

## Nordic consumer banks report steady first-quarter 2022 results

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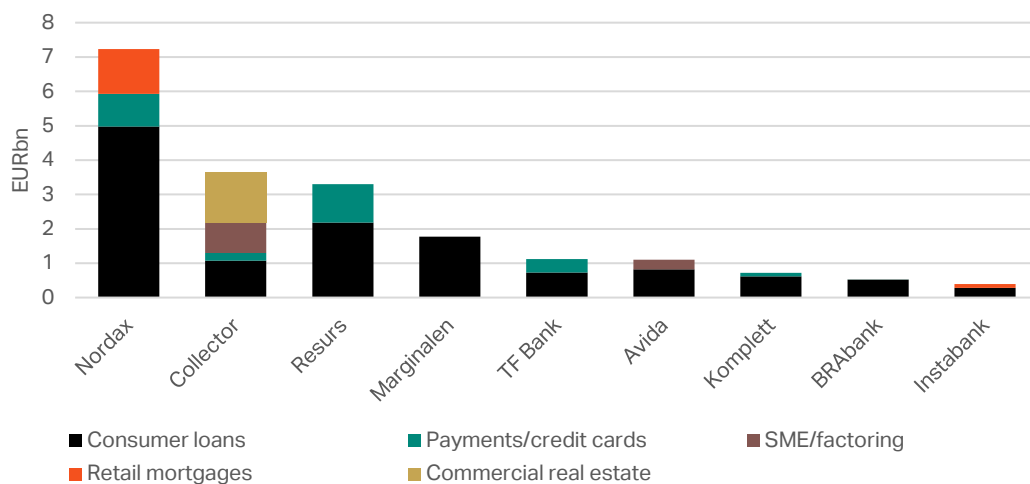
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The first quarter of 2022 proved less eventful for Nordic consumer banks than for capital markets, with recent trends for consumer banks continuing. Credit provision and non-performing loan (NPL) metrics fell, net interest margins remained under pressure and deposit inflows remained strong. However, the seismic shifts in inflation and interest rates are expected to impact consumer banks and their customers over time. Individuals with already weak financial profiles are more likely to be affected by food and energy price inflation. Homeowners also face material increases in interest costs and housing prices are coming down from record highs. Nordic Credit Rating (NCR) believes that these factors could affect consumption patterns and demand for consumer loans.

While we do not expect Russia's invasion of Ukraine to have a direct impact on Nordic consumer banks, it is spurring inflation and uncertainty, which could extend the period of reduced demand for consumer loans, travel and consumer spending that began with the onset of the COVID-19 pandemic.

In March, Danish consumer challenger bank Lunar Bank A/S announced a cash offer for all shares in Norway-based Instabank ASA. On 25 May 2022, Instabank announced that Lunar had revised its application to the Norwegian regulator, which originally rejected the bid on 13 May 2022. The revised application includes Lunar raising additional equity. According to Instabank, Lunar remains confident that the transaction will be completed by 30 Sep. 2022.

Figure 1. Nordic consumer banks' net loans by product type, Q1 2022



Source: bank reports. Product segments are shown where available in bank reports.

### LOAN LOSS PROVISIONS FALL FURTHER, NPL SALES ACCELERATING

Asset quality improved as loan loss provisions fell for most banks. In addition, portfolio sales and loan growth supported lower NPL levels. In our sample, net Stage 3 NPLs decreased in the first quarter of 2022 to 6.8% from 9.3% a year ago (including a combination of Nordax and Bank Norwegian).

Norway's Komplett Bank remained the most active bank in reducing its NPL ratio, announcing a NOK 700m portfolio sale in April 2022, which will reduce the gross NPL ratio to less than 3% from 23% as of Q3 2021. This reflects a reduction to around 1.5%, the lowest in the sample, from over 15% using net NPL ratios (see Figure 2). Nordax (including Bank Norwegian before the merger) has also materially reduced NPLs over the past year to 9.9% from 13.7%, particularly in Bank Norwegian's portfolio. Sweden-based Collector, which makes only one-third of its loans to individuals, reduced its NPL ratio through further expansion in corporate and real-estate lending. Norway's BRABank, which will be rebranded as Lea Bank in the second quarter, reported higher credit losses in the first quarter and

announced the sale of most of its Finnish NPLs in April, which will reduce its gross NPL level by over 1pp.

Figure 2. Nordic consumer banks' net Stage 3 NPLs to net loans, Q2 2021–Q1 2022

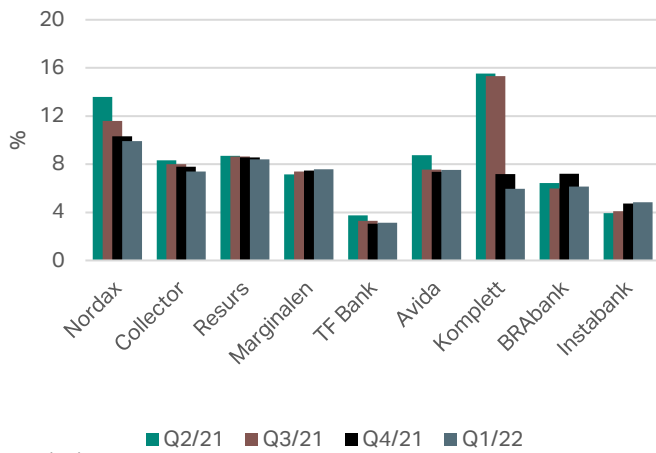
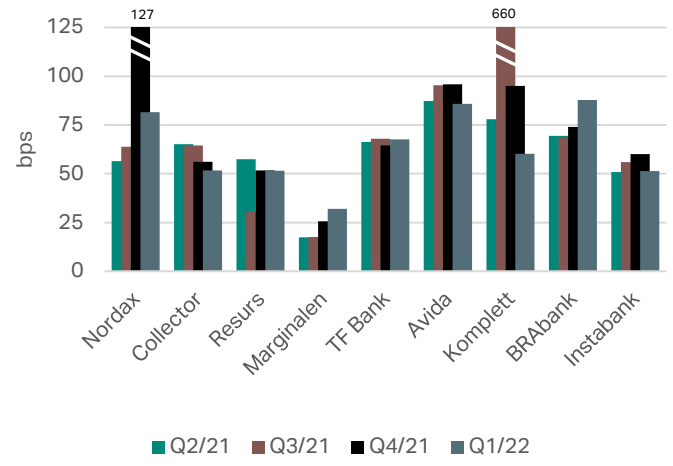


Figure 3. Nordic consumer banks' loan loss provisions to net loans, Q2 2021–Q1 2022



Source: bank reports.

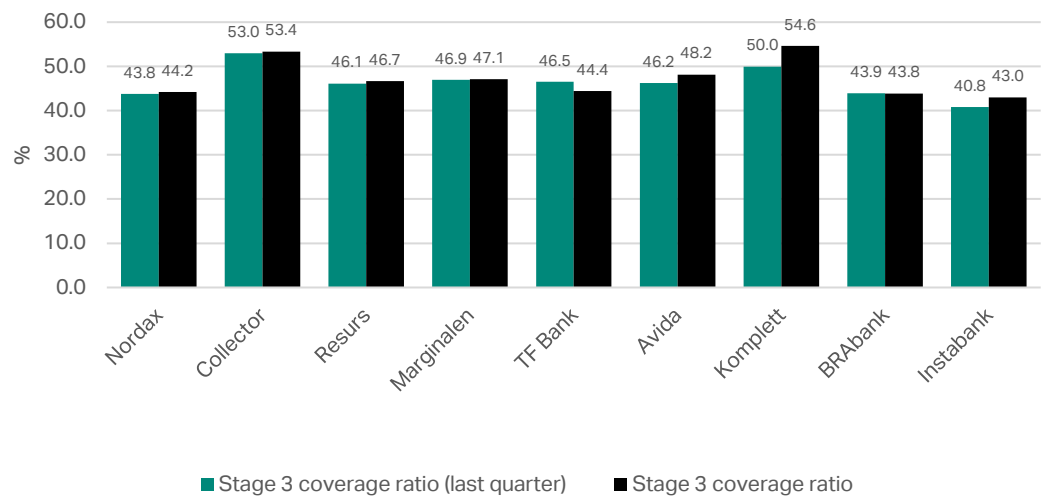
Source: bank reports.

NOTE: For all charts in the report, Nordax's Q2/Q3 2021 figures are based on a combination of Nordax Group and Bank Norwegian ASA's separately reported figures. Nordax's Q4 2021 figures exclude one-off acquisition expenses of SEK 563m.

Stage 3 coverage ratios improved by nearly 1pp in the first quarter to an average of 47.3% for the sample. Komplett Bank showed the largest improvement, with a 4.6pp increase, continuing its trend since mid-2021.

We expect the impact of the EU's NPL backstop regulations to lead to further reductions in on-balance sheet NPLs. The backstop incentivises banks to increase their use of forward flow agreements and retain fewer Stage 3 loans on their balance sheets by increasing their impact on banks' capital ratios. We also continue to expect the debt collection market to be affected as the backstop rules begin to take effect this autumn. In our view, the backstop regulations could negatively impact secondary pricing of NPLs, which in turn could lead to greater loss provisions as banks increase their NPL coverage ratios accordingly. You can read more about our views of regulatory impacts on the sector in our year-end 2021 summary ([Nordic consumer banks report strong fourth-quarter 2021 results](#), 3 Mar. 2022).

Figure 4. Nordic consumer banks' Stage 3 coverage ratios, Q4 2021–Q1 2022



Source: bank reports.

### MARGIN PRESSURE MITIGATED BY CHANGES IN PRODUCT MIX

Remarkably, the average net interest margin for the nine banks in the sample has been stable at 6.4% in each of the last four quarters. This stability hides the variations in the sample shown in Figure 6, as well as the changes in product mix shown in Figure 8, which support stable overall margins, while segment margins are in decline. In addition, comparability is affected by one-off effects for Nordax and Komplet Bank in the last four quarters. A trend that does seem to be continuing, however, is the decline in risk-adjusted earnings (pre-provision income to risk exposure amount (REA)), which has fallen steadily over the last four quarters to 5.0% from 5.6%, but remains very strong in the context of the Nordic banking market.

Historically, banks have benefitted from rising interest rates, so there is the potential for more stable margins and earnings metrics at the product level going forward. We expect slower increases in deposit rates than lending rates, which should allow the banks to improve overall net interest margins. However, Nordax, Resurs and Collector have material capital-markets financing, which has become more expensive due to a steep increase in interest rates and wider credit spreads for the banks' debt instruments.

Figure 5. Nordic consumer banks' annualised pre-provision income to average REA, Q2 2021–Q1 2022

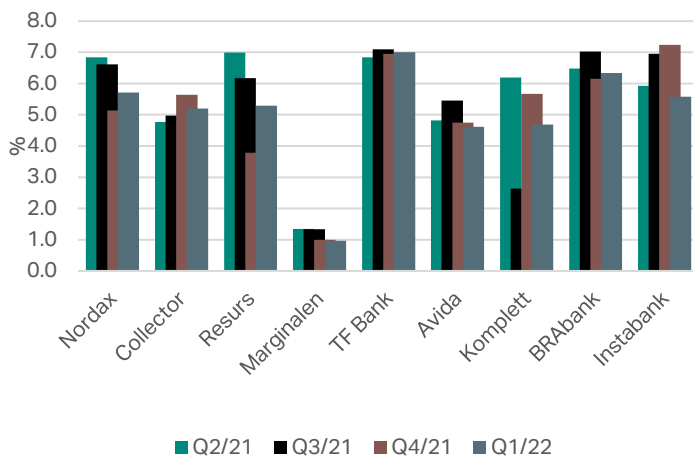
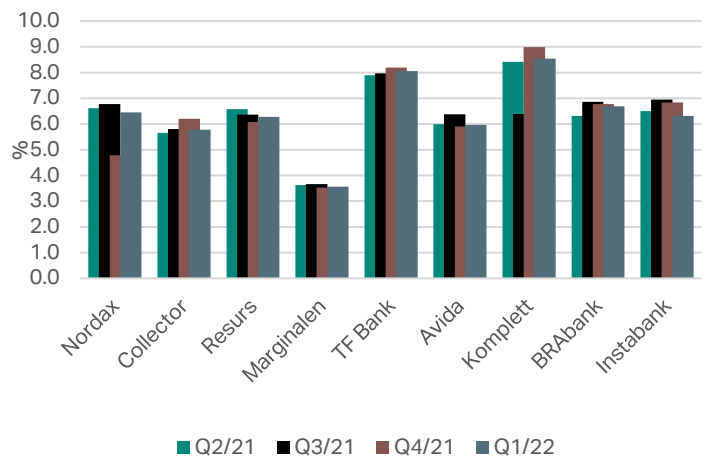


Figure 6. Nordic consumer banks' annualised net interest margins, Q2 2021–Q1 2022



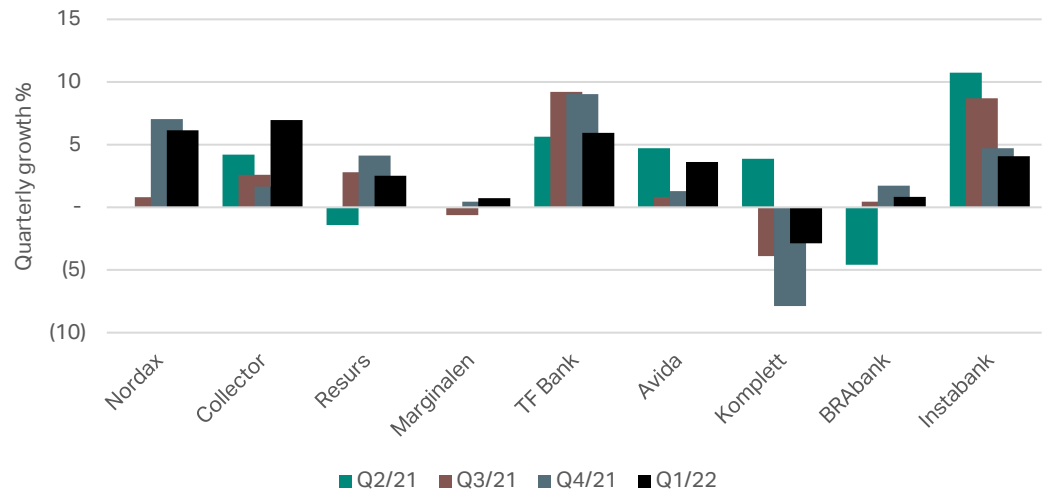
Source: bank reports. REA–Risk exposure amount.

Source: bank reports.

### LOAN VOLUMES GROWING IN ALL SEGMENTS

Lending growth jumped in the first quarter of 2022 to a 3.1% average for the quarter, which is somewhat above the pace of the 11.4% growth seen over the last year. Growth among the sample banks was generally strong in the first quarter, with five of the nine banks above the group average. The sale of NPLs resulted in a reduction in net loans for Komplet Bank for the third quarter in a row.

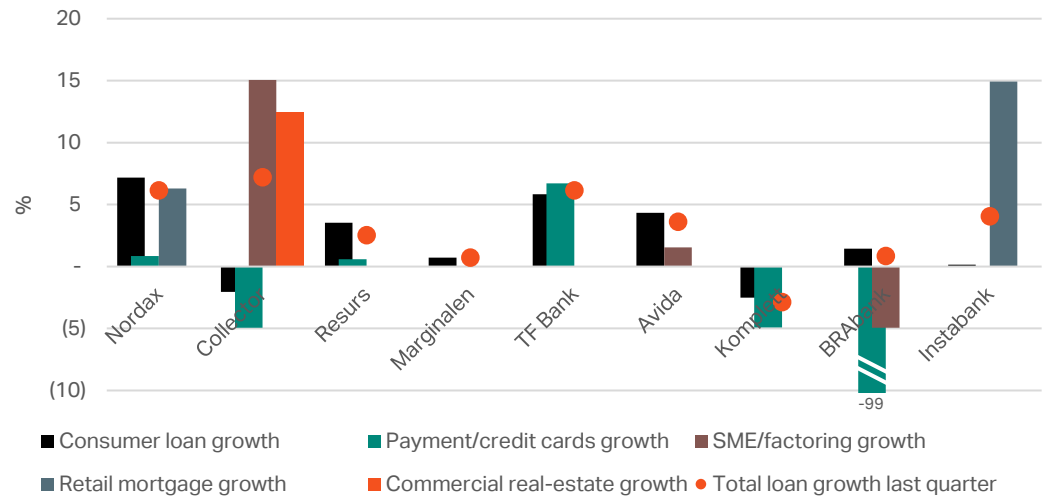
Figure 7. Nordic consumer banks' net loan growth, Q2 2021–Q1 2022



Source: bank reports.

The source of growth within the sample varied by segment in the first quarter. On aggregate, consumer loans grew by 3.7%, payment and credit cards increased by only 0.7% and retail mortgages grew by 6.9% in the quarter. At bank level, Nordax generated growth in consumer loans and non-traditional retail mortgages. Collector continued to rapidly increase its corporate and real-estate loan book. TF Bank grew in consumer loans and credit cards, particularly in Germany. Avida grew primarily in consumer loans. Instabank's lending growth was almost exclusively associated with non-traditional retail mortgages.

Figure 8. Nordic consumer banks' net loan growth by segment, Q1 2022

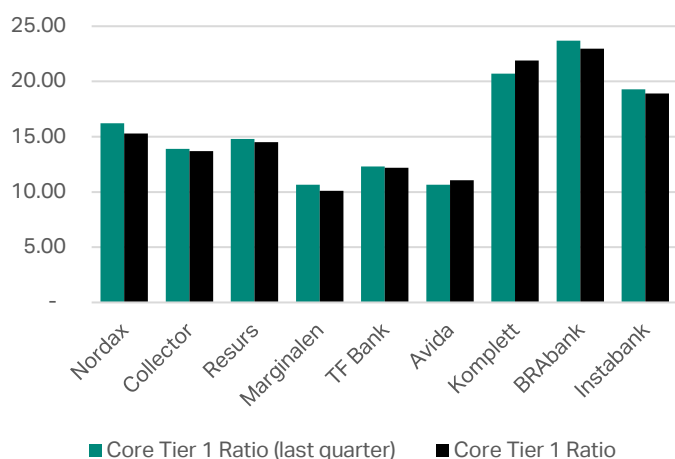


Source: bank reports.

### CAPITAL BUFFERS REMAIN STRONG

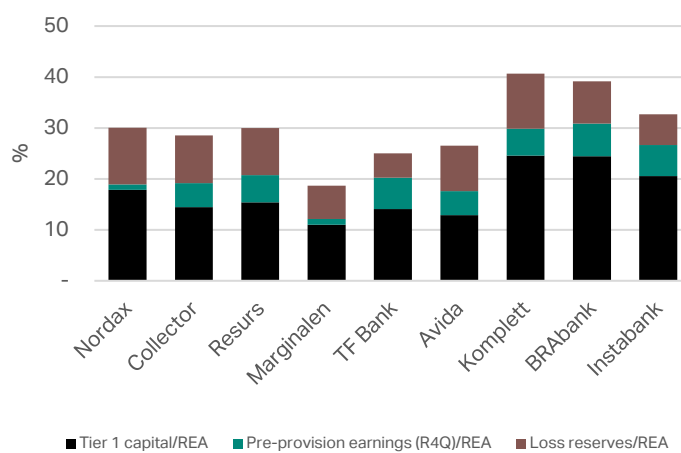
Capital and earnings buffers remain a relative strength among the peer group. Due in large part to lending growth, the average Core Tier 1 (CET1) ratio fell by 0.2pp to 15.6% in the first quarter of 2022. The banks' loss-absorbing buffers represent an average 30.1% of their risk exposure. Loss-absorbing buffers as a proportion of total risk-weighted assets consist of Tier 1 capital ratios, rolling four-quarter pre-provision earnings and loss reserves, which averaged, 17.2%, 4.5% and 8.4%, respectively, in line with the previous quarter.

Figure 9. Nordic consumer banks' capital ratios, Q1 2022



Source: bank reports.

Figure 10. Nordic consumer banks' loss-absorbing buffers as a proportion of REA, Q1 2022



Source: bank reports. REA=risk exposure amount.

### NCR-RATED CONSUMER BANKS

The following table summarises NCR's ratings on Nordic consumer banks.

Figure 11. NCR ratings on Nordic consumer banks

	Resurs Bank	Collector Bank	Nordax Bank
Long-term issuer rating	BBB	BBB-	BBB
Outlook	Stable	Stable	Stable
<b>Subfactors:</b>			
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.

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