

SPARBANKEN REKARNE

Sweden
Financial institutions30 Apr. 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 first quarter 2019 results. The bank's 20% Q-on-Q improvement in net interest income (NII) was offset by lower commission and noninterest income, leading nearly unchanged operating income. Combined with a 9% increase in operating expenses, preprovision profits fell 13.6%. Including modest credit losses and lower extraordinary income, net profit fell by 15.5% compared to first quarter 2018.

GROWTH STRATEGY AFFECTING EARNINGS AND CAPITAL

The bank has continued to follow its strategy of transferring certain loans to its own balance sheet, which has resulted in higher NII and contributed to lower commission income (see below). Strong lending growth and higher margins, supported by the partial impact of Riksbanken's December 2018 rate hike, drove net interest margins to SEK 46m in the quarter. The full impact of revised interest rates should be apparent in second quarter results. On balance sheet lending increased by 3.2% during the first quarter (0.7% when a reduction in loans transferred to Swedbank Hypotek is considered).

The bank reported a CET1 ratio of 15.3% and a total capital ratio of 17.6% in the first quarter (16.3% and 18.7% at end 2018), and capital generation has not kept pace with expanding credit exposures. In particular, growth in corporate exposures drove 8.8% higher risk-weighted assets (RWA) for corporate exposures during the quarter and 7.7% higher RWA in total. The bank does not directly own shares in Swedbank and was not affected by the fall in Swedbank's share price (see "[Swedbank's controversy spills over to Swedish savings banks](#)", 29 Mar. 2019).

COMMISSION CHANGES

The bank reported a material reduction in net commission income due to revisions in the commission agreements for transferred loans to Swedbank Hypotek and its insurance partnership with Folksam. The changes with Swedbank primarily affect the commissions on nearly SEK 2bn in transferred commercial real estate loans incentivising further growth in commercial mortgage loans on the bank's own balance sheet going forward.

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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