

Nordic niche bank quarterly: Norwegian banks eye capital relief in Sweden

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During the 2nd quarter, Nordic consumer banks...

- experienced elevated loss provisions, though down from peak levels;
- increased Stage 3 (non-performing) loans, while Stage 2 (impaired loans) fell;
- reported stable capital ratios; and
- improved cost efficiency as interest margins steadied.

Earnings continue to offset elevated provisions

Nordic
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SECTOR COMMENT
10 Sep. 2024

Nordic consumer banks' earnings continue to offset elevated provisions

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Nordic consumer banks saw a further decline in credit losses and some improvement in risk-adjusted earnings in the second quarter. Most of our sample of nine regional consumer banks maintained strong earnings, which offset elevated loan-loss provisions in the period. However, non-performing (Stage 3) loans and loans showing signs of weakness (Stage 2 loans) continued to rise as a proportion of overall lending. Positively, some banks have found solutions since mid-year to reduce their on-balance-sheet non-performing loan (NPL) exposures to protect their capital ratios from the punitive impact of European NPL backstop regulations.

Falling inflation and lower policy rates set by the Swedish, Danish and European central banks should help consumer and small business borrowers over the next few quarters. Despite some relief, we expect loan-loss provisions to remain elevated. The Norwegian central bank has yet to revise its policy rates and has indicated that they will likely remain at current levels into 2025.

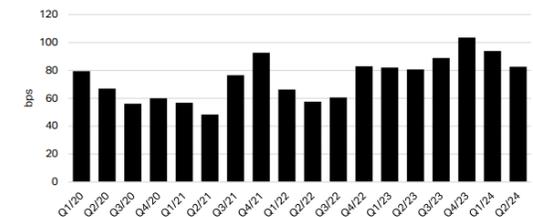
Since our last report in June, Lea Bank has received a bank licence in Sweden via its Swedish subsidiary Lea Bank AB and is aiming to move its headquarters to Sweden through an internal merger. Similarly, Morrow Bank is actively discussing a move to Sweden or Finland and a new regulatory environment. In our view, such moves are focused on reducing capital requirements and improving return on equity for shareholders.

The sector also received news that Resurs Holding could be on the verge of becoming a private company via a joint acquisition by global private equity company CVC Capital Partners and the bank's current largest owner, Waldakt AB (see Relevant Research (i)). Conversely, NOBA Bank confirmed in late August that its owners are considering a possible initial public offering for the bank following the July completion of an intragroup merger that simplified the bank's structure.

STILL-HIGH LOAN-LOSS PROVISIONS FALL TO LOWEST LEVEL IN A YEAR

Credit losses fell for most banks in our sample in the second quarter, with weighted average provisions falling materially to 83bps of average net loans from 94bps in the first quarter. Loss levels across our sample remain elevated compared with historical levels, particularly if one-off provisions in previous quarters are removed.

Figure 1. Nordic consumer banks' quarterly loan-loss provisions to average net loans, Q1 2020 to Q2 2024

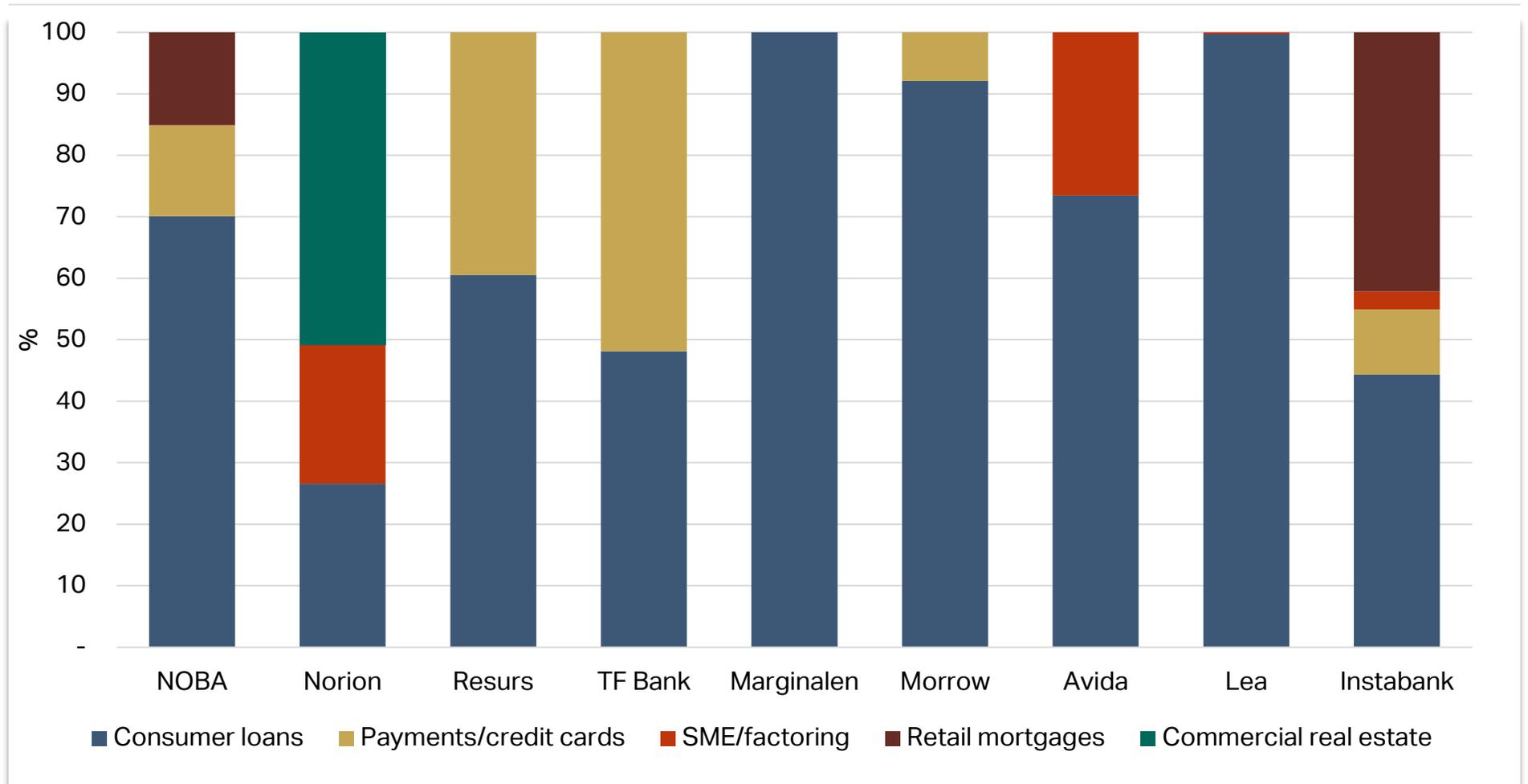


Source: bank reports. The figures above are not adjusted for one-off loss reserves.

NOBA Bank and Resurs Bank saw the biggest declines in provisions in the second quarter, though Marginalen Bank and Instabank also saw material falls. Conversely, Lea Bank's loss provisions rose

Nordic niche banks

Nine niche banks are the focus of our quarterly reviews



NCR-rated niche banks

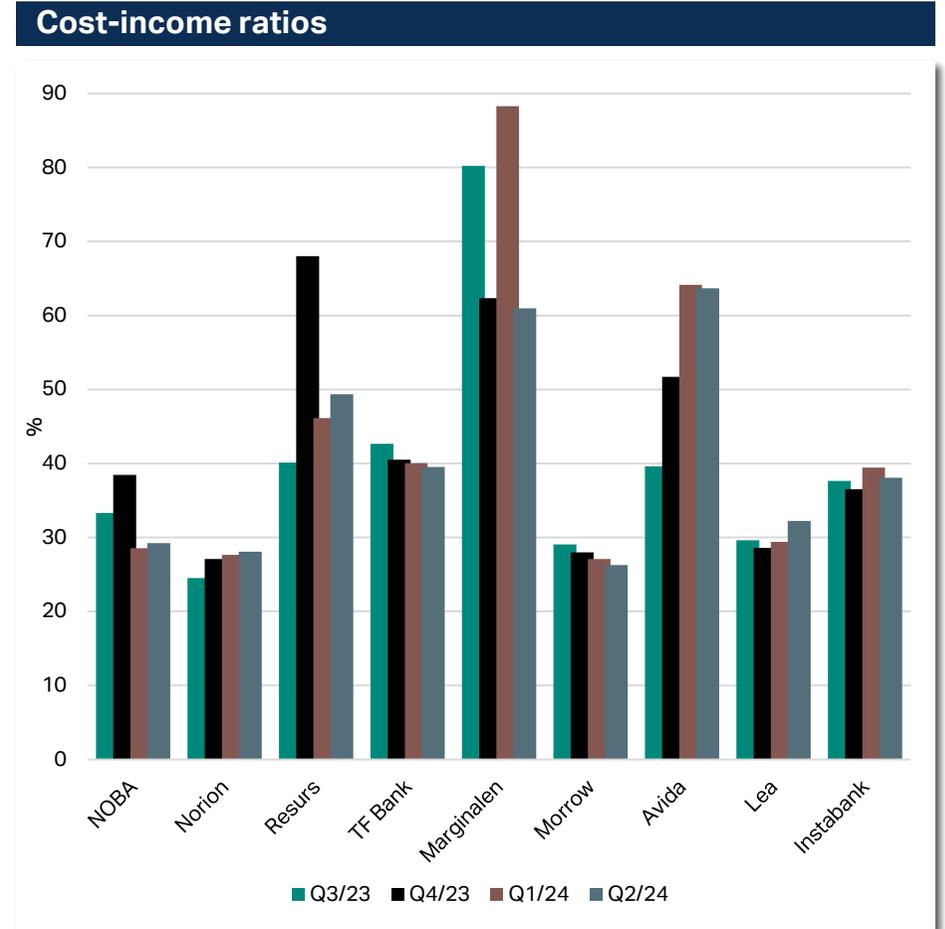
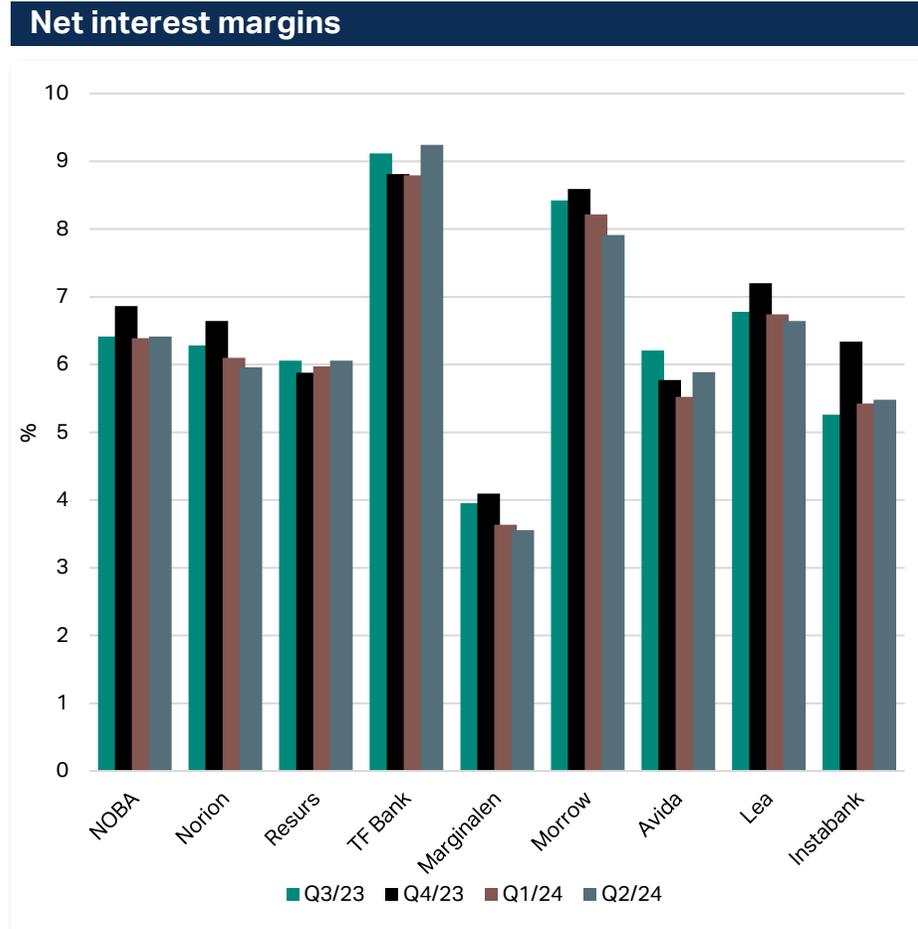
	Resurs Bank	Norion Bank	NOBA Bank Group
Long-term issuer rating	BBB	BBB-	BBB
Outlook	Negative	Negative	Stable
Subfactors:			
Operating environment (20%)	bbb-	bbb-	bbb-
Risk appetite (50%)	bbb	bb+	bbb
Competitive position (15%)	bb+	bb	bbb-
Performance indicators (15%)	bbb+	bbb+	bbb+

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2. NPL divestment activity
3. Greener pastures in Sweden
4. Q&A

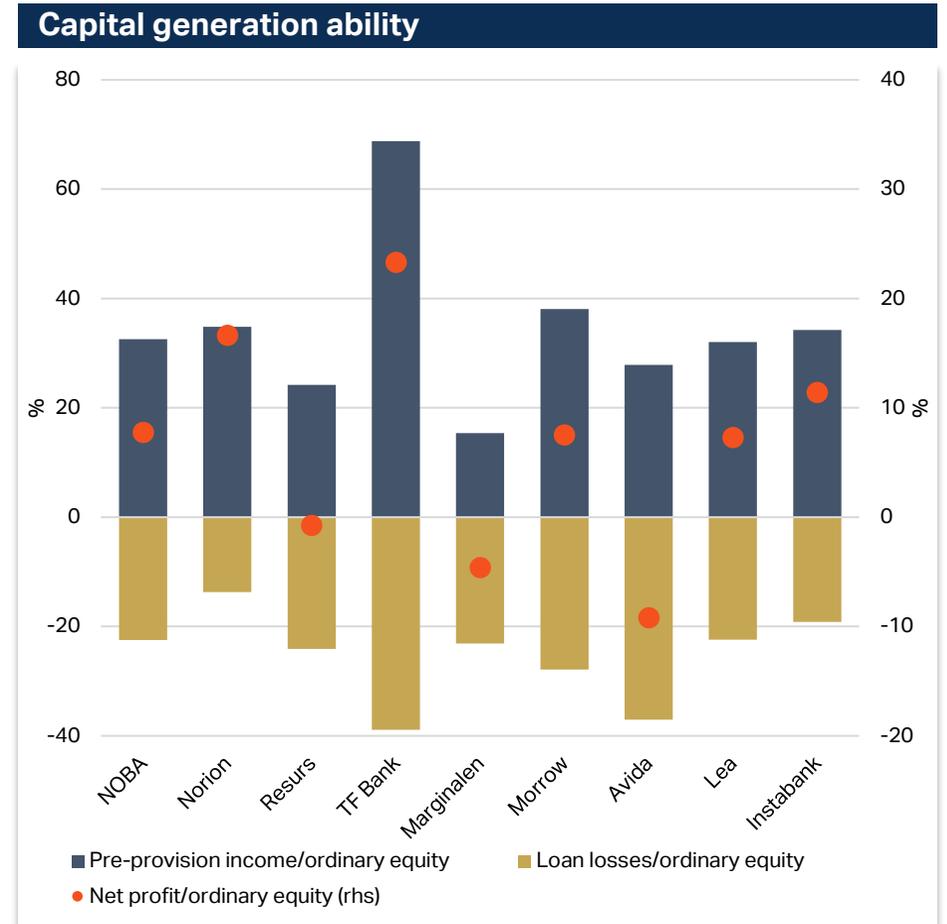
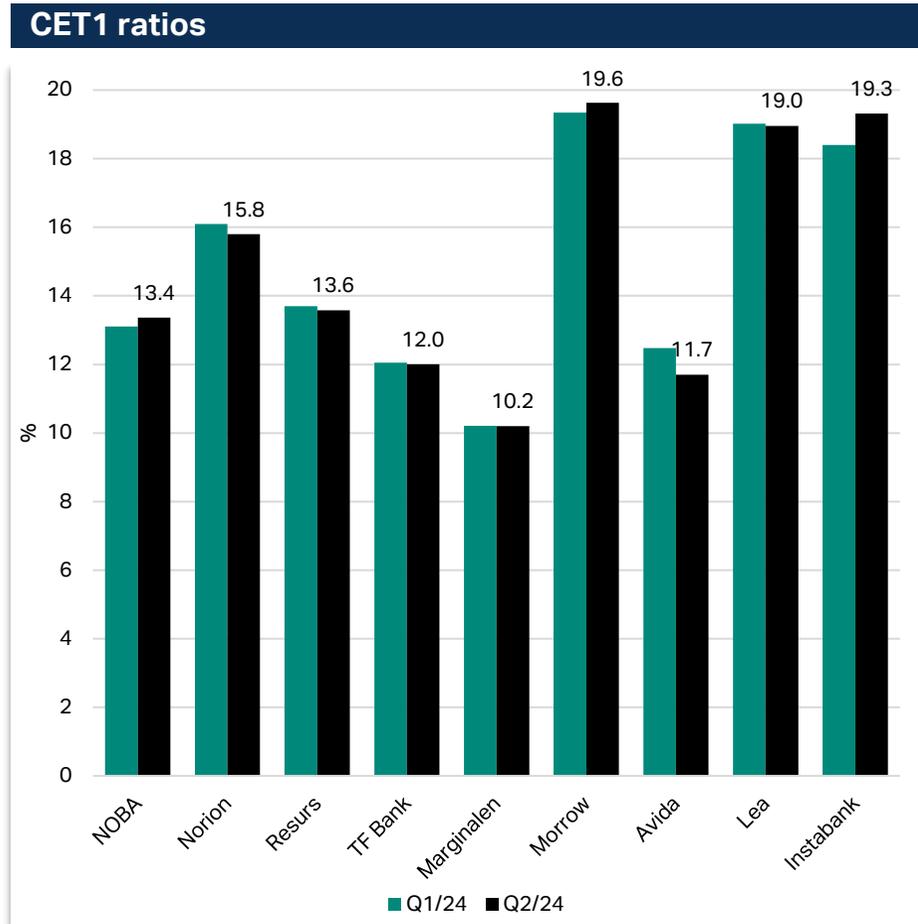
Earnings metrics stabilised in second quarter

Small movements from first quarter for most banks



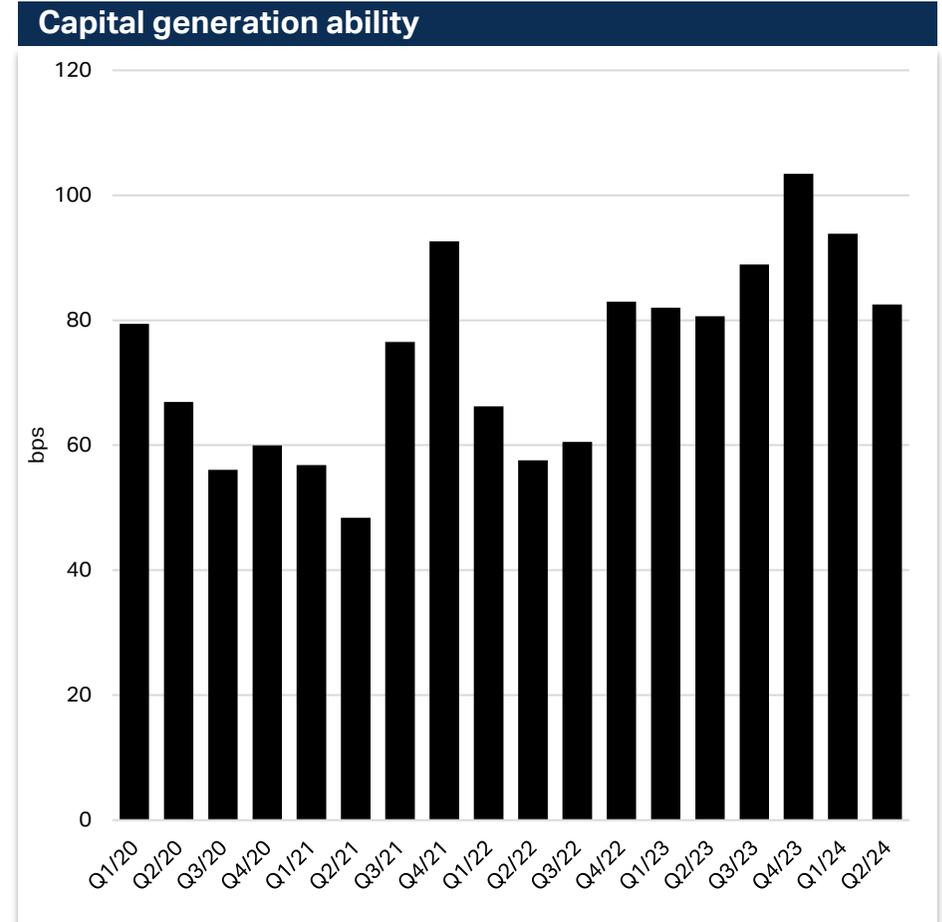
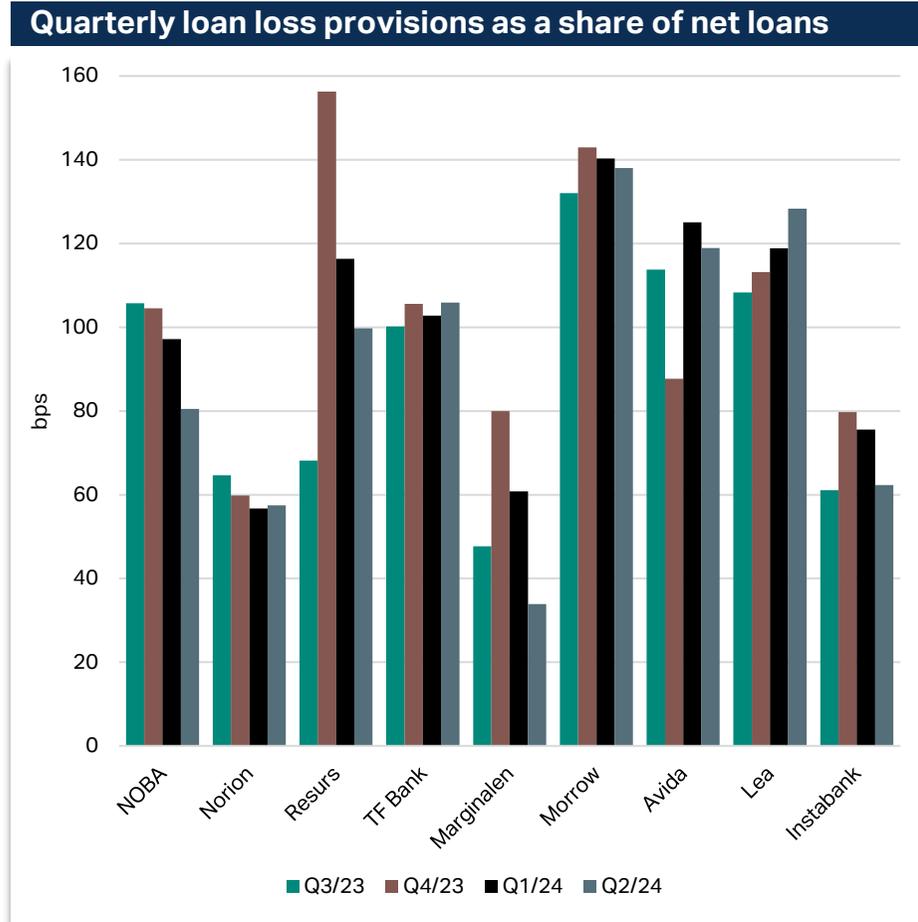
Earnings provide little capital effect

Small movements from first quarter for most banks



Loss provisions decline but remain elevated

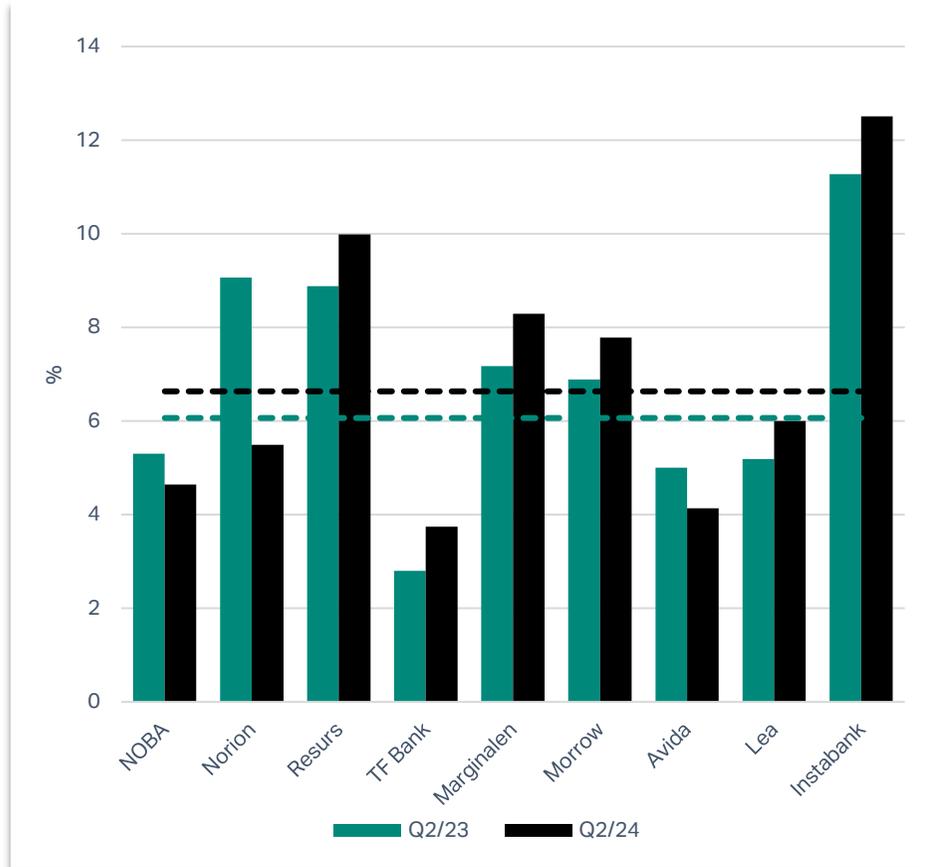
Lowest level in twelve months but high compared with historical levels



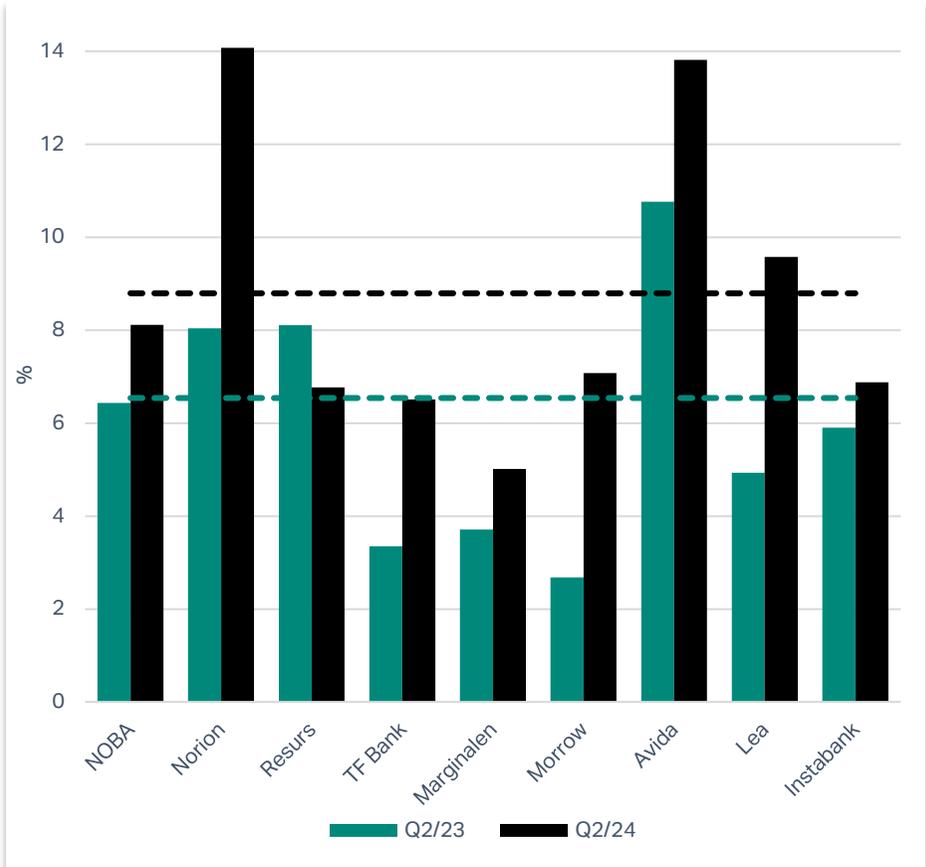
Rising impaired and non-performing loans

Weighted average net Stage 2 loans -57bps and net Stage 3 loans +225bps

Stage 2 – Net impaired loans / net loans



Stage 3 – net non-performing loans / net loans

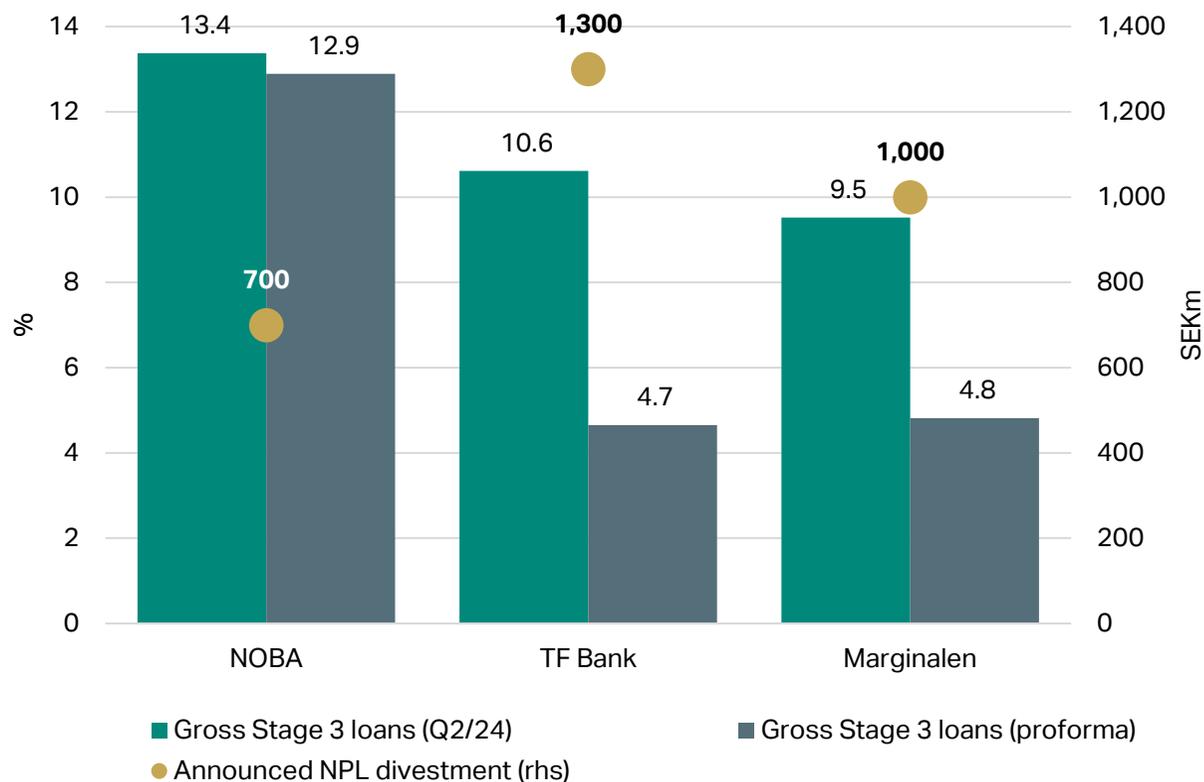


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NPL divestments in July and August

- NOBA completed a previously announced SEK 700m NPL securitisation.
- Marginalen announced an agreement to securitise NPLs worth SEK 1bn.
- TF Bank underwent restructuring by creating a new subsidiary, Rediem, which acquired SEK 1.3bn in NPLs from the bank.
 - The bank plans to classify Rediem as a specialised debt restructuring agency in 2025 and to divest 80% of the company.
- We expect greater use of securitisation and specialised debt restructurers to ease the capital impact of the NPL backstop rules.



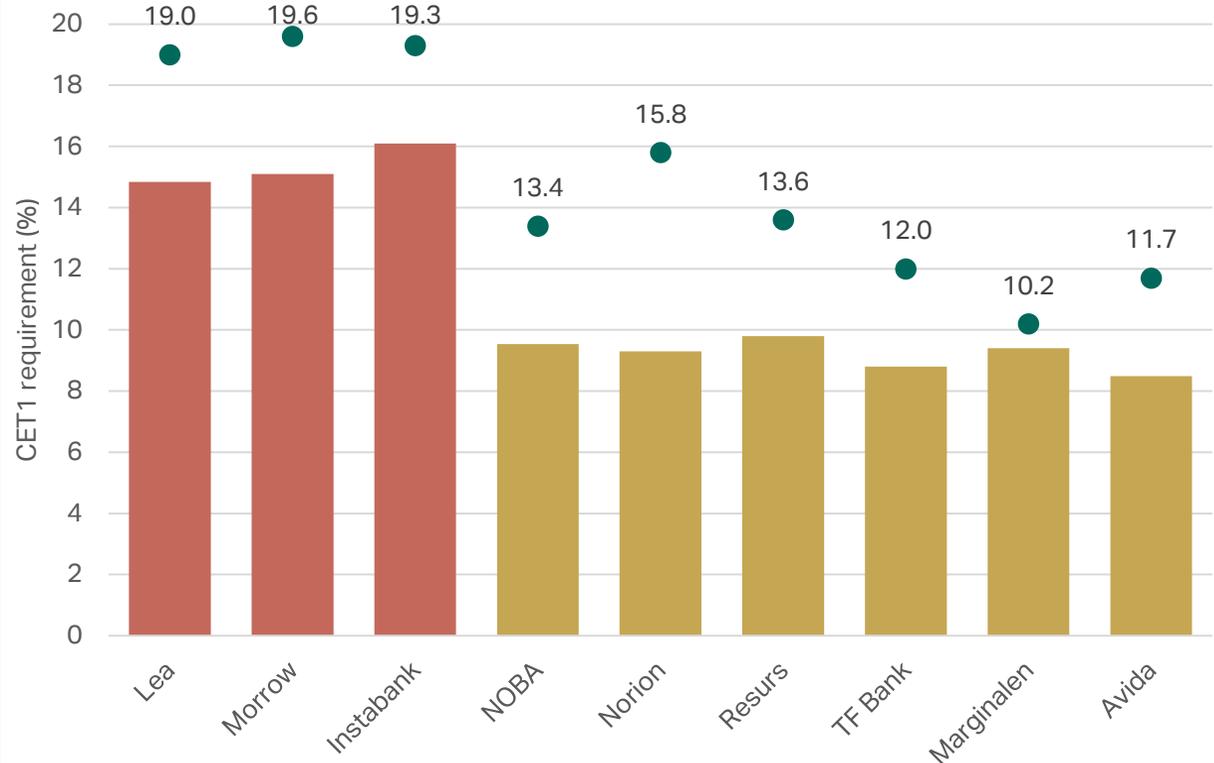
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Lea Bank gets Swedish banking license and moving early 2025

CET1 ratios and CET1 requirements as of 30 Jun. 2024

- Lea Finans AB received a Swedish banking license in June and will be renamed Lea Bank AB.
- Upon regulatory and shareholder approval, Lea Bank ASA will be merged into Lea Bank AB, moving Lea Bank's regulatory seat to Sweden.
- In early 2025 an intragroup merger will make Lea Bank AB the surviving entity, which will be listed in Stockholm.
- The move is likely to reduce the bank's capital requirements, even after a reduction in the Pillar 2 requirement to 5.1% from 6.5% as of Q2/24

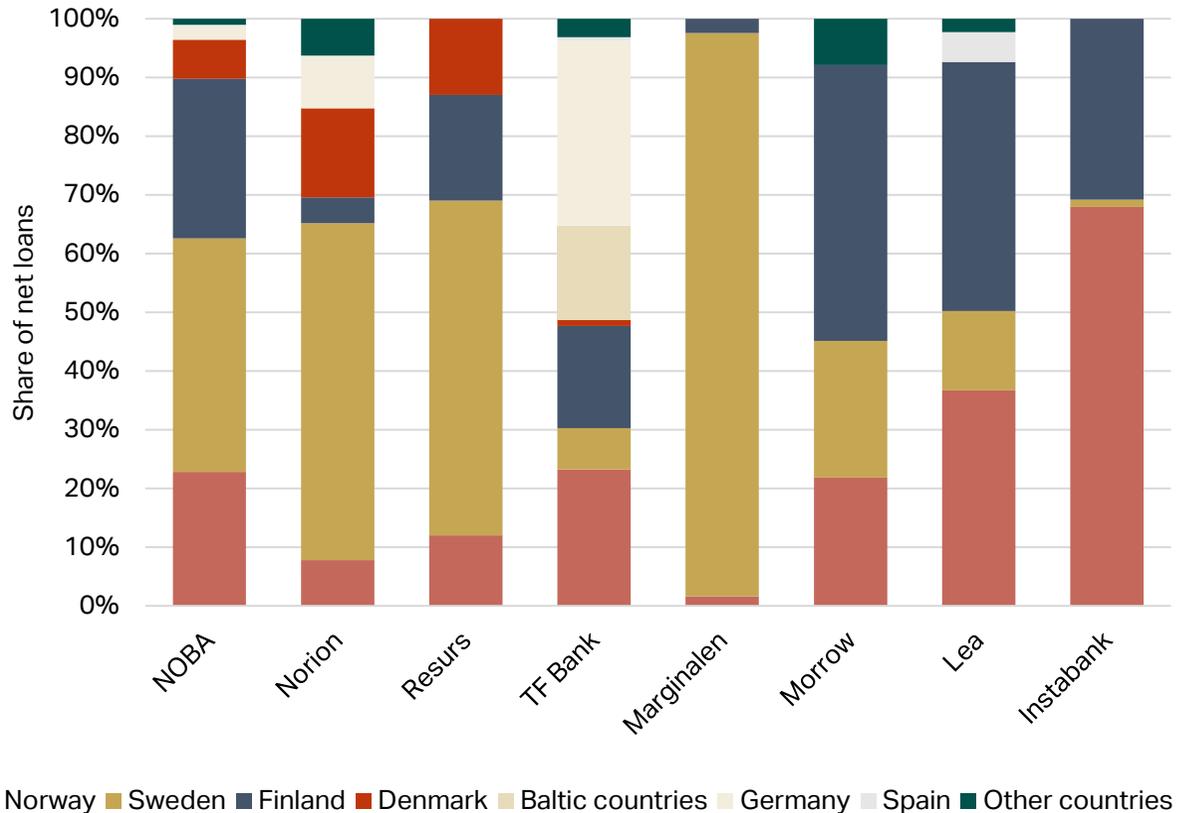


Morrow eyes structural move to Sweden or Finland

Also acquired two Swedish loan portfolios totalling SEK 2.3bn

Share of net loans by country, 30 Jun. 2024

- Morrow has made their intention to move to Sweden or Finland clear.
- The bank cites the change in regulatory regime as a material opportunity to improve the banks return on equity.
- Alternatives mentioned are:
 - A merger or reverse takeover with a Swedish or Finnish bank
 - A change in domicile to Sweden or Finland.
- Over 75% of the bank's loans are in Sweden and Finland.
- Acquired SEK 700m from Qliro in July and SEK 1.6bn in loans from Lunar in August, increasing the Swedish share to 35% from 23% at 30 Jun. 2024.



Looking ahead...

- interest rates to fall further in Sweden, Denmark and Europe amid macroeconomic uncertainty
- margins steadied by easing pressure on funding costs, despite continued low volume growth
- credit provision uncertainty as NPL market weakness is offset by lower rates
- increased focus on capital levels driving NPL divestment
- progress in Swedish regulatory proposals



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Thank you



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