

Resurs Bank AB (publ)

Rating Update

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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NCR affirms its 'BBB-' rating on Resurs Bank AB (publ) following announcement of potential capital initiatives; outlook stable

Today Nordic Credit Rating (NCR) affirmed its 'BBB-' long-term issuer rating and 'N-1+' short-term rating on Resurs Bank AB (publ) (Resurs) after Resurs Holding announced that it is "investigating the possibility" of issuing between SEK 100-400m in additional tier 1 (AT1) instruments in the next few months. The outlook on the ratings remains stable.

"The new issuance will improve capital ratios and diversify the capital base. The use of the proceeds given the buffers to the bank's CET1 (common equity Tier 1) capital targets and the bank's SEK 130m share buyback program remains unclear," said Sean Cotten, NCR's primary analyst for Resurs. "Our expectation is that some of the proceeds would be used for growth, reducing their impact on consolidated capital over time and resulting in lower CET1 ratios."

CAPITAL RATIO IMPROVEMENTS

NCR focuses its capital assessment on a bank's CET1 ratio with the potential to reflect additional capital flexibility from the going-concern loss absorption of AT1 capital instruments. At 30 Sep. 2019, the consolidated CET1 ratio was 13.6% for Resurs Holding (and Resurs Bank), including a 0.5% increase associated with a technical change in the calculation method for operational risk requirements. The additional capital would reflect an increase of 0.3%-1.3% in the consolidated Tier 1 capital levels.

Given uncertainty about the instrument, it remains to be seen whether the increased capital would be a permanent improvement in the group's capital structure. NCR notes that Resurs has not revised its capital targets from 11.5% CET1 or 14% total capital, which allows for considerable reductions in capital levels from current levels, with or without the issuance of the AT1 instrument.

While unlikely to affect the bank's capital levels, the current operating environment in Norway is affecting Resurs's growth opportunities, earnings and risk appetite. To compensate for currently flat growth in Norway the bank has adjusted pricing and reduced marketing expenditure in the country. In addition, Resurs has partly revised its strategy outside Norway by increasing its growth focus on higher ticket loans in Sweden, Finland and Denmark.

STABLE OUTLOOK

The stable outlook reflects NCR's expectation that the bank's earnings will support its growth objectives without significant increases in its risk profile. We expect a higher share of larger consumer loans and annual loan growth to remain in the 15% range. We expect that some of the proceeds of a potential AT1 issue would be used for growth, dividends or share buybacks reducing their impact over time.

Our full analysis of Resurs Bank, published 15 May 2019, is available at:

<https://nordiccreditrating.com/issuer/resurs-bank-ab-publ>

POSITIVE RATING DRIVERS

- Commitment to stronger capital buffers, in addition to strengthening of the bank's going-concern capital levels.
- Stabilisation or improvement of asset quality metrics.
- Tightening of overall risk appetite.

NEGATIVE RATING DRIVERS

- Material economic deterioration in the region.
- Regulatory changes affecting interest rates and recovery prospects for consumer loans.
- Excessive growth or increased risk appetite.

Figure 1. Bank rating scorecard

Subfactors	Impact	Score
National factors	2.5%	a-
Regional, cross border, sector	17.5%	bbb
Operating environment	20.0%	bbb
Capital	17.5%	bb+
Funding & liquidity	15.0%	bbb
Risk governance	5.0%	bbb
Credit risk	10.0%	bbb-
Market risk	0.0%	N/A
Other risks	2.5%	bbb-
Risk appetite	50.0%	bbb-
Market position	15.0%	bbb
Earnings	7.5%	a+
Loss performance	7.5%	bbb
Performance indicators	15.0%	a-
Indicative credit assessment		bbb-
Peer comparisons		0
Transitions		0
Borderline assessments		0
Adjustment factors		0
Standalone credit assessment		bbb-
Ownership		0
Material credit enhancement		0
Rating caps		0
Support		0
Issuer rating		BBB-
Outlook		Stable
Short-term rating		N-1+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
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Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Methodology used when determining the credit rating:	Nordic Credit Rating - Financial Institutions Rating Methodology published 14 Aug. 2018 Nordic Credit Rating - Rating Principles published 16 Sep. 2019 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies . The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA) .
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Company presentations, Non-public information, Website of rated entity
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Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test or cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies .
Ancillary services provided:	No ancillary services were provided.
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