

Credit loss uncertainty for niche banks as interest rates peak

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During the 1st quarter, Nordic consumer banks...

- experienced high, but stable credit loss provisions;
- increased Stage 2 (impaired) and Stage 3 (non-performing) loans;
- weakened capital ratios; and
- stable cost efficiency, offsetting continued weakening of interest margins.

Credit loss uncertainty rises for Nordic consumer banks

Nordic
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SECTOR COMMENT

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The first quarter of 2024 saw a steadying of elevated credit losses but a further decline in net interest margins for nine consumer banks in the Nordic region. Most of the banks in our sample of nine regional consumer banks maintained strong earnings, which offset elevated loan-loss provisions in the first quarter. However, aside from one-off impacts, there was a continued trend of a growing proportion of non-performing loans (Stage 3 loans) and loans showing signs of weakness (Stage 2 loans), which is typically a signal for additional loss provisions.

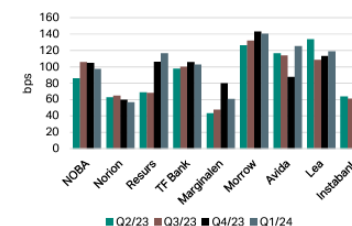
There are positive signs for consumers that create uncertainty over the future path for credit losses. The Swedish central bank reduced its policy rate by 25bps to 3.75% in May, and the ECB and Danish central banks lowered their policy rates in June. Yield curves continue to indicate a steeper reduction in Sweden and the eurozone, and a more gradual decline in Norway. These declines should improve the repayment capacity of individuals and small businesses. Some banks have noted relative improvements in customer repayment behaviour, although we expect loan-loss provisions to remain elevated in the coming quarters.

Thus far in 2024, NCR's ratings on Resurs Bank and Norion Bank have been placed on negative outlook to reflect the risk that asset quality metrics could deteriorate beyond our current forecast. We also affirmed our ratings on NOBA Bank Group, due to improvements in cost efficiency and projections of material improvements in the bank's capital position due to the implementation of the Capital Requirements Regulation 3 in 2025 (see related research). In addition, falling spreads have encouraged NOBA to return to the senior unsecured market for the first time since 2022, issuing a SEK 500m private placement with settlement in mid-June. Norion has also accessed the capital markets, borrowing SEK 400m in two tranches, which were settled in early May.

LOAN-LOSS PROVISIONS REMAIN ELEVATED AS IMPAIRED LOANS RISE

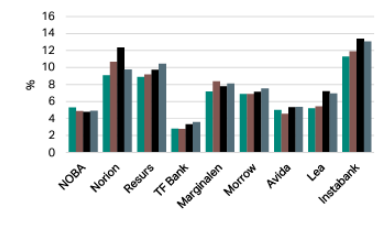
Credit losses fell for most banks in the first quarter of 2024, with weighted average provisions falling slightly to 94bps of average net loans from 96bps in the fourth quarter of 2023 (excluding one-off provisions for Resurs). Loss levels remain elevated, however, compared with the quarterly averages of 87bps and 65bps in 2023 and 2022, respectively. As indicated, Resurs' loss provisions in the first quarter of 2024 remained elevated as rising loan delinquencies, first noted by the bank in December, carried into the early months of this year.

Figure 1. Nordic consumer banks' loan-loss provisions to average net loans, Q2 2023–Q1 2024



Source: bank reports. Resurs's Q4/23 provisions exclude the one-off impact of securitising non-performing loans.

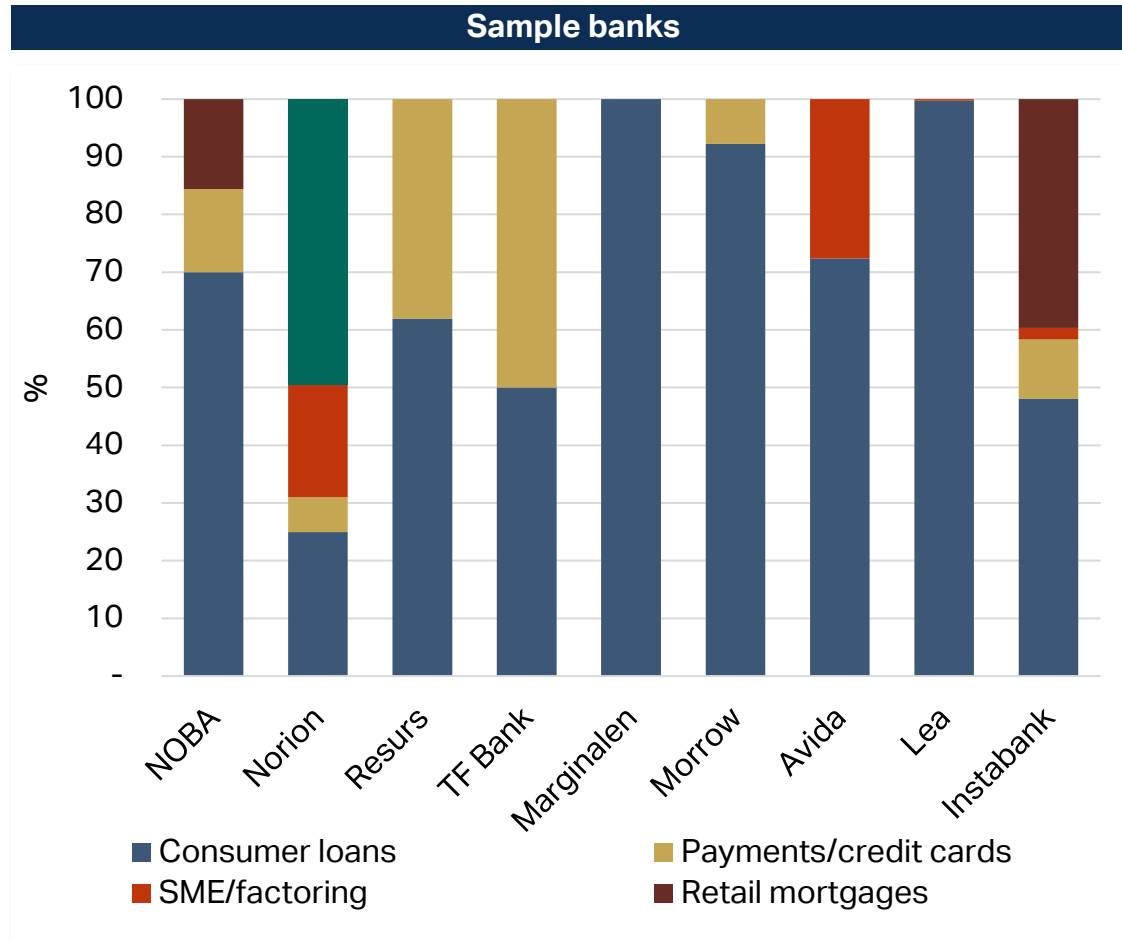
Figure 2. Nordic consumer banks' net Stage 2 loans to net loans, Q2 2023–Q1 2024



Source: bank reports.

Nordic niche banks

Nine niche banks are the focus of our quarterly reviews



NCR-rated niche banks

Resurs Bank

- 20 Mar. 2024
- 'BBB' long-term rating and negative outlook affirmed

Norion Bank

- 20 Mar. 2024
- 'BBB-' long-term rating affirmed, outlook revised to negative from stable

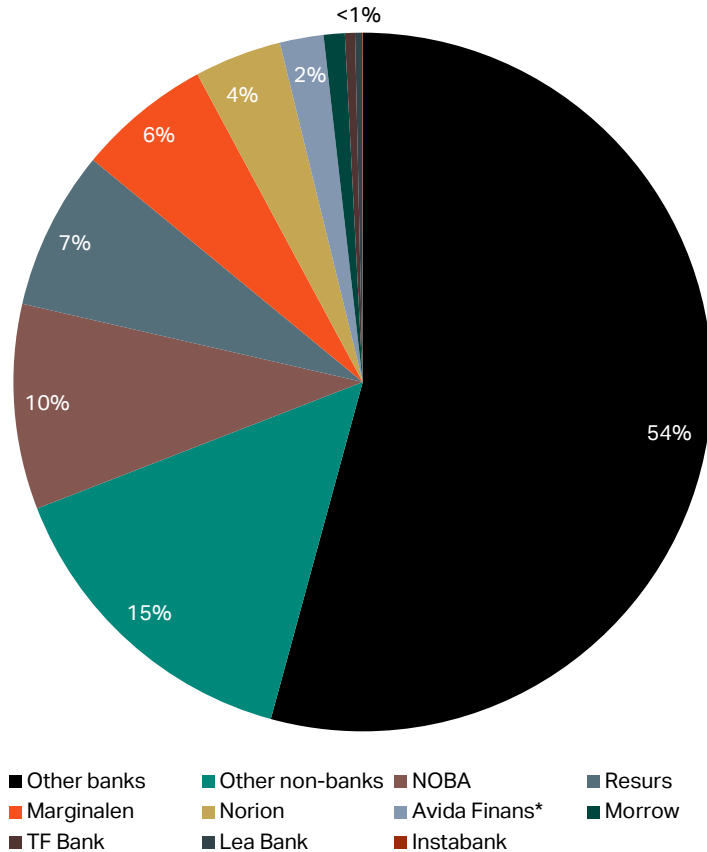
NOBA Bank Group

- 22 Apr. 2024
- 'BBB' long-term rating and stable outlook affirmed

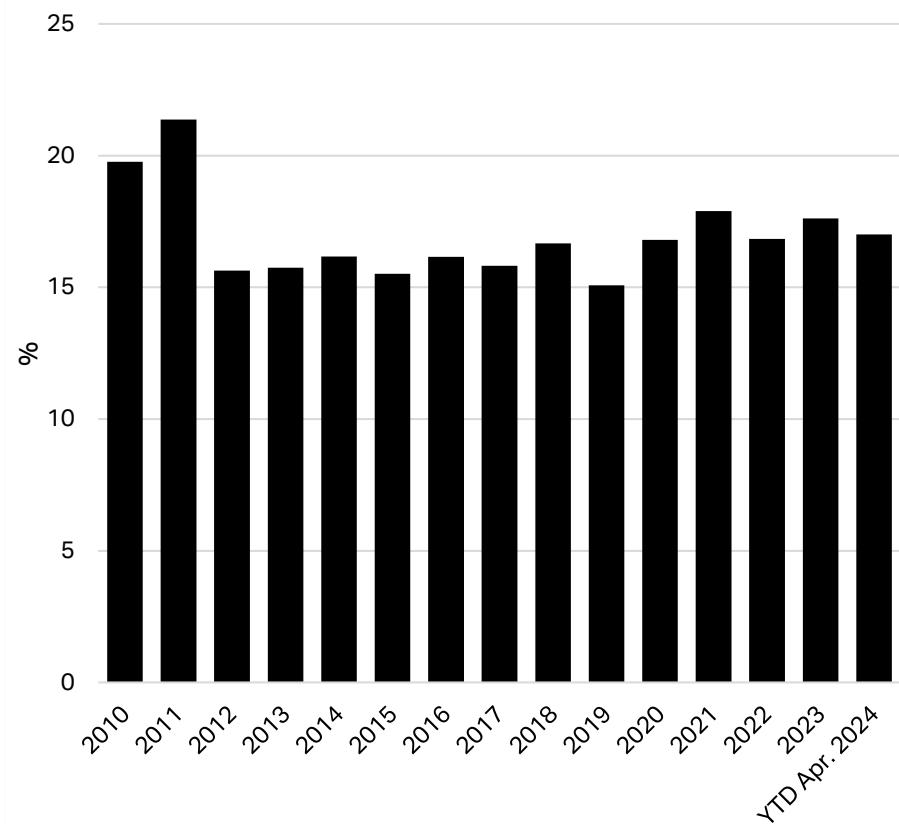
Further regulatory updates in Sweden

Proposal to ban consumer credit institutions from mid-2025

Swedish consumer loan split, 31 Mar. 2024



Swedish consumer loans; non-bank share 2010-Apr. 2024

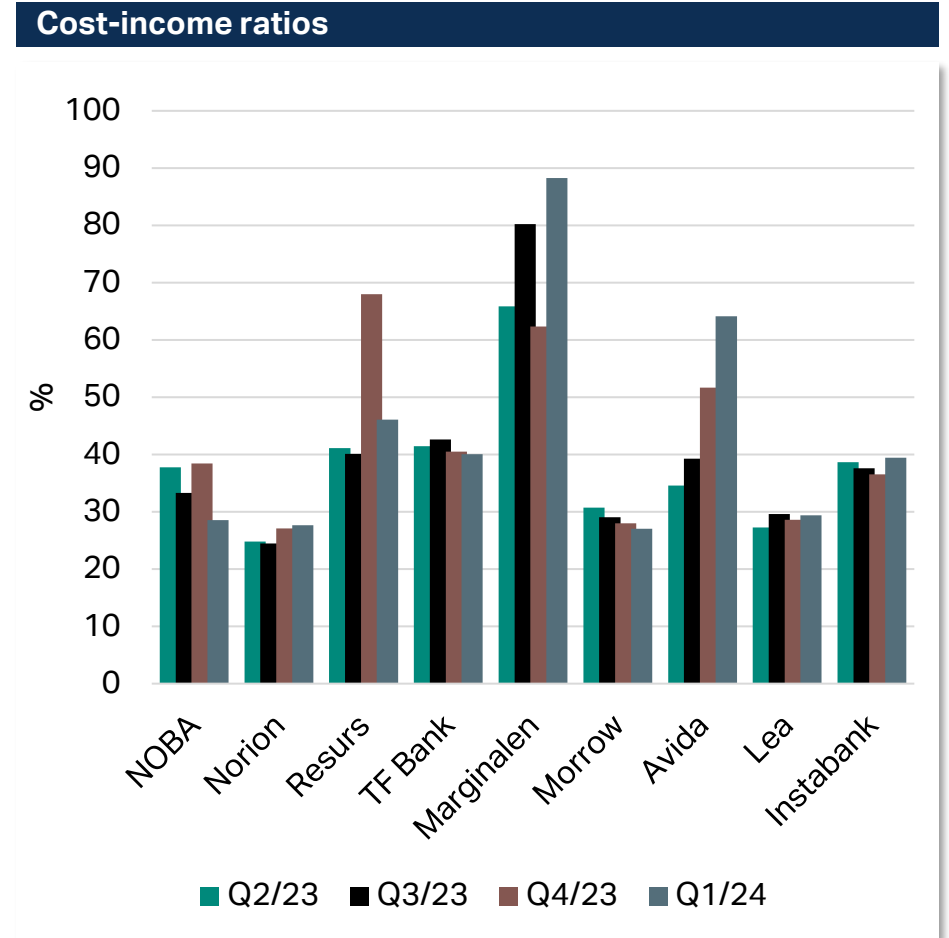
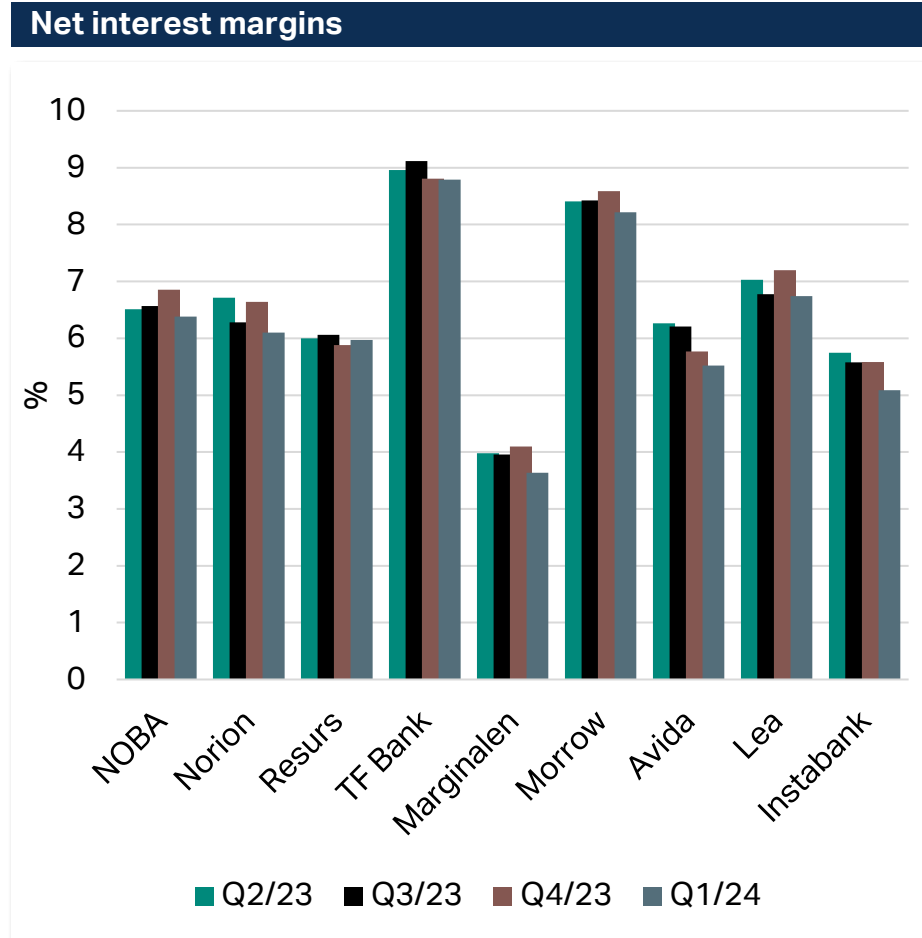


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- 1. 2024Q1 performance summary**
2. Credit loss uncertainty as rates peak
3. Q&A
4. Q&A

Falling margins continued in the quarter

Higher funding costs and tough competition for consumer loans

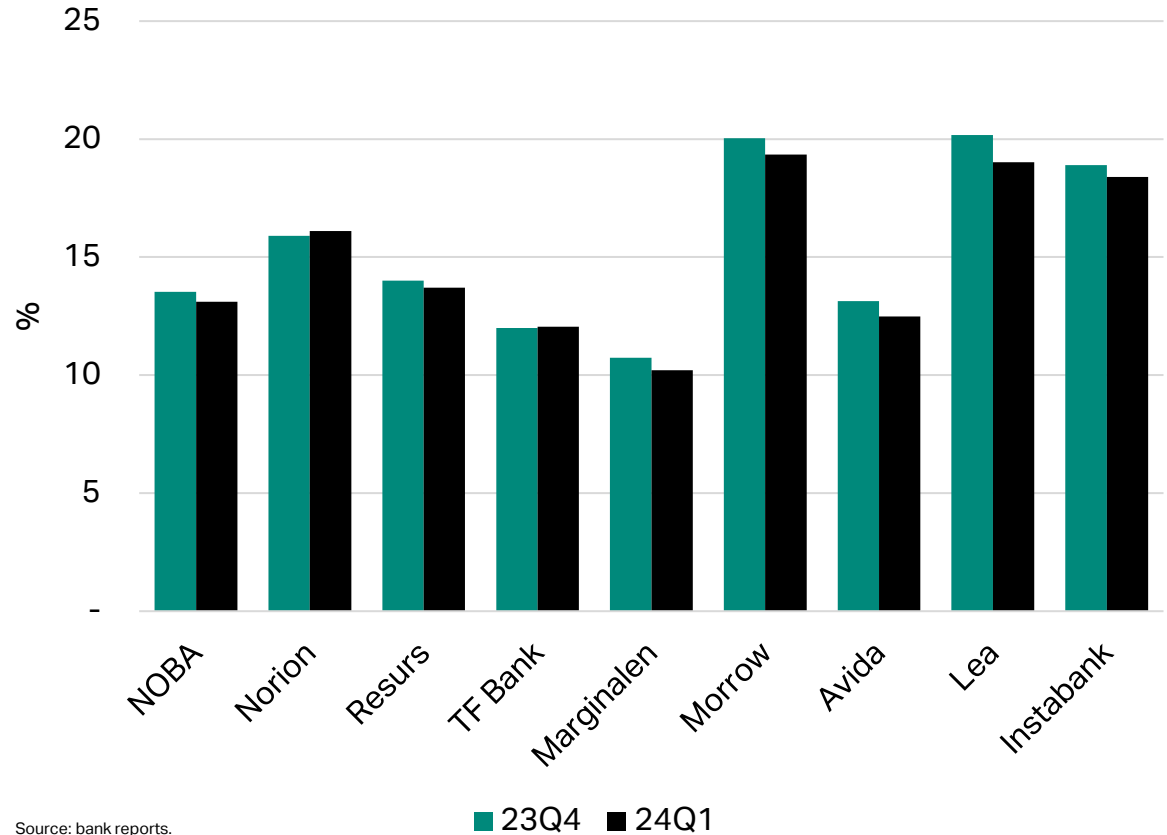


Capital ratios fell materially

Loan growth outpacing capital generation due to higher loss provisions

Common equity Tier 1 (CET1) ratio

- Weighted average capital ratios fell by around 30bps at all capital levels
- Risk exposure amounts increased by 3.0% for the sample
- Only Norion and TF improved CET1 ratios during the quarter
- NOBA added an additional Tier 1 (AT1) instrument to improve Tier 1 ratios by 17bps.
- Norion called an AT1 instrument lowering its Tier 1 ratio by 87bps.
- On average, ratios remain robust :
 - CET 1 ratio : 14.0%
 - Tier 1 ratio : 15.5%
 - Capital ratio : 16.8%
- However, Marginalen's ratios fell below its consolidated targets.



Marginalen and Avida face added pressure

The banks aim to address weak earnings and falling capital

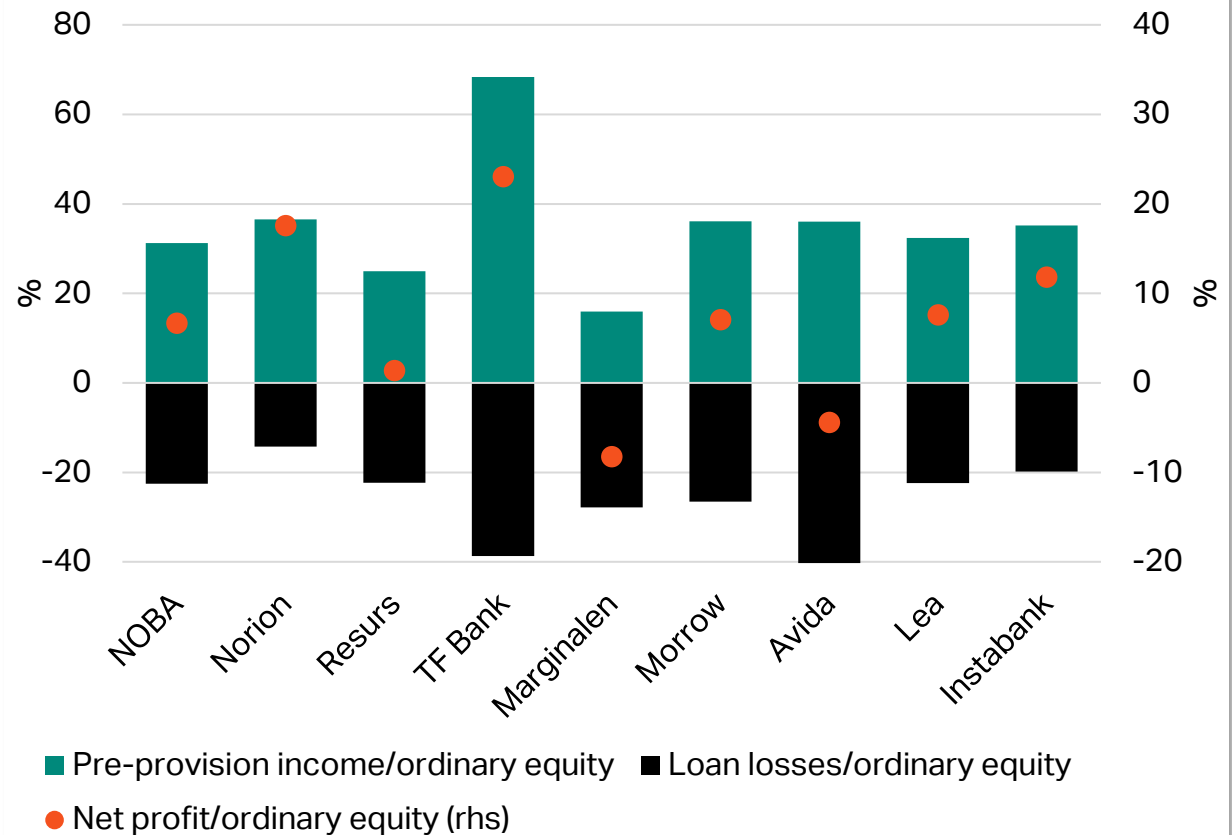
Last 12-month earnings metrics

Marginalen

- Consolidated* CET1 ratio 10.2% is 0.8% above regulatory requirements and below 1.0% internal buffer target
- Standalone CET1 ratio of 9.9% is 0.1% above regulatory minimum.
- Swedish FSA added P2G of 2% (consolidated) and 5% (standalone). The decision has been appealed.
- Bank is working to securitise loans to improve capital situation.

Avida Finans

- Reported an increase in net losses, due to weaker earnings and credit losses.
- Announced new Tier 1 instrument in June to refinance an existing instrument.



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Credit loss uncertainty for niche banks

Higher losses

Rising Stage 2/3 loans

Accumulated rate impact for borrowers

Weak NPL markets = higher Stage 3 reserves?

One-offs for offloading NPLs



Lower losses

Lower policy rates and falling inflation

Improving growth projections and stable employment

Rising house prices & consumer confidence

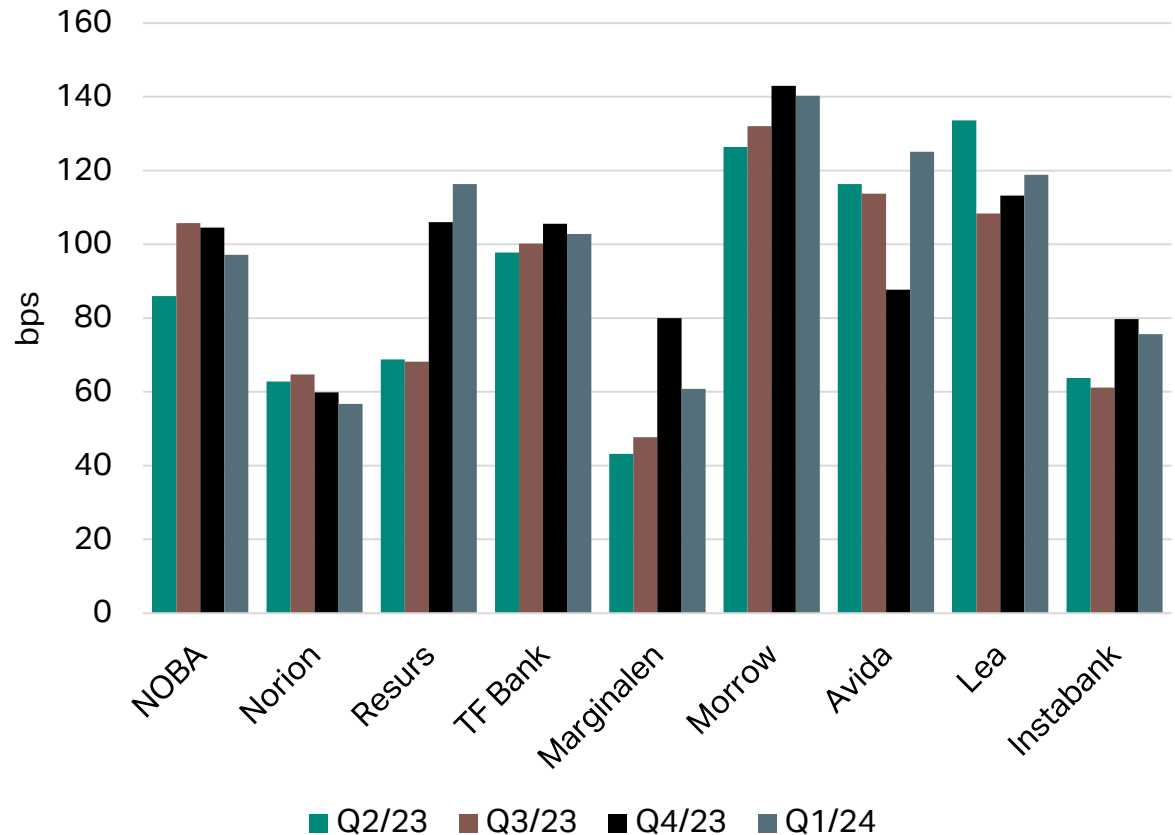
Banks indicating improved repayment behaviour

Loan loss provisions stabilised

Credit loss uncertainty remains

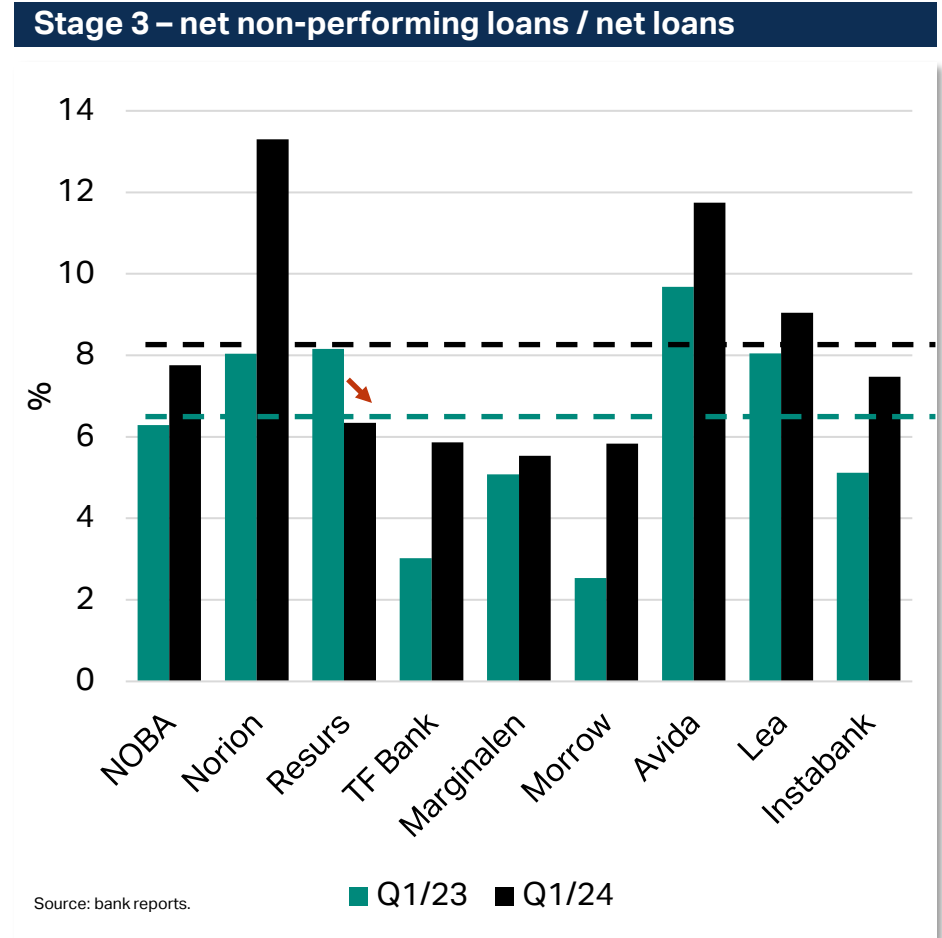
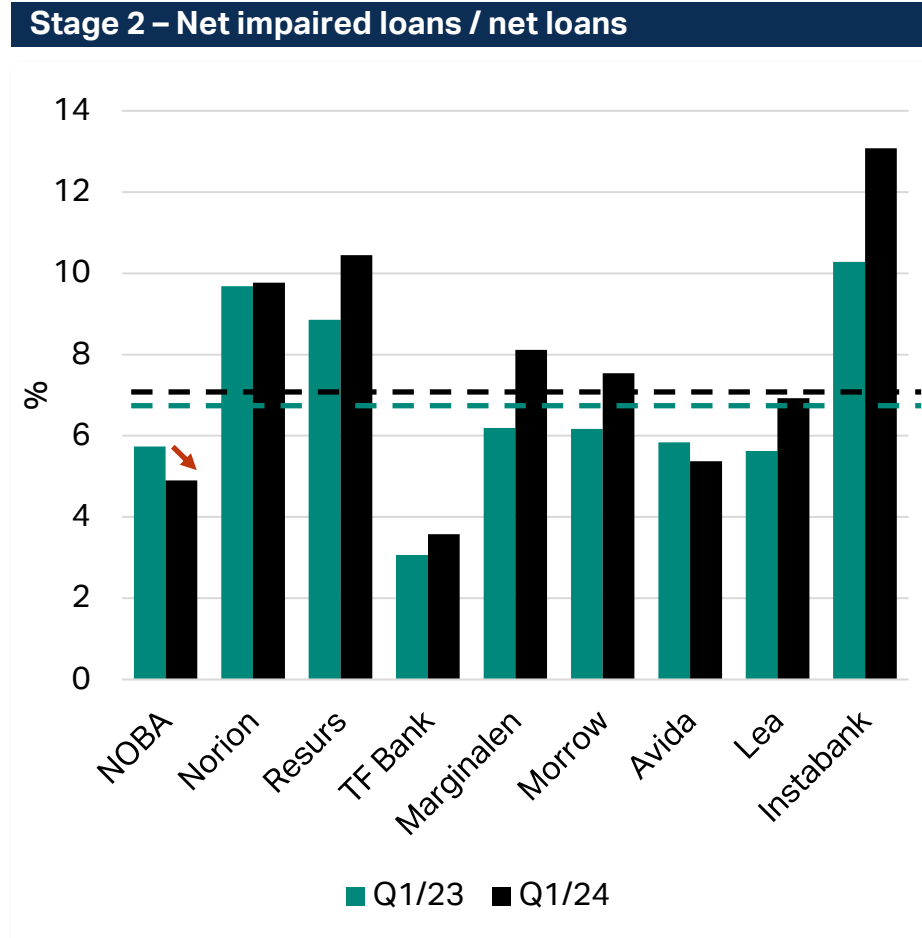
Quarterly loan loss provisions as a share of net loans

- The trend of increasing credit losses ended in the first quarter.
- Weighted average loss provisions falls slightly to 94bps from 96bps.
- Compared to the averages for:
 - 2023 : 87bps
 - 2022 : 65bps
- Provisions for Resurs remained high due to higher delinquencies in the early months of the year.
- One-off impacts for Avida, Marginalen and Instabank in the fourth quarter.



Rising impaired and non-performing loans

Weighted average net Stage 2 loans +14bps and net Stage 3 loans +161bps

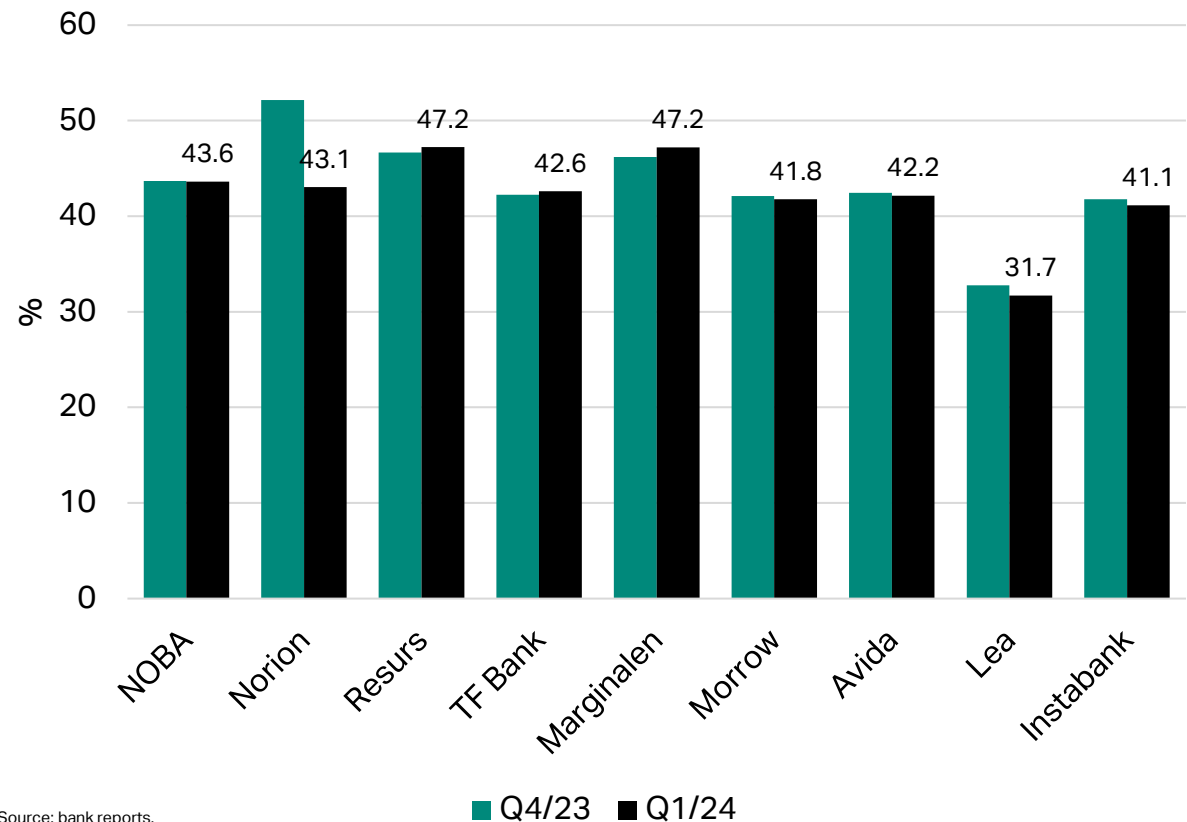


Non-performing loan market remains weak

Will coverage ratios increase to reflect lower market pricing?

Stage 3 coverage ratios

- The weak NPL market has affected demand and pricing
- Banks may need to write down the value of NPLs in a sale or elect to keep them on the book.
- Thus far, most sample banks are keeping NPLs.
 - But this is not sustainable given the impact on capital ratios.
- Coverage ratios for NPLs have been surprisingly stable, though there is a risk of one-off impairments when/if the loans are sold.
- NOBA announced a securitisation and a separate sale of NPLs during Q2, indicating a neutral capital and earnings impact.



Source: bank reports.

Looking ahead...

- interest rates to fall in Sweden, Denmark and Europe
- macroeconomic factors to weaken in all markets
- continued margin pressure due to higher funding costs and low volumes
- credit provision uncertainty as NPL market weakness is offset by lower rates
- increased focus on capital levels
- finalisation of the Swedish proposals



NCR-rated niche banks

	Resurs Bank	Norion Bank	NOBA Bank Group
Long-term issuer rating	BBB	BBB-	BBB
Outlook	Negative	Negative	Stable
Subfactors:			
Operating environment (20%)	bbb-	bbb-	bbb-
Risk appetite (50%)	bbb	bb+	bbb
Competitive position (15%)	bb+	bb	bbb-
Performance indicators (15%)	bbb+	bbb+	bbb+

Section

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Thank you



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