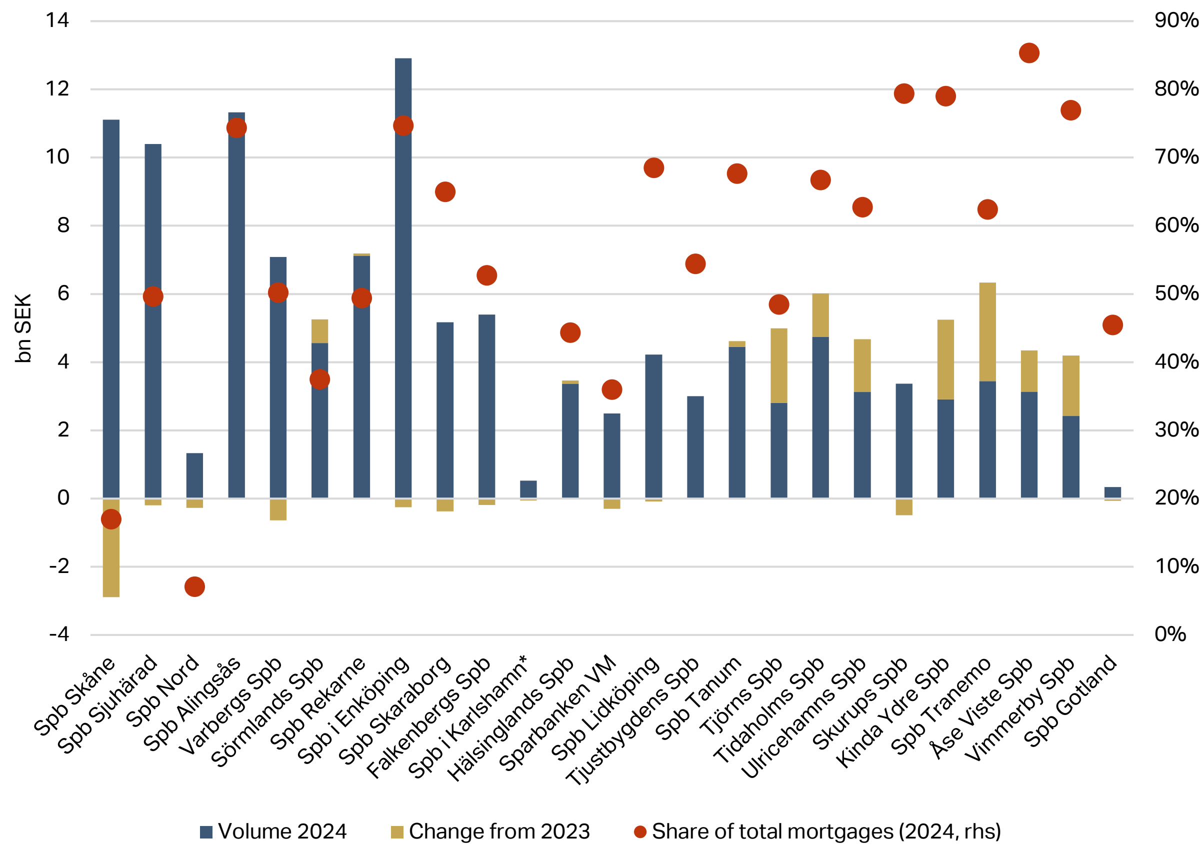


Use of Swedbank Hypotek varies

Low profitability implies use is related to funding strategy

- All Swedbank-affiliated savings banks use Swedbank's covered bond company, Swedbank Hypotek AB, as a funding source*. Retail mortgages are transferred to Swedbank Hypotek, including a risk transfer outside of banks' commission income.
- While the transfer system is a good source of funding for the banks, income from transferred loans has sunk sharply since 2022. The average margin on transferred loans for the banks in our sample was only 0.46% in 2024. Comparatively, the average net margin on retail mortgages** was 1.1%.
- Nonetheless, several of the banks in our sample increased their volume of transferred mortgages in 2024 (positive beige bars). In our view, this is likely connected to weak, or uncertain, deposit growth leading banks to transfer mortgages in order to free up internal funding for corporate lending.

Volume of transferred loans among Swedbank-affiliated banks



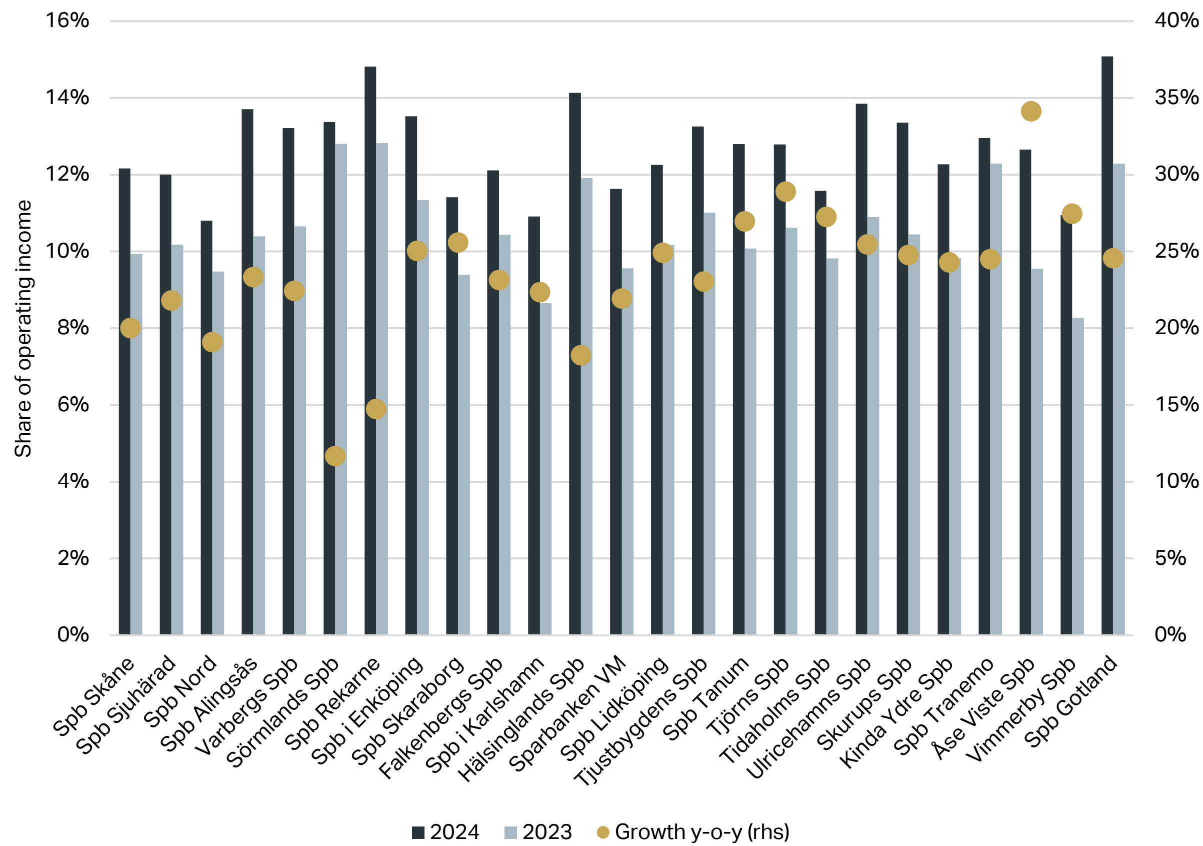
Source: bank reports. *Sparbanken Syd is not affiliated with Swedbank. **average retail mortgage margin with deposit funding, according to the Swedish Financial Supervisory Authority.

Joint IT-costs grow rapidly

Nonetheless, we believe the cooperation with Swedbank supports cost efficiency

- Part of the cooperation between the savings banks and Swedbank consists of joint IT systems. We generally view this as positive, as it enables the savings banks to split costs and have a more robust IT infrastructure.
- However, this collaboration also implies that IT costs are largely out of the control of the individual bank. In recent years, IT cost growth has accelerated. In 2024 it was on average equal to 13% of core income*, compared with an average core cost-income ratio of 48%.
- Average IT cost increased by 23% in 2024 compared to 2023 (range 12–34%). We expected more modest cost growth in 2024. Consequently, it is difficult to predict specific cost growth for 2025.
- While IT growth is high, we believe it is partly due to ever-increasing demands and expectations on IT infrastructure for financial institutions. This may just be the reality that banks need to adapt to.

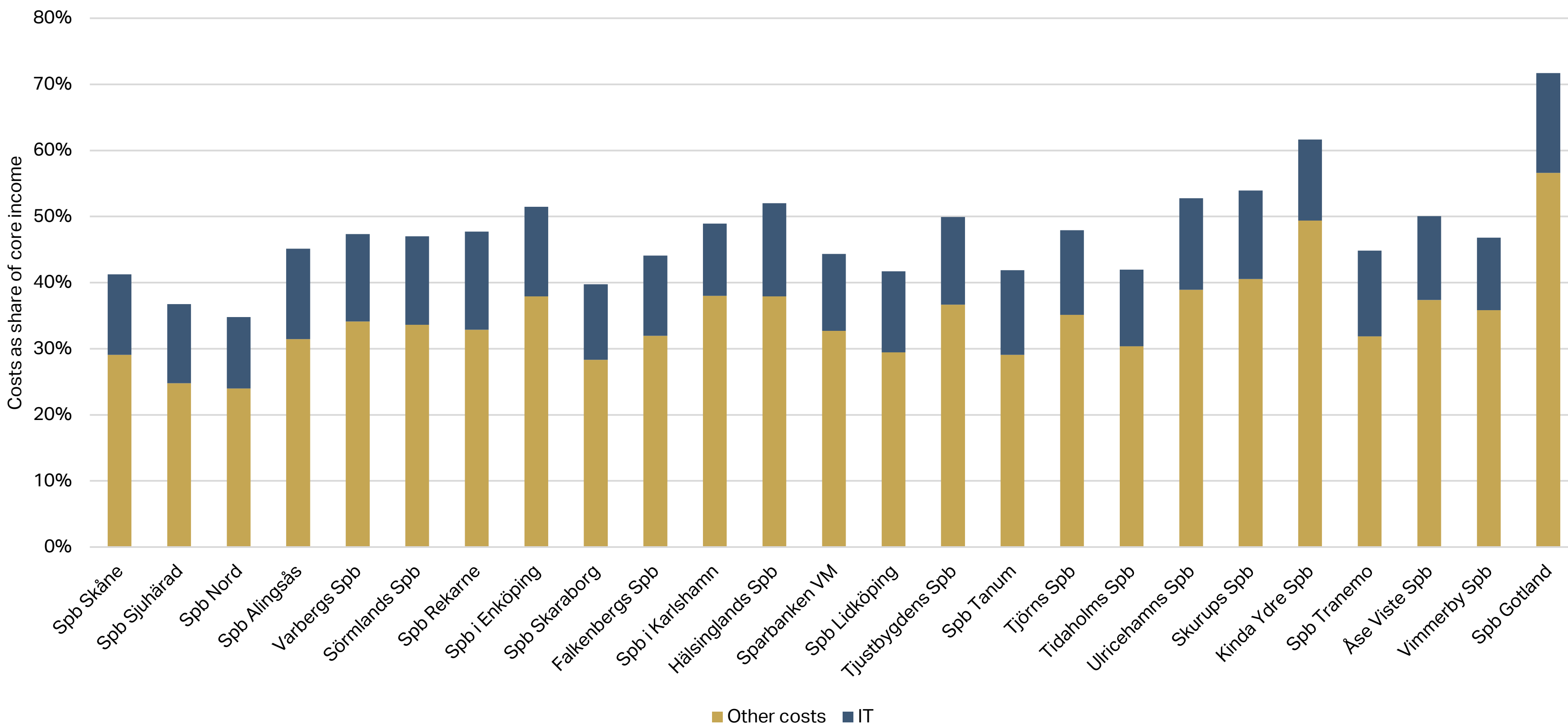
Reported IT costs as a share of core operating income*



Source: bank reports. *net interest income and net fee & commission income.

IT costs comprise around a quarter of operating costs

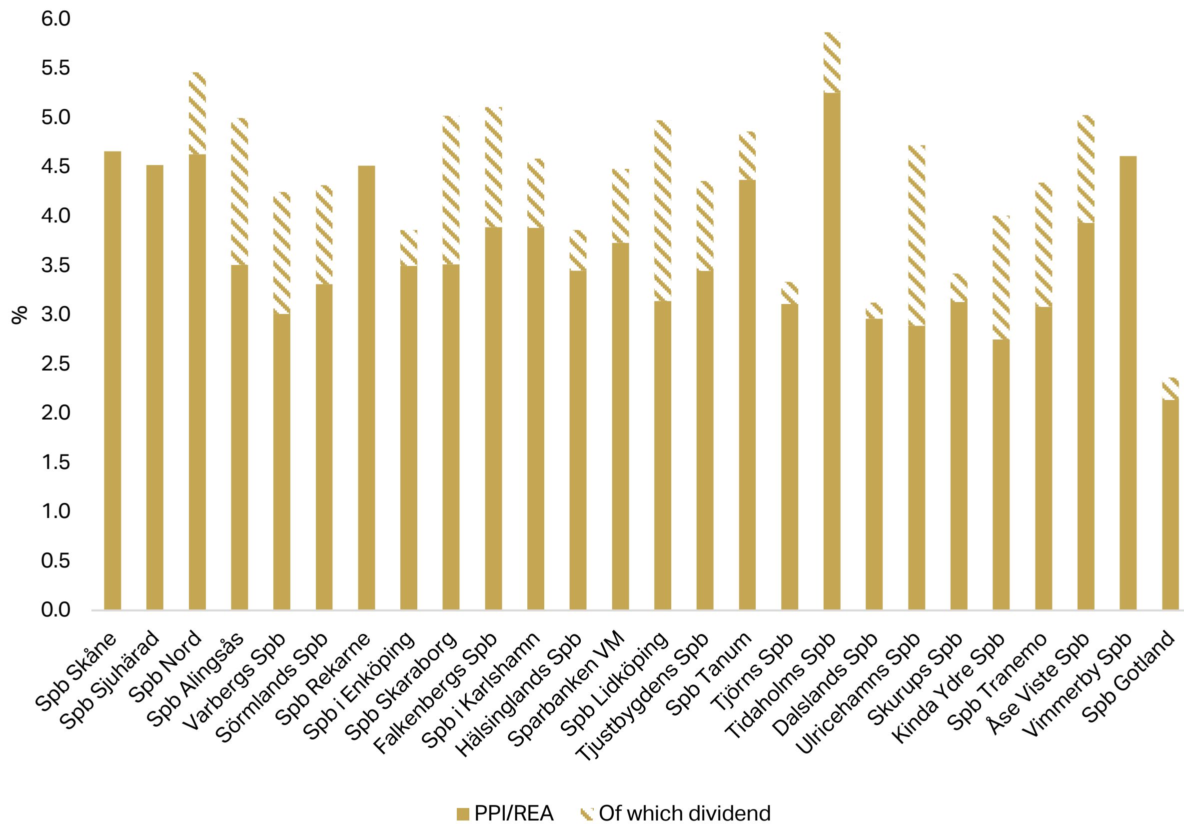
Core cost-income ratio split between IT costs and other costs, 2024



Source: bank reports.

Dividends from Swedbank support earnings

- An important factor in the Swedbank connection is the savings banks' ownership . Of our sample of banks in the Swedish Savings Bank Association (excluding Sparbanken Syd), four* are owned by Swedbank and do not hold shares of their own.
- The remaining banks hold shares to varying degrees and receive dividends from Swedbank–significantly boosting earnings.
- In early 2025, Swedbank revised its dividend policy to 60–70% of net profits, from 50% previously, implying an increase in payout for the banks of 20–40%, all else being equal. Dividends for the fiscal year 2024, paid in March 2025, were 43% higher than in 2023.
- We believe Swedbank will cancel or significantly reduce its dividends if the investigation by U.S. authorities results in a fine. The timing of this remains uncertain.



Source: bank reports, NCR calculations. *Five in total, the last being Ölands Sparbank.
PPI-pre-provision income. REA-risk exposure amount.

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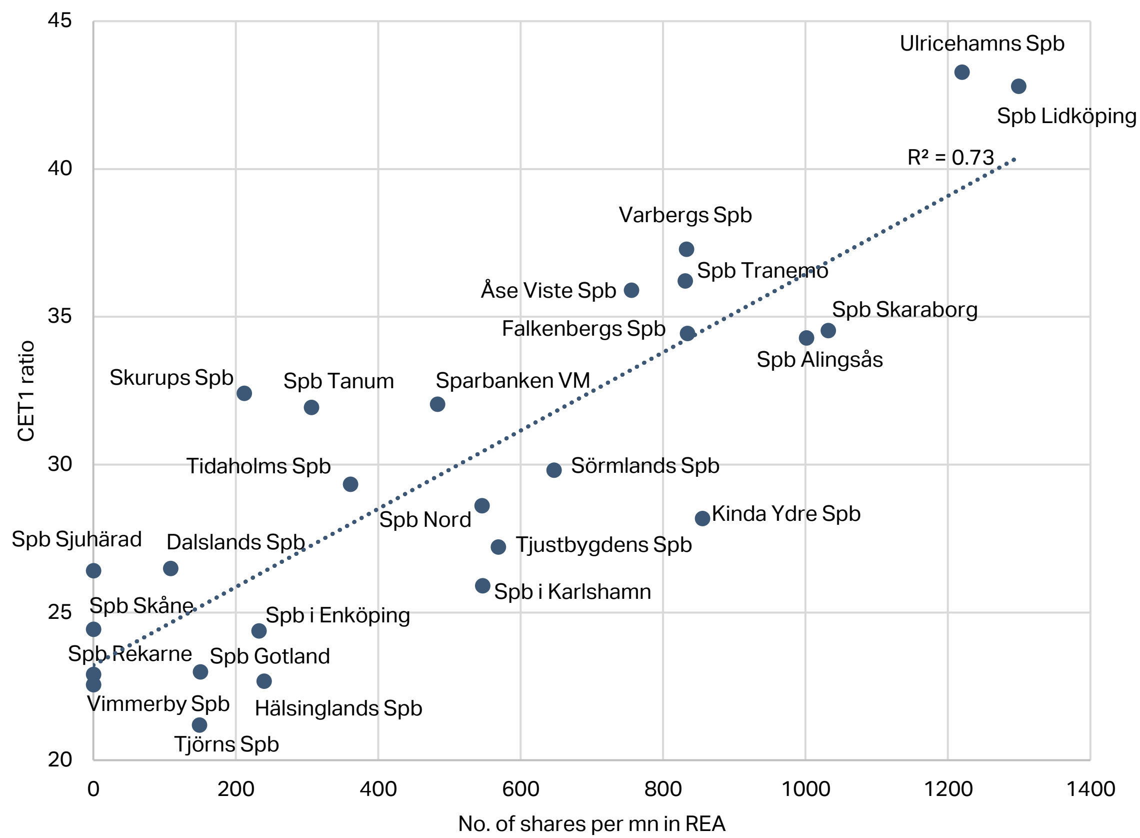
Swedbank shares could be a capital driver

Size-weighted shareholdings appear to be related to capitalisation

- We tend to exclude Swedbank's dividends when assessing tand comparing a banks' earning capacity, due to the lack of control. Nonetheless, they support the bank's capitalisation.
- Swedish savings banks' capital ratios have generally benefitted from improved earnings since interest rates started rising in 2022, as well as gaining an additional boost from the SME rebate. The average CET1 (slightly smaller sample of 22 banks) reached 30.3% at end-2024, up from 21.5% at end-2018.
- However, there is a clear connection between savings banks with exceptional capital ratios and the number of Swedbank shares they own in relation to their size.
- Banks can only include the market value of their Swedbank shares in their capital corresponding to 10% of standalone capital, limiting the impact of share price volatility on capitalisation. In our view, the correlation between the banks' Swedbank shares and capitalisation is likely connected to the accumulation of dividends. However, a growing capital base implies that more of the share market value can be included as well, compounding the effect. There could also be an effect of banks with strong earnings increasing their holdings in Swedbank shares.

Swedish savings banks' CET1 ratios vs holdings in Swedbank, 2024



Source: bank reports, NCR calculations. SME-small and medium enterprises.

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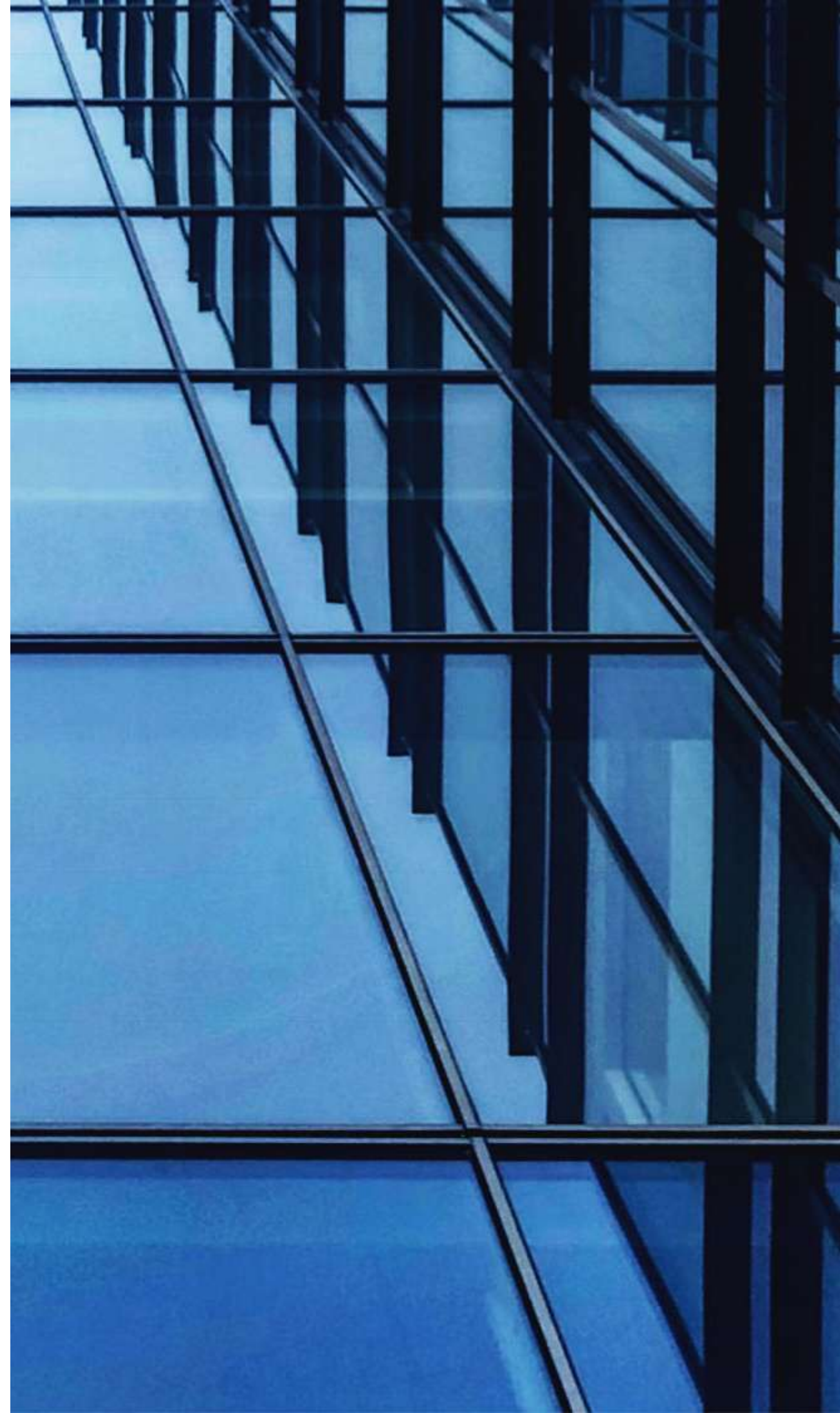
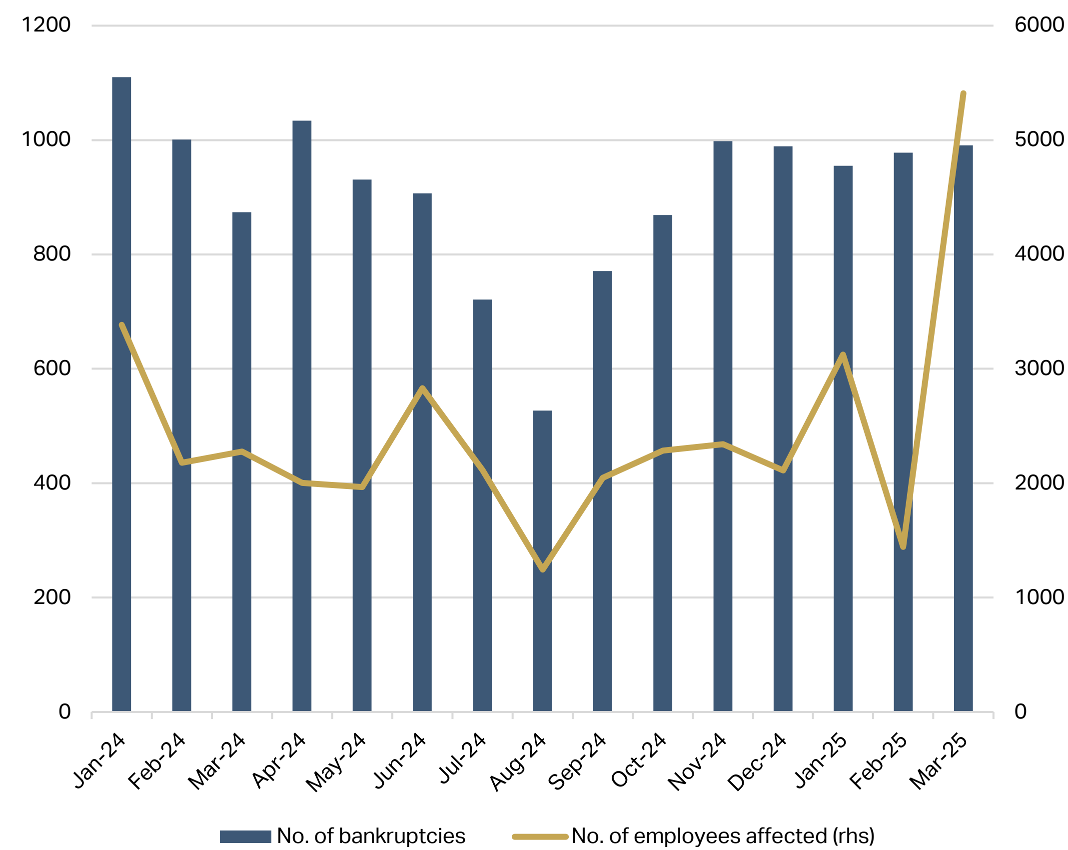


Economic uncertainty clouds prospects

- Following hopes of an improved outlook among companies and households in 2025, uncertainty over global economic development has cast a cloud over this optimism.
- Effects of the simmering trade conflict between the U.S. and most of the world remains unclear, particularly for smaller companies and households not directly impacted by tariffs. We believe the uncertainty alone is likely to dampen loan demand both for corporates and households.
- However, for corporates, these effects could be smaller than we initially expected as many have waited to invest since interest rates started rising in 2022. Prudency in underwriting will be key as banks may be keen on accelerating growth after a couple of sluggish years.
- While most households are unlikely to be directly affected by U.S. tariffs, uncertainty tends to reduce willingness to assume more debt, e.g. through moving to a larger home. We believe that many smaller Swedish towns will continue to experience sluggish housing price growth due to limited population growth expectations. Consequently, many of the savings banks may have to focus on growing market shares in order to increase their mortgage volumes in coming years.

Bankruptcy statistcs, Jan. 2024-Mar. 2025



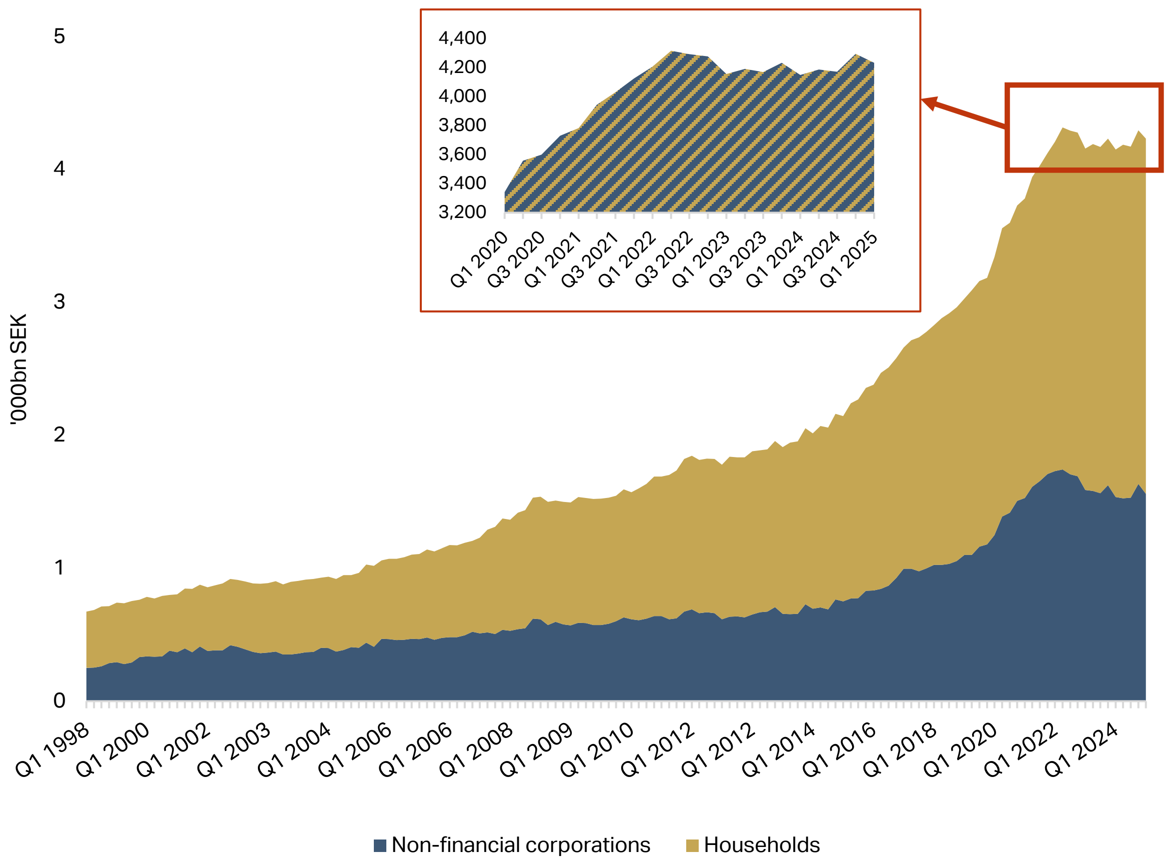
Source: Swedish Growth Agency. Note that the Northvolt bankruptcy occurred in March 2025, resulting in the sharp increase in number of employees affected.

Trend break in deposit growth since 2022

But there are signs that growth may return.

- In second-half 2022, after over two decades of continous deposit growth in the Swedish banking system, the deposit volume dropped.
- While there were no massive outflows, we believe this trend break is cause for concern for the deposit-reliant savings banks. Corporate, and especially household, deposits had been a highly reliable source of funding and while neo- and digital banks had tightened competition, supply was ever-growing.
- We believe the muted loan demand during the same period decreases the concern over reduced available funding.
- However, we believe this trend break highlights the risk of being over-reliant on a single funding source, particularly if the bank is looking to increase lending. We have seen three new savings banks entering/returning to the bond markets, and believe we will see further diversification of funding/access to back-up funding in the sector.
- Plummeting capital markets may lead to improved household deposit growth from second-quarter 2025, as risk-averse individuals withdraw from markets.

Deposit volume in the Swedish banking system, Q1 1998-Q1 2025



Source: Statistics Sweden.

2025 – so far and outlook

- So far, reports for the first quarter of 2025 have been undramatic.
- Comments are largely characterised by global economic uncertainty. However, given that this uncertainty accelerated in early second quarter, the effect remains uncertain. Single-name and sector impacts associated with tariffs are expected.
- We expect policy and market rates to continue to fall, although the magnitude is dependent on the uncertain macroeconomic development. However, we expect rates to remain well-above zero, which would continue to support profitability in the savings bank sector.
- CRR3 came into effect at the start of 2025, with the first reported period in first quarter. We saw a somewhat positive effect for the banks, as we expected. However, we believe the banks are cautious in over-estimating the positive impact of CRR3, and consequently there may be more gains reported as they grow more confident in their calculations. CRR3 reduces the capital advantage for IRB banks vs standardised banks, supporting growth.

Subfactors	Sparbanken Alingsås	Sparbanken Lidköping	Sparbanken Skaraborg	Sparbanken Rekarne	Sparbanken Västra Mälardalen	Sörmlands Sparbank	Varbergs Sparbank
National factors	a-	a-	a-	a-	a-	a-	a-
Regional, cross border, sector specifics	bbb+	bbb-	bbb-	bbb-	bb+	bb+	bbb+
Operating environment	bbb+	bbb	bbb	bbb	bbb-	bbb	bbb+
Capital	aa	aa	aa	a+	aa	aa	aa
Funding and liquidity	a-	a-	a	a	a	a	a
Risk governance	bbb+	bbb+	a-	a	bbb+	bbb+	a
Credit risk	bb+	bb+	bbb-	bbb-	bbb-	bbb-	bbb-
Market risk**	-	-	-	-	-	-	-
Other risks	bbb+	bbb+	a	a	a	a	a
Risk appetite	a-	a-	a	a-	a	a	a
Competitive position	bbb	bbb-	bb+	bbb	bb+	bbb	bbb+
Earnings	a	a-	a	a	a	a-	a
Loss performance	a	a-	bbb+	a	a	a-	a
Performance indicators	a	a-	a-	a	a-	a-	a
Indicative credit assessment	a-	bbb+	a-	a-	bbb+	a-	a
Peer comparisons	0	0	0	0	0	0	0
Standalone credit assessment	a-	bbb+	a-	a-	bbb+	a-	a
Support analysis	0	0	0	0	0	0	0
Issuer rating	A-	BBB+	A-	A-	BBB+	A-	A
Outlook	Stable	Stable	Stable	Stable	Watch Positive	Stable	Stable

CRR3 – Capital Requirements Regulations III. IRB-internal ratings-based model.

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