

NCR comments: Varbergs Sparbank AB (publ) Q4 2020 report

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

Non-recurring items boost revenues in fourth quarter

Varbergs Sparbank reported profit before loan losses of SEK 52.6m in the fourth quarter of 2020, a slight improvement from SEK 51.3m in the previous quarter. The increase was mainly driven by a non-recurring payment of SEK 7.4m to compensate for a future decline in fee income from payment solutions provider Swedbank Pay. We note that commissions from Swedbank Pay will be lower from 2021 onwards. The profit increase was also driven by an upward net financial valuation of the bank's own fund holdings and increased provisions from intermediation of funds. At the same time, net interest income fell to SEK 56.0m in the fourth quarter, a decrease of SEK 5.1m from the third. The decrease was mainly due to contracting margins on mortgages and corporate lending due to increased competition and lower market rates.

Net lending increased to SEK 12.8bn during the fourth quarter, up SEK 50.0m from the previous quarter and SEK 0.2bn from end-2019. Deposits have increased by SEK 1.1bn since end-2019. The increased pace of deposit growth in 2020 could continue for some time, which in turn could impact net interest margins negatively.

Operating costs rose to 53.3m in the fourth quarter from SEK 48.5m in the third, when costs are generally lower for seasonal reasons. They were, however, up by 18% year-on-year due to increased staff and IT development costs.

Net reversal of loan losses

Varbergs Sparbank booked SEK 28.5m in loan losses during the first quarter of 2020, which were continually reversed throughout the remainder of the year. In the fourth quarter, the bank recorded reversals of SEK 6.2 m, slightly less than the reversals of SEK 8.3m recorded in the previous quarter. Stage 3 non-performing loans to gross loans decreased to 1.07% in the fourth quarter compared with 1.20% in the third.

Capital remains strong

Varbergs Sparbank's capitalisation continues to strengthen; the bank's common equity Tier 1 ratio stood at 24.6% at the end of the fourth quarter compared with 24.1% at the end of the third and 23.7% at end-2019. The ratio takes into account a board proposal to make a SEK 78m dividend payout to the foundation which owns the bank in respect of 2019 and 2020. Moreover, Swedbank AB has announced it will pay a dividend of SEK 7.25 per share, which will provide Varbergs Sparbank with dividend income of SEK 59m during 2021.

This commentary does not constitute a rating action.

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