

Nordax Bank AB (publ)

Full Rating Report

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

PRIMARY ANALYST

Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

SECONDARY ANALYST

Geir Kristiansen
+4790784593
geir.kristiansen@nordiccreditrating.com

RATING RATIONALE

Our 'BBB' long-term issuer rating on Sweden-based consumer lender Nordax Bank AB (publ) (Nordax) reflects the bank's strong risk-adjusted earnings, high level of unsecured loans, and strong recent and projected credit growth relative to its Nordic markets. We project current capital levels will decline as the bank resumes lending growth across all of its business areas, in particular non-traditional mortgage lending in Sweden and Norway. We view increased secured lending as a positive contributing factor to greater diversification, improved asset quality metrics, and a more diverse funding structure.

The rating takes into account our view of the risks related to the consumer lending industry due to the COVID-19 pandemic and increased regulatory scrutiny. Nordax and its Nordic peers benefit from strong creditor rights, which provide strong incentives for borrowers to repay debt. We expect the bank to reverse most of its COVID-19 related loss reserves during 2021, supporting capital levels despite high growth expectations.

STABLE OUTLOOK

The stable outlook reflects our expectation of an economic recovery across the bank's core markets. We believe that Nordax's improved capitalisation, strong earnings and increased focus on secured lending support the current rating, despite strong growth expectations. We also believe these factors make the bank resilient to potential increases in credit losses that could result from reduced government support as the pandemic recedes.

The stable outlook also reflects Nordax's ongoing attempt to acquire 90% (could be revised to two-thirds) of the shares in Norwegian Finans Holding ASA (Norwegian Finans), the parent of Bank Norwegian. The prospective transaction would create the most diverse niche bank in the Nordic market and expand the combined entity's geographic and product footprint. However, completion of the acquisition, ownership details and capital projections are uncertain and a recent deterioration in Bank Norwegian's asset quality metrics could offset improvements in product and geographic diversification for the combined bank.

POTENTIAL POSITIVE RATING DRIVERS

- Successful acquisition of Norwegian Finans, leading to synergies, diversification, a common equity Tier 1 (CET1) ratio sustainably above 18%, and stable asset quality.
- Improved operating environment for consumer lenders.

POTENTIAL NEGATIVE RATING DRIVERS

- CET1 ratio falling below 14%, driven by unsecured lending growth in excess of capital generation, material dividend payouts and/or acquisitions.
- Regulatory changes affecting interest rates and loss recovery for consumer lending.

Figure 1. Nordax key credit metrics, 2017–2023e

%	2017	2018	2019	2020	2021e	2022e	2023e
Net interest margin	7.5	7.5	6.2	5.7	5.4	5.4	5.3
Loan losses/net loans	1.6	2.7	1.4	1.6	1.2	1.3	1.4
Pre-provision income/REA	6.2	5.9	4.3	5.5	5.1	5.7	5.8
Return on ordinary equity	19.4	13.8	13.5	17.9	16.9	20.1	20.5
Loan growth	5.4	12.2	66.9	9.4	23.3	18.9	14.2
CET1 ratio	14.7	17.0	14.0	16.2	15.7	14.8	14.5

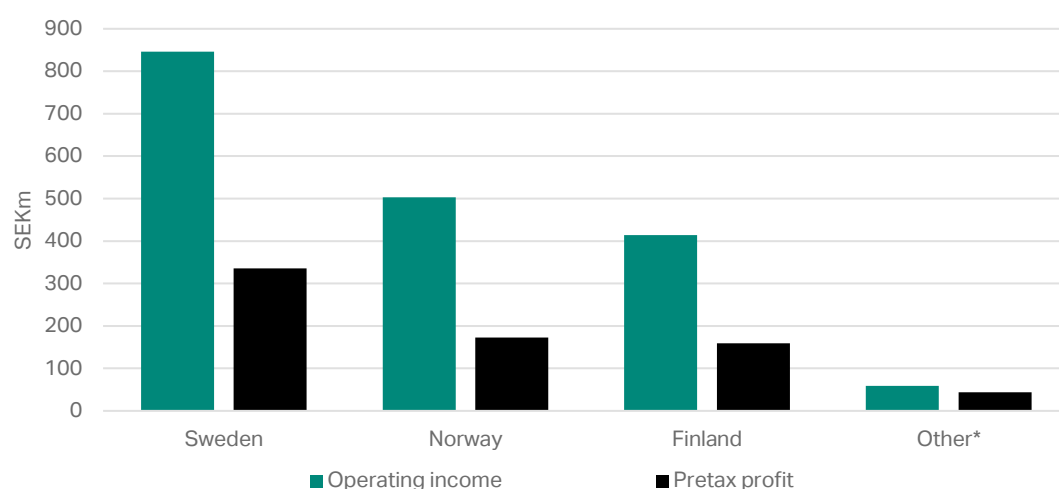
Based on NCR estimates and company data. e—estimate. REA—risk exposure amount. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

Nordax is a niche bank that specialises in consumer loans, non-standard mortgage loans, and equity-release mortgages. The bank had total net loans of SEK 29.0bn and about 250,000 private customers as of 31 Mar. 2021. Nordax is a fully owned subsidiary of Nordax Group AB (publ), which is ultimately controlled by Nordic Capital and Sampo through Nordax Holding AB following a public buyout in 2018. Nordax was founded in 2003 and obtained its banking license in 2014. NCR's rating reflects Nordax and subsidiaries.

Despite materially reducing consumer loan growth during 2020 in response to COVID-19, Nordax has high growth ambitions across each of its product lines and intends to increase the level of secured lending by serving niche mortgage markets. The 2019 acquisition of equity-release mortgage specialist Svensk Hypotekspension (SHP) diversified the bank's business mix with a low-risk product targeting elderly customers. In addition, the bank has offered mortgages to non-traditional customers in Sweden since 2018 and sub-prime first- and second-lien mortgages in Norway since 2019 and intends to expand this business to 20% of its loan book (from 11.5% at end-2020) by 2023.

Figure 2. Nordax revenues and pre-tax profit by market, 2020



Based on company data. *Other includes winddown lending business in Denmark and Germany.

OPERATING ENVIRONMENT

Operating environment assessment is 'bbb-'

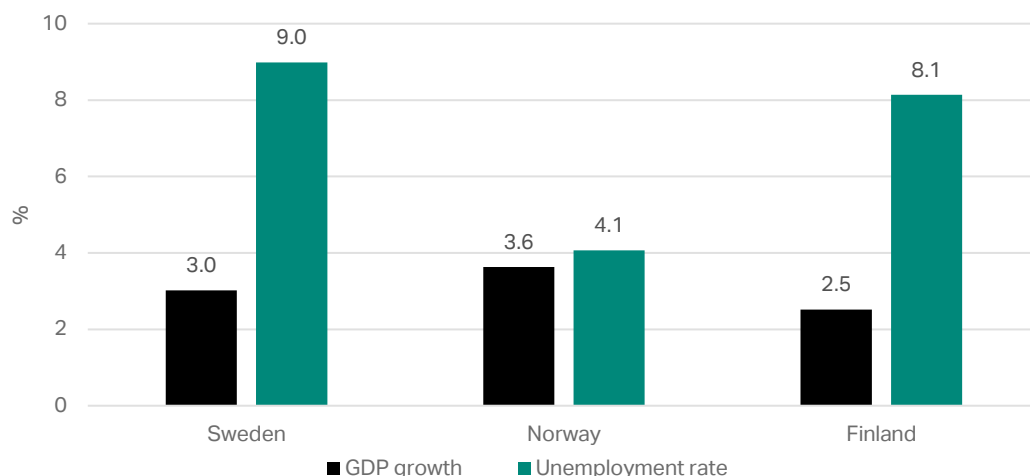
Nordax offers consumer loans in its three core markets – Sweden, Norway and Finland – as well as non-standard mortgages in Sweden and Norway, and equity-release mortgages for older customers in Sweden. In our view, the core markets have strong legal frameworks for creditors, giving borrowers a strong incentive to repay debt even once past due. In this manner, the bank's operating environment supports higher collection rates and allows for higher prices for sale of non-performing loans to third-party collectors relative to other European markets.

Our assessment of Nordax's operating environment reflects the higher risk associated with the bank's consumer lending focus, a segment we perceive as having more volatile risk drivers than those we consider in our national assessments of the bank's core markets. In our view, consumer lending and, to a lesser degree, non-standard mortgages increase the bank's sensitivity to the wider economic environment compared with the average retail loan portfolios in its core markets, which are dominated by mortgage loans with a long history of minimal credit losses. The higher risk is reflected, and often compensated, by materially higher margins and credit losses in Nordax's loan book compared with those of universal banks in the Nordic region.

The COVID-19 pandemic has brought uncertainty to the Nordic consumer lending markets. However, they have responded with robust performances, partly due to government relief packages, which have helped to positively impact loan losses in the sector (see [Nordic niche banks enter 2021 unscathed](#), published 25 Feb. 2021). Even so, niche banks in the Nordic region have increased reserves against current and potential loan losses and continue to show stable credit loss levels, with Nordax standing out positively among its peer group (see [Nordic niche banks' first quarter reports show mixed results](#),

published 31 May, 2021). We expect all of the bank's core markets to see increased GDP growth and falling unemployment during 2021. However, we expect non-performing loans and loan losses to increase for most consumer lenders in the course of the year as economic and social conditions normalise and government support is withdrawn.

Figure 3. Nordax core markets' GDP growth and unemployment, 2021e



Based on NCR consensus estimates.

The Nordic markets have provided strong growth opportunities within consumer lending, fed in part by rising housing markets and prudential economic measures to reduce loan-to-value (LTV) ratios for mortgage lending. These measures have reduced homeowners' ability to obtain home equity loans in the last three to four years, which has shifted a proportion of consumption lending to the consumer loan market. The relatively recent emergence of niche banks and the resulting growth in consumer lending has been a focus of the media and Nordic regulators.

Sweden is Nordax's largest and fastest-growing market due to incremental volume increases with the acquisition of SHP in 2019 and a strategic increase in broker distribution of Swedish consumer loans in 2018. At 31 Mar. 2021, Sweden accounted for nearly 60% of the bank's loan book. So far, the Swedish regulator has been less stringent in its approach to consumer lending than its Norwegian and Finnish counterparts. However, it has indicated a desire to increase its regulatory focus on consumer lenders given that volumes of loans being collected by the state collection agency (Kronofogden) more than doubled to SEK 21.7bn from 2017 end-2020, and in 2020 alone increased by 18%.

In Norway, new debt registers introduced in 2019 in combination with stricter regulation have slowed growth in the consumer lending sector. We believe that additional regulatory measures to curb the growth of consumer lending could affect Nordax's ability to achieve its wider growth objectives as has been the case in Norway, where the market continues to consolidate. However, we note that increased market transparency could improve the bank's overall credit quality and underwriting.

RISK APPETITE

Risk appetite assessment is 'bbb'

Nordax has a well-defined risk appetite which permits higher credit risk while enabling a low risk profile in other areas. We view the bank's diversification into secured lending as positive, but also see the high growth rate as a risk factor. We project that the bank's current capital buffers will decline given its internal targets and aggressive expansion across its core markets. The funding profile is diverse and granular, though the bank's primary funding source is considered more price dependent than that of the average Nordic bank.

Internal risk monitoring and reporting robust

Risk governance scores 'bbb'

We view Nordax's risk governance framework in the light of its appetite for higher credit risk, though this is compensated by high-margin loans. The bank has robust internal risk monitoring and reporting arrangements in place, which increase transparency in terms of risk appetite, and allow the bank to adapt its underwriting to minimal changes in the risk performance of its credit portfolios. Nordax has established risk appetites, risk indicators and limits for all identified risk areas and compares its

financial risk exposure across risk types. The bank accepts a relatively high credit risk appetite, defined by specific characteristics of each product, while targeting lower risk in other areas.

Nordax does not have a large environmental impact, but plays an important social role. The bank has a strategy of lending to under-banked individuals and providing income streams to elderly customers with high levels of housing equity. However, responsible credit lending is an area where consumer lenders face heavy scrutiny from media and regulators given concerns about rising debt levels and predatory consumer lending practices. The bank's credit risk appetite allows for lending to customers that are typically rejected by traditional banks. This provides opportunities for many aspiring borrowers, but has a material downside, reflected by the high proportion of loans that become non-performing within a year or two of being underwritten. As of 31 Mar. 2021, Nordax reported 15.5% Stage 3 non-performing loans in its loan book, which we consider very high when compared with market averages across the Nordic region.

Current capitalisation provides footing for further growth

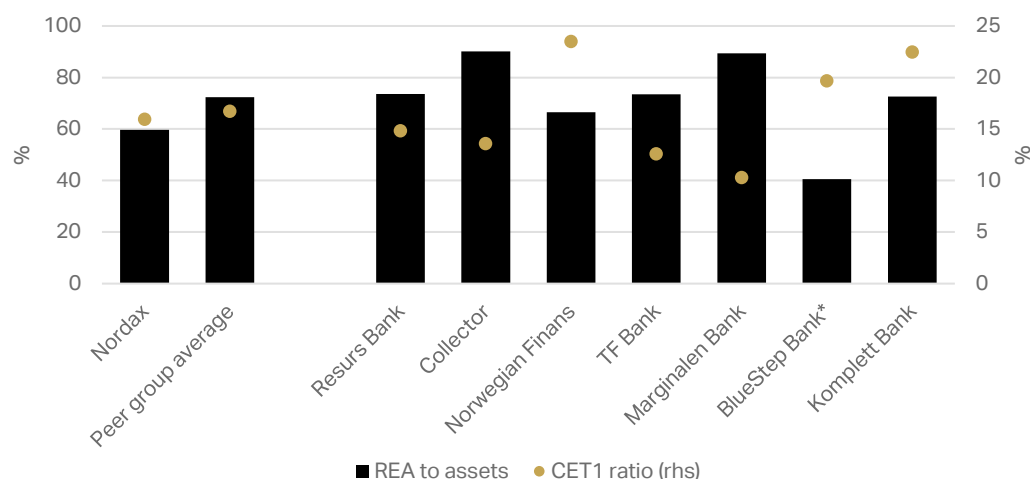
Nordax reported a CET1 ratio of 15.9% and a total capital ratio of 16.9% as of 31 Mar. 2021. Both are well above the respective regulatory requirements of 7.2% and 11.8%. Nordax has yet to pay dividends and is not expected to pay any dividends in respect of its 2020 performance. However, we believe that the increase in capital recorded during 2020 will prove temporary and that the owners will seek to employ excess capital either to fund growth/acquisitions or pay dividends, as evidenced by the intention to acquire Norwegian Finans. Our view takes into consideration the bank's excess capital in comparison with historical levels and internal buffer targets.

We consider Nordax's capital flexibility as supportive of our assessment of capital. If the acquisition of Norwegian Finans were to fail, the bank could consider a 50% dividend payout for 2022 and 2023 to maintain CET1 ratios of about 14.5%. However, Nordax's future dividend plans remain uncertain and capital will continue to accumulate during 2021 before any eventual payout decision in 2022. We note that the increase in capital during 2020 was a result of internal decisions to slow the growth of consumer lending given initial uncertainty over the pandemic. The reduction in growth combined with strong earnings improved the bank's CET1 ratio ratios by over 2pp in 2020.

We project that Nordax will expand its total lending by around 20% annually in 2021 and 2022, in line with its growth objectives, and we reflect a shift towards secured lending in our capital projections. The growth in secured lending lowers the bank's average risk weights (under the standardised approach), while maintaining relatively high margins.

As of 31 Dec. 2020, Nordax's CET1 ratio was slightly below average in comparison with a selection of its regional consumer finance and niche bank peers (see Figure 4). Norwegian niche banks are subject to much higher capital requirements than their Swedish counterparts, and we note that Nordax is among the better capitalised banks in its Swedish peer group.

Figure 4. Nordax REA/assets and CET1 ratios vs selected savings bank peers, 31 Mar. 2021



Source: bank reports. *Q4 2020.

Capital scores 'bbb'

Funding and liquidity
scores 'bbb'

Material buffers to regulatory requirements remain despite high loan growth

Because of the reliance on deposits from price-sensitive customers and encumbrance associated with secured financing, we regard Nordax's funding profile as weaker than that of a typical Nordic bank. The bank finances itself principally through price-sensitive deposits denominated in its core currencies, as well as euro-denominated deposits from German and Dutch customers. Despite lowering its rates during 2020, the bank has seen 36% year-on-year growth in customer deposits as of 31 Mar. 2021. Nordax has increased its deposit volumes by raising interest rates and managed existing volumes by monitoring sensitivity to rate cuts and peer pricing. However, we view this as an indication that the bank tends to capture more price-sensitive depositors than typical Nordic banks, which generally rely on relational deposits and current accounts.

As a result of the inflows, Nordax's loan to deposit ratio fell from 131.5% at end-2019 to 104.0% as of 31 Mar. 2021. The bank maintains solid buffers against regulatory and internal requirements; its net stable funding ratio stood at 126% and its liquidity coverage ratio at 508% at 31 Mar. 2021.

The majority of deposits are denominated in Swedish kronor but the bank also accepts deposits from Norway, Germany, the Netherlands and Finland to reduce its need for currency hedging and cross-border transfers. Nearly all of the deposits are covered by the Swedish deposit guarantee scheme and are relatively granular.

Nordax is positioning itself to originate larger consumer loans and mortgages, to achieve increased diversification of its funding sources. We expect secured and unsecured financing to form a larger part of the bank's funding as the mortgage book grows and provide longer-term funding than short-term deposits, although we note that secured financing results in asset encumbrance for senior unsecured bondholders. The equity-release mortgage portfolio is financed in part by SEK 2.25bn in mortgage-backed notes with a first call date in 2024. It is also financed by SEK 1.1bn in senior unsecured bonds from a SEK 3bn medium-term note programme and secured credit facilities totalling SEK 1.7bn, of which SEK 1.4bn was drawn at 31 Mar. 2021. The bank pledges consumer loans and SHP assets (a total of SEK 4.1bn as of 31 Mar. 2021) against these financing sources. The inflows and relatively modest loan growth also contributed to a decision to repay consumer loan-backed secured financing in 2020. However, we anticipate that the bank will return to this financing source in the future and note that Nordax has raised SEK 3bn in financing through SHP subsidiary Svensk Hypotekspension 5 AB (publ) since the end of March 2021.

Nordax's liquidity portfolio contains high-quality government and covered bonds and cash held with other Nordic banks and regional central banks. As of 31 Mar. 2021, the bank had a liquidity reserve of SEK 6.4bn (23% of customer deposits), providing material protection against deposit outflows according to internal liquidity stress tests and exceeding regulatory liquidity coverage requirements by a good margin.

Expansion into secured lending and larger consumer loans

Our assessment of credit risk balances Nordax's largely unsecured loan book and ambitious growth objectives against its increasing levels of secured lending. We view the bank's increasing levels of mortgages and equity-release loans as positive for overall credit risk in the loan portfolio and believe this should help the bank achieve its goal of maintaining credit losses below 2% of loans over the cycle. We also note that Nordax's loan book is granular, with the largest loans associated with the growing residential mortgage book. The bank has an average unsecured loan size of about SEK 200,000, an average equity-release loan size of about SEK 800,000 and an average mortgage loan size of about SEK 1.8m. As of 31 Mar. 2021, the outstanding loan book consisted 64% of unsecured consumer loans, 24% of equity-release loans and 12% of mortgage loans. The bank's objective is to have 40% secured lending by 2023, primarily via significant growth in its non-traditional mortgage book in Sweden and Norway.

Nordax has well-defined risk appetites for consumer lending in each of its markets. The bank has employed internally developed credit scorecards for nearly 20 years and active risk-based pricing in each of its core markets. The historical performance of Nordax's Swedish consumer loans shows a lower risk profile with lower margins and historical credit losses than in Norway and Finland. Expanded use of brokers increased the bank's credit risk in the Norwegian market in 2018 and early 2019. However, Norway's implementation of national debt registers has increased transparency and

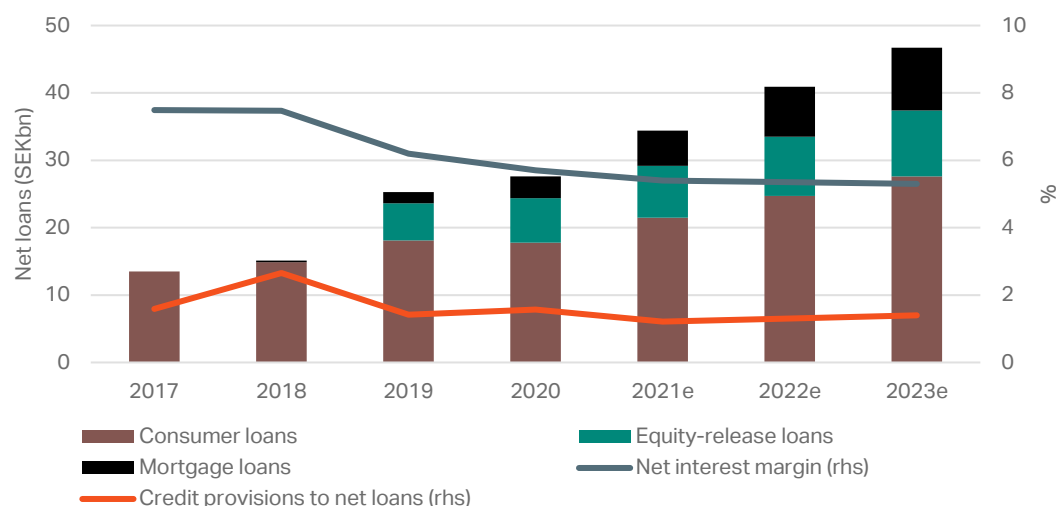
Credit risk scores 'bbb'

resulted in a lower level of loans entering collection over the last year. Collection performance indicates that risk appetite in Finland is similar to that of Norway. A 10% interest rate cap in Finland since the pandemic started in March 2020 will remain in place until 30 Sep. 2021 and has impacted Nordax's high-margin lending.

We consider Nordax's Swedish mortgage portfolio to carry higher risk than traditional mortgages, given the bank's focus on non-traditional borrowers such as entrepreneurs and individuals with volatile incomes. All loans in the Swedish mortgage portfolio (SEK 1.7bn as at 31 Dec. 2020) have first-lien collateral. The average LTV of the portfolio is nearly 75%, which is higher than the market average of around 65% for new loans, according to the Swedish regulator's annual Swedish Mortgage Market survey. A majority of Nordax's Swedish mortgages have an 80-85% LTV, reflecting the lack of an established back book of low LTV loans typical of more established mortgage lenders. The bank's higher risk profile is made apparent by the average residential mortgage margin which was more than twice the market average of 1.4% at end-2020.

Nordax's Norwegian mortgage book has a higher risk profile. Despite a relatively young loan book, 3% of Norwegian mortgages are non-performing. Furthermore, the loans have nearly twice the interest margin of their Swedish counterparts and are extended to a higher proportion of customers classified as belonging to higher risk groups. We note that nearly 20% of the Norwegian loans are issued with a second lien on the underlying property, potentially lowering the collateral value in the event of foreclosure.

Figure 5. Nordax projected lending, net interest margin and credit provisions, 2017-2023e



Based on company data. e-estimate

Equity-release mortgages have a very low credit risk profile, supporting our overall view of Nordax's credit risk. The loans target elderly borrowers with low LTV and accumulate interest into the principal, eliminating the risk that active loans will become non-performing. However, the bank maintains risk on the loans if collateral values are unable to cover the loan principal when the home is sold by the borrower or the borrower's estate, and can report non-performing loans due to delays in the estate sales process.

Other risks score 'bbb-'

Market risk is not a material risk factor for Nordax in our view. The bank attempts to match the currencies of its assets and liabilities through deposits in local currencies while hedging the remaining exposure through forward contracts and currency swap contracts. In addition, the bank has a 9% stake in Swedish mortgage challenger Stabelo, which is financed by institutional investors via mortgage funds. The related valuation changes affect comprehensive income and are neutral in our assessment.

A majority of the bank's interest rates are variable within three months and interest rates on consumer loans can be adjusted within two months. This results in modest interest rate risk in the banking book. The bank also maintains a highly liquid, low risk liquidity portfolio, thereby reducing credit spread risk.

We believe that Nordax has acceptable governance of reputational risk, legal risk and risk from fraud or corruption comparable with that of other Nordic consumer lenders. However, as a high-margin lender, the bank faces high reputational risk given ongoing media scrutiny of regional consumer lending practices and the volumes of loans subject to collection. Nordax uses external third-party debt collectors to collect past due payments in each market, exposing the bank to disruption risk in periods of market turbulence for collection companies. The bank mitigates such disruption risk by maintaining two to four partners in each of its Nordic markets.

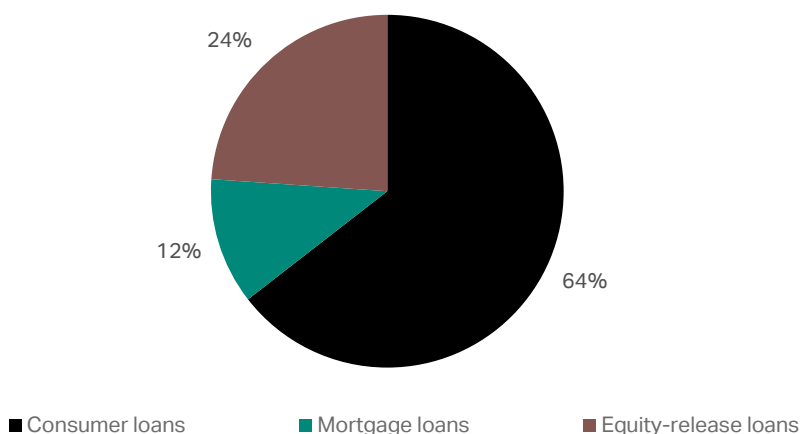
COMPETITIVE POSITION

Competitive position assessment is 'bb'

We view Nordax's market position in relation to its consumer lending niche and its overall role in the Nordic banking markets. We estimate the bank has shares of 3-5% of consumer lending in its core markets. However, the fiercely competitive climate in the consumer loan market results in low pricing power for banks. There is a relatively high use of brokers and direct mail advertising in the sector, making it difficult to attract and retain good customers on the basis of reputation alone.

Nordax's revenues are mostly generated from consumer lending, which is influenced by retail and consumer demand trends. The acquisition and growth of SHP and the growth of the bank's mortgage book will diversify revenues but these are likely to generate less than 20% of net interest income in the next few years given the high margins on consumer lending.

Figure 6. Nordax loan book by product, 31 Mar. 2021



Source: company.

PERFORMANCE INDICATORS

Performance indicators assessment is 'bbb+'

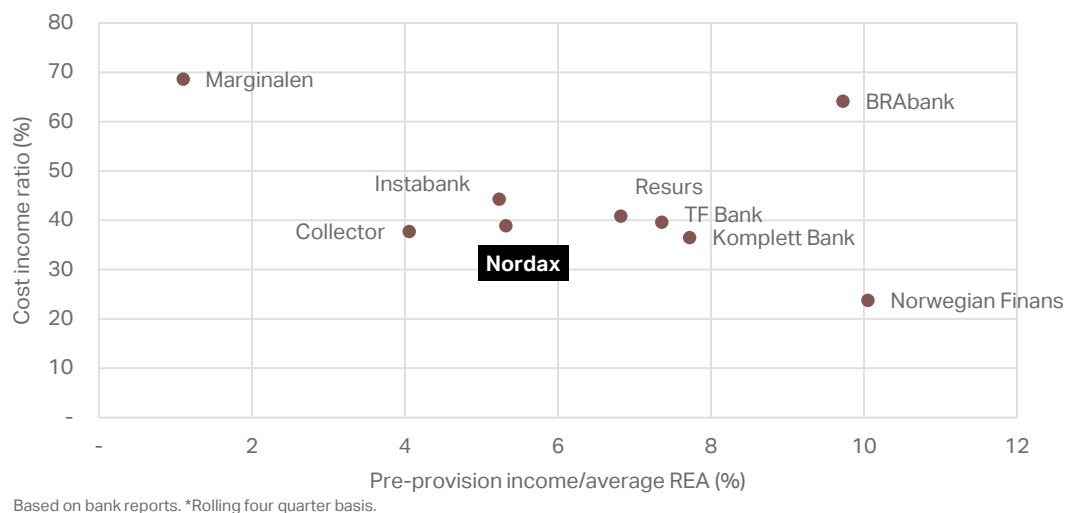
We expect Nordax to increase its pre-provision profits by expanding its loan book. Despite higher losses as a result of the pandemic, the bank has managed to maintain overall asset quality. We project somewhat higher losses in our forecast for 2021 before a likely improvement in 2022.

Earnings and cost efficiency are strong due to variable costs and digitalisation

Earnings scores 'aa-'

We project that competitive pressure combined with Nordax's expansion into mortgages and equity-release loans will result in a lower net interest margin relative to historical levels. As a result, we anticipate that the bank's net interest margin will fall over the forecast horizon (see Figure 5). While consumer lenders have relatively low pricing power, Nordax applies a dynamic pricing model to its consumer loan book and has demonstrated an ability to achieve attractive margins. The margins on mortgage lending are also based on scoring models, while the pricing on equity-release mortgages is fixed.

Figure 7. Nordax key earnings metrics* vs peer group, 31 Mar. 2021



While Nordax's pre-provision income to average REA of 5.5% is slightly below that of its peers, it is well above that of most Nordic banks given the higher risk nature of its loan book. However, given relatively low credit losses among its peers, Nordax's pre-provision earnings exceeded loan losses by 3.3x, compared with 2.4x for the peer group over the four quarters ended 31 Mar. 2021.

The bank's higher margins and high level of digitalisation support lower overall costs. We anticipate that the cost-to-income ratio will increase above 40% in 2021, due to one-off IT implementation costs and increased marketing spending compared with 2020, before falling below 40% again in 2022.

Credit losses likely to increase, but remain within limits

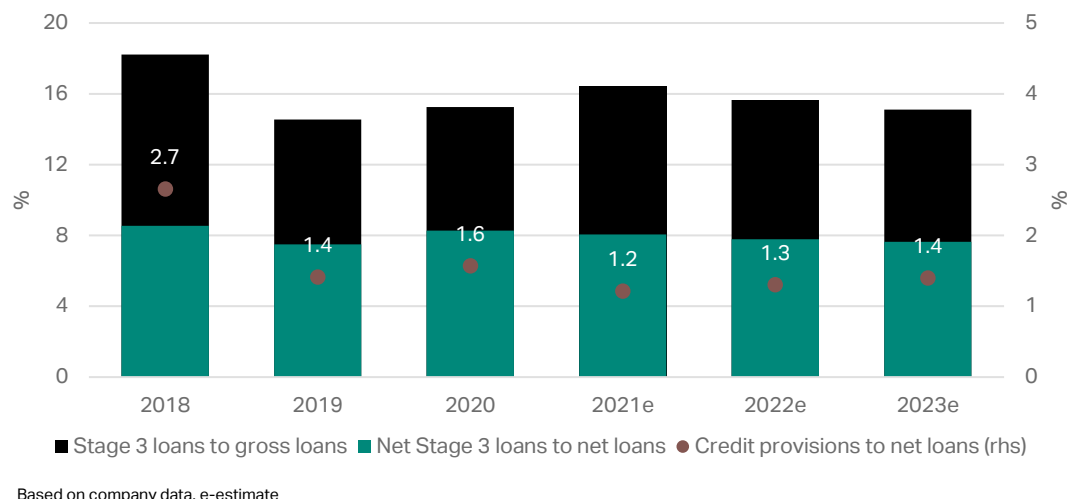
Nordax has managed the pandemic by shifting its focus to servicing existing loans rather than pursuing loan growth. When uncertainty peaked from March to September 2020, the bank offered payment relief to Norwegian and Finnish borrowers, allowing them to make one-third of their normal payments for three months as long as they maintained regular repayments. The relief resulted in a lower proportion of customers becoming past due than in previous years. The bank made a SEK 60m extra loss reserve to reflect the future risk for customers who participated in the payment reduction programme, as well as an additional loss reserve of SEK 39m during 2020. We note that Nordax reversed SEK 30m of these reserves in the first quarter of 2021 and expect a further reversal of at least SEK 30m by the end of 2021.

NCR expects a rise in credit losses during 2021 as COVID-19-related government support is withdrawn, although we expect reversals of previous reserves and credit growth to lead to improved loss ratios compared with those of 2020. Nordax has averaged a loss ratio below 2% since 2015, a trend we expect to continue, in part due to the addition of new performing loans. We anticipate that the bank's expansion into secured lending will maintain loan losses at levels below the overall peer group average, which is reflected in the forecast.

Nordax reported 15.5% Stage 3 non-performing loans as at 31 Mar. 2021. We anticipate that this level will increase in 2021 given the continued impact of the pandemic. NCR expects Nordax's non-performing loans to gross loans to rise above 16% in 2021 before declining to reflect economic improvements, new loan growth and a higher proportion of secured lending.

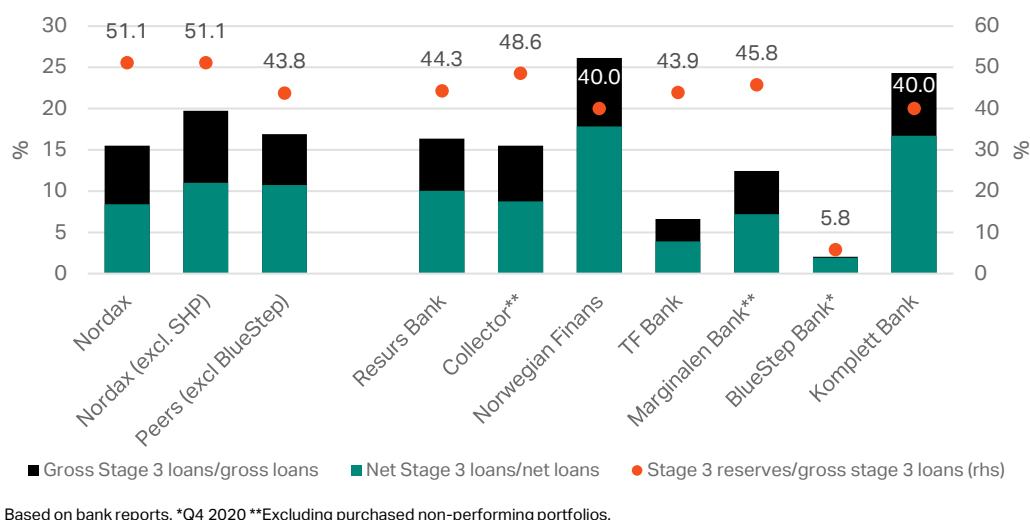
Loss performance scores 'bb+'

Figure 8. Nordax asset quality metrics, 2018–2023e



Nordax had lower net non-performing loans to net loans (7.5%) than its consumer banking peer group (10.7% excluding mortgage-lender BlueStep) (see Figure 9). We note that comparability is affected by the acquisition of SHP, whose non-performing loans amount to 3bps of total loans. Excluding the 6.9bn in SHP loans, Nordax has a higher level of gross non-performing loans than its consumer banking peers, but maintains a similar share of net non-performing loans given higher reserves.

Figure 9. Nordax non-performing loans and Stage 3 loan reserves, 31 Mar. 2021



ADJUSTMENT FACTORS

Peer comparison

Peer comparison is neutral

We believe that Nordax's relative strengths and weaknesses are well reflected in our 'bbb' initial credit assessment and do not adjust on the basis of comparison against the bank's peer group or any other factors. We believe that the main distinctions between Nordax and the average Nordic bank relates to risk appetite, capitalisation, loss performance and the bank's relatively concentrated lending portfolio, factors which are reflected in our initial credit assessment.

Support analysis

Support analysis is neutral

Nordax is ultimately owned by Nordic Capital and Sampo, which respectively control 63.4% and 36.1% of the share capital through Nordax Holding AB. We perceive the two owners as important to the rating and the bank's strategic development. Although the owners have an interest in expanding Nordax's business and product mix, it is uncertain whether Nordic Capital would be able to provide more capital if needed because of limitations imposed by fund terms and the limited willingness of its partners to

do so. However, Nordic Capital has previously injected capital into troubled companies, which displays potential for ownership support.

Figure 10. Nordax Holding AB direct and indirect ownership share, 31 Dec. 2020

Owner	Ownership share (%)
Nordic Capital	63.4
Sampo	36.1
Other	0.5
Total	100.0

Source: company.

ISSUE RATINGS

Our rating on Nordax's unsecured senior debt is in line with the issuer rating, i.e. 'BBB'. The bank has a medium-term note programme, which we also rate 'BBB', an indication of our likely ratings on future issuance. Nordax has an outstanding Tier 2 instrument, which we rate two notches below the issuer rating at 'BB+'.

Figure 11. Nordax key financial data, 2016–Q1 2021 YTD

Key credit metrics (%)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Q1 2021 YTD
INCOME COMPOSITION						
Net interest income/op. revenue	93.5	100.4	96.0	96.0	96.6	95.5
Net fee income/op. revenue	1.4	1.6	1.3	4.7	3.9	4.1
Net trading income/op. revenue	5.1	-2.0	2.7	-0.7	-0.6	0.4
Net other income/op. revenue		0.0		0.0		
EARNINGS						
Net interest margin	7.6	7.5	7.5	6.2	5.7	5.3
Pre-provision income/REA	6.5	6.2	5.9	4.3	5.5	4.9
Return on ordinary equity	26.0	19.4	13.8	13.5	17.9	19.6
Return on assets	3.0	2.6	1.8	1.4	1.7	1.9
Cost-to-income ratio	37.8	37.0	41.4	52.3	38.3	43.6
Cost-to-income ratio, ex. trading	39.8	36.3	42.5	51.9	38.0	43.8
CAPITAL						
CET1 ratio	14.0	14.7	17.0	14.0	16.2	15.9
Tier 1 ratio	14.0	14.7	17.6	14.0	16.2	15.9
Capital ratio	16.0	16.7	19.0	15.3	17.2	16.9
REA/assets	74.4	73.6	75.6	63.7	63.0	59.7
Dividend payout ratio	49.3	27.4				
Leverage ratio	10.8	11.2	15.4	8.9	10.2	9.5
GROWTH						
Asset growth	14.0	7.1	16.0	58.4	6.7	10.9
Loan growth	18.3	5.4	12.2	66.9	9.4	4.8
Deposit growth	19.0	5.2	50.2	70.4	25.9	15.1
LOSS PERFORMANCE						
Credit provisions to net loans	1.39	1.59	2.65	1.42	1.57	0.68
Impaired loans to gross loans	15.23	16.71	18.22	14.56	15.26	15.51
Net impaired loans to gross loans	5.24	5.87	5.41	5.27	5.63	5.86
Net problem loans to equity	36.68	38.69	38.48	52.90	51.40	53.37
Non-performing loan coverage ratio	65.57	64.87	70.32	63.80	63.07	62.22
Stage 3 loans/gross loans			18.22	14.56	15.25	15.51
Net stage 3 loans/net loans			8.55	7.50	8.27	8.39
FUNDING & LIQUIDITY						
Loan/deposit ratio	179.2	179.6	134.2	131.5	114.3	104.0
Net stable funding ratio	127.0	113.0	117.0	120.0	120.0	126.0
Liquidity coverage ratio	553.0	616.0	194.0	514.0	472.0	508.0

Key financials (SEKm)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Q1 2021 YTD
BALANCE SHEET						
Total assets	15,750	16,864	19,564	30,988	33,071	36,675
Total tangible assets	15,445	16,564	19,277	29,979	32,067	35,673
Total financial assets	15,404	16,474	19,010	29,643	31,816	35,424
Net loans and advances to customers	12,794	13,488	15,140	25,271	27,656	28,979
Total securities	960	1,191	1,189	3,120	2,331	2,425
Customer deposits	7,141	7,511	11,278	19,222	24,203	27,864
Issued securities	3,157	3,794	2,830	5,703	3,678	3,679
of which covered bonds						
of which other senior debt	2,910	3,547	2,581	5,105	3,330	3,330
of which subordinated debt	247	247	249	598	348	349
Total equity	2,031	2,295	2,440	2,775	3,352	3,521
Total ordinary equity	2,031	2,295	2,440	2,775	3,352	3,521
CAPITAL						
Common equity tier 1	1,640	1,829	2,518	2,770	3,384	3,490
Tier 1	1,640	1,829	2,599	2,770	3,384	3,490
Total capital	1,874	2,076	2,814	3,030	3,582	3,707
REA	11,714	12,415	14,797	19,747	20,839	21,886
INCOME STATEMENT						
Operating revenues	1,176	1,189	1,380	1,570	1,814	466
Pre-provision operating profit	732	749	809	749	1,120	263
Impairments	164	209	380	286	416	48
Net Income	442	419	326	352	549	168

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

Figure 12. Nordax rating scorecard

Subfactors	Impact	Score
National factors	5.0%	bbb+
Regional, cross border, sector	15.0%	bbb-
Operating environment	20.0%	bbb-
Capital	17.5%	bbb
Funding and liquidity	15.0%	bbb
Risk governance	5.0%	bbb
Credit risk	10.0%	bbb-
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 13. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB
Tier 2	BB+

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