Nordic Credit Rating

FINANCIAL INSTITUTION

Sweden
15 Mar. 2022

Collector Bank AB (publ)

Full Rating Report

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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RATING RATIONALE

Our 'BBB-' long-term issuer rating on Collector Bank AB (publ) (Collector Bank) reflects the bank's strong risk-adjusted earnings, good access to funding, and diverse loan portfolio. The bank is directly owned by and has joint management with Collector AB (Collector), which is listed on the Stockholm Stock Exchange. Following recent divestments, Collector's board of directors proposed merging the bank and the holding company. In our view, stronger loss reserves, together with a more balanced growth strategy, are positive for Collector Bank's risk governance and overall risk management. We note that the bank has improved the transparency of its segment reporting. The bank is largely deposit funded but in 2021 increased efforts to diversify its funding across currencies and debt classes.

We see lending to the commercial real estate sector as a particular risk factor in the event of a deep recession but expect low losses from such exposure over a normal cycle. The fiercely competitive climate in the consumer lending sector has led to a greater focus on corporate lending, in niches where competitive conditions are currently more benign. Moreover, we see an added risk factor in increased regulatory scrutiny on consumer lenders which could lead to lower market growth and less efficient credit assessment procedures.

STABLE OUTLOOK

The outlook is stable, reflecting our expectation of a continued economic recovery across Collector Bank's core markets following reduced COVID-related restrictions. It also reflects our expectation that the bank's earnings will be sufficient to generate enough capital to support its moderate growth objectives without significantly increasing its risk profile or requiring additional capital injections. We do not currently expect the Ukraine conflict to have a direct impact on the bank. However, any escalation of hostilities could reduce demand for real estate and consumer loans. In addition, borrowers with already weak financial profiles are more likely to be affected by food and energy price inflation as a result of the conflict which could affect their repayment capacity and increase credit losses.

POTENTIAL POSITIVE RATING DRIVERS

- Materially higher capitalisation ratios, with Tier 1 ratio sustainably above 18%.
- Reduced risk appetite reflected in both increased collateralisation and lower concentration risk.

POTENTIAL NEGATIVE RATING DRIVERS

- Increased risk appetite, reflected for example by increased single name concentration.
- Materially lower capitalisation ratios, with Tier 1 ratio lower than 12%.
- Regulatory changes affecting the bank's business model.

Figure 1. Collector Bank key credit metrics, 2018–2024e

%	2018	2019	2020	2021	2022e	2023e	2024e
Net interest margin	5.7	5.1	4.9	5.7	5.8	5.8	5.8
Loan losses/net loans	1.30	4.31	2.75	2.58	2.56	2.55	2.53
Pre-provision income/REA	4.0	3.2	3.7	5.0	5.3	5.3	5.4
Return on equity	15.5	-6.7	7.7	14.2	14.9	15.0	14.9
Loan growth	34.0	14.4	6.9	12.3	10.0	9.0	8.0
CET1 ratio	11.9	10.3	13.7	13.9	14.0	14.1	14.3

Based on NCR estimates and company data. e–estimate. REA–risk exposure amount. CET1–common equity Tier 1. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

Collector Bank is a niche bank that provides financing solutions for retail and corporate customers. It is owned by publicly listed Collector. Collector was founded in 1999 and Collector Bank obtained its banking licence in 2015. Collector's main owner since 2011 has been Fastighets AB Balder, of which Erik Selin is CEO and the main owner. Mr Selin is also the chairman of Collector's board.

Collector Bank's main geographic markets are Sweden, Finland and Norway. As of end-2021, the bank had SEK 36.2bn in gross lending, of which 59% was attributable corporate and real estate lending. The bank's Corporate segment (see Figure 2) offers factoring and secured company credits, while the Real estate segment focuses on senior and junior loans in metropolitan areas. The Private segment offers unsecured consumer loans and credit cards as well as savings accounts, which constitute the bank's main funding source. The Payments segment provides payment solutions for e-commerce operators and retailers.

Figure 2. Overview of Collector Bank's products by geography and segment

Business segments	Products	Sweden	Finland	Norway	Other
Private	Personal loans	✓	✓		
	Savings accounts	✓	✓		
	Credit cards	✓			
Payments	B2B and B2C	✓	✓	✓	✓
Corporate	Factoring	✓	✓	✓	✓
	Company credits	✓	✓	✓	✓
Real estate	Real estate credits	✓	✓		✓

Based on company data. B2B: Business to Business, B2C: Business to Consumer

OPERATING ENVIRONMENT

Operating environment assessment 'bbb'

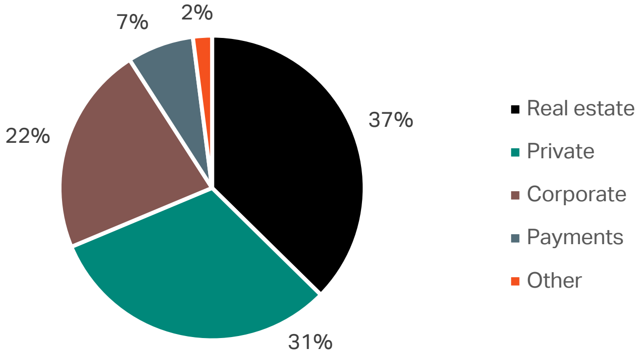
Collector Bank operates across the Nordic region with about two-thirds of its loan book located in Sweden. In our national banking assessments, we apply a score of 'a-' to the Swedish market and 'a' to the Norwegian market (see Swedish banking market prepared for continued uncertainty in 2022, 27 Jan. 2022, and Norwegian banking market demonstrating strength through pandemic, 27 Jan. 2022). In the context of these markets, NCR views both Collector Bank's consumer lending and corporate lending products as having higher-than-average risk. Consumer loans are more sensitive to shifts in the economy than a typical retail loan portfolio, while real estate loans and SME credits carry higher-than-average risk in an economic downturn. For this reason, we view the operating environment as representing higher-than-average risk relative to our respective national banking assessments.

Diverse business profile, volatile drivers

Regional, sectoral, and cross-border factors score 'bbb-'

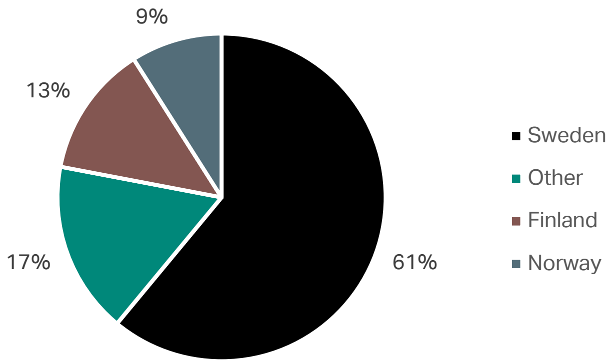
In our view, consumer lending is riskier than an average retail loan portfolio in the bank's core markets, which are dominated by mortgage lending with a long history of minimal credit losses. Consumer lending increases the bank's sensitivity to the wider economy and the target customer tends to be more financially constrained than holders of higher quality accounts, as demonstrated by a high ratio of non-performing loans to gross loans. The unsecured nature of consumer lending reduces recovery prospects if consumers face financial difficulties. However, we note that the Nordic markets have strong legal frameworks which benefit creditors and incentivise borrowers to repay debt. This improves collection rates relative to many other European markets. We consider payments and factoring to be less risky than consumer lending with drivers that bear greater resemblance to the market average, as perceived in our national banking assessments. We note that increased regulatory focus on consumer lending in the Nordic markets subjects the sector to risk factors such as more cumbersome credit check requirements and interest rate ceilings.

Figure 3. Collector Bank credit portfolio, 2021



Based on company data.

Figure 4. Collector Bank geographic distribution of loans, 2021



Based on company data.

In our view, Collector Bank's corporate lending to SMEs would carry higher-than-average risk in economic downturns as small companies are more volatile and more dependent than large corporations on monoline income streams which could translate into liquidity problems and possibly default. We regard the real estate sector as marginally safer than SMEs due to the predictability of cash flows generated by property, enabling real estate borrowers to meet their repayments. Collector Bank's high proportion of residential real estate lending (48%) and senior loans (65%), and low average maturity (19 months) create a safer loan profile than that of its SME lending. However, we note that both loan types are subject to higher-than-average risk on the basis of our national assessments.

RISK APPETITE

Risk appetite assessment 'bbb-'

Collector Bank has, in our view, an above average risk appetite given its credit risk profile. However, the bank has a diverse product offering and a significant part of the corporate loan portfolio is collateralised. We note that the bank has reduced its risk appetite by lowering its growth targets, particularly in consumer lending, and that management is focusing on improving the reporting structure and risk appetite framework, which is fundamental for risk governance.

Risk governance and environmental, social and governance efforts

Risk governance scores 'bb'

On 21 Jan. 2020, Collector Bank announced additional credit loss provisions and said its capital base was temporarily below current capital buffer requirements. We see the breach as an indication that the bank's risk governance could be weaker than that of its peers, but nonetheless believe that its risk governance has improved in recent years. We note, however, that responsible lending is an area in which Collector Bank could be exposed to criticism in view of regulatory concerns about debt levels and consumer lending practices. Collector Bank carries out affordability calculations and uses data-supported scoring models to ensure that customers can repay loans. Despite these efforts, the bank reports 31% gross problem loans (Stage 3 non-performing loans, excluding purchased debt) extended to individuals in its loan book, which is significantly higher than market averages across the Nordic region. We note that, unlike Collector Bank, several of the bank's peers sell non-performing loans to debt purchasers, effectively improving their respective ratios of non-performing loans to gross customer loans.

In February 2022, Collector Bank and four other consumer lenders received letters from the Swedish Financial Supervisory Authority detailing preliminary findings that their credit assessments were not compliant with the Swedish Consumer Credit Act, based on an investigation of credit applications made in 2019 (see Nordic consumer banks report strong fourth-quarter 2021 results, 3 Mar. 2022).

Collector Bank demonstrates a commitment to sustainability and equality and has identified four key focus areas from the U.N.'s 17 Sustainable Development Goals where it believes it can make a difference: 1) quality education, 2) gender equality, 3) decent work and economic growth, and 4) industry, innovation and infrastructure. In this respect, Collector Bank is in broad alignment with the wider Swedish banking sector.

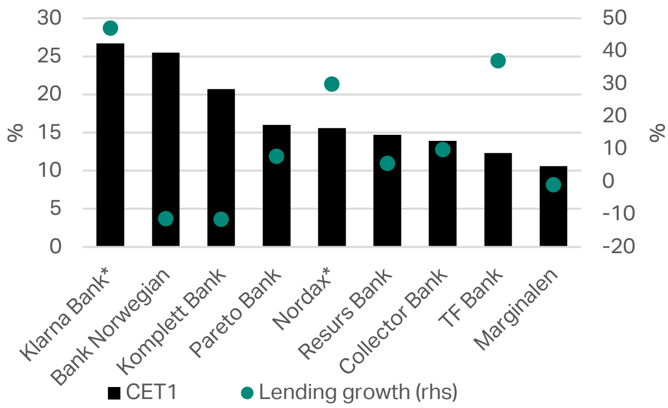
Higher capital requirements ahead

Capital scores 'bbb'

The consolidated Collector group reported a CET1 ratio of 13.9% as of 31 Dec. 2021. We also take into consideration Tier 1 capital instruments, which add 0.8pp to the Tier 1 capital ratio. We note that Collector Bank's lending has grown by less than 10% annually over the past two years and we expect this to continue over our forecast period through 2024. We expect that future profitability will be sufficient to support growth, even though we assume that the bank will start paying dividends from 2023. Accordingly, we expect the group's CET1 ratio to increase towards 15%. We also expect that the merger with the holding company will increase the group's Tier 1 ratio by 0.5pp to a level about 1pp higher than the CET1 ratio.

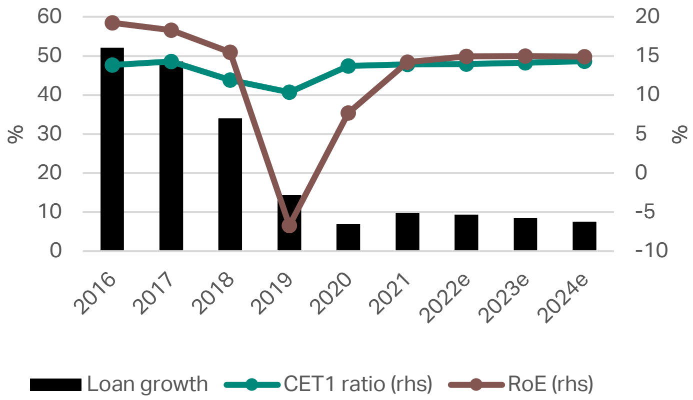
The bank's CET1 requirement is only 7.7% following Sweden's decision in 2020 to remove the country's regulatory countercyclical capital buffer. The buffer will be reinstated at 1% on 29 Sep. 2022. We are still waiting for the Swedish regulator to implement Pillar 2 guidance, which we anticipate will increase Collector's CET1 requirement by at least 1pp. Moreover, the EU's prudential backstop regulation will start to have an impact, albeit marginal, on the bank's capitalisation in 2023 (see NPL backstop creates challenges for Nordic niche banks, 19 Oct. 2020).

Figure 5. Selected Nordic niche banks' capitalisation and lending growth, 31 Dec. 2021



Based on company data* As of 30 Sep. 2021 (last 12 months).

Figure 6. Collector Bank's loan growth and consolidated CET1 ratio, 2016-2024e



Based on company data and NCR estimates.

Deposits main funding source prompting drive for diversification

Funding and liquidity score 'bbb'

Customer deposits are Collector Bank's primary funding source, but in 2021 the bank resumed issuance of bonds under a SEK 5bn medium-term note programme. In March 2022, the programme was increased to SEK 15bn. We see this diversification of funding as positive. Following issuance of SEK 5bn in debt in 2021, the bank's loan to deposit ratio increased to 115% from 104.5% at end-2020. Collector Bank's deposit base is located mainly in Sweden, but the bank is increasingly tapping into the German deposit market. At end-2021, 24% of deposits were denominated in euro, up from 15% a year earlier. The bank also issued a bond denominated in Norwegian krone and launched corporate deposits in the Norwegian currency in 2021. The price-sensitive nature of the bank's deposit base is a risk factor in comparison with those of more typical Nordic banks, which tend to rely on relational deposits. We note that the short duration of factoring and payment loans in particular gives the bank an opportunity to improve liquidity by restricting new lending if deposits are withdrawn. In addition, we believe that the short duration of the loan book explains the bond portfolio's relatively short time to maturity of slightly less than two years.

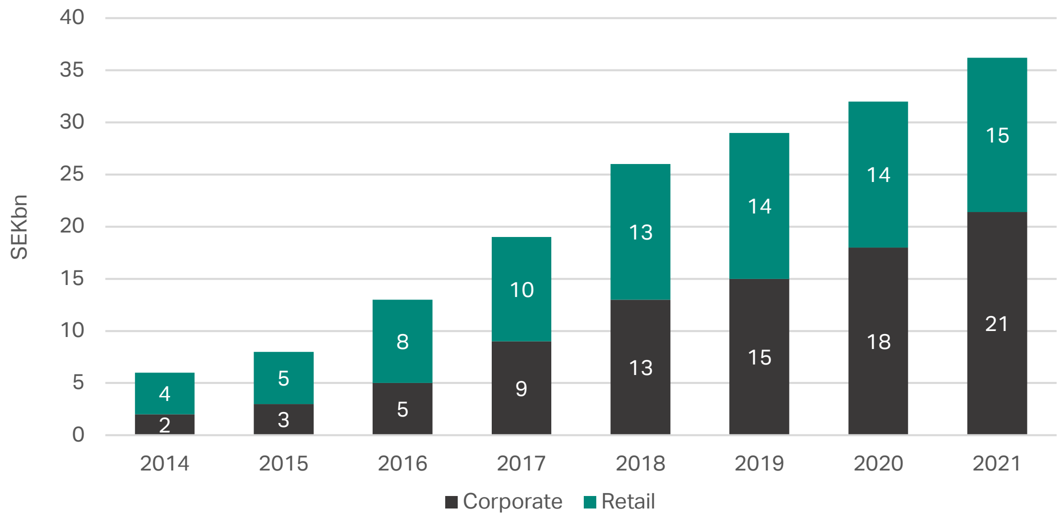
Collector Bank had SEK 2.4bn in issued commercial paper at end-2021. The bank has a SEK 500m tier 2 instrument outstanding with a first call date in June 2022 and SEK 500m in perpetual tier 1 capital with a call date in March 2024. Collector Bank's liquidity exposures are of high quality and fulfil both regulatory liquidity coverage requirements and the bank's internal liquidity stress requirements by good margins. However, liquid assets, including deposits held by highly rated banks, represent only 17% of the deposit base. The bank's reported liquidity coverage ratio stood at 337% at end-2021, significantly above the required 100%.

Continuing focus on corporate and commercial real estate lending

Credit risk scores 'bb'

Over the past two years, Collector Bank has focused on growth in corporate and real estate lending, due to strong competition in the consumer lending market. We project annual lending growth of close to 10% over the next few years, driven mainly by corporate and real estate lending.

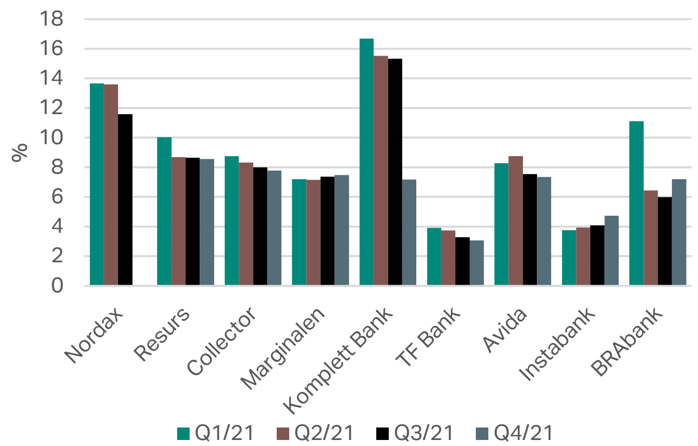
Figure 7. Collector Bank's net lending by customer type, 2014-2021



Based on company data.

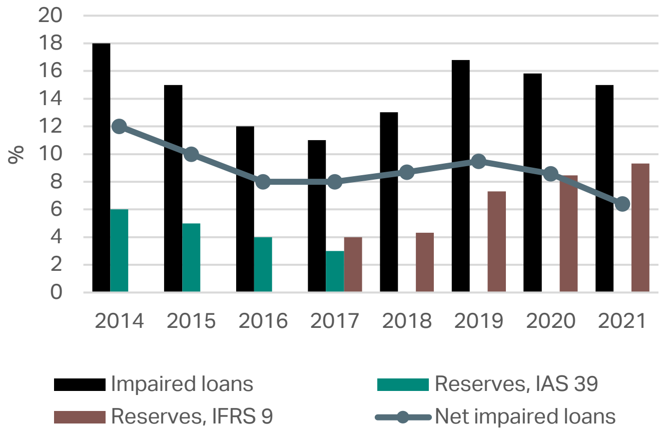
Corporate lending, including commercial real estate lending, accounts for 59% of Collector Bank's loan book. Of this, 63% is real estate lending and the remainder corporate factoring and corporate credits. Loan losses have historically been extremely low in the bank's Corporate and Real estate segments, while these areas of lending account for only 9% of its Stage 3 loans. Negatively, however, this is likely to result in increased single-name concentration risk in the corporate and real estate loan book in comparison with those of many of the bank's niche bank peers. We see a particular risk associated with this concentration on the basis of loan-loss experience from earlier banking crises, when loan losses were particularly high in commercial real estate lending.

Figure 8. Selected Nordic niche banks' net Stage 3 non-performing loans to net loans, Q1 2021–Q4 2021



Source: bank reports.

Figure 9. Collector Bank's impaired loans and reserves as a % of gross loans, 2014-2021



Based on company data.

Non-performing loans kept on own balance sheet

Other risk scores 'bbb-'

We see other risk as neutral in our assessment of Collector Bank's risk appetite. Historically, the bank has retained non-performing loans on its own balance sheet. The EU's new prudential back-stop regulations might force Collector Bank to change this strategy and start selling non-performing loans to debt purchasers. This would reduce the level of the bank's problem loans and loan-loss reserving but increase its exposure to volatility in the market for purchased debt.

COMPETITIVE POSITION

Competitive position assessment 'bb'

Collector Bank has a diverse loan portfolio (see Figure 3). We note that while the bank is experiencing strong growth in the less competitive Real estate and Corporate segments, consumer loans make up a meaningful proportion of its lending. Collector Bank has, however, demonstrated its intent to reduce its consumer loan book as a proportion of total lending. The fiercely competitive climate in the consumer lending and credit card markets results in low pricing power among banks and difficulties in attracting customers on the basis of reputation. The bank relies heavily on agents to attract consumer borrowers, meaning that it must compete on price and pay high fees to obtain price-sensitive customers.

Collector Bank's Payments segment has a strong market position, servicing 4 million active customers: the bank is a top 3 player in the Nordic B2C market and a leader in the regional B2B market.

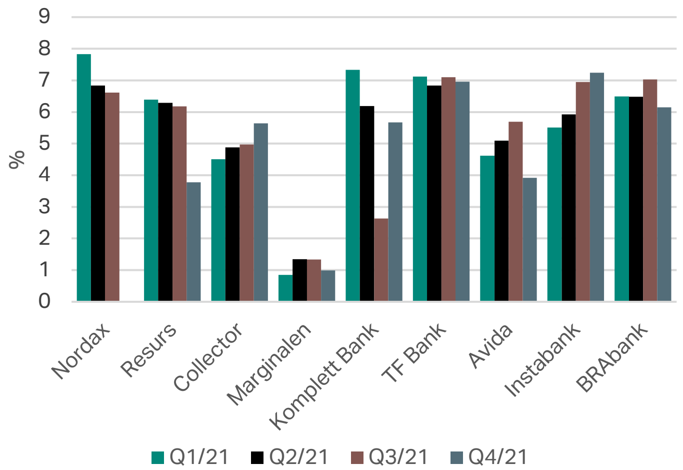
Collector Bank aims to expand its corporate and real estate lending business, where it has identified niches not yet filled by other regional banks. The bank sees good demand for low-risk recurring real estate lending in Sweden, Finland and Denmark and strong demand for midmarket corporate credit.

PERFORMANCE INDICATORS

Performance indicators assessed at 'bbb+'

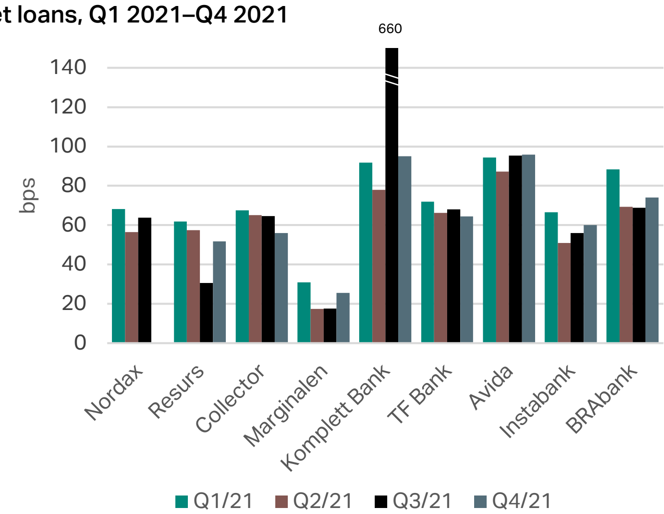
Collector Bank's business model implies strong profitability, which provides a significant buffer against volatility in credit provisions. The bank has lower profitability than its peers, reflecting a narrower focus on consumer lending and a higher level of secured lending. Realised loan losses have remained at subdued levels for the past 12 months and we expect a gradual normalisation of loan-loss provisions over the next few years.

Figure 10. Selected Nordic niche banks' annualised pre-provision income to average REA, Q1 2021–Q4 2021



Source: bank reports.

Figure 11. Selected Nordic niche banks' loan-loss provisions to net loans, Q1 2021–Q4 2021



Source: bank reports.

Earnings boosted by strong margins and cost efficiency

Earnings score 'aa'

Pre-impairment profit before loan losses to average REA was 5.0% in 2021, up from 3.7% a year earlier. We believe that this metric will remain above 5% over the next few years. We project that net interest margins, which rose in 2021 due to lower funding costs and higher lending yields in the Corporate segment, will stabilise at their new level.

Collector Bank's cost/income ratio for 2021 was 30% (40% a year earlier). Management sees potential for cost cutting by employing best practices, and we expect the bank to continue to increase efficiency, albeit to a lesser extent than over the past two years due to wage inflation.

Low visibility in terms of loss performance

Loss performance scores 'bb'

Annual provision levels were relatively stable at below 1.5% of gross loans over the five years prior to 2019, when SEK 800m in extraordinary charges increased loan losses to 4.3%. Loan losses amounted to 2.6% of lending in 2021, unchanged from a year earlier. The level of gross non-performing loans stood at 15% of total lending at end-2021, which is high, but 1pp lower than a year earlier and 2pp lower than at end-2019. We assume loan losses will stabilise at around their current level over the next few years.

ADJUSTMENT FACTORS

Peer comparison

Peer comparison neutral

We believe the main differences between the average Nordic bank and Collector Bank are primarily associated with risk appetite, capitalisation, and loss. We also believe that Collector Bank's relative strengths and weaknesses are accurately reflected in our 'bbb-' initial credit assessment and make no adjustments in respect of the bank's peer group or any other factors.

Support analysis

Support analysis neutral

Although owner Collector has a history of providing capital to expand Collector Bank, we do not adjust the rating on the bank to reflect expectations of additional support from the owner or the group's shareholders (see Figure 12). We believe that investors expect Collector Bank to generate its own capital in future.

Figure 12. Collector's ownership structure, 31 Dec. 2021

Owner	Ownership share, %
Fastighets AB Balder	44.1
Erik Selin	10.7
StrategiQ Capital AB	10.3
Lena Apler	4.6
SEB Life International	3.7
Avanza Pension	2.2
SEB AB	1.5
Vante AB	1.4
State Street Bank and Trust Co.	1.2
JP Morgan Chase Bank	0.9
Other	19.5

Source: Collector.

ISSUE RATINGS

Our rating on Collector Bank's unsecured medium-term note programme is in line with the 'BBB-' issuer rating. The bank has an outstanding tier 2 instrument and an additional tier 1 instrument, which we rate two and four notches below the issuer rating, respectively. Consequently, the tier 2 instrument is rated 'BB', while the tier 1 instrument is rated 'B+'.

Figure 13. Collector Bank key financial data, 2017–2021

Key credit metrics (%)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
INCOME COMPOSITION					
Net interest income/op. revenue			87.8	85.5	88.1
Net fee income/op. revenue	12.3	12.2	13.1	13.2	11.1
Net trading income/op. revenue	-3.1	-3.0	-2.0	-0.2	0.7
Net other income/op. revenue	90.8	90.8	1.2	1.5	0.1
EARNINGS					
Net interest margin			5.1	4.9	5.7
Pre-provision income/REA	5.1	4.0	3.2	3.7	5.0
Return on ordinary equity	18.3	15.5	-6.7	7.7	14.2
Return on assets	2.7	1.9	-0.7	0.8	1.8
Cost-to-income ratio	40.5	43.5	49.8	39.7	30.0
Cost-to-income ratio, ex. trading	39.3	42.3	48.8	39.7	30.2
CAPITAL					
CET1 ratio	14.3	11.9	10.3	13.7	13.9
Tier 1 ratio	14.3	11.9	11.8	14.6	14.7
Capital ratio	16.8	13.7	13.3	15.8	15.7
REA/assets	89.4	93.0	90.8	92.0	88.8
Dividend payout ratio					
Leverage ratio	12.8	11.1	9.4	12.6	0.0
GROWTH					
Asset growth	47.4	33.3	24.4	2.3	17.4
Loan growth	48.6	34.0	14.4	6.9	12.3
Deposit growth	34.9	46.3	31.5	4.8	1.6
LOSS PERFORMANCE					
Credit provisions to net loans	1.11	1.30	4.27	2.75	2.58
Impaired loans to gross loans	10.64	13.01	16.78	15.82	15.01
Net impaired loans to gross loans					5.65
Net problem loans to equity	71.10	106.38	173.26	118.40	38.17
Non-performing loan coverage ratio					62.35
Stage 3 loans/gross loans		13.01	16.78		15.01
Net stage 3 loans/net loans		9.88	11.37		7.78
FUNDING & LIQUIDITY					
Loan/deposit ratio	128.4	117.7	102.4	104.5	115.5
Net stable funding ratio	0.0	0.0	0.0	0.0	0.0
Liquidity coverage ratio	144.0	161.0	155.0	225.0	0.0

Key financials (SEKm)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
BALANCE SHEET					
Total assets	22,246	29,650	36,893	37,738	44,294
Total tangible assets	22,036	29,368	36,785	37,623	44,205
Total financial assets	21,996	29,305	36,535	37,258	44,063
Net loans and advances to customers	19,663	26,347	30,151	32,242	36,214
Total securities	873	1,143	1,485	1,223	2,621
Customer deposits	15,309	22,391	29,454	30,855	31,351
Issued securities	3,332	3,268	3,592	996	5,729
of which covered bonds					
of which other senior debt	3,332	2,769	2,598		5,229
of which subordinated debt		499	994	996	500
Total equity	3,038	3,368	3,149	4,707	5,916
Total ordinary equity	3,038	3,368	3,149	4,707	5,916
CAPITAL					
Common equity tier 1	2,840	3,288	3,464	4,769	5,476
Tier 1	2,840	3,288	3,960	5,082	5,789
Total capital	3,338	3,781	4,459	5,474	6,187
REA	19,887	27,562	33,498	34,730	39,315
INCOME STATEMENT					
Operating revenues	1,422	1,676	1,919	2,116	2,637
Pre-provision operating profit	847	946	964	1,275	1,847
Impairments	183	298	1,206	859	884
Net Income	510	496	-219	303	753

Source: company. FY–full year. YTD–year to date.

Figure 14. Collector Bank rating scorecard

Subfactors	Impact	Score
National factors	10.0%	a-
Regional, cross border, sector	10.0%	bbb-
Operating environment	20.0%	bbb
Capital	17.5%	bbb
Funding and liquidity	15.0%	bbb
Risk governance	5.0%	bb
Credit risk	10.0%	bb
Market risk	-	-
Other risks	2.5%	bbb-
Risk appetite	50.0%	bbb-
Market position	15.0%	bb
Earnings	7.5%	aa
Loss performance	7.5%	bb
Performance indicators	15.0%	bbb+
Indicative credit assessment		**bbb-**
Transitions		Neutral
Peer comparisons		Neutral
Borderline assessments		Neutral
Stand-alone credit assessment		**bbb-**
Material credit enhancement		Neutral
Rating caps		Neutral
Support analysis		Neutral
Issuer rating		**BBB-**
Outlook		Stable
Short-term rating		**N-1+**

Figure 15. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB-
Tier 2	BB
Additional Tier 1	B+

DISCLAIMER

NORDIC CREDIT RATING AS

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