

NCR comments: Sparbanken Rekarne AB 2020Q1 report

Our 'A-' issuer and issue ratings for Sparbanken Rekarne (SpR) are unchanged following the publication of its first-quarter results.

Strong result, supported by NII and modest credit losses

SpR slowed its on-balance-sheet loan growth during the first quarter, reducing lending by 0.9% (ca SEK 120m), while increasing loans transferred to Swedbank Mortgage by 0.4% (ca SEK 30m). This decline reflects a strategic change by the bank following a period where SpR has grown its loan book to improve overall earnings. In total, SpR's business volumes declined by 3% during the quarter reflecting the changes in loan volumes as well as a 1.9% growth in on-balance sheet deposits but mostly affected a decrease in the market value of in customers' investment and insurance assets.

The recent lending growth has contributed to the fact that net interest income (NII) improved by 17% vs Q1/19 and core revenues, despite a decline in fee and commission income, improved by 7% vs Q1/19. The bank also added SEK 6m for the partial sale of Portfolio Försäkra, reducing its share in the company further to 25% from 33% previously.

Expenses were down 8.9% vs Q1/19, reducing the cost-income-ratio to 50% and supporting SEK 47m in pre-provision earnings (vs SEK 35m in Q1/19 and SEK 28m in Q4/19).

Somewhat surprisingly, credit losses remained very low during the quarter at 2bps of total lending, reflecting modest changes in Stage 1/2 loans (IFRS9). Net non-performing (IFRS 9 stage 3) loans remain very low at SEK 13m (10bps of net loans). NCR expects loss levels and non-performing loans to increase given the increasing unemployment and company defaults in Sweden, but note that many large manufacturers reopened plants at the end of April, supporting activity in the local economy. In addition, SpR adjusted the value of its shareholdings in Sörmlandsfonden resulting in a writedown of SEK 1.5m during the quarter.

In total, the bank's 14.0% return on equity during the quarter was well above NCR expectations.

Capital ratios improve as exposure declines

The bank's capital ratios improved during the first quarter in part due to the period's result and a reduction in credit risk exposure during the quarter. SpR reported a CET1 ratio of 16.4% (15.6% at end 2019) and a total capital ratio of 18.5% (17.6%).

This commentary does not reflect a rating action.

If you have any questions, please contact:

Sean Cotten, chief rating officer, +46735600337, sean.cotten@nordiccreditrating.com

Geir Kristiansen, credit rating analyst, +4790784593, geir.kristiansen@nordiccreditrating.com

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Attachments

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