

Nordic niche banks show improvement despite margin pressure

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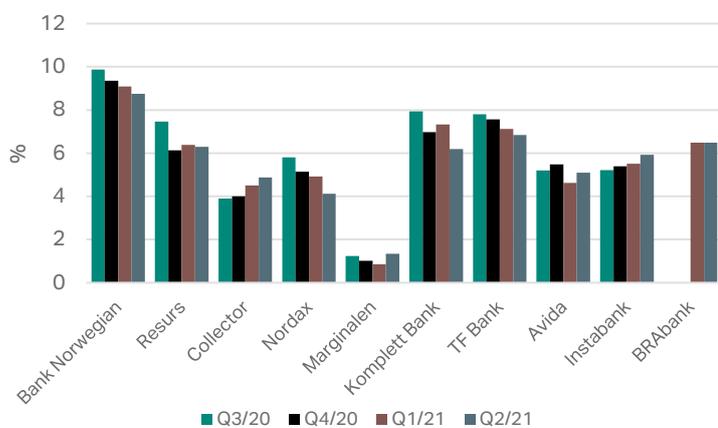
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Nordic consumer banks are showing signs of gradually recovering from the COVID-19 pandemic. The second quarter saw positive indications such as increasing loan growth, as well as declining loan loss provisions and Stage 3 non-performing loans. However, the trend from the first three months of the year seems to have continued in the second quarter, with most banks in our sample having experienced further pressure on net interest margins and risk-adjusted earnings.

NCR expects growth to be the priority for most consumer banks over the next few years. This is likely to increase competition on the lending side and weigh further on margins. We note that low growth and increased competition in the Norwegian consumer market is pressuring margins, however, Nordax has moved a step closer to acquiring Bank Norwegian as a means of strengthening its competitive position. We also expect banks to continue their gradual reversal of the large loan loss provisions taken in 2020.

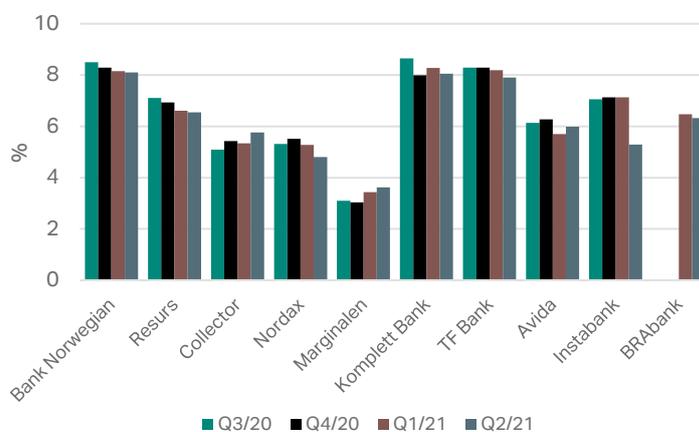
The second quarter saw Norwegian Finans Holding ASA complete a reverse parent-subsiary merger with Bank Norwegian ASA, which will result in Bank Norwegian reporting as a combined entity for the first time. On 14 Jun. 2021, Nordax Bank launched an improved cash offer to acquire the entire outstanding share capital in Bank Norwegian, with Bank Norwegian's board recommending the offer. The voluntary offer period began on 6 Aug. 2021 and expires on 6 Sep. 2021, with a potential extension until 15 Oct. 2021.

Figure 1. Annualised pre-provision income to average risk exposure amount (REA)*, Q3 2020–Q2 2021



Source: Company reports. *BRABank is the result of a merger between BRABank and Easybank, for which the first combined figures were available for Q4/20

Figure 2. Annualised net interest margins, Q3 2020–Q2 2021



Source: Company reports.

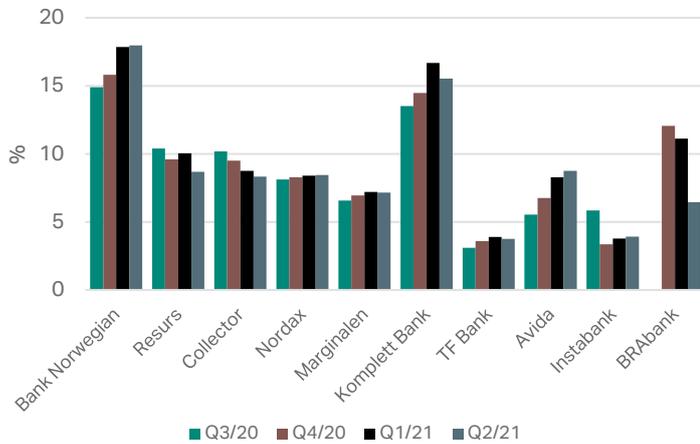
VARYING LENDING GROWTH IN THE NORDIC CONSUMER FINANCE MARKET

The second quarter presented mixed results on lending growth despite increased consumption in the wake of the pandemic. On average, net loans grew by 3% compared with the first quarter of 2021. While Instabank saw an 11% increase, most of its peer group experienced modest or negative lending growth. Instabank's second-quarter growth was largely due to an increase in mortgage lending and the acquisition of a portfolio of unsecured loans as part of the liquidation of Optin Bank's assets, under public administration. TF Bank, Nordax and Collector also reported material growth during the quarter.

The Norwegian consumer bank market is stabilising, following the implementation of a debt registry in 2019 and new consumer lending regulations from 2021. However, we note that a number of banks active in Norway, namely Bank Norwegian, Resurs Holding and BRABank, reported lower loans in the second quarter.

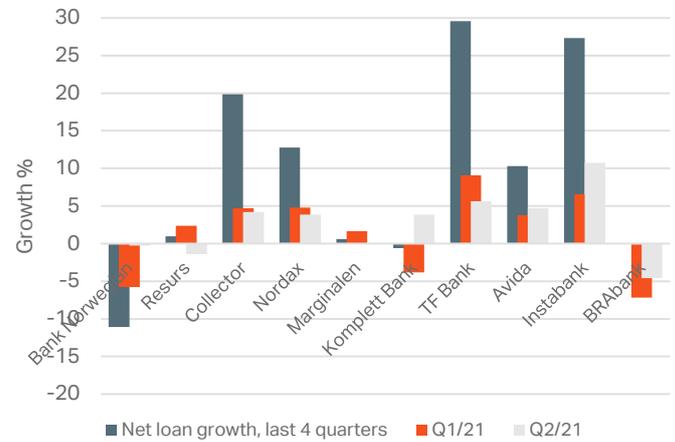
Nordic niche banks have broad access to consumer deposits, due to increased savings during the pandemic and very low rates on current accounts in traditional banks. This, together with greater access to German deposit funding, has allowed banks to reduce deposit rates, offsetting some of the margin pressure on lending. If lending growth accelerates, there could be renewed pressure on deposit rates or an increased appetite for capital-market financing as a means of securing necessary funding.

Figure 3. Net Stage 3 non-performing loans to net loans, Q3 2020–Q2 2021



Source: Company reports.

Figure 4. Growth in net loans, Q2 2021

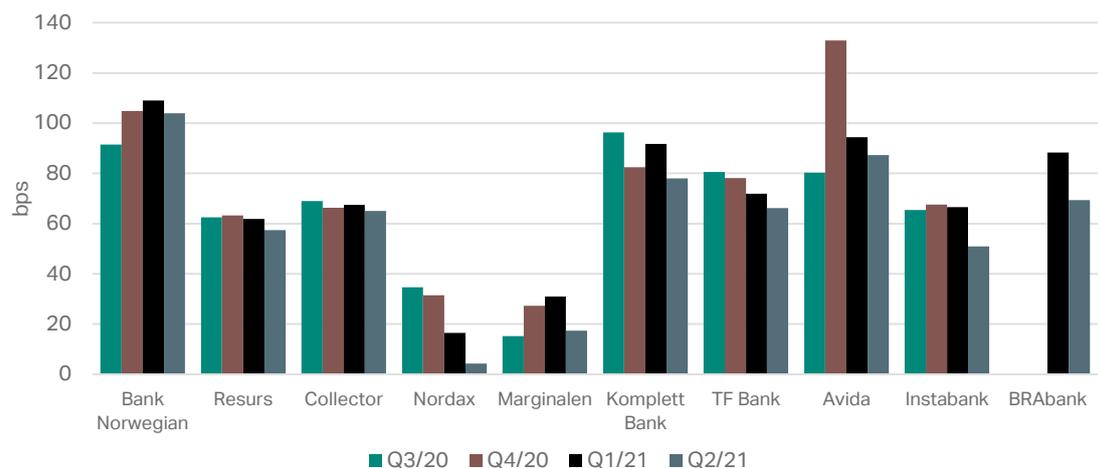


Source: Company reports.

DECLINING LOSS PROVISIONS AND STAGE 3 LOANS

The second quarter saw positive development in loan loss provisions for most banks. On average, Nordic niche banks in our sample reduced loss provisions by 19% compared with the previous quarter. NCR expects reversals of extra provisions taken at the outset of the pandemic to positively affect the banks' results as the macroeconomic outlook improves. Furthermore, we note that net Stage 3 loans (non-performing loans) are decreasing. Having increased by 8% on average from the fourth quarter of 2020 to the first quarter of 2021, non-performing loans declined by an average of 3% in the second quarter. Improved growth and sales of non-performing loans are supporting lower shares of non-performing loans. We consider the banks' sales of non-performing loans as an indication that debt purchasing market is functioning properly and validating banks' loss reserves.

Figure 5. Loan loss provisions to net loans, Q3 2020–Q2 2021



Source: Company reports.

NORDIC CONSUMER BANKS REMAIN WELL CAPITALISED, WITH STRONG BUFFERS

Tier 1 capital ratio performance was mixed in the second quarter. All niche banks in our sample, except for Komplett Bank and TF Bank, reported marginally higher Tier 1 capital ratios than in the

previous quarter. In general, Nordic niche banks remain well capitalised. On average, loss-absorbing buffers constituted 33% of the banks' risk exposure, indicating no change from the first quarter. Loss-absorbing buffers as a share of total risk-weighted assets consist of Tier 1 capital ratios, pre-provision earnings ratios and loss reserved, which averaged 18%, 5% and 9% respectively.

Figure 6. Capital ratios, 30 Jun. 2021

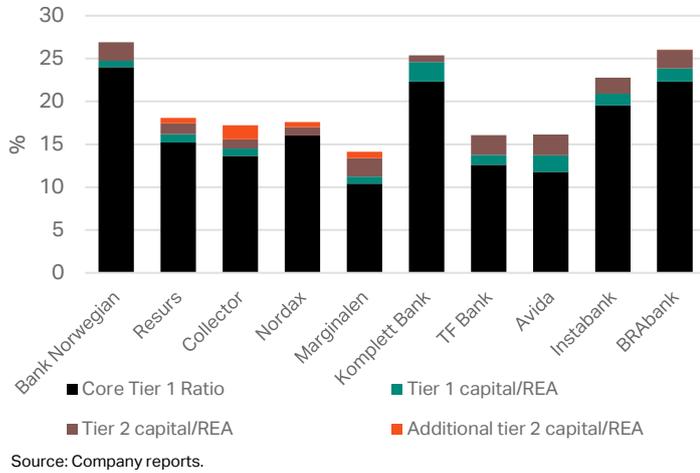
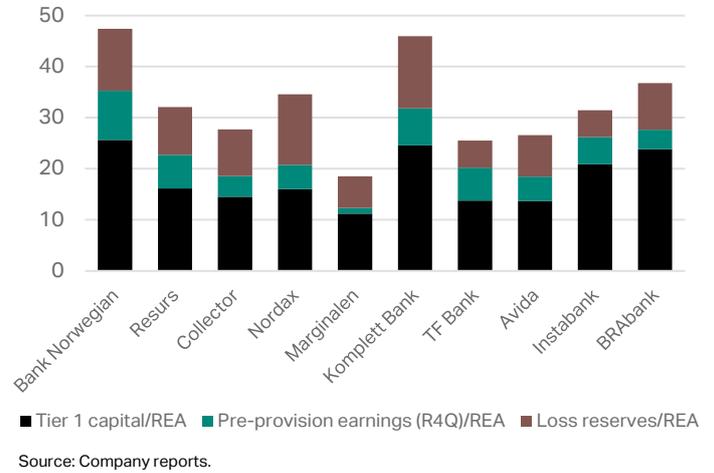


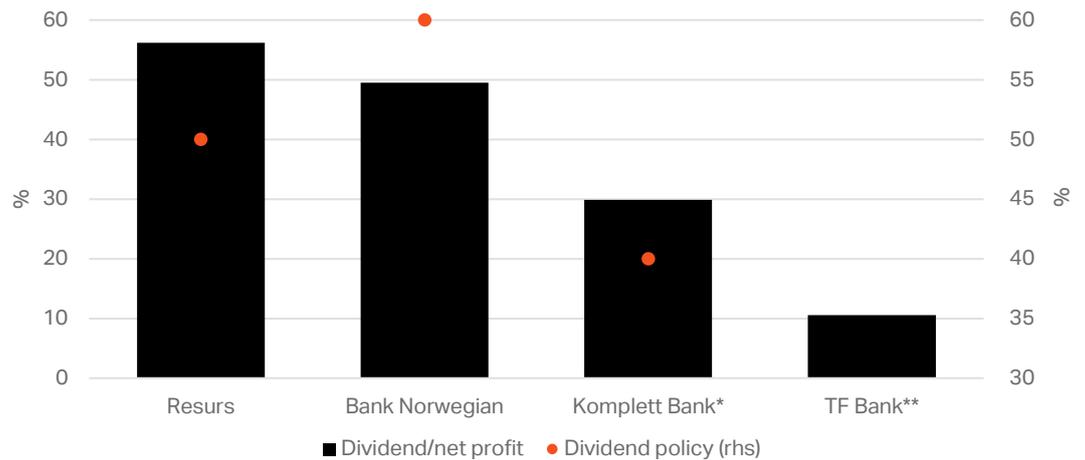
Figure 7. Loss-absorbing buffers as a share of REA, 30 Jun. 2021



DIVIDEND ACTIVITY INCREASED, THOUGH MOST CHOOSE GROWTH OVER DIVIDENDS

Regulatory restrictions limited dividends for much of 2020 and, since December 2020, have capped dividends at 30% of net profits for 2020 and 2021 in Norway and 25% of net earnings for 2019 and 2020 in Sweden. These restrictions will be removed at the end of September 2021. Nordic niche banks have historically prioritised growth over dividend payments. However, we note that Bank Norwegian and Komplet Bank elected to pay their first ever dividends in the second quarter. Resurs has long been the exception among niche banks with respect to dividends, and paid the largest share of year-to-date profits in the first half of the year. Resurs has also announced its intention to pay an additional dividend after restrictions are removed, reflecting the remaining dividend for 2020 and 50% of net profit for the first half of 2021.

Figure 8. Distributed dividends as a share of 2021 net profits and dividend policies, 30 Jun. 2021



NCR-RATED NICHE BANKS

On 29 Jun. 2020, NCR published its rating on Nordax, its third rating on Nordic consumer banks. The following table summarises NCR's ratings on Nordic consumer banks.

Figure 6. NCR ratings on Nordic consumer banks

	<u>Resurs Bank AB (publ)</u>	<u>Collector Bank AB (publ)</u>	<u>Nordax Bank AB (publ)</u>
Long-term issuer rating	BBB	BBB-	BBB
Outlook	Stable	Stable	Stable
Subfactors:			
Operating environment (20%)	bbb-	bbb	bbb-
Risk appetite (50%)	bbb	bbb-	bbb
Market position (15%)	bb+	bb	bb
Performance indicators (15%)	bbb+	bbb+	bbb+
Ownership adjustment	0	0	0

See NCR's [company rating reports](#) for details. N/A—not applicable.

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