

Sparbanken Rekarne AB (publ)

Rating Action Report

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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Sparbanken Rekarne's long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'A-' long-term issuer rating on Sweden-based [Sparbanken Rekarne AB \(publ\)](#) (Sparbanken Rekarne). The outlook is stable. At the same time NCR affirmed the 'N-1+' short-term rating, the 'A-' issue ratings on Sparbanken Rekarne's senior unsecured bonds and the 'BBB+' issue ratings on the bank's Tier 2 bonds.

Rationale

Sparbanken Rekarne's issuer rating reflects the bank's very strong loss history, modest risk appetite and relationship-based funding profile. We view the bank's 50% ownership by Swedbank AB as positive. In addition, we view the bank's cooperation with Swedbank as important, as it provides material diversification of product offerings, shared IT costs and the opportunity to finance retail and commercial mortgages.

The rating is constrained by the bank's concentrated exposure to the local economy, which has historically experienced volatility as a result of being a key region for Sweden's manufacturing industry, and by its regional retail-banking customers, SMEs and real-estate collateral. In addition, the owners' return requirements have contributed to a slimmer capital structure than that of its Nordic savings bank peers. Although capital and earnings metrics have improved, we consider them somewhat weaker than those of peers when adjusted for Sparbanken Rekarne's higher leverage.

Our assessment of Sparbanken Rekarne's operating environment has improved, due to a lower risk of COVID-19-related loan losses as the economic recovery continues. We also take a more positive view of the bank's capital and loss performance, given sustainable improvements. These improvements have increased our standalone credit assessment of the bank to 'a-' and we have consequently removed the notch for ownership support that we had previously included in the bank's issuer rating due to Swedbank's 50% ownership. In our view, the bank's 'A-' issuer rating, which now excludes ownership support, adequately reflects the credit profile of the bank, though we still view Swedbank's ownership as positive for Sparbanken Rekarne and it reduces the risk of a downgrade of the issuer rating.

Stable outlook

The stable outlook on Sparbanken Rekarne reflects our expectation that the bank will maintain strong capital buffers as it grows its loan book. It also reflects projections of population and economic growth in the region and the bank's modest risk appetite. In addition, the outlook takes account of the bank's maintenance of its relationship with Swedbank and our forecast of continued low credit losses. We could raise the rating if the bank shows sustainable improvements in core earnings metrics, with core pre-provision income to risk exposure amount sustainably above 3%, along with improved cost efficiency and a common equity Tier 1 capital ratio in excess of 25%. We could lower the rating in the event of a sustained reduction in the common equity Tier 1 capital ratio to below 18%, combined with reduced ownership by Swedbank, a material deterioration in asset quality metrics or a long-term economic recession in the northern Södermanland region, affecting economic activity and employment.

Rating list

	To	From
Long-term issuer credit rating:	A-	A-
Outlook:	Stable	Stable
Short-term issuer credit rating:	N-1+	N-1+
Senior unsecured issue rating:	A-	A-
Tier 2 issue rating:	BBB+	BBB+

Figure 1. Sparbanken Rekarne rating scorecard

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

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	A-	A-
Tier 2	BBB+	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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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Financial Institutions Rating Methodology published on 14 Aug. 2018 NCR's Rating Principles published on 16 Sep. 2019 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 nordiccreditrating.com/governance/policies . The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA) .
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: nordiccreditrating.com/governance/policies .
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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