

NCR comments: Sparbanken Västra Mälardalen Q4 2020 report

Our 'BBB+' issuer and issue ratings on Sparbanken Västra Mälardalen (Sparbanken VM) are unchanged following the publication of its year-end results.

Improved core earnings performance

Despite a reduction in overall revenues and profits, core pre-provision earnings (net interest income and net fee and commission income net of expenses) rose by 19% and core cost efficiency improved to 53% from 57% a year earlier. Pre-provision earnings were somewhat ahead of our expectations, and we expect the bank to continue to improve risk-adjusted earnings and cost efficiency metrics through 2022.

Despite the impact of the ongoing COVID-19 pandemic, business volumes and lending grew by 7.8% and 5.9% respectively, improving net interest income by 8.3% and fee revenues by 5.9% in 2020. The bank's bottom line was negatively impacted by regulatory guidance to withhold dividends, which negatively affected dividend revenues from Swedbank AB during 2020 as well as the valuation of interest rate swaps.

Sparbanken VM's 2021 revenues stand to benefit from renewed Swedbank dividend payments (in respect of 2019) to be paid in February 2021. In addition, we expect that Swedbank will pay 25% of its 2020 profits to shareholders later in the year. In total this should result in dividend income for Sparbanken VM of SEK 20-25m in the first half of 2021. Restrictions on bank dividends will be reconsidered by the Swedish financial supervisory authority after 30 Sep. 2021, which could result in additional dividend income before year-end.

Loss performance exceeds expectations given pandemic

Sparbanken VM reported SEK 10.7m in credit losses during 2020, including manual adjustments related to potential future losses in specific sectors due to the pandemic and emphasis on social distancing. Despite higher reported credit losses, the level of Stage 3 net non-performing loans declined to 19 bps of net loans at the end of the year from 25 bps at end-2019.

Capital remains strong

Sparbanken VM's common equity Tier 1 ratio fell somewhat in the course of 2020 as a result of growth in the risk exposure amount outpacing profits, including a SEK 7.5m gift for the benefit of the local community. At end-2020, the ratio stood at 23.1%, compared with 24.0% at end-2019.

This commentary does not constitute a rating action.

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Attachments

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