

# NCR comments: Varbergs Sparbank AB (publ) Q3 2020 report

**Our 'A-' issuer and issue ratings on Varbergs Sparbank AB (publ) are unchanged following the publication of its third-quarter results.**

## **Stronger revenues**

Varbergs Sparbank reported a profit before loan losses of SEK 51.3m in the third quarter of 2020, up from SEK 36.2m in the previous quarter. The improvement was mainly due to higher revenues: net interest income was boosted by higher mortgage margins; net provisions benefited from higher commission levels on residential mortgages from Swedbank Hypotek AB; and net financials improved due to valuation increases in the bank's own fund holdings.

While net lending was flat in the third quarter and was down by SEK 0.2bn from end-2019, deposits increased by SEK 0.3bn in the quarter and SEK 0.9bn in the first nine months. This increase could continue for some time and could act as a drag on net interest margins. However, the bank has the option of increasing commercial loans on its own balance sheet that are currently held by Swedbank Hypotek. This would most likely benefit net interest income more than it would reduce net commissions.

Lower operating costs compared with the previous quarter were due to seasonal effects. IT costs, however, increased due to joint efforts by Swedbank and the country's savings banks, particularly to counter money laundering.

## **Net reversal of loan losses**

Varbergs Sparbank booked SEK 28.5m in loan losses in the first quarter, but recorded reversals of SEK 1.6m in the second quarter and SEK 8.3m in the third. The bank incurred zero realised losses in the third quarter. Stage 3 non-performing loans were down from 1.33% of gross lending in the second quarter to 1.20% in the third.

Varbergs Sparebank has strong capitalisation; both the common equity Tier 1 and capital ratios stood at 24.1% at the end of the third quarter compared with 24.0% three months earlier.

This commentary does not constitute a rating action.

## **If you have any questions, please contact:**

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**Attachments**

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