

Sparbanken Västra Mälardalen

Rating Update

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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Sparbanken Västra Mälardalen outlook revised to stable from negative; 'BBB+' long-term rating affirmed

Nordic Credit Rating (NCR) said today that it had revised its outlook on [Sparbanken Västra Mälardalen](#) (Sparbanken VM) to stable from negative. At the same time NCR affirmed its 'BBB+' long-term issuer rating and 'N-1+' short-term issuer rating on the bank.

ECONOMIC UNCERTAINTY REDUCED

NCR today revised its outlook on the wider Swedish banking sector to stable from negative, while affirming its 'bbb+' assessment of the industry. Earlier this year, we revised our assessment score for Swedish financial institutions down by one notch to its current level (see [NCR sees increased risks in the Swedish banking sector](#), published 3 Apr. 2020), mainly to reflect the initial impact of COVID-19. We maintain our view that the bank's local operating environment is strained given the importance of manufacturing and industrial jobs to the local economy.

Sparbanken VM has thus far continued its steady improvement of core pre-provision earnings (net interest income and net fee and commission income net of expenses) with year-to-date levels 9% higher than a year earlier. We note that the bank's business volumes were up 1.9% year on year at end-June, supported by increases in loans (3.0%) and deposits (9.2%) despite market turbulence and the negative impact of measures to slow the spread of COVID-19. As expected, credit losses have increased to 27 bps of net loans, but volumes of Stage 3 net non-performing loans (as defined by International Financial Reporting Standards) have remained low at 26 bps of net loans.

STABLE OUTLOOK

The stable outlook reflects our expectations of a flatter U-shaped recovery rather than the sharp V- or W-shaped rebound that we anticipated previously. In addition, property prices have remained resilient after an initial downturn in March and April of this year, supporting a large majority of Sparbanken VM's collateral. We expect the bank to maintain a very strong balance sheet and prudent underwriting, while retaining its access to and relationship with Swedbank AB.

POTENTIAL POSITIVE RATING DRIVERS

- Reduced downside risk in local economy.
- Improved core earnings performance.
- Reduced reliance on income from shareholdings and fixed income investments.

POTENTIAL NEGATIVE RATING DRIVERS

- Long-term economic recession in the bank's operating region, affecting economic activity and employment.
- Lower asset quality metrics and credit losses impacting capitalisation.
- Swedbank-related issues impacting the bank'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+
Indicative credit assessment		bbb+
Peer comparisons		Neutral
Transitions		Neutral
Borderline assessments		Neutral
Stand-alone credit assessment		bbb+
Support analysis		Neutral
Material credit enhancement		Neutral
Rating caps		Neutral
Issuer rating		BBB+
Outlook		Stable
Short-term rating		N-1+

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
Publication date:	The rating was first published on 09 Jan. 2019.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Financial Institutions Rating Methodology published on 14 Aug. 2018 NCR's Rating Principles published on 16 Sep. 2019 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 nordiccreditrating.com/governance/policies . The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA) .
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.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
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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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