

## CREDIT OPINION

11 April 2024

Update



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### RATINGS

#### Sparbanken Syd

Domicile	Sweden
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Sparbanken Syd

Update to credit analysis following rating action

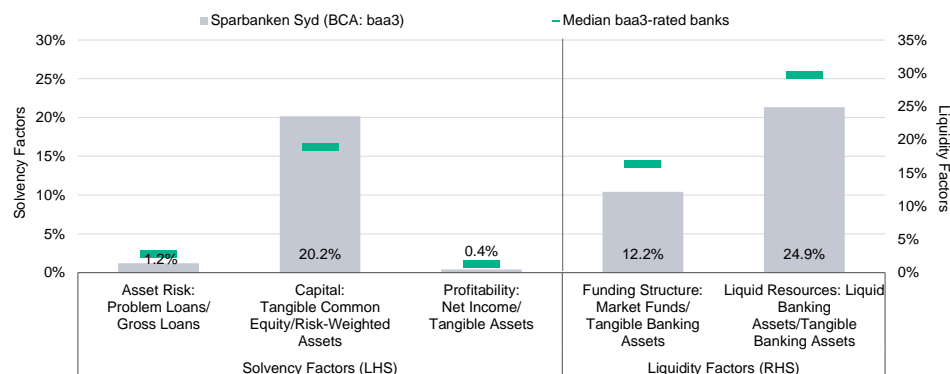
### Summary

[Sparbanken Syd's](#) issuer and deposit ratings of Baa1/P-2 incorporate the Baseline Credit Assessment (BCA) and Adjusted BCA of baa3, and two notches of uplift as indicated by our Advanced Loss Given Failure (LGF) analysis.

The Baa1 long-term deposit and issuer ratings incorporates the baa3 BCA, which reflects Sparbanken Syd's franchise as a savings bank in Southern Sweden, with good asset quality and strong capitalization, balanced against low profitability and Moody's view that bank's management of excess liquid assets is weaker than peers, reflected through a negative corporate behavior adjustment in the scorecard; and two notches of uplift as indicated by Moody's Advanced Loss Given Failure (LGF) analysis, reflecting the very low losses given failure due to high volumes of loss absorbing liabilities protecting creditors and junior depositors.

Exhibit 1

### Rating Scorecard - Key financial ratios



These represent our [Banks Methodology](#) scorecard ratios, whereby asset risk and profitability reflect the weaker of either the latest reported or the average of the last three year-end and latest reported ratios. Capital is the latest reported figure. Funding structure and liquid resources ratios reflect the latest year-end figures.

Source: Moody's Financial Metrics™

## Credit strengths

- » Good asset quality with low levels of problem loans, although exposed to geographical and sector concentrations
- » Sound capitalization

## Credit challenges

- » Weaker recurring profitability and cost efficiency than those of its Nordic peers
- » Limited access to capital in case of need
- » Holdings of mutual funds as alternative to high quality liquid assets resulting in lower liquidity than peers

## Outlook

The stable outlook on Sparbanken Syd's long-term deposit and issuer ratings reflects Moody's view that the bank's standalone creditworthiness will remain stable during the next 12 to 18 months.

## Factors that could lead to an upgrade

Sparbanken Syd's ratings could be upgraded if: 1) there are demonstrated improvements in the bank's risk management and financial strategy; 2) the bank's recurring profitability improves with limited volatility in earnings; and 3), consistently higher liquidity buffers due to increased buffers of high quality liquid assets.

## Factors that could lead to a downgrade

Sparbanken Syd's ratings could be downgraded if: 1) its profitability deteriorates significantly, leading to recurring losses and lower capital generation; or 2) the bank ventures into riskier segments to deploy its excess liquidity.

Furthermore, the deposit and issuer ratings could be downgraded if loss-absorbing liabilities reduce, lowering the cushion of protection to depositors and creditors in case of failure.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Sparbanken Syd (Unconsolidated Financials) [1]

	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (SEK Million)	12,748.4	14,271.9	12,746.6	11,554.4	10,625.7	4.7 <sup>4</sup>
Total Assets (USD Million)	1,265.0	1,369.7	1,408.9	1,406.9	1,135.1	2.7 <sup>4</sup>
Tangible Common Equity (SEK Million)	1,345.5	1,251.5	1,207.1	1,189.5	1,181.8	3.3 <sup>4</sup>
Tangible Common Equity (USD Million)	133.5	120.1	133.4	144.8	126.2	1.4 <sup>4</sup>
Problem Loans / Gross Loans (%)	1.2	0.4	0.8	1.0	1.0	0.9 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	20.2	18.8	19.4	22.4	20.3	20.2 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	8.6	4.0	5.9	5.6	5.8	6.0 <sup>5</sup>
Net Interest Margin (%)	2.6	1.8	1.5	1.6	1.6	1.8 <sup>5</sup>
PPI / Average RWA (%)	2.3	1.0	0.5	0.4	0.1	0.8 <sup>6</sup>
Net Income / Tangible Assets (%)	0.8	0.3	0.2	0.1	0.0	0.3 <sup>5</sup>
Cost / Income Ratio (%)	68.7	82.0	91.2	93.1	97.1	86.4 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	12.2	18.0	7.7	3.5	6.8	9.6 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	24.9	17.9	25.9	39.8	35.5	28.8 <sup>5</sup>
Gross Loans / Due to Customers (%)	101.5	113.1	90.4	70.3	79.4	90.9 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

## Profile

Sparbanken Syd is Sweden's oldest savings bank, primarily operating in Skåne County in the southernmost parts of Sweden. Operating for nearly 200 years, the bank is well established in the region among retail as well as corporate customers. At the end of December 2023, the bank had total assets of SEK12.7 billion (€1.1 billion).

Sparbanken Syd is the only independent savings bank in Sweden and it is structured as a savings bank according to the Swedish Act on Savings Banks (1987:619), meaning that the bank has no external owners and is instead self owned. To ensure proper control, the bank is managed by 60 mandators, who are elected. The first 30 are chosen by the municipalities of Ystad, Simrishamn, Tomelilla, and Skurup. The remaining mandators are chosen independently by the first 30. The main responsibility of these mandators is to select and approve the bank's board of directors.

The bank has also established a foundation, the Sparbanken Syd Foundation for Growth, which aims to serve as a catalyst in the local community.

## Recent developments

On 24 January 2024 Sparbanken Syd acquired a stake in the local real estate agency Mäklarna Ekström & Co. with the ambition of increasing visibility and broaden operations in Skåne.

Sparbanken Syd's distribution of mortgages using [Borgo AB](#) (Baa2, negative/baa3) started in 2023. The bank transferred SEK3.1 billion in mortgages to Borgo previously held on its own balance sheet on 13 March 2023, while a transfer of SEK4.8 billion of mortgages previously held by SBAB was finalised on 8 May 2023.

## Detailed credit considerations

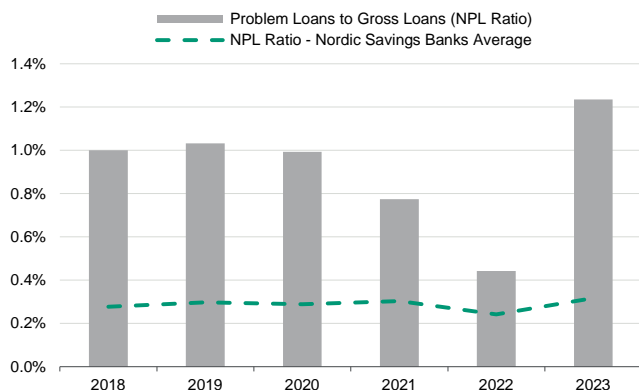
### Moderate asset risk deterioration

Sparbanken Syd's asset risk is strong in a global comparison but has deteriorated during 2023. This is partly due to corporate lending increasing as a share of total lending, and a deterioration in asset quality as operating environment remains challenging with high interest rates, higher costs and subdued economic activity. Sparbanken Syd's problem loans to gross loans ratio increased to 1.2% at the end of 2023, rising above 1% for the first time since 2020.

The bank has a significant share of exposure to small and medium-sized enterprises (SMEs) in the Skåne region. Such a concentration can pose a higher risk in a downturn. On 13 March 2023, a large part of the bank's mortgages held on their own balance sheet, SEK3.1

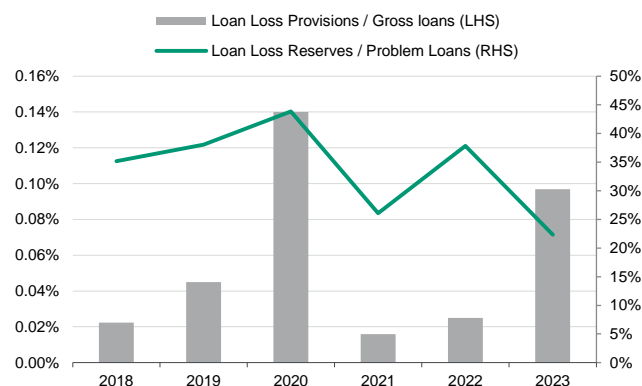
billion, were transferred to Borgo, increasing the share of SME loans in the loan portfolio. As of year end 2023 Sparbanken Syd had approximately SEK3.2 billion in mortgages to households.

Exhibit 3  
Asset risk has increased during 2023 but remains strong



Average of Nordic savings banks' problem loans/gross loans that we rate as of the year-end of December 2023 or latest available.  
Source: Moody's Ratings

Exhibit 4  
Cost of risk has increased and will increase during 2024 if economic activity remains muted



Source: Moody's Ratings

We expect Sparbanken Syd to have a higher focus on corporate lending going forward due to the collaboration with Borgo concerning mortgages.

Following the transfer of mortgages to Borgo, the bank used a significant amount of the excess liquidity, approximately SEK 1 billion or 8% of the balance sheet, in mutual funds. While a majority is in very low risk fixed income funds, the asset allocation introduces meaningful market risk for the bank, especially in relation to the relatively low earnings the bank has on its core business.

The assigned Asset Risk score of baa3 incorporates 6 negative adjustments, which reflects the rising level of problem loans for Sparbanken Syd, geographical and sector concentration risks, as well as the increased level of market risk.

### Sound capitalisation, but weak internal capital generation

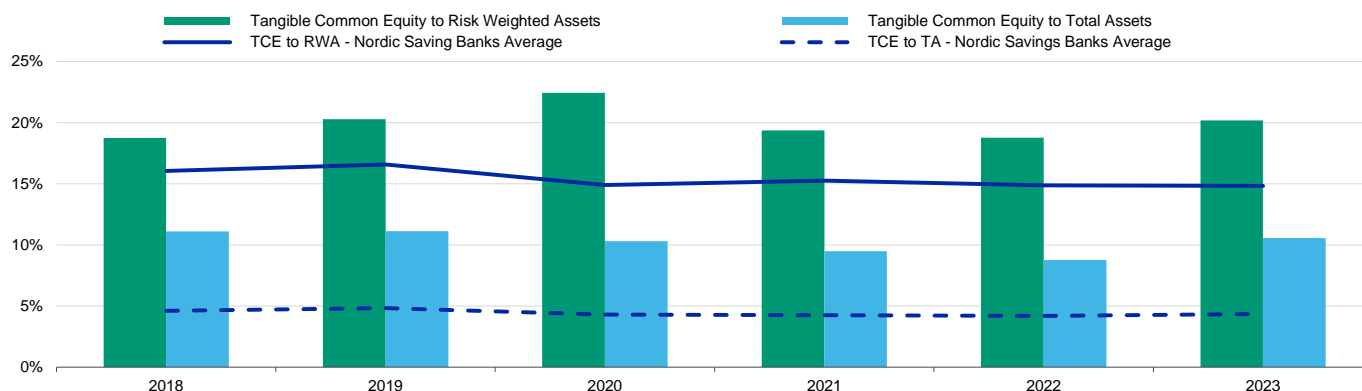
Sparbanken Syd's capitalisation is strong, with tangible common equity (TCE) to risk-weighted assets (RWA) of 20.2% and TCE to total assets of 10.6% at the end of December 2023. However, the bank's profitability is still relatively low, leading to weak internal capital generation. Furthermore, the bank has limited access to capital injections in case of need due to its ownership structure.

The bank reported a Common Equity Tier 1 (CET1) capital ratio of 20.2% at the end of December 2023, up from 18.2% as of year-end 2022. Its total capital adequacy ratio increased to 22.5% at the end of December 2023 from 20.5% as year-end 2022. The increase in Sparbanken Syd's capital metrics relate to the decrease in lending on its own balance sheet due to the sale of its mortgages portfolio and strong earnings during 2023.

The bank had a sizeable buffer above its regulatory minimum CET1 requirement of 14.7%, including a Pillar 2 requirement of 2.2%, at the end of December 2023. Sparbanken Syd applies the standardised approach for measuring credit risk.

We expect raising additional capital in times of stress to be difficult given the bank's organizational structure as a savings bank without strategic corporate shareholders or direct capital market access. However we do not expect such a capital raise to be required in the near future due to the banks solid capitalisation level.

Exhibit 5

**Sparbanken Syd has strong capital metrics**

Average of Nordic savings banks we rate at the end of June 2023 or latest available.

Source: Moody's Ratings

Sparbanken Syd's Capital score of a1 is three notches below the macro-adjusted score, reflecting our view of that the bank's capitalisation is strong albeit challenged by the weak internal capital generation and lacking access to capital in case of need.

### Weak profitability due to limited economies of scale and ability to grow.

As a pure savings bank, Sparbanken Syd operates with low targets on return on equity. Furthermore, its weak profitability is challenged by limited economies of scale.

Sparbanken Syd more than doubled its net income to SEK105.2 million for year end of 2023 compared to SEK46.5 million for the same period in 2022. Net interest income improved by 39.7% in 2023 following the higher interest rate environment. The SEK3.1 billion in mortgages transferred to Borgo will initially reduce net interest income, but the bank intends to distribute the funds received from the transfer to extend further lending, which would allow a strengthening of the bank's earnings capacity over time, given that the bank still earns a margin from mortgages transferred to Borgo.

During 2023, the bank reported SEK 48 million in gains from mutual funds, representing almost half of total net income. Although, the mutual funds supported the bank's net income in 2023, the investment introduces meaningful market risk and higher risks of earnings volatility.

The bank's operating expenses grew slightly to SEK318 million as of year-end 2023 (2022: SEK289 million) due to increased personnel, IT and consultancy costs. In addition, net fee and commission income decreased to SEK89 million in 2023 from SEK92 million in the year-earlier period.

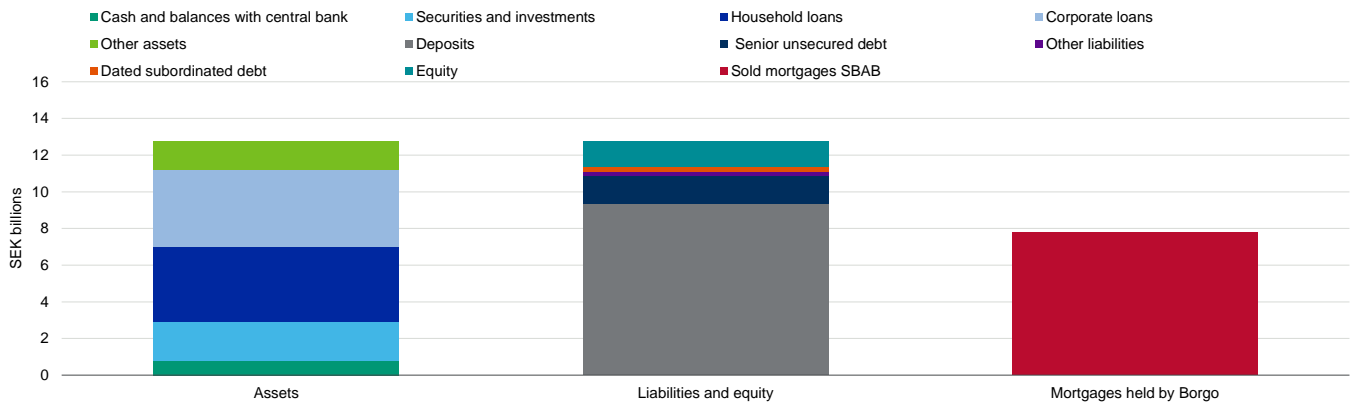
We assign Sparbanken Syd a Profitability score of ba3 incorporating 2 negative adjustments, reflecting Sparbanken Syd's history of low profitability and the fact that profitability will likely be decline from current levels in the coming years.

### Positive developments regarding Sparbanken Syd's funding strategy

Sparbanken Syd is primarily deposit funded with deposit funding representing 82% of non-equity funding as of year-end 2023, however deposit volumes declined by 13% during 2023. The partnership with Borgo reduces funding uncertainties, as future mortgages will mainly be originated by Borgo.

Exhibit 6

**The partnership with Borgo allows Sparbanken Syd to sell mortgages without growing its balance sheet**  
 Balance sheet as of 31 December 2023 and mortgages held by Borgo



Source: Company reports

Sparbanken Syd had SEK1.5 billion senior unsecured debt outstanding at end of December 2023, resulting in a market funds to tangible banking assets ratio of 12.2%. Of these, SEK900 million will be maturing in 2024. We believe the bank will replace most if not all of this amount with similar fundings. Currently, the bank has limited need for market funding, given the volumes of securities and mutual funds it holds.

We assign the bank a Funding Structure score of baa1, incorporating two negative adjustments, balancing the positive developments regarding the bank's funding strategy against the dependency on an external partner for funding.

**Liquid assets provide a buffer against increasing wholesale funding**

We assign Sparbanken Syd a Liquidity score of ba1. Sparbanken Syd's large amounts of liquid resources following the transfer of mortgages was reduced through investments in mutual funds- We do not consider to these funds to be liquid due to the terms and conditions, allowing delayed sales during severe market stress, nor are they considered to be high quality liquid assets (HQLA) in the regulatory liquidity ratios.

We expect Sparbanken Syd to sell these mutual funds over time and lend out the money to their customers, which would mean that the LBA/TBA ratio would go to around 20%. The timeline of this is however not clear.

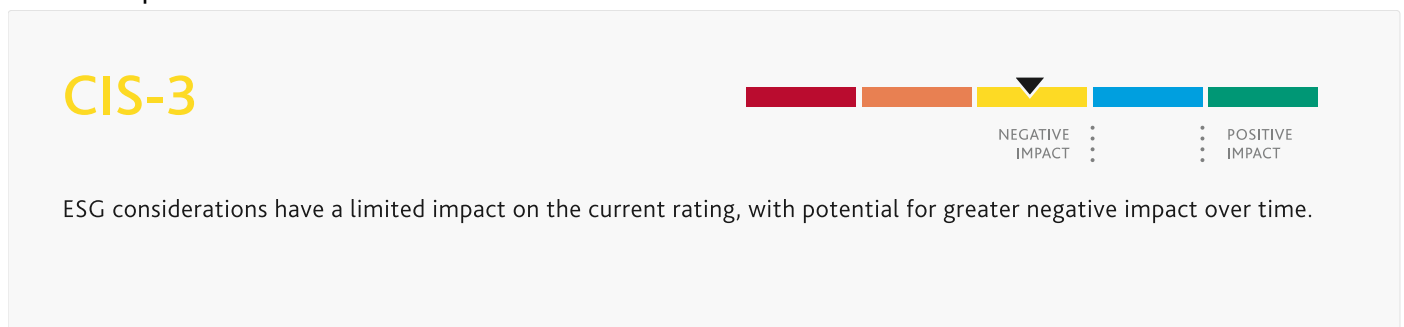
We assign the bank a Liquid resources score of ba1, in line with the HQLA+central bank assets/TBA ratio of 13% (including all deposits with central bank).

**ESG considerations**

**Sparbanken Syd's ESG credit impact score is CIS-3**

Exhibit 7

**ESG credit impact score**

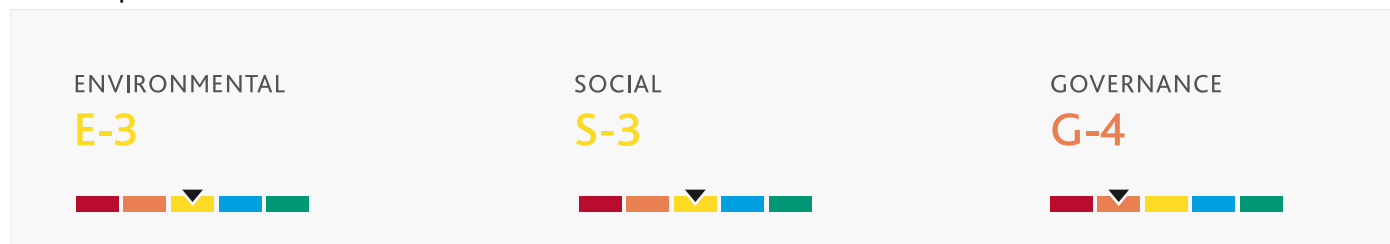


Source: Moody's Ratings

Sparbanken Syd's **CIS-4** indicates that ESG considerations have a discernable rating impact due to the bank's governance risk. Environmental and social factors have a limited impact on the bank's credit profile.

Exhibit 8

### ESG issuer profile scores



Source: Moody's Ratings

#### Environmental

Sparbanken Syd faces moderate environmental risks largely stemming from its portfolio exposure to carbon transition risk. Like its peers, Sparbanken Syd is facing mounting regulatory and stakeholder pressure to meet broader carbon transition goals. The bank's focus on sustainability will help mitigate the risks.

#### Social

Sparbanken Syd faces moderate industry-wide social risks related to customer relations and associated regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by the bank's developed policies and procedures. High cyber and personal data risks are mitigated by the bank's strong IT framework and its cooperation with SDC as IT provider.

#### Governance

Sparbanken Syd's Governance Issuer Profile score mainly reflect the bank's management of its excess liquidity which we do not consider to be in line with best industry practices. The bank's significant investments in mutual funds reflects a higher market risk appetite compared with similarly rated peers and materially increases the risk of earnings volatility. Sparbanken Syd's partnership with Borgo Hypotek AB for originating mortgages, has resolved the previous funding challenges. However, there may still be structural challenges for Sparbanken Syd as a small shareholder in Borgo to get across their voice in strategic decisions. Sparbanken Syd is a community owned savings bank, with customer representatives voting at the annual general meetings. We consider these to be passive shareholders, reducing risks related to board independence and control.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

### Support and structural considerations

#### Affiliate support

Sparbanken Syd is an independent savings bank and, consequently, the bank does not benefit from any affiliate support.

#### Loss Given Failure (LGF) analysis

We apply our Advanced LGF Analysis on Sparbanken Syd because the bank is subject to the European Union Bank Recovery and Resolution Directive, which we consider an operational resolution regime. For this analysis, we assume that equity and losses are 3% and 8%, respectively, of tangible banking assets in a failure scenario. We also assume a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits. Moreover, we assign a 25% probability to junior deposits being preferred to senior unsecured debt. These are in line with our standard assumptions. We assume the bank's junior deposits account for 26% of total deposits, in line with banks with a diversified deposit base.

The deposit and issuer ratings have a very low loss rate given failure, indicated by a two notch uplift under Moody's Advanced LGF Analysis, because of the large volume of subordinated and senior unsecured debt, providing a cushion of protection to creditors in case of failure.

### Government support

Given the limited scope of the bank's operations and its low market share in deposits, we assume a low probability of government support in case of need. As a result, Sparbanken Syd's deposit and issuer ratings do not benefit from any uplift because of government support.

### Counterparty Risk (CR) Assessment

**The CR Assessment of Sparbanken Syd are A3(cr)/Prime-2(cr)**

The CR Assessment is positioned at A3(cr)/P-2(cr), three notches above the Adjusted BCA of baa3, based on the buffer against default provided by junior deposits, senior unsecured debt and subordinated debt and does not benefit from any government support.

### Counterparty Risk Ratings (CRRs)

**The CRR's of Sparbanken Syd are A3/Prime-2**

The CRRs at A3/P-2 are positioned three notches above the Adjusted BCA of baa3, reflecting extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

### Methodology and scorecard

#### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.



## Rating methodology and scorecard factors

Exhibit 9

### Sparbanken Syd

<b>Macro Factors</b>							
<b>Weighted Macro Profile</b>		<b>Strong +</b>	<b>100%</b>				
<b>Factor</b>	<b>Historic Ratio</b>	<b>Initial Score</b>	<b>Expected Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	1.2%	aa3	↔	baa3	Operational risk	Geographical concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	20.2%	aa1	↔	a1	Access to capital		
Profitability							
Net Income / Tangible Assets	0.4%	ba1	↔	ba3	Earnings quality	Expected trend	
Combined Solvency Score		a1		baa2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	12.2%	a2	↔	baa1	Term structure		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	24.9%	baa1	↓↓	ba1	Quality of liquid assets		
Combined Liquidity Score		a3		baa2			
Financial Profile							
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				-1			
Total Qualitative Adjustments				-1			
Sovereign or Affiliate constraint				Aaa			
BCA Scorecard-indicated Outcome - Range				baa2 - ba1			
Assigned BCA				baa3			
Affiliate Support notching				0			
Adjusted BCA				baa3			
<b>Balance Sheet</b>							
		<b>in-scope (SEK Million)</b>		<b>% in-scope</b>		<b>at-failure (SEK Million)</b>	<b>% at-failure</b>
Other liabilities		1 189		9.3%		2 145	16.8%
Deposits		9 371		73.5%		8 415	66.0%
Preferred deposits		6 935		54.4%		6 588	51.7%
Junior deposits		2 436		19.1%		1 827	14.3%
Senior unsecured bank debt		1 499		11.8%		1 499	11.8%
Dated subordinated bank debt		300		2.4%		300	2.4%
Equity		382		3.0%		382	3.0%
Total Tangible Banking Assets		12 742		100.0%		12 742	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	31.5%	31.5%	31.5%	31.5%	3	3	3	3	0	a3
Counterparty Risk Assessment	31.5%	31.5%	31.5%	31.5%	3	3	3	3	0	a3 (cr)
Deposits	31.5%	5.4%	31.5%	17.1%	2	3	2	2	0	baa1
Senior unsecured bank debt	31.5%	5.4%	17.1%	5.4%	2	2	2	-	-	-

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a3	0	A3	A3
Counterparty Risk Assessment	3	0	a3 (cr)	0	A3(cr)	
Deposits	2	0	baa1	0	Baa1	Baa1
Senior unsecured bank debt	-	-	-	0	Baa1	Baa1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

## Ratings

Exhibit 10

Category	Moody's Rating
<b>SPARBANKEN SYD</b>	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	Baa1
ST Issuer Rating	P-2

Source: Moody's Ratings

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