

## Sparbanken Rekarne AB

Rating Update

**NCR REVISES OUTLOOK ON SPARBANKEN REKARNE TO NEGATIVE; 'A-' LONG-TERM RATING AFFIRMED**

Today Nordic Credit Rating (NCR) affirmed its 'A-' long-term issuer rating on Sparbanken Rekarne (SpR) and revised its outlook on the rating to negative from stable. NCR also affirmed its 'N-1+' short-term rating on the bank.

**MACROECONOMIC UNCERTAINTY IS VERY HIGH**

NCR has lowered its assessment of the Swedish banking sector to 'bbb+' from 'a-' due to the economic effects of the COVID-19 pandemic. In addition, NCR views the outlook for the domestic operating environment as negative given the abrupt reduction in activity and the uncertain prospects and timeline of an economic recovery. We note that many companies have elected to furlough employees using a government-supported programme which reduces costs for employers and maintains at least 92.5% of employees' wages. However, there was a significant rise in unemployment and bankruptcy filings during the last weeks of March and we believe there will be long-term challenges for many sectors given varying degrees of economic shut down for Sweden's neighbours and global trading partners. Initially, the government's efforts to support the severe macroeconomic disruption could be effective, however, we believe that maintaining stability, especially in terms of bank earnings and credit losses, will become increasingly difficult the longer economic activity remains subdued.

We have also revised our assessment of SpR's operating region, which relies heavily on manufacturing and industrial jobs, down two notches to 'bb+' from 'bbb'. The disruption in the manufacturing industry in Sweden presents a unique challenge given the high share of big-ticket export goods, lack of predictability, and difficulties in restarting domestic production without European and global coordination throughout supply chains. So far, the hours of many industrial jobs have been reduced to 40-80%, with employees still receiving at least 92.5% of their income in many cases. However, uncertainty could reduce domestic consumption and negatively affect many of SpR's SME customers.

We have adjusted our loss performance assessment for SpR to 'a' from 'aa-'. While the bank has maintained exceptional asset quality historically, we believe it is likely that credit losses will increase with the magnitude of the losses depending on the impact of government support measures, the length and depth of the economic slowdown, and the interpretation of revised European guidance on IFRS9 accounting rules for non-performing loans. We note that the bank has cancelled its dividend for 2019, adding SEK 33.5m to its common equity Tier 1 (CET1) and improving its CET1 ratio to 15.6%, or 0.6pp higher than it originally reported and 40bps higher than our expectations as of end-2019. Our existing capital assessment already includes an expectation of an increase in capital during 2020 as the bank manages its internal capital buffer.

**NEGATIVE OUTLOOK**

The negative outlook reflects our view that SpR and its Swedish banking peers face an uncertain future on many fronts which could primarily affect our view of the bank's operating environment, earnings potential, and longer-term loss performance. In a severe economic downturn, loss reserves could even put pressure on the bank's capital position, collateral coverage, and other aspects of its operations. A material deterioration for 50% owner Swedbank AB could also affect our view of support in our rating on SpR. The outlook could be revised to stable if the government's efforts to support the economy are effective and there are clear signs of an economic recovery.

Our full analysis of Sparbanken Rekarne, published 10 Dec. 2019, is available at:

<https://nordiccreditrating.com/issuer/sparbanken-rekarne>

## LONG-TERM RATING

**A-**

## OUTLOOK

**Negative**

## SHORT-TERM RATING

**N-1+**

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**POTENTIAL POSITIVE RATING DRIVERS**

- An upgrade is unlikely at this time given the current state of the regional economy and uncertain timeline for returning to normal operating conditions.

**POTENTIAL NEGATIVE RATING DRIVERS**

- Long-term economic recession in the region, affecting economic activity and employment.
- Lower asset quality metrics and credit losses impacting capitalisation.
- Reduced ownership by Swedbank or a decline in Swedbank's creditworthiness.

**Figure 1. Scoring summary sheet**

Subfactors	Impact	Score
National factors	10.0%	bbb+
Regional, cross border, sector	10.0%	bb+
Operating environment	20.0%	bbb-
Capital	17.5%	bbb
Funding and liquidity	15.0%	a
Risk governance	5.0%	a-
Credit risk	10.0%	bbb
Market risk	-	-
Other risks	2.5%	a
Risk appetite	50.0%	bbb+
Market position	15.0%	bbb
Earnings	7.5%	bbb+
Loss performance	7.5%	a
Performance indicators	15.0%	a-
<b>Indicative credit assessment</b>		<b>bbb+</b>
Peer comparisons		Neutral
Transitions		Neutral
Borderline assessments		Neutral
<b>Stand-alone credit assessment</b>		<b>bbb+</b>
Support analysis		+1 notch
Material credit enhancement		Neutral
Rating caps		Neutral
<b>Issuer rating</b>		<b>A-</b>
Outlook		Negative
<b>Short-term rating</b>		<b>N-1+</b>

**Figure 2: Capital structure ratings**

Seniority	Rating
Senior unsecured	A-
Tier 2	BBB+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 04 Dec. 2018.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Methodology used when determining the credit rating:	<a href="#">NCR's Financial Institutions Rating Methodology published on 14 Aug. 2018</a> <a href="#">NCR's Rating Principles published on 16 Sep. 2019</a> The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website <a href="http://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> . The historical default rates of entities and securities rated by NCR will be viewed on <a href="#">the central platform (CEREP) of the European Securities and Markets Authority (ESMA)</a> .
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Bond prospectuses, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity
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Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test or cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: <a href="http://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> .
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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## NORDIC CREDIT RATING AS

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