

## SPARBANKEN VÄSTRA MÄLARDALEN

Sweden  
Financial institutions29 Jan. 2019  
Result comment

## LONG-TERM RATING

BBB+

## OUTLOOK

Stable

## SHORT-TERM RATING

N-1+

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This commentary does not reflect a rating action.

Our 'BBB+' issuer and issue ratings for Sparbanken Västra Mälardalen's (SBVM) are unchanged following the publication of its 2018 results. The fourth quarter proved difficult for the bank with an increase in credit losses and a material reduction in the valuation of financial assets. However, the bank improved its core earnings and maintains a CET1 ratio of 22.3% which is a key strength for the rating.

## CREDIT LOSSES AND NONPERFORMING LOANS

SBVM reported credit losses of SEK 10m during the quarter, primarily arising from an increase in loss reserves for construction loans. For 2018, SBVM reported 12m in credit losses (18bps of net loans). SBVM also experienced an increase in nonperforming loans (IFRS stage 3) to 84bps (63bps as of 30 Sep. 2018) of gross loans. The reported losses and loss reserves are consistent with the existing rating.

## VALUATION OF FINANCIAL ASSETS

The increase in market volatility during December 2018 was reflected in a material reduction in unrealised gains and fair value adjustments in the bank's liquidity and investment securities as well as interest rate swaps used to hedge fixed rate loans. Net financial losses were SEK 24m during the fourth quarter and SEK 18m for 2018 (of which only SEK 441t are realised). The changes in valuation are almost entirely unrealised and could reverse given reduced volatility thus far in 2019.

## EARNINGS AND CAPITAL

Reversing SEK 3.3 million in untaxed reserves improved the bottom line, but SBVM still reported an SEK 1.8m net loss for the fourth quarter. Despite these setbacks, SBVM improved core earnings by improving net interest income (6% year on year) and net fee and commission income (6%) as well as reducing total costs (-5%). In addition, SBVM maintained a strong CET 1 ratio at 22.3% while growing on-balance-sheet loans by 4% and loans transferred to Swedbank Hypotek by 9% during the year.

OUTLOOK<sup>1</sup>

Our stable outlook for SBVM reflects expectations of population and economic growth in the region and the bank's modest risk appetite. We expect the bank to maintain a very strong balance sheet, prudent underwriting and retain its access to and relationship with Swedbank.

## POTENTIAL POSITIVE RATING DRIVERS:

- Improved core earnings performance resulting in higher capital generation.
- Reduced reliance on income from shareholdings and fixed income investments.

## POTENTIAL NEGATIVE RATING DRIVERS:

- Material changes in the regional environment, such as factory closures, leading to reduced economic activity and employment.
- Reduced cooperation with Swedbank.
- Material changes in underwriting leading to increased credit risk concentration.

<sup>1</sup> The outlook and rating factors have not changed since our latest full report from January 9, 2019, available at [nordiccreditrating.com](http://nordiccreditrating.com).

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