Nordic consumer banks perform well in eventful third quarter

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The third quarter of 2021 was eventful for Nordic consumer banks. First, Nordax Bank's (Nordax) acquisition of Bank Norwegian became a certainty following regulatory approvals from Sweden and Norway. Second, Komplett Bank (Komplett) announced that a review of its loan book had resulted in additional loan losses and a large negative impact on total income. This review coincided with the sale of NOK 1.4bn of the bank's non-performing consumer loans in Norway, Sweden and Finland.

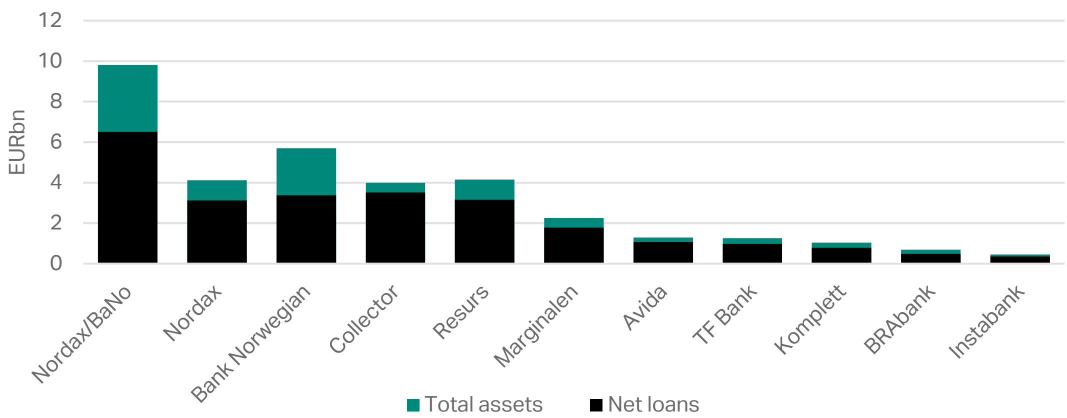
Adjusting for the one-off impact of Komplett's write-down, the third quarter saw an increasing pace of loan growth and a small decline in average loan loss provisions. The percentage of Stage 3 non-performing loans also declined, in large part due to sales of non-performing loan portfolios to external debt collection agencies. Another bit of good news for the sector is that the average net interest margin and risk-adjusted earnings in the sample have improved, adjusted for the one-off earnings impact from Komplett.

NCR expects growth ambitions to boost competition and weigh further on consumer loan margins. However, we expect banks to continue to diversify away from traditional consumer loans and increase credit card exposures, buy-now-pay-later loans and non-traditional mortgages to improve profits. We also believe banks will maintain stable loss provision ratios and steadily reduce non-performing loans as they grow. However, there is the potential for other banks to re-evaluate their loss models and provisions if Komplett's announcement reflects lower demand for and pricing of non-performing large-ticket consumer loans.

NORDAX SET TO BECOME MARKET HEAVYWEIGHT

Nordax is expected to complete the compulsory acquisition of the remaining shares in Bank Norwegian over the next days or weeks. This will create the largest consumer bank in the Nordic region, almost twice the size of its closest peer. As of 30 Sep. 2021, the combined entity's net loans would total €6.5bn, essentially doubling Nordax's own €3.1bn loan book. In addition, the relatively low overlap of products and markets will diversify the consolidated bank geographically, by materially increasing Nordax's share of the Norwegian, Danish and Finnish consumer finance markets. The acquisition also adds credit cards to Nordax's non-traditional and equity-release mortgages, reducing the share of consumer loans to just under 70%.

Figure 1. Total assets and net loans, Q3 2021

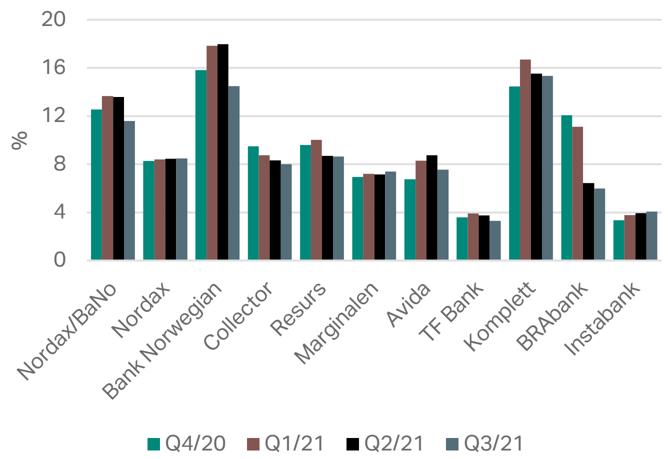


Source: bank reports. Nordax/BaNo is a combination of Nordax Group AB and Bank Norwegian ASA, using end-quarter spot rates.

LOAN LOSS PROVISIONS STABLE, BUT COULD NEED REVISIONS

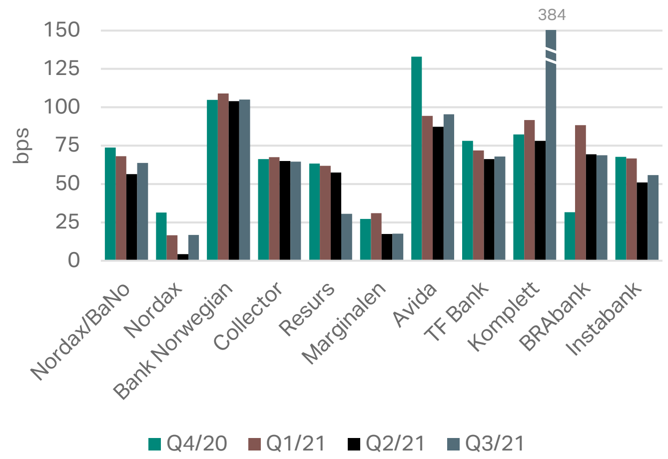
Excluding the one-off loss for Komplett, the third quarter saw modest average improvements in loan loss ratios for the sample banks. A key driver was Resurs' reversal of SEK 75m in extraordinary provisions made in the first quarter of 2020, reflecting lower downside risks to credit quality from the ongoing pandemic. Furthermore, we note that net Stage 3 loans (non-performing loans) decreased due to new loan growth and sales of non-performing loans, in particular for Bank Norwegian. We regard the banks' sales of non-performing loans as an indication that the debt purchasing market is functioning properly, although the revisions by Komplett could lead to higher reserves on non-performing loans by peer banks, in particular for banks with larger consumer loans.

Figure 2. Net Stage 3 non-performing loans to net loans, Q4 2020–Q3 2021



Source: bank reports.

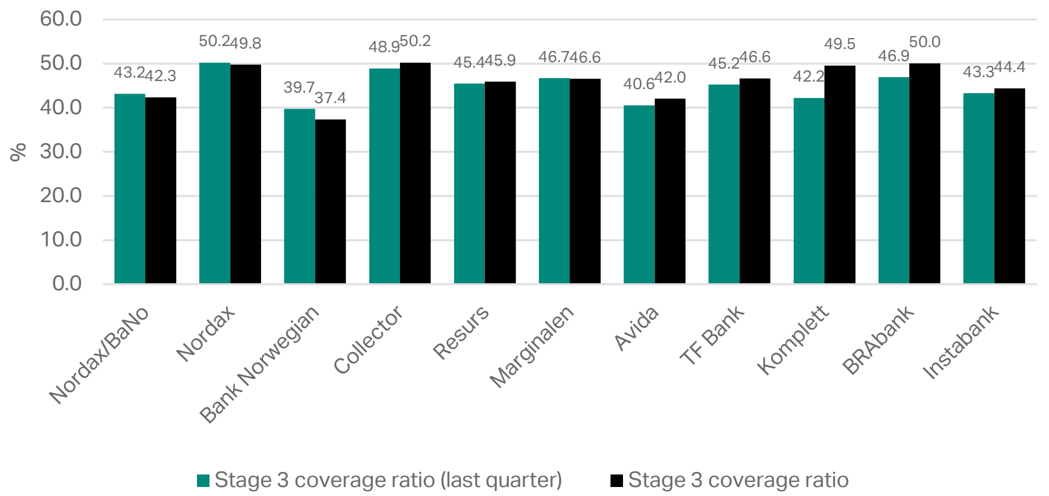
Figure 3. Loan loss provisions to net loans, Q4 2020–Q3 2021



Source: bank reports.

Komplett's announcement of its additional loan losses of NOK 256m indicated that the portfolio sales process and the prices received led to a review of its entire loan book, resulting in a one-off NOK 150m loan loss provision. The remaining NOK 106m in additional one-off losses are associated with the NOK 1.4bn of portfolio sales during the quarter. In particular, Komplett noted that this was "partly due to lower than previously expected recoverability from larger ticket loans and an increase in average balances over time". The revision increased the bank's Stage 3 reserve ratio to 49.5% (from 42.2% in the previous quarter), moving from one of the lowest provisioning levels to one of the highest in the peer group. Adjusted for the effects of portfolio sales and additional loss provision, Komplett reported that the loan loss ratio would have declined from the second quarter.

Figure 4. Stage 3 reserve ratios, Q2 2021–Q3 2021



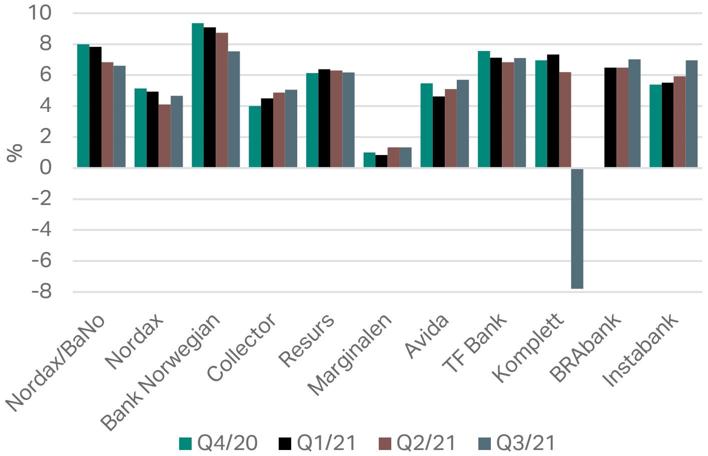
Source: bank reports.

DIVERSIFICATION RELIEVING SOME MARGIN PRESSURE

Net interest margins showed a minor improvement during the third quarter. We believe that margins for some issuers are improving through diversification into other product areas. Collector continues to focus on the corporate and real-estate segments, where both demand and risk-adjusted margins are higher than in consumer lending, in which the bank's volumes remain flat. Recent improvements in Marginalen's margins are largely due to lower financing costs, in particular owing to a reduction in subordinated debt.

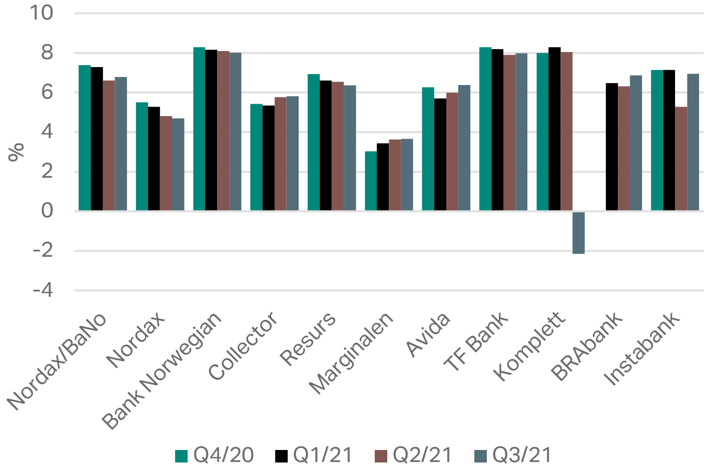
Risk-adjusted earnings are also on an upswing in the peer group and remain very high on average. Collector's risk-adjusted earnings are continuing to rise due to growth in secured real-estate loans, while Bank Norwegian's third-quarter earnings were materially affected by declining values of bonds and other securities, as well as by a reduction in net interest income due to declining loan and credit card volumes. Komplett's one-off revision included an NOK 290m reduction in previously reported net interest income, reflected in the negative earnings and margins shown in the figures below. Komplett reported that its profit after tax would have been in line with the second quarter, excluding one-off effects.

Figure 5. Annualised pre-provision income to average risk exposure amount (REA)*, Q4 2020–Q3 2021



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

Figure 6. Annualised net interest margins, Q4 2020–Q3 2021

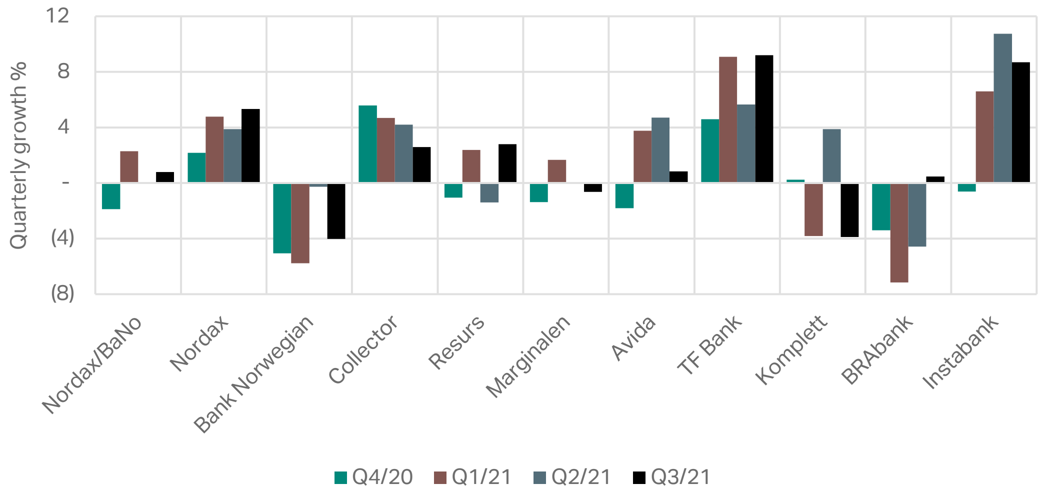


Source: bank reports.

LENDING GROWTH PRIMARILY OUTSIDE CONSUMER LOANS

The third quarter showed further lending growth as consumption increased in the wake of the pandemic. On average, net loans grew by 2.3% compared with the second quarter of 2021. TF Bank (9.2%) and Instabank (8.7%) reported strong growth in the third quarter. Nordax, Collector and Resurs also experienced material growth during the period. The remainder of the peer group showed modest or negative lending growth. For the most part, growth has been driven by products outside traditional consumer loans. Instabank, Nordax and Collector's growth was spurred by secured lending in non-traditional mortgages and commercial real estate. For TF Bank, recent growth has been driven by credit card volumes (29% in the quarter), although it also reported strong consumer loan growth of 7% for the quarter, with robust growth in Norway, Finland and the Baltics.

Figure 7. Quarterly growth in net loans, Q4 2020–Q3 2021

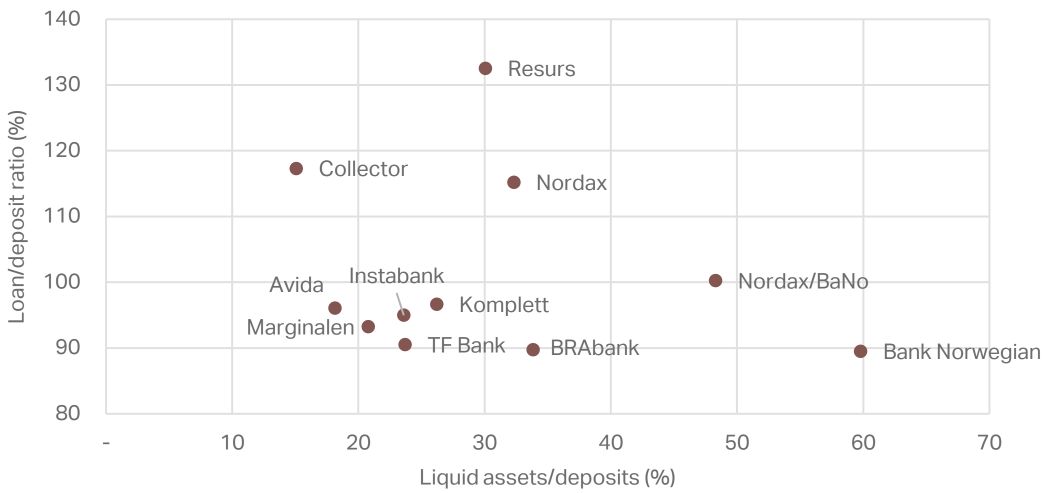


Source: bank reports.

ACCESS TO FUNDING AND LIQUIDITY VARIES

Nordic consumer 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. Due to the price sensitivity of the banks' deposit base, it is important that they maintain liquidity buffers in the event of a large outflow of deposits and to keep to regulatory requirements on liquidity coverage ratios and net stable funding ratios. Within the peer group, Nordax, Bank Norwegian, Collector and Resurs have demonstrated access to capital market financing in the form of senior unsecured bonds, as well as senior bonds secured by consumer and mortgage loan assets.

Figure 8. Loan/deposit ratio and liquid assets/deposits, Q3 2021



Source: bank reports.

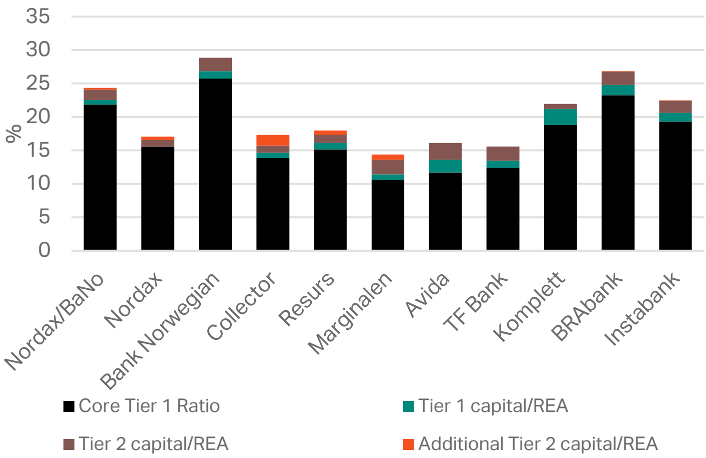
NORDIC CONSUMER BANKS ARE WELL CAPITALISED, WITH STRONG BUFFERS

Excluding Komplett, average core Tier 1 (CET1) ratios increased by 0.3% during the quarter. Komplett's CET1 ratio fell by 3.5% due to the one-off write-downs, to 18.8% at the end of the quarter. Komplett noted that the pro-forma CET1 ratio will improve to 20.1% once the sold non-performing portfolios are transferred from the bank's balance sheet in November.

The banks remain well capitalised and have strong loss-absorbing buffers, representing an average of 31% of the banks' risk exposure. Loss-absorbing buffers as a share of total risk-weighted assets consist of Tier 1 capital ratios, rolling four-quarter pre-provision earnings and loss reserves, which averaged 17.9%, 4.8% and 8.5%, respectively.

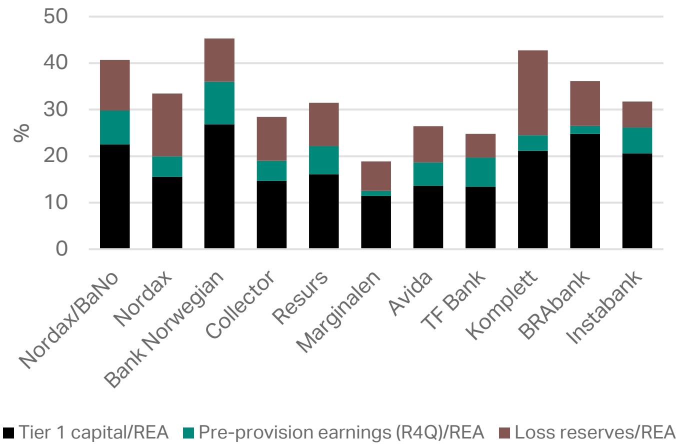
On 26 Oct. 2021, Nordax Holding AB issued SEK 1.4bn in additional Tier 1 (AT1) capital instruments and SEK 650m in Tier 2 instruments, which will form part of the consolidated capitalisation of the Nordax Group. The AT1 issuance exceeded the bank's original guidance by over SEK 500m and should provide additional headroom under its current regulatory Tier 1 and total capital requirements compared with the 1.5–2pp clearance originally announced by the bank. We expect the consolidated bank to have CET1 capital ratios above 15%, as well as Tier 1, total capital ratios and loss-absorbing buffers about 5pp lower than shown in the figures below when reported for the first time at the end of 2021.

Figure 9. Capital ratios, Q3 2021



Source: bank reports.

Figure 10. Loss-absorbing buffers as a share of REA, Q3 2021



Source: bank reports. REA–risk exposure amount.

NCR-RATED CONSUMER BANKS

On 22 Oct. 2021, NCR affirmed its rating on Nordax Bank AB (publ), reflecting the eventual acquisition of Bank Norwegian. The following table summarises NCR's ratings on Nordic consumer banks.

Figure 11. NCR ratings on Nordic consumer banks

	Resurs Bank AB (publ)	Collector Bank AB (publ)	Nordax Bank AB (publ)
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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