

NCR comments: Resurs Bank AB (publ) Q3 2020 report

Our 'BBB-' issuer and issue ratings on Sweden-based Resurs Bank AB (publ) are unchanged following the publication of Resurs Holding's third-quarter results. Resurs Holding owns Resurs Bank (94% of group revenues) and insurance company Solid Försäkring AB.

Earnings performance stable

Lending in the third quarter increased by 1% from the previous quarter and was flat year on year. Excluding the bank's Norwegian operations, year-on-year growth was 12%. Total growth adjusted for currency effects was 4%. The Norwegian operations were negatively affected by new legislation and the creation of debt registries as well as a weak domestic currency. Management says that market conditions have returned to pre-COVID-19 levels in both Sweden and Denmark and that it plans to increase lending in Norway. The bank has currently suspended its target annual growth rate of more than 10%.

The Consumer Loans division (55% of group revenues) increased lending by 2% year on year while revenues were up by 1%. Volumes in the Payment Services division (39% of group revenues) were down 3% while revenues were down by 11% due to mixed effects (relatively low factoring and credit card volumes as well as an increase in average customer size).

The net interest margin was 9.0% in the third quarter compared with 9.4% in the previous quarter and 9.5% in the third quarter of 2019. We expect margin pressure to increase, partly due to lower returns on the liquidity portfolio and partly due to a greater focus on low-risk loans. Operating expenses appear to be under control, with the cost-income ratio at 36.6% compared with 38.8% in the corresponding quarter of 2019. Overall cost levels were reduced by lower marketing costs.

Transformation under way

Resurs Holding has started a transformation to create a more agile organisation; this includes simplified decision making, getting rid of country managers, and strengthened 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). Restructuring costs are projected at SEK 22m to be booked in the fourth quarter.

Credit losses stood at 2.5% of lending in the third quarter and 2.8% in the year to date, including SEK 75m in extraordinary provisions announced in Resurs Holding's report for the first quarter. In the second quarter report, management signalled moderate loan losses in the third quarter but a higher figure in the fourth quarter. The expectation is now stable development and low loan losses in the fourth quarter. The distribution of non-performing loans at stages 1, 2 and 3 (as defined by International Financial Reporting Standards) was relatively stable in the quarter.

Capitalisation improved

Resurs Bank continues to see an inflow of deposits from the public in the quarter and, due to moderate loan growth, issued no new bonds in the period.

Resurs Holding reported a common equity Tier 1 ratio of 14.6% at end-September compared with 14.3% as of mid-2020 and 13.6% at end-2019. This included 50% of year-to-date profit and was adjusted for a proposed SEK 420m dividend payment for 2019. We expect this to be distributed as soon as the Swedish financial supervisory authority ends its suspension of dividend payments by banks, most likely in 2021.

This commentary does not constitute a rating action.

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Attachments

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