

## NCR REVISES OUTLOOK ON SPARBANKEN VÄSTRA MÄLARDALEN TO NEGATIVE; 'BBB+' LONG-TERM RATING AFFIRMED

Today Nordic Credit Rating (NCR) affirmed its 'BBB+' long-term issuer rating on Sparbanken Västra Mälardalen (SBVM) and revised its outlook on the rating to negative from stable. NCR also affirmed its 'N-1+' short-term rating on the bank.

### MACROECONOMIC UNCERTAINTY IS VERY HIGH

NCR has lowered its assessment of the Swedish banking sector to 'bbb+' from 'a-' due to the economic effects of the COVID-19 pandemic. In addition, NCR views the outlook for the domestic operating environment as negative given the abrupt reduction in activity and the uncertain prospects and timeline of an economic recovery. We note that many companies have elected to furlough employees using a government-supported programme which reduces costs for employers and maintains at least 92.5% of employees' wages. However, there was a significant rise in unemployment and bankruptcy filings during the last weeks of March and we believe there will be long-term challenges for many sectors given varying degrees of economic shut down for Sweden's neighbours and global trading partners. Initially, the government's efforts to support the severe macroeconomic disruption could be effective, however, we believe that maintaining stability, especially in terms of bank earnings and credit losses, will become increasingly difficult the longer economic activity remains subdued.

We have also revised our assessment of SBVM's operating region, which relies heavily on manufacturing and industrial jobs, down two notches to 'bb+' from 'bbb'. The disruption in the manufacturing industry in Sweden presents a unique challenge given the high share of big-ticket export goods, lack of predictability, and difficulties in restarting domestic production without European and global coordination throughout supply chains. So far, the hours of many industrial jobs have been reduced to 40-80%, with employees still receiving at least 92.5% of their income in many cases. However, uncertainty is likely to reduce domestic consumption and negatively affect many of SpR's SME customers.

We have adjusted our loss performance assessment for SBVM to 'a-' from 'a'. This reflects our belief that it is likely that credit losses will increase with the magnitude of losses depending on the impact of government support measures, the length and depth of the economic slowdown, and the interpretation of revised European guidance on IFRS9 accounting rules for non-performing loans.

SBVM remains well capitalised, but its earnings for 2020 will depend on Swedbank AB's decision with respect to its dividend for the year. During 2019, SBVM received SEK 29m from its holdings of Swedbank's shares. Due to the postponement of the Swedbank dividend for 2019, reducing our expected earnings by nearly SEK 20m, we have revised our view of SBVM's earnings to 'bbb' from 'bbb+'. We also note that further declines in Swedbank's share price could lead to a capital impact on SBVM, though, on its own, such an impact would be unlikely to affect our view of the bank's strong capital position.

#### LONG-TERM RATING

**BBB+**

#### OUTLOOK

**Negative**

#### SHORT-TERM RATING

**N-1+**

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## NEGATIVE OUTLOOK

The negative outlook reflects our view that SBVM and its Swedish banking peers face an uncertain future on many fronts which could primarily affect our view of the bank's operating environment, earnings potential, and longer-term loss performance. In a severe economic downturn, loss reserves could combine with further declines in Swedbank's share price to put pressure on SBVM's capital position, while collateral coverage could decline and other aspects of its operations could be affected. The outlook could be revised to stable if the government's efforts to support the economy are effective and there are clear signs of an economic recovery.

Our full analysis of Sparbanken Västra Mälardalen, published 18 Dec. 2019, is available at:

<https://nordiccreditrating.com/issuer/sparbanken-vastra-malardalen>

### POTENTIAL POSITIVE RATING DRIVERS

- An upgrade is unlikely at this time given the current state of the regional economy and uncertain timeline for returning to normal operating conditions.

### POTENTIAL NEGATIVE RATING DRIVERS

- Long-term economic recession in the region, affecting economic activity and employment.
- Lower asset quality metrics and credit losses impacting capitalisation.
- Swedbank-related issues impacting SBVM's capitalisation or cooperation with Swedbank.

**Figure 1. Scoring summary sheet**

Subfactors	Impact	Score
National factors	5.0%	bbb+
Regional, cross border, sector	15.0%	bb+
Operating environment	20.0%	bbb-
Capital	17.5%	aa-
Funding and liquidity	15.0%	a
Risk governance	5.0%	bbb+
Credit risk	10.0%	bbb
Market risk	-	-
Other risks	2.5%	bbb
Risk appetite	50.0%	a
Market position	15.0%	bb+
Earnings	7.5%	bbb
Loss performance	7.5%	a-
Performance indicators	15.0%	bbb+
<b>Indicative credit assessment</b>		<b>bbb+</b>
Peer comparisons		Neutral
Transitions		Neutral
Borderline assessments		Neutral
<b>Stand-alone credit assessment</b>		<b>bbb+</b>
Support analysis		Neutral
Material credit enhancement		Neutral
Rating caps		Neutral
<b>Issuer rating</b>		<b>BBB+</b>
Outlook		Negative
<b>Short-term rating</b>		<b>N-1+</b>

**Figure 2: Capital structure ratings**

Seniority	Rating
Senior unsecured	BBB+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
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Methodology used when determining the credit rating:	<a href="#">NCR's Financial Institutions Rating Methodology published on 14 Aug. 2018</a> <a href="#">NCR's Rating Principles published on 16 Sep. 2019</a> 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 <a href="http://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> . The historical default rates of entities and securities rated by NCR will be viewed on <a href="#">the central platform (CEREP) of the European Securities and Markets Authority (ESMA)</a> .
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
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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: <a href="http://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> .
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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