

NCR comments: Sparbanken Västra Mälardalen 2020Q1 report

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

FINANCIAL VALUATIONS AFFECT BOTTOM LINE

SBVM reported a loss of SEK 12.7m in the first quarter due primarily to a SEK 38m net financial loss. The financial losses are mostly unrealised impacts of valuation of the liquidity and investment portfolios as spreads widened dramatically by the end of March. In addition, falling rates negatively affected the valuation of interest rate swaps used for hedging. Further declines in the SBVM's holding of Swedbank AB's shares reduced total comprehensive income by an additional SEK 59m, but did not impact the bank's regulatory capital situation.

Business volumes were also affected by the loss of value in customers' investment and insurance assets. In total business volumes fell 4.1% during the quarter, however, the bank grew lending (1.4%) and deposits (0.7%) on its own balance sheet despite the turbulence.

Core preprovision earnings (net interest income and net fees and commission income net of expenses) improved compared to first quarter 2019 by 3.8% during the quarter.

Credit losses of SEK 3.9m (21 bps of net loans) affected the first quarter result, but volumes of net nonperforming loans in stage 3 (IFRS9) increased by SEK 1.1m and remained in line with previous quarters at 26 bps of net loans.

CAPITAL REMAINS A STRENGTH, ALLOWING THE BANK TO SUPPORT THE COMMUNITY

SBVM's CET 1 ratio fell, but remains strong at 22.45% (23.95% at end 2019).

In light of COVID-19 effect, the bank has allocated SEK 12.5m to regional projects to help improve the situation for individuals, companies and organisations in SBVM's region.

This commentary does not reflect a rating action.

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