Credit loss uncertainty rises for Nordic consumer banks

ANALYSTS
Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

Ylva Forsberg
+46768806742
ylva.forsberg@nordiccreditrating.com

The first quarter of 2024 saw a steadying of elevated credit losses but a further decline in net interest margins for niche 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.

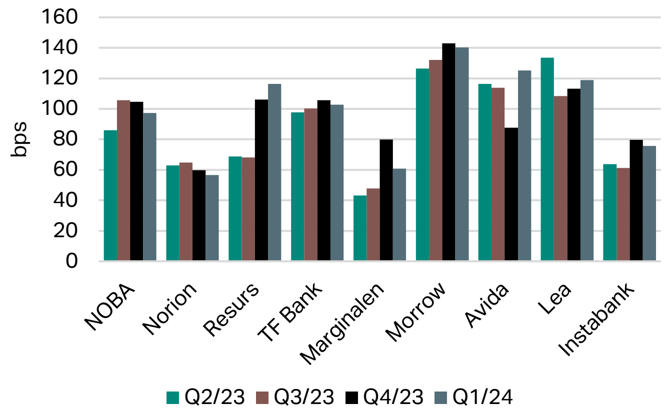
There are positive signs for consumers that create uncertainty over the future path for credit losses. The Swedish central bank reduced its policy rate by 25bps to 3.75% in May, and the ECB and Danish central banks lowered their policy rates in June. Yield curves continue to indicate a steeper reduction 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 following 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

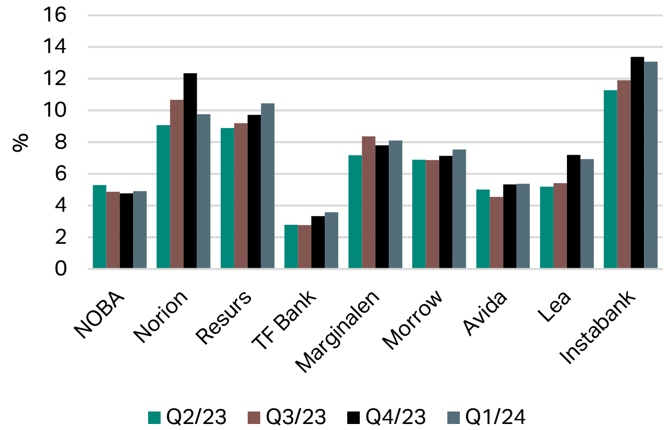
Credit losses fell for most banks in the first quarter of 2024, with weighted average provisions falling slightly to 94bps of average net loans from 96bps in the fourth quarter of 2023 (excluding one-off provisions for Resurs). Loss levels remain elevated, however, compared with the quarterly averages 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.

Lea's credit losses increased for the third consecutive quarter, with the bank citing macroeconomic uncertainty as the reason for an increasing probability of default in its loan book. For many other banks, loss provisions appear to have plateaued in the first quarter. Marginalen, Instabank and Avida had material one-off impacts on credit losses in the fourth quarter of 2023, which affected some comparability (see related research (iv)). Instabank reported material declines in loss provisions for SME loans and Finnish consumer loans, although this was offset by an increase in mortgage and consumer loan delinquency in Norway.

A material shift from Stage 2 to Stage 3 loans occurred among Norion Bank's corporate and real-estate exposures during the quarter. This migration reflects a weakening among specific customers, though the lack of increased loss provisions implies that the bank feels confident about the collateral it holds for secured loans. The impact of this migration has material impacts on the bank's key metrics and the sample averages throughout this report.

The level of net Stage 2 loans, i.e. loans showing signs of weakness but not yet non-performing, fell to 7.1% in the sample from 7.3% in the fourth quarter of 2023. Excluding Norion, the upward migration for the remaining banks continued, with net Stage 2 loans increasing by 30bps in the first quarter of this year. The most notable increase during the quarter was for Resurs, which saw a 72bps increase in its share of Stage 2 loans.

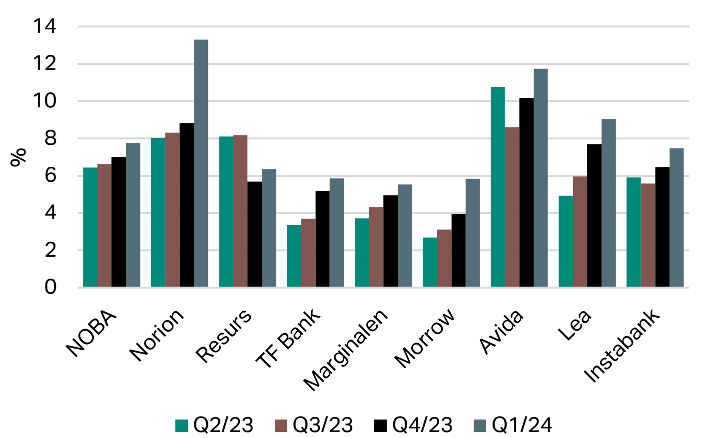
NON-PERFORMING LOANS RISE FURTHER AS SECONDARY MARKET REMAINS WEAK

The market for Nordic non-performing loans (NPLs) remains in turmoil, noticeably affecting banks' ability to offload NPLs and weakening asset quality metrics. All banks in the sample reported an increase in net Stage 3 NPLs in the first quarter of 2024, with the weighted average for the sample rising to 8.3% from 6.9% at the end of 2023. Even excluding Norion Bank, the trend remains clear, with net NPLs increasing by 84bps to 7.3% during the quarter for the other eight banks.

Given few offloading opportunities, we understand that banks are seeking alternatives to reduce the capital impact of retaining consumer loan NPLs on their own balance sheets. In April, NOBA signed an agreement to securitise a portfolio of SEK 700m of NPLs in Sweden, which it expects to close before the end of June. NOBA also announced a sale of a DKK 180m NPL portfolio in Denmark. The bank indicated that both transactions would have a neutral impact on operating profit and the capital base.

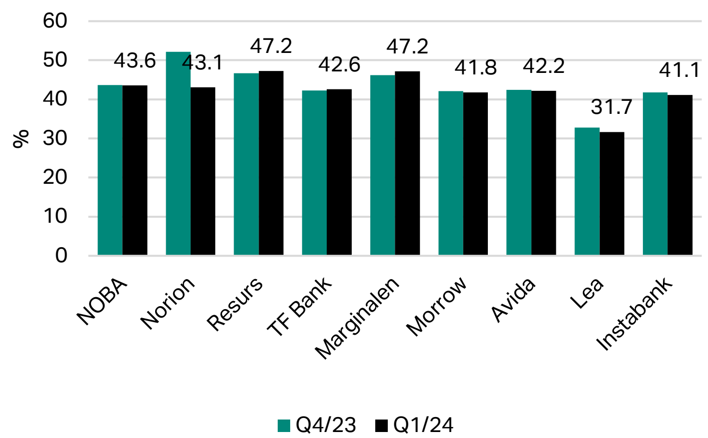
Marginalen also indicated that it is working towards securitising NPLs to improve the bank's capital position. Despite increasing Stage 3 NPLs, Marginalen said that it has seen a nearly 30% reduction in the share of customers with payments issues during the quarter and expressed cautious optimism about further macro-driven improvements. TF Bank also indicated that signs of improved credit quality will contribute to accelerated loan growth in the second quarter.

Figure 3. Nordic consumer banks' net Stage 3 NPLs to net loans, Q2 2023–Q1 2024



Source: bank reports.

Figure 4. Nordic consumer banks' Stage 3 coverage ratios, Q4 2023–Q1 2024



Source: bank reports.

We expect weaker NPL markets to be reflected by higher provisioning for Stage 3 NPLs, though this has yet to be the case on a large scale. Using a weighted average, Stage 3 coverage ratios fell further in the first quarter of 2024, to 43.6% from 45.8% in the previous quarter and from 47.4% two quarters ago. These figures are heavily skewed by the increase in State 3 corporate loans at Norion. Excluding Norion, Stage 3 coverage rates were unchanged at 43.8%.

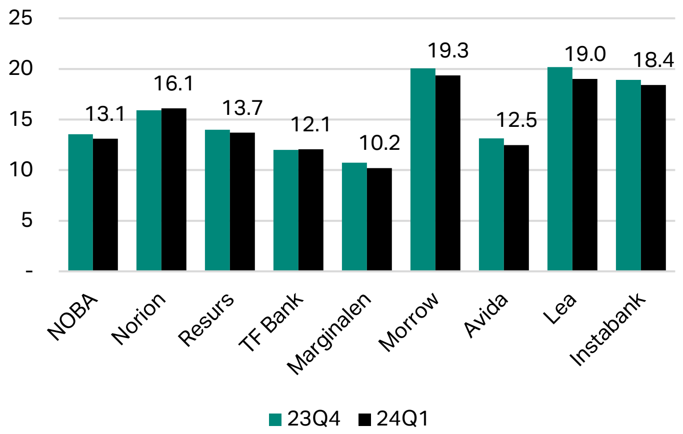
Norion's loan-loss provisioning fell materially to 43.1% from 52.1%. Drilling down further, the bank maintained a relatively high 54.7% coverage ratio (55.4% at year-end 2023) for Stage 3 provisions for consumer loans but saw its Stage 3 coverage ratio for corporate and real-estate exposures reduced to 23.9% (40.6%).

CAPITAL RATIOS STAGNANT DESPITE STRONG EARNINGS

Weighted average common equity Tier 1 (CET1) ratios fell markedly to 14.0% in the first quarter of 2024 from 14.3% in the fourth quarter of 2023. More than half of the sample banks saw significant declines in the first quarter of this year. The Norwegian banks all had material declines in their CET1 ratios as loan growth exceeded net profits due to still high credit provisions. Lea Bank's CET1 and Tier 1 ratios fell by 1.2pp during the quarter, Morrow's CET1 ratio fell by 0.7pp and Instabank's CET1 ratio fell by 0.5pp.

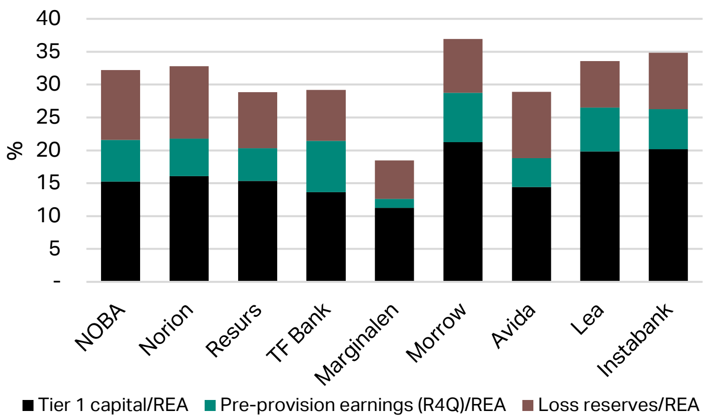
NOBA's CET1 ratio dropped by 0.4% due to continued growth in excess of capital generation. NOBA's capital ratios are expected to benefit from the implementation of new capital regulations in 2025, primarily due to the low leverage in the bank's equity-release mortgage loans to seniors (see Related Research (i)). NOBA issued a SEK 800m additional Tier 1 (AT1) instrument in March, improving its Tier 1 ratio to 15.3% from 15.1%. In contrast, Norion had a 0.2pp increase in its CET1 ratio in the first quarter of this year, but called a SEK 500m AT1 instrument in March, resulting in a decrease of 0.9pp in its Tier 1 ratio to 16.1% at 31 Mar. 2024.

Figure 5. Nordic consumer banks' CET1 ratios, Q4 2023–Q1 2024



Source: bank reports.

Figure 6. Nordic consumer banks' loss-absorbing buffers as a proportion of REA, Q1 2024



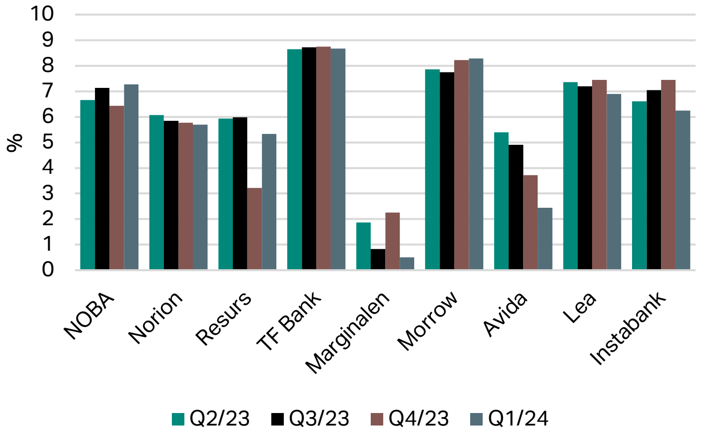
Source: bank reports.

Marginalen reported a CET1 ratio of 9.9% in the first quarter of 2024, only 0.1% above regulatory requirements, including buffer requirements of 4.5% and a Pillar 2 guidance (P2G) requirement of 0.8%. On a consolidated basis, ESCO Marginalen AB reported a CET1 ratio of 10.2%, 0.8% above requirements. On 11 Mar. 2024, the Swedish FSA informed the bank of an additional P2G of 2% at the consolidated level, and 5% for Marginalen Bank. ESCO and Marginalen have appealed this decision, but we note that, should the P2G come into effect, both entities would likely be in breach of capital requirements without mitigating actions, such as asset sales. Marginalen says that it is working to securitise loan assets as a step to achieve its internal consolidated capital goal of at least a 1pp buffer over regulatory requirements (0.8 pp as of 31 Mar. 2024). In October 2023, Marginalen elected not to call a SEK 300m Tier 2 instrument and has yet to announce its intentions with respect to a Tier 2 instrument with a first call date 28 Aug. 2024 and an AT1 instrument with a call date on 16 Oct. 2024. These capital issues come on top of the Swedish regulator's investigation into Marginalen's risk management and credit risk compliance, with applicable regulations announced in January.

MARGINS CONTINUE DOWNWARD TREND

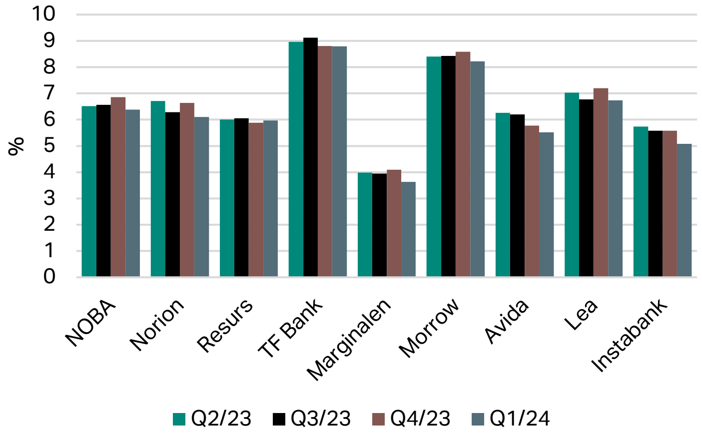
Net interest margins fell dramatically in the first quarter of this year as competition for loan and deposit growth increases. The weighted average net interest margin in our sample fell by 33bps, with more than half of the sample reporting declines of 45–55bps compared with the fourth quarter of 2023. Only Resurs reported an increase in net interest margins during the first quarter of 2024. The first quarter of the year has fewer days than the fourth quarter, but weighted average margins also fell by 18bps compared with the first quarter of 2023.

Figure 7. Nordic consumer banks' annualised pre-provision income to average REA, Q2 2023–Q1 2024



Source: bank reports.

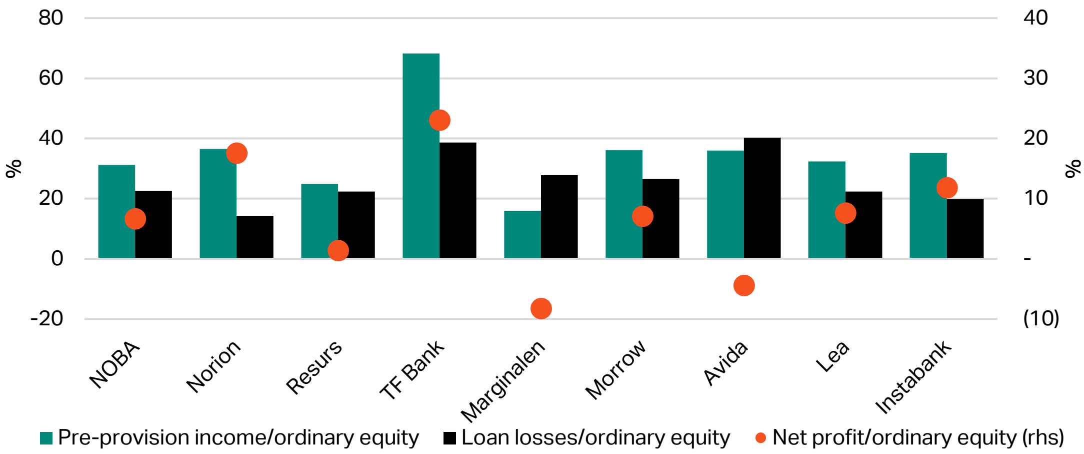
Figure 8. Nordic consumer banks' annualised net interest margins, Q2 2023–Q1 2024



Source: bank reports.

Despite lower margins, risk-adjusted earnings recovered due to cost efficiency improvements, particularly for NOBA, and one-off impacts for Resurs in the fourth quarter of last year. Weighted average pre-provision earnings as a share of the average risk exposure amount improved sharply to 6.0% during the first quarter of this year, from 5.6% in the fourth quarter of 2023. The improvement was driven by cost efficiency improvements for NOBA and one-off impacts for Resurs in the fourth quarter. Excluding Resurs, risk-adjusted earnings and cost efficiency for the sample have been relatively stable over the last four quarters. Earnings and cost efficiency for NOBA have improved as one-off costs associated with the acquisition of Bank Norwegian have fallen.

Figure 9. Nordic consumer banks' last 12-month pre-provision income, loan losses and net profit as a share of average ordinary equity, 31 Mar. 2024

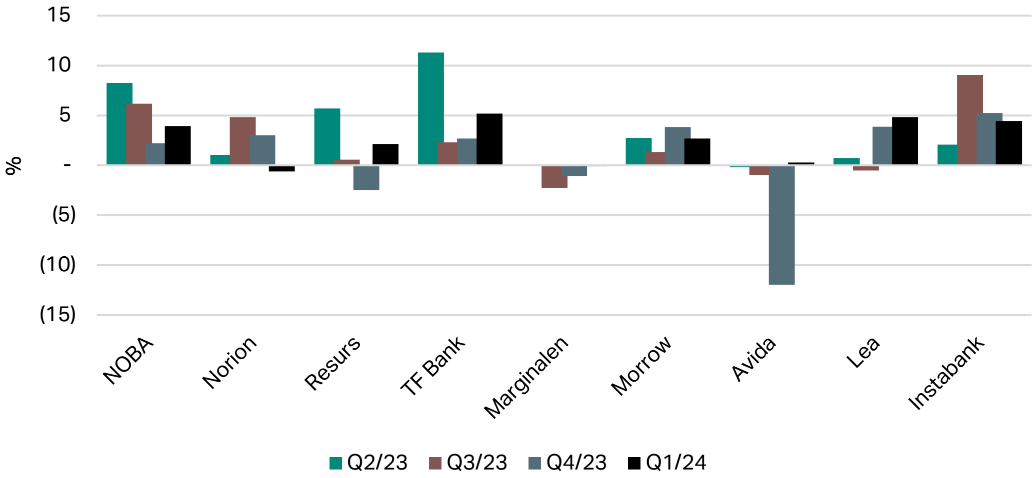


Source: bank reports.

For the majority of the banks in our sample, earnings have resulted in positive return on ordinary equity over the last 12 months. TF Bank has reported a strong return of 23.1% over the last year, due to improved scale and cost efficiency, despite elevated credit provisions. Norion (17.6%) and Instabank (11.8%) also achieved double-digit returns over the period. In contrast, however, a series of one-off charges, higher credit losses and weaker-than-peer net interest margins resulted in net losses over the last year for Marginalen (-8.2%) and Avida (-4.4%).

EXCLUDING FX EFFECTS, LENDING GROWTH REMAINS MUTED

Figure 10. Nordic consumer banks' net loan growth, Q2 2023–Q1 2024



Source: bank reports.

Weighted average net loan growth slowed materially in the fourth quarter of 2023 to 1.0%, but showed signs of improving with 2.5% growth in the first quarter of this year, albeit spurred by the depreciation of the banks' reporting currencies. Most banks in the sample reported higher or similar growth rates in the first quarter, though Norion and Marginalen reported modest declines. The Swedish and Norwegian currencies depreciated by 3.5% and 4% versus the euro in the first quarter. This resulted in Finnish (6.8%) and other euro-denominated exposures increasing in value.

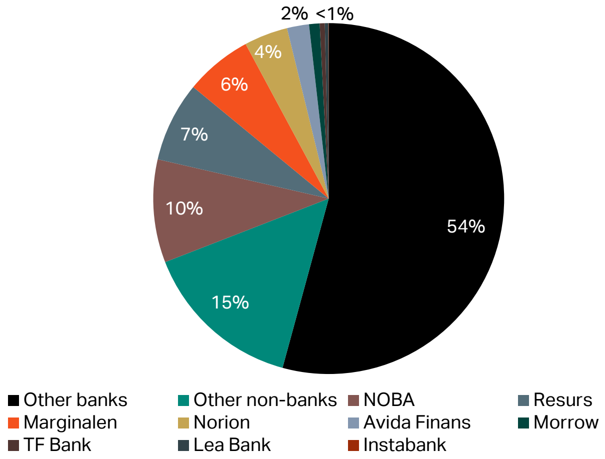
TF Bank continued to see significant net loan growth, at 5.2% in the first quarter of this year. German credit card volumes are driving growth and rose by 11.2% in this period. In order to increase its focus on more profitable growth opportunities, TF has reduced consumer lending in Sweden and begun running down its e-commerce solutions in the Baltic states. Lea reported growth in each of its markets and also stood out with 4.8% growth in the first quarter. Instabank grew across its business lines, increasing net lending by 4.5%, despite a slowdown in mortgage lending growth.

PROPOSAL TO PROHIBIT NON-BANK CONSUMER LENDING IN SWEDEN

On 7 May 2024, the Swedish government tabled a proposal to repeal the law allowing non-bank consumer lenders to operate. This follows the Swedish FSA assuming the supervision of consumer credit institutions from the Swedish Consumer Agency at the beginning of 2023, which led to stricter requirements on underwriting standards. If implemented, the proposal would be effective from 5 Jul. 2025 and require consumer credit institutions to either apply for a banking licence or cease operations.

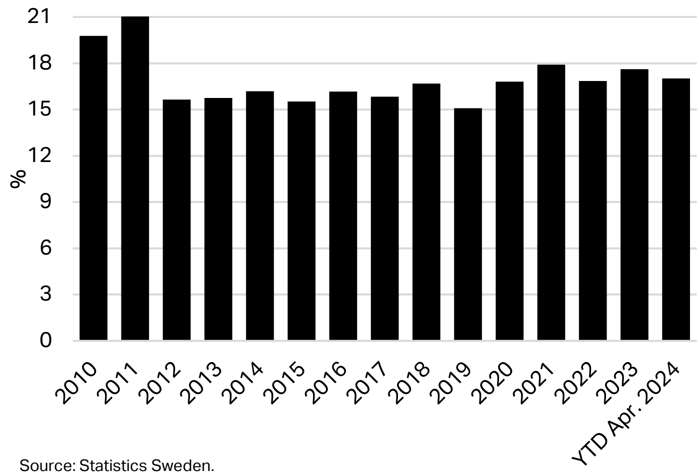
In our sample, only Avida is not a regulated bank (in Sweden or Norway). Avida did not comment on the changes in its first quarter report. While the direct impact on the other sample banks is limited, non-banks represent a significant share of unsecured lending to households in Sweden and this change is likely to affect the overall market.

Figure 11. Swedish consumer loan split, 31 Mar. 2024



Source: bank reports, Statistics Sweden.

Figure 12. Non-banks share of consumer loans in Sweden



Source: Statistics Sweden.

NCR-RATED CONSUMER BANKS

The following table summarises NCR's ratings on Nordic consumer banks as of 30 May 2024.

Figure 13. NCR ratings on Nordic consumer 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
Market position (15%)	bb+	bb	bbb-
Performance indicators (15%)	bbb+	bbb+	bbb+
Ownership adjustment	0	0	0

See NCR's company rating reports for details.

RELEVANT RESEARCH

(i) NOBA Bank Group AB (publ) 'BBB' long-term issuer rating affirmed; Outlook stable, 22 Apr. 2024.
(ii) Norion Bank AB outlook revised to negative; 'BBB-' long-term issue rating affirmed, 20 Mar. 2024
(iii) Resurs Bank AB 'BBB' long-term issuer rating affirmed; Outlook negative, 20 Mar. 2024
(iv) The pressure is rising for Nordic consumer banks (report), (webinar slides), 13 Mar. 2024
(v) Nordic consumer banks increase credit losses, 29 Nov. 2023.
(vi) Nordic consumer banks' earnings compensate elevated credit losses, 11 Sep. 2023.
(vii) Nordic consumer banks' loss provisions remain elevated, 28 Jun. 2023.

DISCLAIMER

NORDIC CREDIT RATING AS

nordiccreditrating.com