

NCR affirms its rating and outlook on Sparbanken Rekarne

Today Nordic Credit Rating (NCR) affirmed its 'A-' long-term issuer rating and 'N-1+' short-term rating on Sparbanken Rekarne AB (SpR). The outlook on the ratings remains stable. Our rating on SpR reflects the bank's regional market and its 50% ownership by Swedbank AB. We view SpR's cooperation with Swedbank as significant as it supports earnings, market position, product offering, funding and liquidity.

"In our view, the ownership and return requirements of Swedbank have contributed to SpR having a slimmer capital structure than its savings bank peers across the Nordic region," said Sean Cotten, primary analyst for SpR. "The bank's earnings metrics are somewhat weaker than those of similar savings banks when adjusted for SpR's higher leverage, and its strong record on loan losses and impairments is expected to continue given low interest rates, despite signs of a slowing economy."

We have made one change in our scoring of rating subfactors: our view of the bank's earnings has been notched down from 'a' to 'bbb+'. This reflects that the bank's core earnings have not covered the growth in capital requirements from new lending due to revisions in the commission agreements with Swedbank and the bank's insurance partners. However, we understand that SpR is considering alternatives to increase its capital base and we expect it to improve its overall capitalisation during 2020 to allow for continued growth in own balance sheet lending.

stable outlook

Our stable outlook for SpR reflects expectations of growth in the bank's primary market, despite downside risks to the manufacturing sector. We expect the bank to continue its relationship with Swedbank and for Swedbank's creditworthiness to remain strong despite potential fines associated with money laundering. We include a notch of ownership support in the rating but expect that improvements in the standalone credit assessment would reduce the upside from ownership.

Our full analysis of Sparbanken Rekarne is available at:

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

Positive rating drivers

- A rating upgrade is unlikely at this time given the current capitalisation and ownership.

Negative rating drivers

- Reduced ownership by Swedbank or decline in Swedbank's creditworthiness.
- Significant economic weakening in the region, leading to factory closures, reduced economic activity and high unemployment.
- Materially lower capitalisation and/or asset quality.

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The methodology documents used for this rating are NCR's Financial Institutions Rating Methodology and Rating Principles, published on 16 Sept 2019. For the full regulatory disclaimer please see the rating report which can be downloaded at nordiccreditrating.com/ratings-research/research.

About Us

Nordic Credit Rating AS is a credit rating agency headquartered in Oslo with a branch in Stockholm. The company provides credit ratings to companies and financial institutions in the Nordic region, and bases its analysis on local insights. Nordic Credit Rating is registered with the European Securities and Markets Authority (ESMA).

Attachments

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