Sparbanken Rekarne AB (publ)

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N2

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Sparbanken Rekarne AB (publ) 'A-' 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). The outlook is stable. At the same time NCR affirmed the 'N2' short-term rating. At the same time NCR affirmed its 'A-' issue ratings on Sparbanken Rekarne's senior unsecured bonds and affirmed its 'BBB+' issue ratings to its tier 2 bonds.

Rating rationale

The affirmation reflects continued performance in line with our expectations. Improvements in net interest income due to the rise in policy rates have translated into stronger earnings, boosting capital ratios and providing a buffer against a higher share of stage 2 and non-performing loans.

The long-term issuer rating on Sparbanken Rekarne reflects the bank's history of strong asset quality metrics, modest risk appetite and its relationship-based funding profile. We view the bank's 50% ownership by Swedbank AB as positive. Cooperation with Swedbank enables 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 Södermanland region, which has historically experienced volatility as a key manufacturing region. We project increased credit losses over the next two years as the global and Swedish economies slow, and see increasing risk associated with the bank's high levels of real-estate lending.

We have raised our assessment of Sparbanken Rekarne's capital to reflect the improvement in capital ratios and reduced uncertainty over the impact of changing to the standardised capital model approach, which will first be reflected in the first interim report in 2024. We have also lifted our assessment of risk governance, to reflect the relative strength in internal risk monitoring and reporting compared with similar-sized peers. In addition, we have raised our assessment of earnings, reflecting improved risk-adjusted earnings and cost efficiency metrics, largely driven by the increase in interest rates. However, we have lowered our assessment of loss performance, reflecting our view that Sparbanken Rekarne is likely to see a higher increase in loan losses than similar-sized peers due to the relatively weak local economy.

Stable outlook

The stable outlook reflects our expectation that Sparbanken Rekarne will maintain its strong capital buffers and benefit from improvements in earnings due to higher interest rates. It also reflects projections of population and economic growth in the region, as well as the bank's modest risk appetite, despite our expectations of higher credit losses as the economy slows. The outlook also takes account of the bank's continuing relationship with Swedbank and the potential for capital support from the larger bank, should the need arise.

An upgrade is unlikely at this time, given the uncertain economic environment. We could lower the rating to reflect a sustained reduction in the common equity Tier 1 capital ratio to below 18%, combined with reduced ownership by Swedbank. We could also lower the rating to reflect a more significant downturn in the operating environment than we expect, negatively impacting asset quality, loan growth, and/or funding access, or to reflect a material deterioration in asset quality metrics.

Rating list	To	From
Long-term issuer credit rating:	A-	A-
Outlook:	Stable	Stable
Short-term issuer credit rating:	N2	N2
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-	a-
Regional, cross border, sector	10.0%	bbb-	bbb-
Operating environment	20.0%	bbb	bbb
Capital	17.5%	a+	a
Funding and liquidity	15.0%	a	a
Risk governance	5.0%	a	a-
Credit risk	10.0%	bbb-	bbb-
Market risk	-	-	-
Other risks	2.5%	a	a
Risk appetite	50.0%	a	a-
Competitive position	15.0%	bbb	bbb
Earnings	7.5%	a	a-
Loss performance	7.5%	a	a+
Performance indicators	15.0%	a	a
Indicative credit assessment		**a-**	**a-**
Transitions		Neutral	Neutral
Peer calibration		Neutral	Neutral
Borderline assessments		Neutral	Neutral
Stand-alone credit assessment		**a-**	**a-**
Material credit enhancement		Neutral	Neutral
Rating caps		Neutral	Neutral
Support analysis		Neutral	Neutral
Issuer rating		**A-**	**A-**
Outlook		Stable	Stable
Short-term rating		**N2**	**N2**

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 18 Feb. 2022 NCR's Rating Principles published on 24 May 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022 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.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
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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