

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 credit rating on Sweden-based Sparbanken Rekarne AB (publ) (Sparbanken Rekarne). At the same time NCR affirmed the 'A-' senior unsecured issue ratings and 'N-1+' short-term rating. The outlook is stable.

Rationale

The long-term issuer rating reflects Sparbanken Rekarne's regional market and its 50% ownership by Swedbank AB. As with other Swedish savings banks, Sparbanken Rekarne has an arrangement with Swedbank, under which the larger bank provides material diversification of product offerings, shared IT costs and the opportunity to finance mortgage loans via Swedbank Hypotek AB. We view Sparbanken Rekarne's cooperation with Swedbank as significant as it supports earnings, market position, product offering, funding and liquidity. We also view Swedbank's ownership as positive for the credit rating. Sparbanken Rekarne has maintained its strong record on loan losses despite the impacts of COVID-19. We project higher losses in 2021, but expect the bank's impairments to remain modest given low interest rates and high collateral values. In our view, the owners' return requirements have contributed to Sparbanken Rekarne having a slimmer capital structure than its savings bank peers across the Nordic region. Earnings metrics are somewhat weaker than those of similar savings banks when adjusted for Sparbanken Rekarne's higher leverage.

We have revised our loss performance assessment for Sparbanken Rekarne given that the bank's asset quality has outperformed our expectations COVID-19. In addition, we have increased our capital assessment to reflect a change in the bank's growth strategy and increased capital ratio targets. We note that the bank has cancelled its dividend for 2019 and we expect it to consider withholding dividends for 2020 to meet its capital objectives.

Outlook

The stable outlook reflects our expectations of a flatter U-shaped recovery rather than the sharp V- or W-shaped rebound that we anticipated previously. In addition, property prices have remained resilient after an initial downturn in March and April of this year, supporting a large majority of Sparbanken Rekarne's collateral. We expect the bank to continue its relationship with Swedbank and that Swedbank's creditworthiness will remain strong. 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. An upgrade is unlikely at this time given the ownership support included in the rating. We could lower the rating to reflect reduced ownership by Swedbank or a decline in Swedbank's creditworthiness, a long-term economic recession in the northern Södermanland region, or materially lower capitalisation and/or asset quality.

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-

All research for this issuer is available [here](#).

If you have any questions, please contact:

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The methodology documents used for this rating are NCR's Financial Institutions Rating Methodology published on 14 Aug. 2018 and NCR's Rating Principles published on 16 Sep. 2019. For the full regulatory disclaimer please see the rating report.

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

[Sparbanken Rekarne AB \(publ\) 'A-' long-term issuer rating affirmed; Outlook stable](#)