

**CREDIT OPINION**

3 April 2025

Update

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**RATINGS**

**Sparbanken Syd**

Domicile	Sweden
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A3
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 upgrade of long-term deposit and issuer ratings

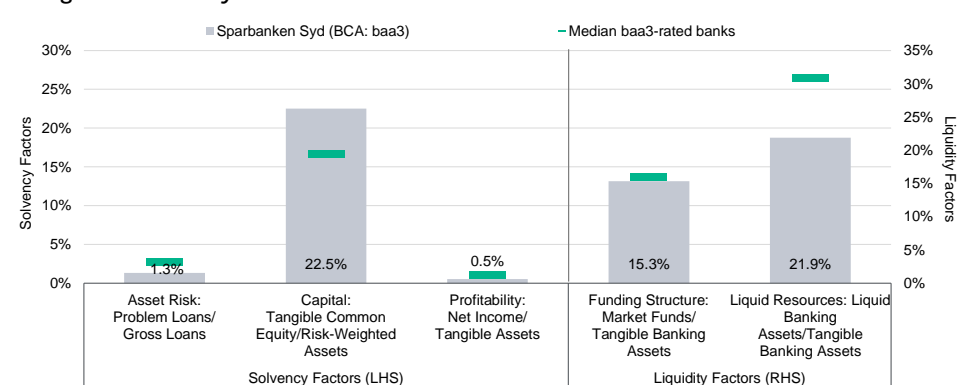
**Summary**

Sparbanken Syd's deposit and issuer ratings of A3/P-2 incorporate the Baseline Credit Assessment (BCA) and Adjusted BCA of baa2, and two notches of uplift as indicated by our Advanced Loss Given Failure (LGF) analysis, reflecting very low loss-given-failure due to high volumes of loss absorbing liabilities protecting creditors and junior depositors. Low probability of support from the [Government of Sweden](#) (Aaa, stable) does not result in any uplift to the ratings.

The baa2 BCA reflects Sparbanken Syd's good asset quality, strong capitalization and an improved liquidity management, balanced against low profitability, historical challenges in its funding strategy, and a track record of implementing a number of strategic decisions in the past that we view as higher risk.

The outlook on the long-term issuer and deposit ratings is stable.

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 Ratings

## Credit strengths

- » Strong asset quality with low levels of problem loans
- » Strong capitalization
- » Strengthened liquidity management
- » Granular depositor base

## Credit challenges

- » Past strategic decisions contributed to funding and liquidity uncertainties
- » Geographical and sector concentrations
- » Weaker recurring profitability and cost efficiency than those of its Nordic peers
- » Limited access to capital in case of need

## Outlook

The stable outlook on the ratings reflects our expectations that during the next 12 to 18 months, Sparbanken Syd will continue to perform well, with limited deterioration in asset risk, very strong capitalization, moderate profitability and a stable funding and liquidity structure.

## Factors that could lead to an upgrade

The ratings could be upgraded following a period of strong track record of stable performance without events significantly altering the financial profile of the bank. This could result in the removal of the negative corporate behaviour adjustment, and thus a higher BCA, leading to an upgrade of the ratings. The ratings could also be upgraded following significant issuances of loss absorbing liabilities leading to lower loss given failure.

## Factors that could lead to a downgrade

The ratings could be downgraded due to deterioration in the performance of the bank with higher problem loans, a rapid decline in capitalization, poor recurring profitability or a less prudent liquidity management.

The ratings could also be downgraded following lower issuances of loss absorbing liabilities, affecting the LGF analysis.

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's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

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

	12-24 <sup>2</sup>	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (SEK Million)	13,406.6	12,748.4	14,271.9	12,746.6	11,554.4	3.8 <sup>4</sup>
Total Assets (USD Million)	1,213.4	1,265.0	1,369.7	1,408.9	1,406.9	(3.6) <sup>4</sup>
Tangible Common Equity (SEK Million)	1,407.3	1,345.5	1,251.5	1,207.1	1,189.5	4.3 <sup>4</sup>
Tangible Common Equity (USD Million)	127.4	133.5	120.1	133.4	144.8	(3.2) <sup>4</sup>
Problem Loans / Gross Loans (%)	1.3	1.4	0.4	0.8	1.0	1.0 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	22.5	20.2	18.8	19.4	22.4	20.7 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	8.0	8.6	4.0	5.9	5.6	6.4 <sup>5</sup>
Net Interest Margin (%)	2.6	2.6	1.8	1.5	1.6	2.0 <sup>5</sup>
PPI / Average RWA (%)	1.5	2.3	1.0	0.5	0.4	1.1 <sup>6</sup>
Net Income / Tangible Assets (%)	0.5	0.8	0.3	0.2	0.1	0.4 <sup>5</sup>
Cost / Income Ratio (%)	77.6	68.7	82.0	91.2	93.1	82.5 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	15.3	12.3	18.0	7.7	3.5	11.4 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	21.9	16.3	17.9	25.9	39.8	24.4 <sup>5</sup>
Gross Loans / Due to Customers (%)	90.8	88.2	113.1	90.4	70.3	90.6 <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 from 1907, the bank is well established in the region among retail as well as corporate customers. At the end of December 2024, the bank had total assets of SEK13.4 billion (€1.2 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

Sparbanken Syd uses SDC A/S as their IT-provider, which they also own partially together with other banks that use their services. In Q1 2025, a strategic deal was announced where SDC's owner banks will transfer their shares to Netcompany, making it the sole owner. Sparbanken Syd believes this transaction will help create synergies that will benefit their customers.

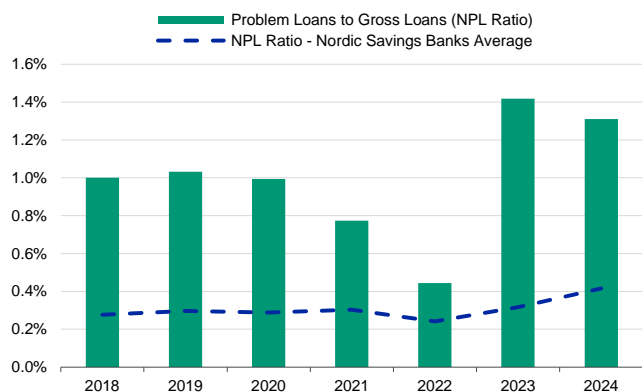
## Detailed credit considerations

### Strong asset quality but exposed to geographical and sector concentration risk

Sparbanken Syd's asset risk is strong in a global comparison and has improved during 2024 to 1.3% compared to 1.4% as of year-end 2023. The bank has a significant share of exposure to small and medium-sized enterprises (SMEs) in the Skåne (Scania) region, equivalent to around 55% of all lending.

Sparbanken Syd's lending to real estate companies amounts to 50% of corporate lending, or 202% of tangible common equity (TCE), which implies sector concentration risks. They also have exposure to agricultural lending at 69% of TCE. These portfolios have a higher risk profile than prime residential mortgages. However, Swedish agriculture is lower risk compared to what we have observed in other countries such as Denmark, due to a more gradual increase in land values since the 1990s. In an international comparison, the loan portfolio performs well and we expect problem loans to gross loans ratio to remain under 2% during the next 12 to 18 months.

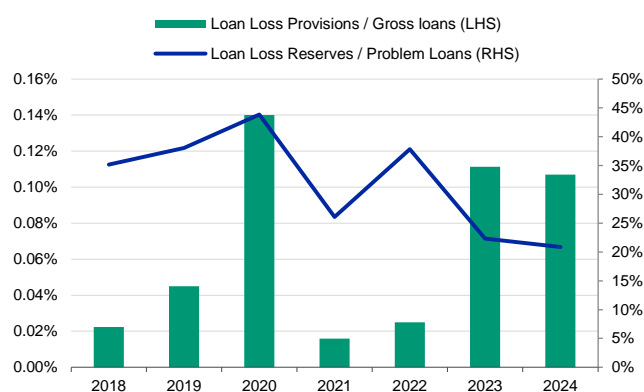
Exhibit 3

**Asset risk has increased during 2024 but remains strong**

Average of Nordic savings banks' problem loans/gross loans that we rate as of the year-end of December 2024 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

Sparbanken Syd has a collaboration with [Borgo AB \(publ\)](#) (Borgo, long-term issuer rating Baa2 negative, BCA baa3), which originates most mortgages extended to its customers. A smaller share of mortgages remain on Sparbanken Syd's balance due to being less standardized in terms of type of collateral and income of the household. Sparbanken Syd aims to extend most of its mortgages via Borgo.

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

The assigned Asset Risk score of baa2 is five notches below the Macro Adjusted score, reflecting geographical and sector concentration risks.

**Strong capitalisation, but limited access to capital in case of need**

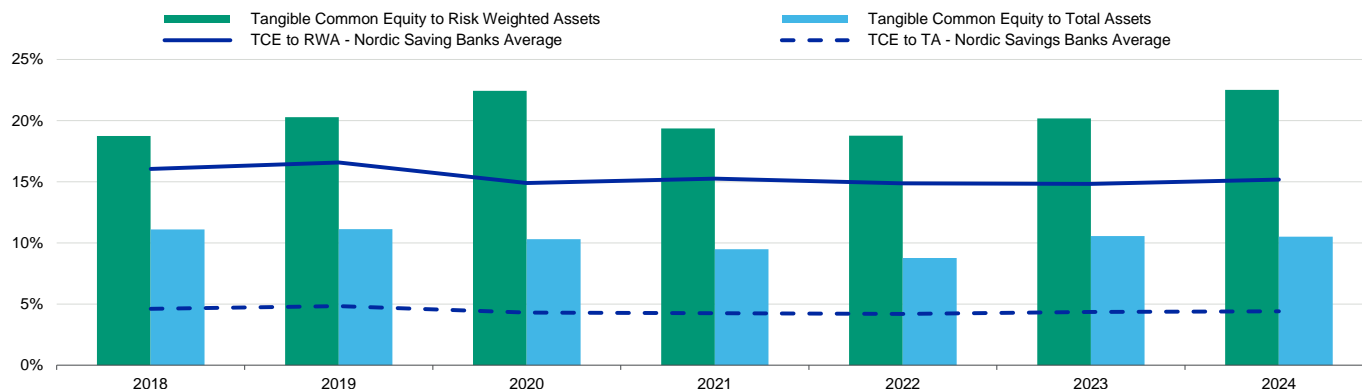
Sparbanken Syd's capitalisation is strong, with tangible common equity (TCE) to risk-weighted assets (RWA) of 22.5% as of December 2024, up from 20.2% a year earlier. The TCE to total assets was a very strong 10.5% as of the end of December 2024, unchanged from a year earlier. However, the bank's profitability 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.

Sparbanken Syd's total capital adequacy ratio increased to 24.9% at the end of December 2024 from 22.4% as year-end 2023. The increase in Sparbanken Syd's capital metrics relate to the decrease in lending on its own balance sheet and strong earnings during 2024.

The bank had a sizeable buffer above its regulatory minimum CET1 requirement of 14.8%, including a Pillar 2 requirement of 1.8%, at the end of December 2024. 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. The bank has a dividend policy to distribute 10% of profits.

Exhibit 5

**Sparbanken Syd has strong capital metrics**

Average of Nordic savings banks we rate at the end of December 2024 or latest available.

Source: Moody's Ratings

Sparbanken Syd's Capital score of aa3 is two notches below the Macro Adjusted score, reflecting our view of that the bank's capitalisation is strong and the lack of access to capital in case of need.

### Weaker recurring profitability and cost efficiency than those of its Nordic peers

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 net income has decreased by 31% to SEK72.6 million in 2024, compared to SEK105.2 million in 2023. Net interest income decreased by 2.3% in 2024 due to higher funding costs.

In 2023 Sparbanken Syd invested around SEK1 billion in mutual funds which had a positive impact on profit of SEK48.5 million in 2023, or around 46% of the total profit for the year. Although supporting profits during 2023, the share of revenues stemming from own financial investments were significant, which results in earnings volatility. During 2024, these mutual funds were divested and most of the proceeds were used to increase its liquidity buffer. The profits from mutual funds in 2024 was SEK13.3 million.

The bank's operating expenses grew slightly to SEK350 million as of year-end 2024 (2023: SEK318 million) mainly due to increased personnel and IT costs. In addition, net fee and commission income increased to SEK96 million in 2024 from SEK89 million in the year-earlier period.

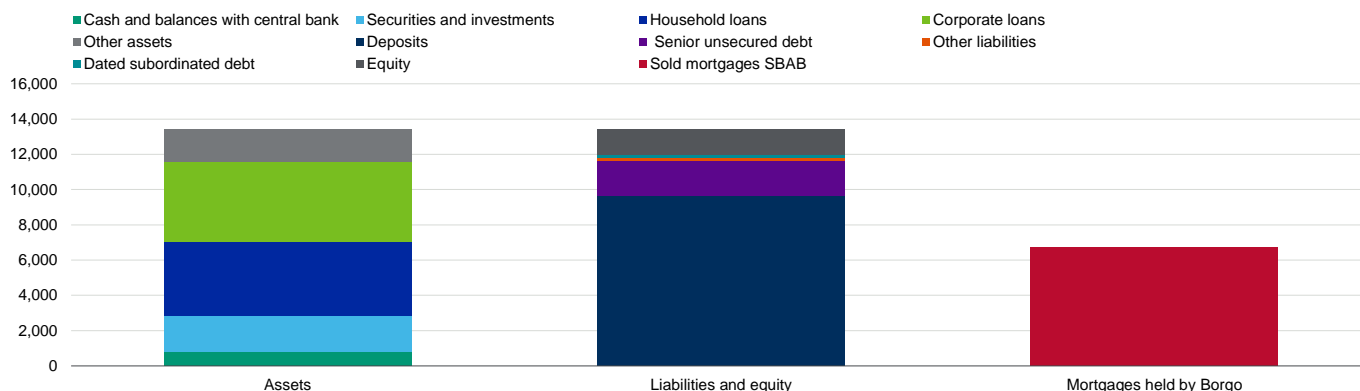
We assign Sparbanken Syd a Profitability score of ba2, three notches below the Macro Adjusted score, reflecting our expectations of declining profitability on the back of lower interest rates.

### Granular depositor base

Sparbanken Syd is primarily deposit funded with deposit funding representing 80% of non-equity funding as of year-end 2024, however deposit volumes increased by 2.7% during 2024. 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 2024 and mortgages held by Borgo**



Source: Company reports

Sparbanken Syd had SEK2.0 billion senior unsecured debt outstanding at end of December 2024, resulting in a market funds to tangible banking assets ratio of 15.3%. Of these, SEK300 million will be maturing in 2025. We believe the bank will replace most if not all of this amount with similar funding. Currently, the bank has limited need for market funding, given the volumes of securities it holds.

We assign the bank a Funding Structure score of baa1, one notch below the Macro Adjusted score, balancing the positive developments regarding the bank's funding strategy against the dependency on a single external partner for covered bond funding.

**Strengthened liquidity management**

Sparbanken Syd's liquidity position of the bank has materially improved with more prudent liquidity management. Mutual funds, which at the end of 2023 amounted to approximately SEK1 billion, have been divested during 2024 and the proceeds were largely invested in high quality liquid assets (HQLA).

We assign a baa1 score, reflecting the bank's large volumes of HQLA (HQLA/TBA 20% in YE2024, up from 13% in 2023) and the prudent holdings within their liquidity reserve, with a large share of central bank holdings. Their liquidity buffer also includes central bank short-term papers, which are not included in the HQLA but improves the LCR ratio.

Sparbanken Syd's regulatory liquidity metrics are very strong, with and LCR of 837% (2023: 473%) and their NSFR at 150% (2023: 145%).

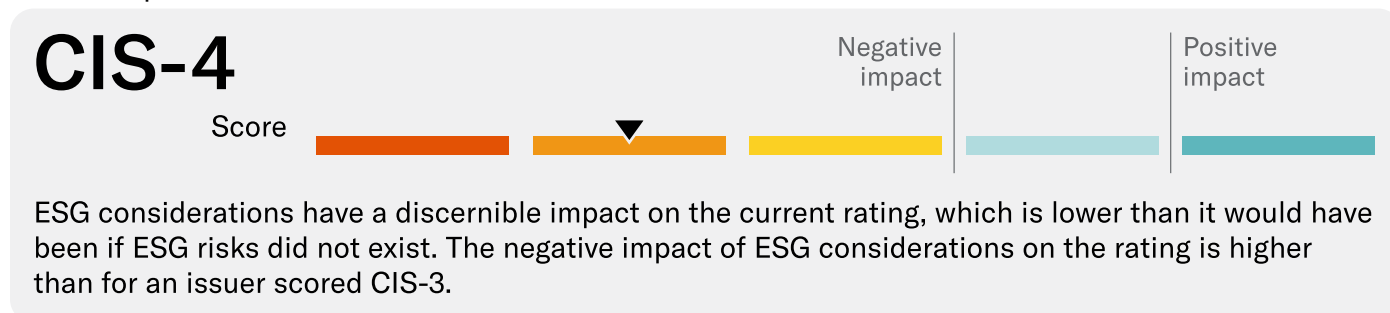
In past years, Sparbanken Syd faced material challenges with regards to the funding of its residential mortgages, and liquidity management was not on par with the bank's peers. These challenges are reflected in a one notch qualitative negative adjustment for corporate behaviour. While these issues have now been resolved, the bank will need to build track record of prudent risk management and financial strategy before the corporate behaviour adjustment is removed.

## ESG considerations

### Sparbanken Syd's ESG credit impact score is CIS-4

Exhibit 7

#### ESG credit impact score



Source: Moody's Ratings

Sparbanken Syd's **CIS-4** indicates that ESG considerations have a discernible 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 (merging with Netcompany during 2025) as IT provider. Sparbanken Syd has exposure to customer relations risks. Data security and customer privacy are critical for banks because they access large amounts of personal data, particularly in the retail segment. Fines and reputational damage as a result of product mis-selling, misrepresentation and other types of misconduct are also key social risks. Sizeable investments in technology together with its supplier of IT solutions and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance and compliance functions that ensure adherence to regulatory standards, help to manage the associated credit risk.

### Governance

Sparbanken Syd's Governance Issuer Profile score mainly reflect the bank's management track record of implementing a number of strategic decisions in the past that we view as higher risk. Sparbanken Syd has now resolved its main challenges, the funding of its mortgages, and its liquidity management. The corporate behaviour adjustment reflects a weaker track record when compared to higher

rated peers. 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 based in Sweden, 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-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.

## Methodology and scorecard

### About Moody's 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

### Rating Factors

<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	1.3%	aa3	↔	baa2	Geographical concentration	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	22.5%	aa1	↔	aa3	Access to capital		
Profitability							
Net Income / Tangible Assets	0.5%	baa2	↓↓	ba2	Expected trend		
Combined Solvency Score		aa3		baa1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	15.3%	a3	↔	baa1	Market funding quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	21.9%	baa1	↔	baa1	Stock of liquid assets		
Combined Liquidity Score		a3		baa1			
Financial Profile		a1		baa1			
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				baa1 - baa3			
Assigned BCA				baa2			
Affiliate Support notching				0			
Adjusted BCA				baa2			
<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		1,200	9.0%	2,183	16.3%		
Deposits		9,641	72.0%	8,658	64.6%		
Preferred deposits		7,135	53.2%	6,778	50.6%		
Junior deposits		2,507	18.7%	1,880	14.0%		
Senior unsecured bank debt		2,006	15.0%	2,006	15.0%		
Dated subordinated bank debt		150	1.1%	150	1.1%		
Equity		402	3.0%	402	3.0%		
Total Tangible Banking Assets		13,400	100.0%	13,400	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	33.1%	33.1%	33.1%	33.1%	3	3	3	3	0	a2
Counterparty Risk Assessment	33.1%	33.1%	33.1%	33.1%	3	3	3	3	0	a2 (cr)
Deposits	33.1%	4.1%	33.1%	19.1%	2	3	2	2	0	a3
Senior unsecured bank debt	33.1%	4.1%	19.1%	4.1%	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	a2	0	A2	A2
Counterparty Risk Assessment	3	0	a2 (cr)	0	A2(cr)	
Deposits	2	0	a3	0	A3	A3
Senior unsecured bank debt	-	-	-	0	A3	A3

[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	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
ST Issuer Rating	P-2

Source: Moody's Ratings

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