

NCR comments: Sparbanken Västra Mälardalen 2019Q4 report

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

RECORD ANNUAL PROFITS

SBVM finished the year with its best net profit in its 175-year history. Business volumes and lending grew 8.6% and 9.3%, respectively, improving net interest income (NII) by 10%. Net fee and commission (NFC) income fell 5% due to changes in insurance commission agreements and lower volumes of transferred loans to Swedbank Mortgage. Improvement in net result of financial transactions explains much of the SEK 45m difference between the bank's 2019 and 2018 net profit (+27m in 2019, -18m in 2018), given the volatility in financial markets at the end of 2018. The bank's profits also included SEK 34m in dividends received during the year, SEK 29m of which is associated with shares in Swedbank AB. In total, SBVM reported a relatively strong 8.3% return on average equity during the year.

In terms of core income (NII and NFC net of expenses), the bank improved Y-o-Y pre-provision income by 6.1% during the year and by 22.2% on a pre-tax basis, including lower credit losses in 2019.

Looking to 2020, SBVM's continued growth should mitigate somewhat for lower dividend revenues from Swedbank. 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. We expect the bank to maintain its improved cost discipline during 2020, though the cost-income ratio could be affected by lower dividend income and less-favourable financial markets.

HIGHER COSTS OFFSET BY SWAP VALUATIONS DURING THE QUARTER

Of note during the fourth quarter, higher long-term interest rates contributed to an increased valuation in the bank's interest rate swaps used for hedging. This gain was offset by higher costs associated with a contribution to the bank's profit-sharing program and credit losses of 2bps (compared to net reversals in each of the 3 previous quarters in 2019).

SBVM's CET 1 ratio improved to 23.95% (22.3% at end 2018). The improvement is explained by strong earnings, but also a shift in the bank's exposures towards housing loans and corporate loans backed by real estate, reducing the bank's average risk weight. The bank proposed a one-time, larger-than-usual contribution of SEK 12.5m for social projects to celebrate its 175-year anniversary.

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