

Nordax Bank AB (publ)

Rating Action Report

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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Nordic Credit Rating (NCR) said today that it had assigned a 'BBB' long-term issuer rating to Sweden-based consumer lender [Nordax Bank AB \(publ\)](#) (Nordax). The outlook is stable. At the same time an 'N-1+' short-term issuer rating was assigned. NCR also assigned 'BBB' issue ratings to Nordax's senior unsecured bonds and 'BB+' issue ratings to the bank's Tier 2 debt instruments.

Rating rationale

Our long-term issuer rating on 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.

We could raise the issuer rating due to a successful acquisition of Norwegian Finans if the synergies and diversification benefits are supported by a common equity tier 1 (CET1) ratio over 18% and stable asset quality. We could also raise the rating to reflect an improvement in regional economies and the operating environment for consumer lenders. We could lower the rating to reflect a decline in the bank's CET1 ratio below 14% driven by unsecured lending growth in excess of capital generation, or regulatory changes affecting interest rates and recovery prospects for consumer loans.

Rating list

Long-term issuer credit rating:
Outlook:
Short-term issuer credit rating:
Senior unsecured issue rating:
Tier 2 issue rating:

Rating

BBB
Stable
N-1+
BBB
BB+

Figure 1. 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 2. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB
Tier 2	BB+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 29 Jun. 2021.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Financial Institutions Rating Methodology published on 14 Aug. 2018 NCR's Rating Principles published on 16 Sep. 2019 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies . The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA) .
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Bond prospectuses, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test or cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies .
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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