Nordic Credit Rating

FINANCIAL INSTITUTION

Sweden
13 Nov. 2025

Varbergs Sparbank AB (publ)

Full Rating Report

LONG-TERM RATING

A

OUTLOOK

Stable

SHORT-TERM RATING

N2

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RATING RATIONALE

Our 'A' long-term issuer rating on Sweden-based Varbergs Sparbank AB reflects the bank's exceptionally strong capitalisation and prudent loan portfolio management. Varbergs Sparbank has a high proportion of secured lending and a history of strong asset quality. The bank has a cooperation agreement with Swedbank AB, which provides material diversification of its product offering, shared IT costs, and the opportunity to finance retail mortgages via Swedbank Hypotek AB. We view this cooperation as significant because it supports Varbergs Sparbank's earnings, market position, product offering, funding and liquidity.

Varbergs Sparbank is based in Varberg municipality, on Sweden's west coast. While the Varberg region has a diverse business sector, the bank faces concentration risk in its local region, combined with significant exposure to the property segment, both private and corporate. The bank's earnings metrics have improved substantially over the past year due to high interest rates, but we expect them to stabilise at a slightly weaker level than those of its more profit-driven peers.

STABLE OUTLOOK

The outlook is stable, reflecting our view that Varbergs Sparbank will maintain a prudent risk appetite despite our expectation that it will utilise its excess capital to grow. We expect that risk-adjusted earnings will fall due to lower interest rates, but not to pre-2022 levels. We believe that following a period of reversing loss provisions, asset quality metrics will stabilise at strong levels. We further believe that the regional economy will continue to perform in line with, or better than, the domestic average and that Sweden does not face a major recession.

POTENTIAL POSITIVE RATING DRIVERS

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

POTENTIAL NEGATIVE RATING DRIVERS

- A decline in core earnings, with core cost-to-income around 60% and risk-adjusted earnings around 2%.
- A material deterioration in the regional operating environment or increased risk appetite.
- Material changes in the bank's cooperation with Swedbank.

Figure 1. Key credit metrics, 2021–2027e

%	2021	2022	2023	2024	2025e	2026e	2027e
Net interest margin	1.17	1.53	2.38	2.17	1.83	1.77	1.75
Loan losses/net loans	-0.30	0.27	-0.07	-0.09	-0.07	0.05	0.05
Pre-provision income/REA	3.0	3.4	4.7	4.5	4.3	3.8	3.5
Core pre-provision income/REA	1.5	2.2	3.7	3.2	2.3	2.2	2.1
Core cost-to-income	59.5	53.9	42.6	47.4	56.4	59.2	61.0
Return on ordinary equity	7.6	5.7	8.2	7.7	6.5	5.0	4.7
Loan growth	1.6	2.1	3.9	9.7	4.2	5.4	5.5
CET1/Tier 1 ratio	30.8	34.4	37.1	37.3	42.8	43.3	43.5

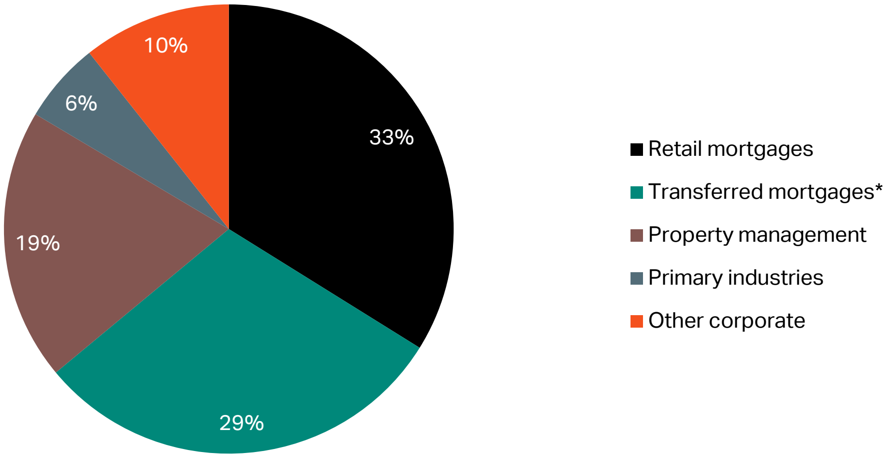
Source: company and NCR. e–estimate. REA–risk exposure amount. CET1–common equity Tier 1. All metrics adjusted in line with NCR methodology. Core represents net interest income and net fee & commission income.

ISSUER PROFILE

Varbergs Sparbank is one of Sweden's largest savings banks, with a total of SEK 59.7bn in business volumes (assets, including transferred loans, plus volumes of external and other off-balance-sheet products) and SEK 15.5bn in net lending on its own books, as of 30 Sep. 2025. The bank has three branch offices, all of which are located in Varberg municipality in Halland county on the west coast of Sweden. The bank is owned by Sparbanksstiftelsen Varberg, a foundation, which over time receives 20% of its profit as dividends. These are reinvested in the bank's area of operations to support local sports, cultural activities, business, research, education, and various regional associations.

Varbergs Sparbank has a history of cooperation with Swedbank, which enables material product diversification and shared IT costs, and provides the opportunity to finance retail mortgages via Swedbank Hypotek, Sweden's largest issuer of covered bonds.

Figure 2. Gross loans by sector/type (including transferred loans), 30 Sep. 2025



Source: company.*to Swedbank Hypotek AB.

OPERATING ENVIRONMENT

Operating environment

We consider a balance of national and regional factors in our assessment of the operating environment. Varbergs Sparbank operates in a regional market, with a high proportion of its exposures associated with the local economy, which has lower unemployment than the national average.

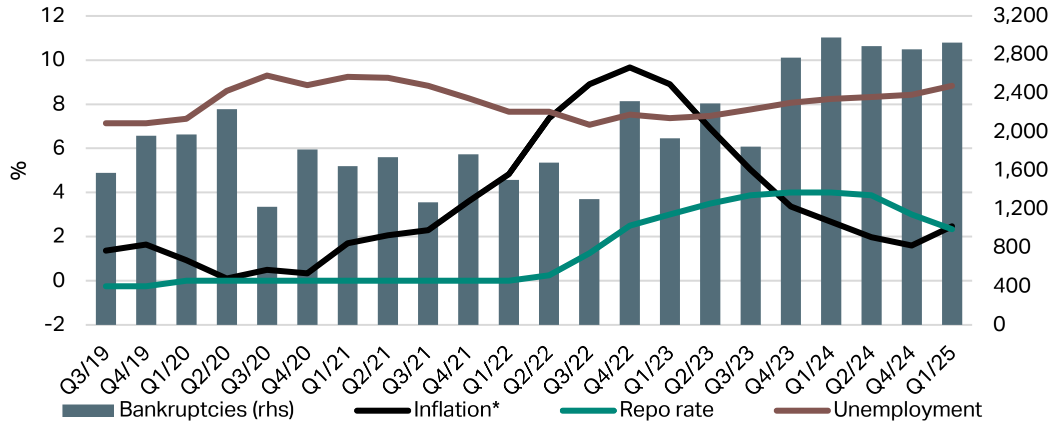
National banking environment is stable amid global turmoil

National banking environment

We expect the Swedish banking environment to remain stable through the end of 2025 and going into 2026, supported by modest GDP growth and possible decreases in unemployment. Although the central bank has gradually lowered policy rates, we do not anticipate further reductions at this time, which should help earnings remain above pre-2022 levels across the sector. Gradual improvements in investor sentiment and a slow pick-up in house prices are likely to support loan demand, enabling balance sheet growth. Proposals to relax mortgage requirements could further boost the housing market once implemented.

Global trade, geopolitical and economic uncertainty are expected to constrain credit growth in the near term. Lower interest rates should boost disposable income and encourage corporate investment. Banks are likely to experience a rebound in retail deposit growth, but ongoing competition and tighter margins suggest that net interest margins have peaked.

Figure 3. Swedish economic indicators, Q3 2019–Q1 2025



Sources: Swedish Agency for Growth Policy Analysis, Statistics Sweden, Swedish Public Employment Service, Riksbanken. *CPIF - with fixed interest rate.

Adequate risk limits and rigorous underwriting standards remain important for banks. While immediate concerns for the real estate sector have eased, rising vacancies continue to pose risks. Construction and development growth is weak, and the construction sector faces particularly high risk. However, we anticipate that actual loan losses will remain manageable, supported by high securitisation backing conventional bank lending to the real estate sector.

Regional economy resilient

Regional assessment

Despite its relatively small size, Halland county has a diverse economy, with significant service and public sectors, as well as agriculture and tourism. The region is more reliant on retail and trade than the Swedish average, making it more sensitive to economic cycles. Varberg has above-average exposure to the energy sector due to a major nuclear power plant in the area. Planned investments in the plant are expected to create up to 8,000 jobs, providing a notable boost to the local economy, even if not all workers relocate to Varberg. Aside from these key employers, the Varberg region generally reflects the broader Swedish economy. The municipality has approximately 69,000 inhabitants, with the population projected to reach nearly 77,000 by 2040. This projection does not account for potential effects from the power plant investments.

Figure 4. Core markets

Municipality	Population, 2024	Expected population change, 2024–2040	Unemployment, Sep. 2025	Unemployment, Sep. 2024
Varberg	69,020	11.5%	4.1%	4.2%
Sweden	10,577,720	4.1%	6.9%	6.8%

Source: Statistics Sweden, Swedish Public Employment Service.

RISK APPETITE

Risk appetite assessment

Varbergs Sparbank's low risk profile reflects the bank's substantial capital and liquidity buffers, high proportion of diverse retail deposits, access to market funding and ability to transfer loans to Swedbank. The bank has natural portfolio concentrations in its local real-estate market and the agricultural sector, but relatively low single-name concentrations.

Risk governance proportional to structural complexity

Risk governance

While its operations are less complex than those of larger banks, Varbergs Sparbank's risk framework is well developed and integrated into its credit processes and business planning. In our view, the bank has a modest risk appetite and rigorous limit framework, and proactive risk management that sets it apart from peers. Varbergs Sparbank has a relatively high standard of internal reporting of its risk appetite and limits. The bank has four front-office employees responsible for combatting money laundering and cooperates with Swedbank on this issue.

We view the bank's management of environmental, social and governance (ESG) factors as satisfactory, given its size, complexity and impact.

Capital growth rate set to lower somewhat – at exceptional levels

Capital

Varbergs Sparbank's CET1 ratio was 40.7% as of 30 Sep. 2025, excluding year-to-date profits. We expect the ratio will climb to 42.8% by year-end as 80% of net profits are added. We forecast further increases, resulting in a projected CET1 ratio of 43.5% in 2027. We consider this to be outstanding, even within the highly capitalised Swedish savings bank sector. Varbergs Sparbank's capital requirements were 13.5% as of 30 Sep. 2025, or 15.9% including 2.5pp of internal Pillar 2 requirements.

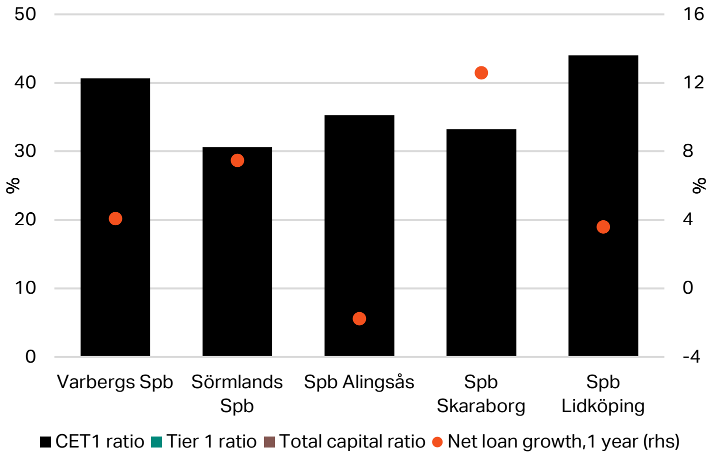
We expect on-balance-sheet loan growth to be slightly higher over the forecast period compared with recent years. This includes a continued gradual repatriation of retail mortgages from Swedbank Hypotek and a modest increase in market loan demand. Our projections include an annual dividend of 20% of net profit, consistent with the bank's target. We do not anticipate extraordinary dividends, as the bank is expected to prioritise liquidity to support growth.

Figure 5. Capital projection assumptions

	2025e	2026e	2027e
Loan growth	4.2%	5.4%	5.5%
Dividend rate	20%	20%	20%
Swedbank dividend	177m	145m	141m

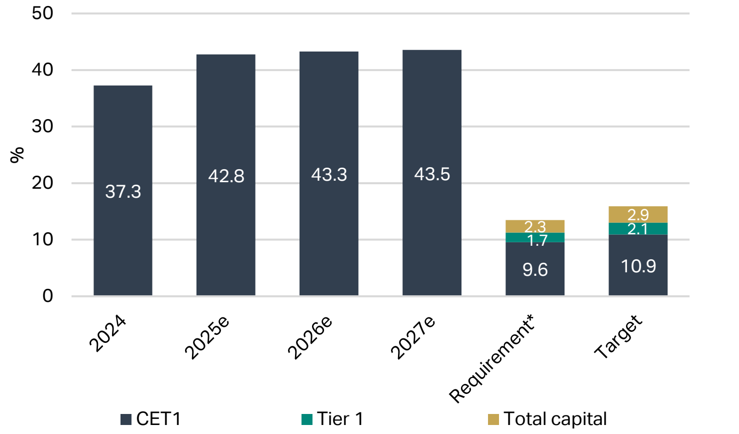
Varbergs Sparbank's regulatory capital base excludes holdings of Swedbank shares which exceed 10% of its CET1. As of 30 Sep. 2025, the bank's capitalisation would have been 34.7% if the full market value of the Swedbank shares had been deducted from its capital base.

Figure 6. Swedish savings banks' capital ratios and loan growth, 30 Sep. 2025



Source: bank reports.

Figure 7. Capital ratios 2024–2027e, capital requirements as of Q3 2025



Source: company. e-estimate. *including Pillar 2 Guidance of 1%.

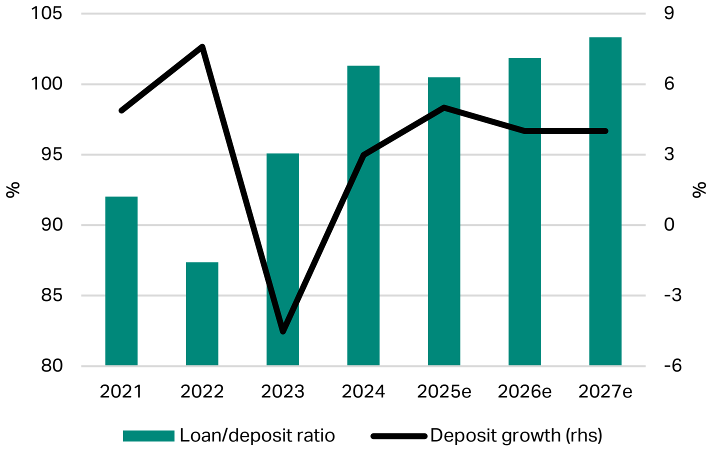
Deposits expected to largely keep pace with loan growth

Funding and liquidity

We consider Varbergs Sparbank's management of funding and liquidity reserves to be satisfactory. As of 30 Sep. 2025, the bank's liquidity coverage ratio was 413%, and its net stable funding ratio was 147%. Varbergs Sparbank is mainly financed through retail deposits and equity, and also has approximately SEK 1bn in senior unsecured debt outstanding. We expect loan growth to slightly exceed deposit growth in our forecast, but the loan-to-deposit ratio should remain below the bank's policy threshold of 105%.

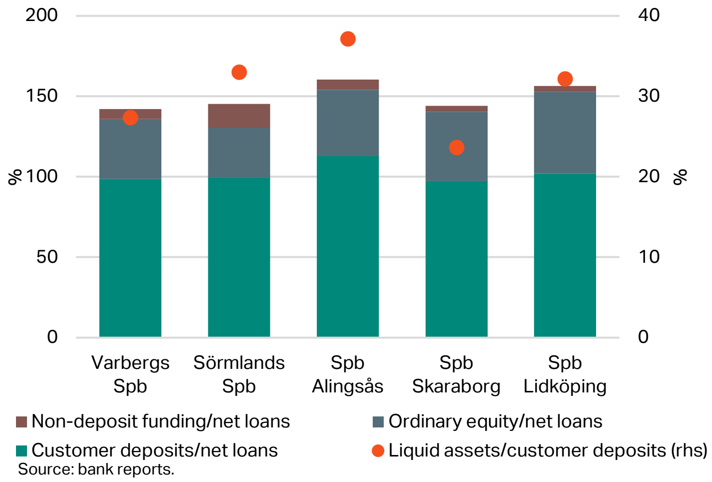
Varbergs Sparbank has historically funded a significant share of its retail mortgages by transferring them to Swedbank Hypotek. As of 30 Sep. 2025, the bank had SEK 6.7bn in transferred mortgages, a decrease of nearly 8% from the same time a year ago. We expect this trend to persist, reflecting low profitability in transferred mortgages. However, the ability to transfer mortgages continues to provide a reliable source of liquidity for the bank.

Figure 8. Deposit metrics, 2021-2027e



Source: company. e-estimate.

Figure 9. Swedish savings banks' funding, 30 Sep. 2025



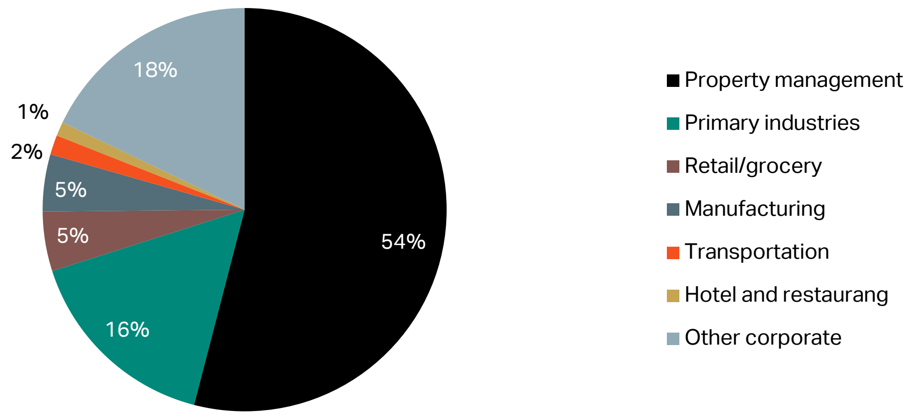
Source: bank reports.

Credit and market risk

Loan book contains geographic and real-estate concentrations

Varbergs Sparbank's regional operations result in geographic concentration. The bank's exposures are primarily to local property, with approximately 85% of on-balance-sheet loans linked to residential, commercial, or agricultural properties. The total share of mortgages (including transfers) has remained around 65% of total lending, but the proportion of retail mortgages on balance has increased in recent years as the bank has adjusted its strategy. As of 30 Sep. 2025, retail mortgages accounted for 48%, up from 43% at end-2022. This strategy may change, depending on contract negotiations with Swedbank AB regarding transfer provisions; however, we currently expect the trend to continue.

Figure 10. Corporate gross loans by sector (excluding transferred loans), 30 Sep. 2025



Source: company.

Varbergs Sparbank's lending is focused on private individuals and SMEs with primary operations in the bank's core markets, which intensifies the geographic concentration of the loan book. Due to the relatively large proportion of mortgage lending, the bank has moderate single-name concentration compared with some domestic savings bank peers. Larger exposures are primarily to local property managers, including some residential development. Lending to the agricultural sector is particularly diverse, with a high proportion of lending extended to family-owned farms and some forestry operations. Despite the significance of tourism in the Varberg region, direct lending to the sector is modest. While uncertainty in the property management sector has abated somewhat as interest rates have stabilised, we continue to view risk in the industry as elevated.

We do not directly consider the mortgage loans transferred to Swedbank Hypotek in our assessment of the bank's credit risk. The bank only bears first-loss risk on these loans, through reduced commission in the event of loan write-downs. As the bank currently has a net cost for transferred mortgages, the risk is virtually non-existent.

We do not consider market risk to be material for Varbergs Sparbank given the lack of a trading portfolio and its low limits on interest rate risk and currency risk.

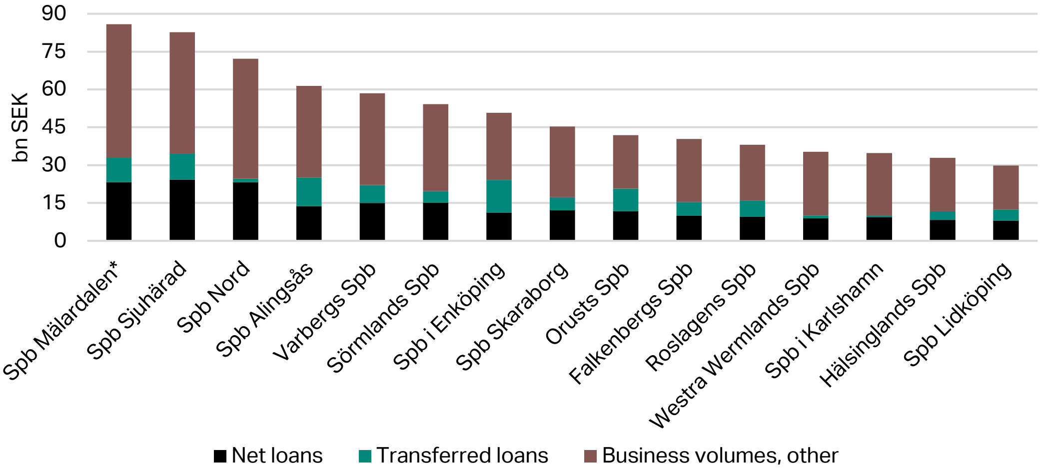
COMPETITIVE POSITION

Competitive position

Varbergs Sparbank holds a strong position in its core markets, serving approximately 60% of local individuals and corporates. It is the leading bank for regional retail customers and SMEs, while larger corporations in the Varberg region are typically served by major domestic banks. Although competitive pressure is higher than for peers in smaller markets, we consider the bank's market position to be solid. The cooperation agreement with Swedbank supports greater product and revenue diversification, as well as shared development costs. The bank's active involvement in the Swedish Savings Banks Association (*Sparbankernas Riksförbund*) is also viewed positively.

We consider the bank's meaningful role and contributions to its local market as positive. It pays out 20% of its profit to support local activities through its owner foundation, Sparbanksstiftelsen Varberg, thereby improving ties with its local community. In addition, the bank strives to play a leading role in local environmental transition by sponsoring client climate evaluations. This further cements the bank's market position and improves its understanding of its own climate footprint.

Figure 11. Swedish savings banks' total assets and net lending, 31 Dec. 2024



Source: bank reports. *pro forma merged bank.

PERFORMANCE INDICATORS

Performance indicators

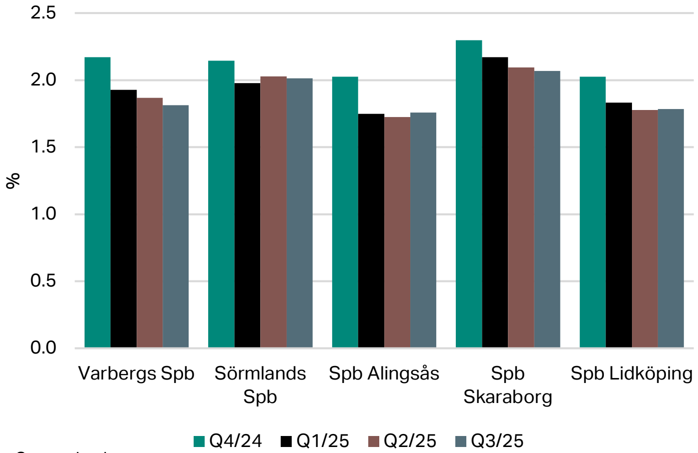
Varbergs Sparbank's earnings are buoyed by high dividends from Swedbank, and the bank's historical loss performance has been robust. Core earnings have been boosted by recent high interest rates. While declining now, we expect them to remain above historical levels. Following volatility in particular in loss provisioning in recent years, we expect stable asset quality metrics going forward.

Core earnings impacted by lower interest rates

Earnings

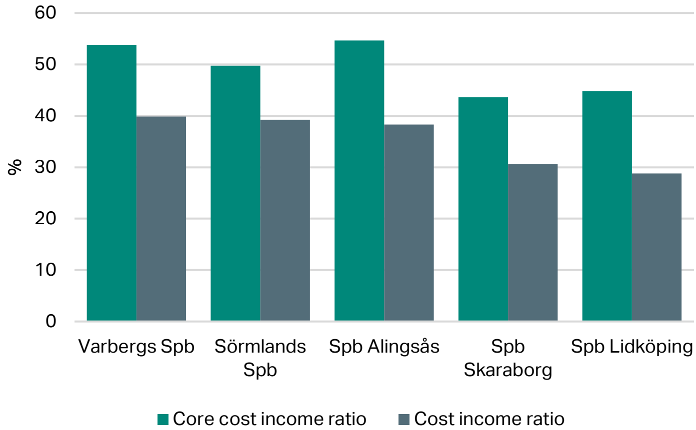
High interest rates have led to improvements in Varbergs Sparbank's net interest margins, following a prolonged period of margin pressure from low rates. Intense competition for both lending and deposits continues to weigh on margins, beyond the impact of policy rate changes. In our base case, we do not anticipate further rate adjustments by the Swedish central bank during the forecast period, but we expect some margin tightening due to competitive pressures in 2026 and 2027.

Figure 12. Swedish savings banks' annualised net interest margins, Q4 2024 – Q3 2025



Source: bank reports.

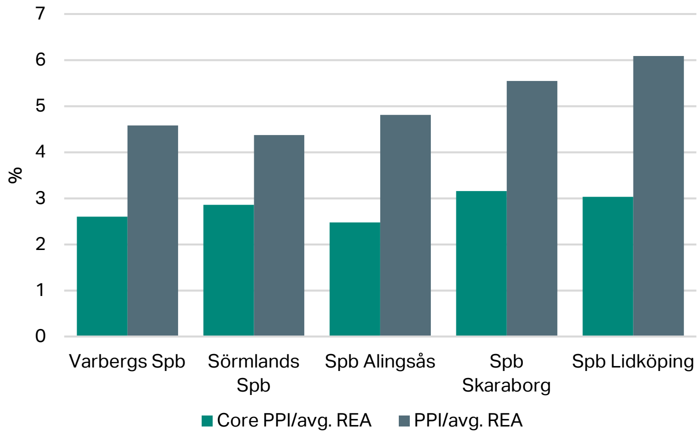
Figure 13. Swedish savings banks' cost efficiency metrics, LTM to 30 Sep. 2025



Source: bank reports. LTM-last twelve months. Core representes net interest income and net fee & commission income.

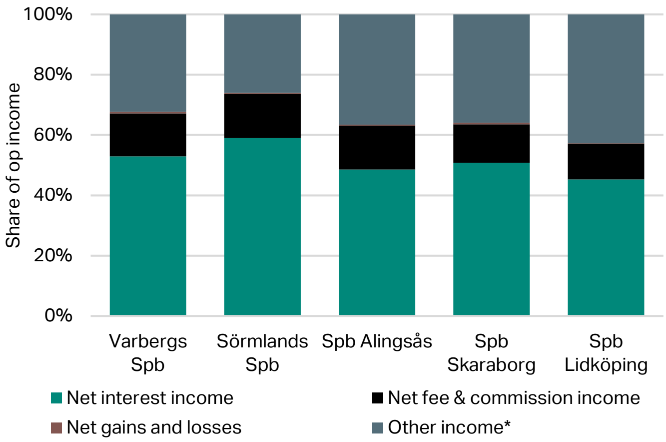
We expect the negative impact from transferred mortgages to Swedbank Hypotek to persist throughout our forecast period, partially offset by lower volumes and higher other fee income. Further increases in IT investment costs continue to drive operational expenses, but should support forecasted growth without substantial personnel investments. Given the bank's exceptional capitalisation, we are not particularly concerned about the rising cost-to-income ratio in our forecast, as there is limited need for additional capital generation at present. Dividends from Swedbank AB are also a significant contributor to Varbergs Sparbank's capital generation; however, as these are outside the bank's control, we do not directly include them in our earnings assessment.

Figure 14. Swedish savings banks' PPI to REA, LTM to 30 Sep. 2025



Source: bank reports. PPI-pre-provision income. REA-risk exposure amount.

Figure 15. Swedish savings banks' split between income groups, LTM to 30 Sep. 2025



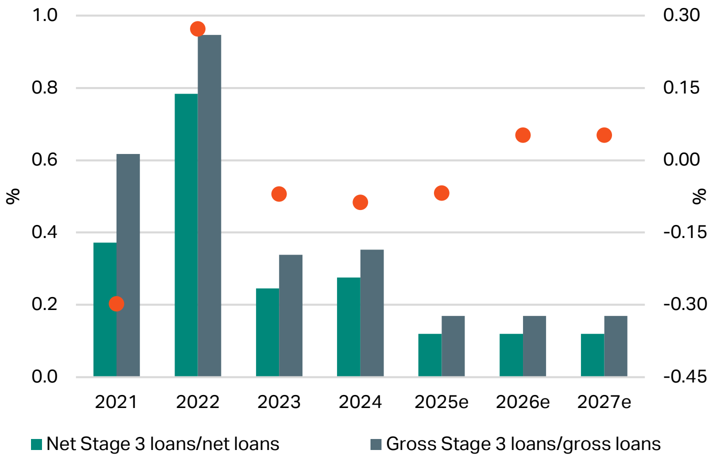
Source: bank reports. *includes dividends from Swedbank AB.

Loss performance

Expected to stabilise after a volatile period

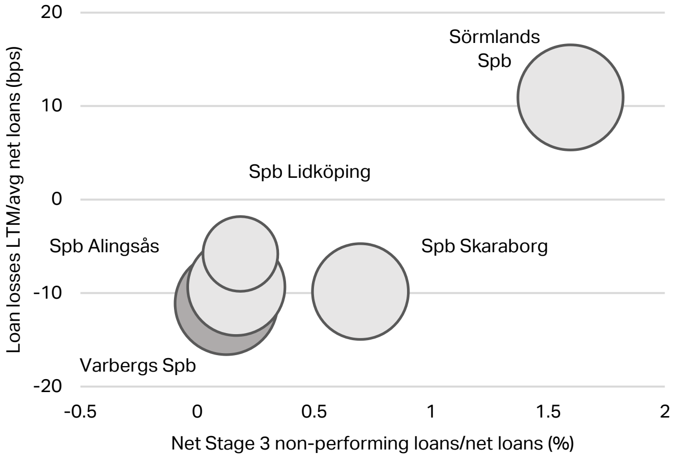
In recent years, Varbergs Sparbank has reported volatile but very low loan loss provisions, averaging reversals of 2bps through 2020 to 2024. Net Stage 3 loans peaked at 0.78% of net lending in 2022 and have since declined to 0.12% as of 30 Sep. 2025. Our forecast does not include increases in net Stage 3 loans beyond keeping pace with loan growth, but we consider the bank well equipped to manage a moderate rise in Stage 3 loans. Accordingly, we project loan loss provisions to largely reflect loan growth, forecasting 5bps annually in 2026–2027.

Figure 16. Asset quality metrics, 2021–2027e



Source: company. e-estimate.

Figure 17. Swedish savings banks' asset quality metrics, 30 Sep. 2025



Source: bank reports. Bubble sizes reflect net loan volumes.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

ESG factors are considered throughout our analysis, where material to the credit assessment.

Figure 18. Priority ESG factors

Issue/area	Risk/opportunity	Impacted subsections (impact on credit assessment*)
Physical climate risk to collateral	Climate-related damage to real-estate collateral (closely linked to supervision of insurance). Longer-term effects on market values in flood risk areas.	Credit risk (-) Loss performance (0)
Social engagement in local community	Close connection to narrow regional markets provides a benefit.	Competitive position (++) Earnings (+) Funding & liquidity (+)
Sustainable/green-bond framework	Diversity of funding sources, access to additional markets/investors.	Funding & liquidity (+)
Anti-money laundering capacity	Risk of sanctions and fraud due to insufficient reviews of customers.	Risk governance (+)
Control of sustainability issues	Risk of overlooking sustainability impacts in the bank's underwriting, operations, and customer base.	Risk governance (+) Credit risk (0)

*Defined on a 5-step scale ranging from double minus (--) to double plus (++), with (--) representing the most negative impact and (++) the most positive.

SUPPORT ANALYSIS

Ownership

Our support analysis is neutral. Varbergs Sparbank is 100% owned by its owner foundation, whose main income comes from dividends from the bank. These are used to fund various activities in the local community, and the foundation has limited resources to support the bank.

ISSUE RATINGS

Our rating on Varbergs Sparbank's unsecured senior debt is in line with the 'A' long-term issuer rating. We expect to assign 'A' ratings to future issues under the bank's medium-term note programme.

SHORT-TERM RATING

The short-term rating is 'N2', in line with our definition for the long-term rating level 'A'.

METHODOLOGIES USED

(i) Financial Institutions Rating Methodology, 12 May 2025.
(ii) Rating Principles, 14 Feb. 2024.
(iii) Group and Government Support Rating Methodology, 14 Feb. 2024.

RELEVANT RESEARCH

(i) Swedish savings banks steadfast amid increasing headwinds, 6 May 2025.
(ii) Nordic niche banks navigate through winds of change, 4 Mar. 2025.
(iii) Lower interest margin will lead to a drop in profitability for Norwegian savings banks, 20 Jan. 2025.
(iv) NCR Comments: Norway moves to adopt new standardised approach to capital requirements, 6 Dec. 2024.
(v) Norwegian savings banks' capitalization boosted by CRR3, 26 Jun. 2024.

Figure 19. Varbergs Sparbank key financial data, 2021–Q3 2025 YTD

Key credit metrics (%)	FY 2021	FY 2022	FY 2023	FY 2024	Q3 2025 YTD
INCOME COMPOSITION					
Net interest income to op. revenue	42.3	54.2	69.1	64.0	52.9
Net fee income to op. revenue	30.5	25.8	17.9	17.7	14.2
Net gains and losses/operating revenue	3.4	2.3	0.7	0.4	0.6
Net other income to op. revenue	23.8	17.7	12.2	18.0	32.3
EARNINGS					
Net interest income to financial assets	1.2	1.5	2.4	2.2	1.8
Net interest income to net loans	1.7	2.2	3.4	3.1	2.6
Pre-provision income to REA	3.0	3.4	4.7	4.5	5.0
Core pre-provision income to REA (NII & NF&C)	1.5	2.2	3.7	3.2	2.4
Return on ordinary equity	7.6	5.7	8.2	7.7	8.1
Return on assets	1.5	1.2	1.8	1.8	2.0
Cost-to-income ratio	43.4	43.1	37.1	38.7	36.8
Core cost-to-income ratio (NII & NF&C)	59.5	53.9	42.6	47.4	54.8
CAPITAL					
CET1 ratio	30.8	34.4	37.1	37.3	40.7
Tier 1 ratio	30.8	34.4	37.1	37.3	40.7
Capital ratio	30.8	34.4	37.1	37.3	40.7
REA to assets	47.4	43.5	44.4	46.5	41.0
Dividend payout ratio	66.0	20.2	20.3	20.0	20.2
Leverage ratio	14.7	15.2	17.0	17.8	0.0
GROWTH					
Asset growth	6.8	3.8	1.1	4.8	5.3
Loan growth	1.6	2.1	3.9	9.7	2.9
Deposit growth	4.9	7.6	-4.5	3.0	2.8
LOSS PERFORMANCE					
Credit provisions to net loans	-0.30	0.27	-0.07	-0.09	-0.11
Stage 3 coverage ratio	39.95	17.63	27.90	21.96	27.52
Stage 3 loans to gross loans	0.62	0.95	0.34	0.35	0.17
Net stage 3 loans to net loans	0.37	0.78	0.25	0.28	0.12
Net stage 3 loans/ordinary equity	1.22	2.55	0.73	0.83	0.33
FUNDING & LIQUIDITY					
Loan to deposit ratio	92.0	87.4	95.1	101.3	101.4
Liquid assets to deposit ratio	42.9	33.0	43.0	39.1	42.6
Net stable funding ratio	144.4	148.3	155.3	151.4	147.0
Liquidity coverage ratio	372.1	386.9	502.2	502.3	413.0

Key financials (SEKm)	FY 2021	FY 2022	FY 2023	FY 2024	Q3 2025 YTD
BALANCE SHEET					
Total assets	19,102	19,832	20,057	21,024	22,145
Total tangible assets	19,102	19,832	20,057	21,024	22,145
Total financial assets	18,995	18,227	19,972	20,914	22,043
Net loans and advances to customers	12,955	13,233	13,752	15,089	15,522
Total securities	3,074	3,475	3,846	3,924	3,883
Customer deposits	14,077	15,146	14,461	14,893	15,310
Issued securities	950	350	800	956	955
of which other senior debt	950	350	800	956	955
of which subordinated debt	–	–	–	–	–
Total equity	3,946	4,064	4,590	5,014	5,800
of which ordinary equity	3,946	4,064	4,590	5,014	5,800
CAPITAL					
Common equity tier 1	2,789	2,970	3,309	3,649	3,695
Tier 1	2,789	2,970	3,309	3,649	3,695
Total capital	2,789	2,970	3,309	3,649	3,695
REA	9,045	8,630	8,909	9,786	9,083
INCOME STATEMENT					
Operating revenues	506	525	658	692	563
Pre-provision operating profit	287	299	414	425	356
Impairments	-38	36	-9	-13	-13
Net Income	282	227	355	372	330

Source: company. FY–full year. YTD–year to date.

Figure 20. Varbergs Sparbank rating scorecard

Subfactors	Impact	Score
National banking environment	10.0%	a-
Sector exposure assessment	-	-
Regional assessment	10.0%	bbb+
Cross border assessment	-	-
Operating environment	20.0%	bbb+
Risk governance	7.5%	a
Capital	17.5%	aa
Funding and liquidity	15.0%	a
Credit and market risk	10.0%	bbb-
Risk appetite	50.0%	a
Competitive position	15.0%	bbb+
Earnings	7.5%	a
Loss performance	7.5%	a
Performance indicators	15.0%	a
Indicative credit assessment		**a**
Peer comparison		Neutral
Transitions		Neutral
Borderline assessments		Neutral
Stand-alone credit assessment		**a**
Ownership		Neutral
Capital structure protection		Neutral
Rating caps		Neutral
Issuer rating		**A**
Outlook		Stable
Short-term rating		**N2**

Figure 21. Capital structure ratings

Seniority	Rating
Senior unsecured	A

DISCLAIMER

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