

NCR comments: Resurs Bank AB (publ) Q4 2020 report

Our 'BBB-' issuer and issue ratings on Resurs Bank AB (publ) are unchanged following the publication of Resurs Holding's full-year results. Resurs Holding is the owner of Resurs Bank (94% of group revenues) and insurance company Solid Försäkring AB.

Lending declines due to stronger Swedish krona

Lending declined by 2% in the fourth quarter and full-year 2020, masking a 2% increase in lending measured in local currencies. The decline was driven by a 4% year on year fall in lending by the Payment Services division (down 1% in local currencies), while lending by the Consumer Loans division remained relatively flat (up 4% in local currencies). Lending volumes were further reduced by a SEK 500m sale of non-performing loans (NPLs) in December. The Norwegian operations remain a drag on growth following regulatory changes in 2019 as well as additional social distancing restrictions which negatively affected Payment Services volumes. Excluding the Norwegian operations and the sale of the NPL portfolio, lending growth was 11%.

The net interest margin declined to 8.7% in the fourth quarter compared with 9.4% in the fourth quarter of 2019. Over full-year 2020, the margin declined to 9.1% from 9.7% at end-2019. The reduction was due to product mix changes in the Payment Services portfolio and larger ticket loans with lower margins by the Consumer Loans division. We expect margin pressure to continue, due to lower returns on the liquidity portfolio and increased focus on low-risk loans. Operating expenses increased slightly in the fourth quarter, but the cost-income ratio remained on a downward trend over the course of the year at 38.6% compared with 39.0% at end-2019 (excluding insurance and transformation costs).

Resurs Holding is undergoing a transformation process, which includes cutting decision stages, getting rid of country managers, and strengthening group management. The number of employees will be reduced by 70 and annual costs are expected to fall by SEK 43m (3% of total costs). The bank booked SEK 70m in transformation costs in the fourth quarter of 2020, including a SEK 48m write down of IT investments and other items.

Credit losses stood at 2.5% of lending in the fourth quarter and 2.7% in full-year 2020, including SEK 75m in extraordinary provisions announced in the first quarter. Given the ongoing COVID-19 pandemic and the lack of growth in the loan book, the bank maintained relatively stable credit losses during 2020. The sale of the NPL portfolio resulted in net Stage 3 NPLs virtually in line with the end-2019 level of SEK 3.0bn (9.6% of customer loans).

Improved capitalisation

Resurs Holding reported a common equity Tier 1 ratio of 15.1% at end-2020 compared with 13.6% at end-2019 given a 0.8% reduction in risk exposure amount driven by the fall in lending. The capital ratio reflects a SEK 896m deduction for dividend payments. This includes the SEK 536m suggested dividend, amounting to 25% of 2019 and 2020 profits, in accordance with regulatory restrictions. It also reflects Resurs Holdings' aim of making an additional payout of SEK 360m after dividend restrictions expire on 30 Sep. 2021.

This commentary does not constitute a rating action.

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Attachments

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