

# NCR comments: Sparbanken Rekarne AB (publ) Q4 2020 report

**Our 'A-' issuer and issue ratings on Sparbanken Rekarne AB (publ) (Sparbanken Rekarne) are unchanged following the publication of the bank's full-year 2020 results.**

## **Core revenue improves despite falling loan volumes**

Sparbanken Rekarne's business volumes increased to SEK 46.7bn by year-end as customer deposits rose and strong market values preserved customers' investment assets. The bank saw 14% increases in customer deposits and 10% growth in investment assets during the year. However, the bank experienced 4% declines in both on-balance-sheet lending and loans transferred to Swedbank during 2020.

The bank's core pre-provision income was SEK 122m in 2020, a 25% improvement from 2019, driven by higher net interest income and lower expenses. As we projected, the bank's core risk-adjusted return (net interest and fee income divided by our adjusted risk exposure amount) improved to 1.9% in 2020 (1.5% in 2019). However, net interest income and lending volumes fell quarter on quarter and margins were negatively affected by a negative Stockholm interbank offered rate and excess liquidity. Expenses declined by 5% year on year, reducing core cost-to-income levels to 65% from 72% a year earlier.

## **Asset quality is a positive outlier**

Additional reversals of credit losses in the fourth quarter lowered full-year 2020 loss provisions to an exceptional 1.5bps of net lending (3.2bps in 2019). Net Stage 3 non-performing loans were reduced to SEK 10.2m (8bps of net loans compared with 13bps in 2019). Both asset quality measures reflect the strong performance of the loan portfolio despite the impact of COVID-19 on the regional economy of Södermanland county, the bank's main area of operation.

## **Capital ratios improve as 2019 and 2020 dividend payments cancelled**

Sparbanken Rekarne's capital ratios improved by 150bps during the fourth quarter, primarily due to a reduction in corporate lending exposure and a decision to cancel dividends for 2019 and 2020. The common equity Tier 1 ratio was 18.1% at end-2020 (compared with 15.6% at end-2019) and the total capital ratio was 20.1% (17.6%).

This commentary does not constitute a rating action.

## **If you have any questions, please contact:**

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**Attachments**

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