

NCR comments: Sparbanken Västra Mälardalen 2019Q3 report

Our 'BBB+' issuer and issue ratings for Sparbanken Västra Mälardalen (SBVM) are unchanged following the publication of its third-quarter results.

CONTINUED GROWTH IN VOLUMES AND CORE EARNINGS

SBVM continued its growth during the third quarter, business volumes and lending have grown 6.0% and 8.7% year-to-date (YTD), respectively. The balance sheet also expanded as a result of increased liquidity after the bank issued SEK 300m in additional debt during the quarter.

The continued growth supported the bank's highest nine-month profits in its 174-year history. YTD net interest income has improved 11% due to higher volumes. YTD net fee and commission income fell slightly due to changes in insurance commission agreements, but Q-on-Q levels are back in line with Q3/18. Going forward, some portion of the decline in insurance commissions will be recovered via annual dividends received from Portfolio Försäkra. Net result of financial transactions improved during the quarter and remains a positive contributor to profits YTD due to increased valuation of investments despite lower market values of interest rate swaps this year.

COST DISCIPLINE IMPROVES RESULT

Despite growing revenues, SBVM has maintained cost discipline, primarily reducing headcount by reallocating roles as employees leave the bank. This has contributed to a 6% reduction in expenses even as revenues have improved 11% and a cost income ratio improvement to 40.3% from 47.4% through three quarters in 2019.

In total, SBVM reported profits of SEK 104.1m YTD, resulting in a 7.95% return on equity YTD (5.6% through Q3/18). Looking to 2020, SBVM's continued growth should mitigate somewhat for lower dividend revenues. Swedbank announced a reduction in its dividend policy from 75% to 50%, which should reduce the bank's 2020 dividend income by around SEK 10m.

SBVM maintained its CET 1 ratio at 21.7%, excluding YTD profits (23.5% including YTD profit).

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This commentary does not reflect a rating action.