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## Research Update:

# Sweden-Based Sparbanken 1826 Outlook Revised To Stable From Negative On Increased Capital; 'BBB+/A-2' Ratings Affirmed

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## Research Update:

# Sweden-Based Sparbanken 1826 Outlook Revised To Stable From Negative On Increased Capital; 'BBB+/A-2' Ratings Affirmed

## Overview

- We consider that Sweden-based Sparbanken 1826's strengthening capital position offsets potential risks from the negative economic risk trend we see in Sweden.
- We are therefore revising our outlook on Sparbanken 1826 to stable from negative and affirming our ratings on the bank at 'BBB+/A-2' and 'K-1'.
- On Oct. 22, 2013, the executive board of Sparbanken 1826 approved the merger between Sparbanken 1826 and Färs & Frosta Sparbank AB. We believe that the merged entity will sustain Sparbanken 1826's robust capital and funding profiles.

## Rating Action

On Nov. 5, 2013, Standard & Poor's Ratings Services revised its outlook on Sweden-based Sparbanken 1826 to stable from negative and affirmed its 'BBB+' long-term and 'A-2' short-term counterparty credit ratings on the bank. At the same time, the 'K-1' Nordic regional scale rating was affirmed

## Rationale

The rating action reflects our view of Sparbanken 1826's increased capital and robust funding metrics. In our view, these balance sheet characteristics offset potential risks from the negative economic risk trend we see in Sweden.

In addition, on Oct. 22, 2013, Sparbanken 1826's executive board approved the merger of Sparbanken 1826 and Färs & Frosta Sparbank AB. This transaction is expected to be complete in 2014. We believe that the combined entity will be a stronger savings bank in the County of Skåne, with robust earnings and strong funding metrics.

Sparbanken 1826 has a capitalization level exceeding 10% according to Standard & Poor's risk-adjusted capital (RAC) ratio, and the merged bank is aiming at a target for capitalization above the 15% threshold. Our pro forma analysis suggests that the merged entity may reach the 15% over the next 18-24 months, given our expectation of its ability to build capital by retaining earnings and its plan to transfer Swedbank AB shares to the owner foundations, Sparbanksstiftelsen 1826 and Sparbanksstiftelsen Färs & Frosta, thus reducing risks in its balance sheet.

Furthermore, we believe that the new bank could develop a good enough funding and liquidity profile to make it a positive outlier in comparison with the whole Swedish banking industry, as well as with international peers.

## Outlook

The stable outlook on Sparbanken 1826 reflects our expectation that the bank and the post-merger successor will be able to build capital sufficient to offset a potentially weaker assessment of the Swedish market. We believe our RAC ratio for Sparbanken 1826 and its successor may increase above our 15% threshold over the medium term. Furthermore, we see potential for the new combined bank to achieve a funding and liquidity profile above the industry average. We expect that it will maintain close cooperation with Swedbank over the long term, which we see as a supportive rating factor.

Given our view of a negative trend for economic risk in Sweden (see "Banking Industry Country Risk Assessment: Sweden," published on Jan. 25, 2013, on RatingsDirect), we could revise the outlook back to negative if economic developments in Sweden deteriorate and lead to impairment losses for the bank that are above our forecast normalized losses, or if we see changes in the new combined bank's strategy that indicate an increased risk appetite because it introduces new lines of business or more complex products.

We could revise the outlook to positive or raise the rating if the new bank shows tangible evidence that capitalization will rise sustainably above the 15% threshold as defined by our RAC measures, while its funding and liquidity metrics remain healthy.

## Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
SACP	bbb+	bbb+
Anchor	a-	a-
Business Position	Moderate (-1)	Moderate (-1)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Moderate (-1)	Moderate (-1)
Funding and Liquidity	Above Average and Adequate (0)	Above Average and Adequate (0)
Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0

Additional Factors 0 0

## Related Criteria And Research

- Banking Industry Country Risk Assessment: Sweden, Jan. 25, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Sparbanken 1826		
Counterparty Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
Nordic Regional Scale	--/--/K-1	--/--/K-1

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