

SPARBANKEN REKARNE

Sweden
Financial institutions18 Feb. 2019
Result comment

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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This commentary does not reflect a rating action.

Our 'A-' issuer and issue ratings for Sparbanken Rekarne are unchanged following the publication of its 2018 results. The bank reported 18.5% year on year loan growth which combined with regulatory changes to reduce the common equity Tier 1 (CET1) ratio to 16.3% (18.6%) at end 2018. Higher loan volumes led to steady increases in net interest income (NII), which should see further improvement when Riksbanken's December 2018 25bps repo rate increase begin to impact margins in early 2019.

LENDING GROWTH AND CAPITAL

The bank's on-balance sheet growth was offset in part by a material reduction in lending volumes transferred to Swedbank Hypotek. Including transferred loans, lending increased by 7.1% during 2018 (still above market levels) and was concentrated on residential and commercial mortgage loans. However, the strong growth in the first three quarters slowed down in the fourth quarter (2% on balance sheet and 0.5% including transferred loans).

The CET1 ratio was reduced by 2% in the fourth quarter due to the regulatory decision to move 25% risk weight floors for residential mortgage loans to Pillar 1 from Pillar 2, thus affecting reported ratios. By using adjusted capital ratios NCR had already considered this in our ratings for the bank. Looking ahead, slower lending growth and improved margins should stabilize capital ratios.

EARNINGS TRENDS AND ONE-OFF ITEMS

NII grew by 10.7% and the one-off gain from the partial sale of Portfolio Försäkring at the beginning of 2018 supported year on year revenue growth. However, fee income was affected by volatile markets in the fourth quarter as well as a slower housing market throughout the year. Increased IT expenses as well as temporary costs associated with the remodelling of its primary offices affected fourth quarter results. Annual credit losses were SEK 0.5m (0bps) and loss reserves decreased to 15bps (18bps) of gross lending as the bank grew lending volumes.

OUTLOOK¹

Our stable outlook for Rekarne reflects expectations of population and economic growth in the bank's primary market and the bank's modest risk appetite. We expect the bank to maintain or improve capital ratios and to continue its relationship with Swedbank. While we apply a notch of ownership support in the rating, improvements in the standalone credit assessment are likely to reduce the perceived upside from ownership.

POTENTIAL POSITIVE RATING DRIVERS:

- A rating upgrade is unlikely at this time given the current capitalisation and ownership of the bank.
- Improvements in the standalone credit assessment are likely to reduce the perceived upside from ownership.

POTENTIAL NEGATIVE RATING DRIVERS:

- Material economic changes in the region, such as factory closures, leading to reduced economic activity and employment.
- Reduced cooperation with or ownership by Swedbank.
- Material changes in underwriting leading to increased credit risk concentration.

¹ The outlook and rating factors have not changed since our latest full report from 4 Dec. 2018, available at nordiccreditrating.com.

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