

## Nordax Bank AB (publ)

Rating Action Report

### LONG-TERM RATING

**BBB**

### OUTLOOK

**Stable**

### SHORT-TERM RATING

**N3**

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## Nordax Bank 'BBB' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB' long-term issuer rating on Sweden-based [Nordax Bank AB \(publ\)](#). The outlook is stable. At the same time, NCR affirmed the 'N3' short-term issuer rating, the 'BBB' issue ratings on Nordax's senior unsecured bonds, and the 'BB+' issue ratings on its tier 2 bonds.

### Rating rationale

The long-term issuer rating reflects Nordax's strong risk-adjusted earnings and diversity relative to its peers following the acquisition of Bank Norwegian in November 2021. It also reflects strong creditor rights across the Nordic region. We project current capital levels will increase as the bank achieves synergies with Bank Norwegian and lending growth in high-margin segments recovers. We view increased secured lending, in particular non-traditional mortgage lending in Sweden and Norway, as a positive contributing factor to greater diversity, improved asset quality metrics, and a more diverse funding structure.

The rating is constrained by the higher-than-average risk appetite associated with consumer lending and tough competition, and relatively low customer loyalty within the bank's key markets. In addition, we believe that consumer lending is under intensified regulatory scrutiny in all Nordic countries, which could negatively affect the bank's business model and profitability over time.

We have raised our capital assessment by one notch to reflect our view that Nordax's capital generation will improve and that its Tier 1 ratio will approach 18%, even though we expect the bank to call additional Tier 1 instruments issued by Bank Norwegian. Our view of "other risks" has improved following the completion of the acquisition and given the bank's proven ability to reduce non-performing loans via sales to third-party collectors.

### Stable outlook

The stable outlook reflects our view that the Bank Norwegian acquisition provides benefits in terms of scale and improved earnings capacity, although these are partly offset by the higher risk profile of the acquired loan book and high projected loan growth. We anticipate that the resulting added value will increase gradually as additional synergies and capital improvements are achieved. We believe Nordax will show resilience due to strong earnings as interest rates rise and the economic cycle changes.

We could raise the rating if the Tier 1 ratio remains sustainably above 18%, if the bank can demonstrate synergies, diversification, and improved asset quality, or if the operating environment improves. We could lower the rating if the Tier 1 ratio falls below 15%, regulatory changes adversely affect interest rates and/or loss recovery in consumer lending, or an economic downturn impairs loss performance.

### Rating list

	To	From
Long-term issuer credit rating:	BBB	BBB
Outlook:	Stable	Stable
Short-term issuer credit rating:	N3	N3
Senior unsecured issue rating:	BBB	BBB
Tier 2 issue rating:	BB+	BB+

**Figure 1. Nordax rating scorecard**

Subfactors	Impact	To	From
National factors	5.0%	a-	a-
Regional, cross border, sector	15.0%	bbb-	bbb-
Operating environment	20.0%	bbb	bbb
Capital	17.5%	bbb+	bbb
Funding and liquidity	15.0%	bbb+	bbb+
Risk governance	5.0%	bbb	bbb
Credit risk	10.0%	bb+	bb+
Market risk	-	-	n/a
Other risks	2.5%	bbb-	bb+
Risk appetite	50.0%	bbb	bbb
Market position	15.0%	bb+	bb+
Earnings	7.5%	aa	aa
Loss performance	7.5%	bb	bb
Performance indicators	15.0%	bbb+	bbb+
<b>Indicative credit assessment</b>		<b>bbb</b>	<b>bbb</b>
Transitions		Neutral	Neutral
Peer comparisons		Neutral	Neutral
Borderline assessments		Neutral	Neutral
<b>Stand-alone credit assessment</b>		<b>bbb</b>	<b>bbb</b>
Material credit enhancement		Neutral	Neutral
Rating caps		Neutral	Neutral
Support analysis		Neutral	Neutral
<b>Issuer rating</b>		<b>BBB</b>	<b>BBB</b>
Outlook		Stable	Stable
<b>Short-term rating</b>		<b>N3</b>	<b>N3</b>

**Figure 2. Capital structure ratings**

Seniority	To	From
Senior unsecured	BBB	BBB
Tier 2	BB+	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:	<p><a href="#">NCR's Financial Institutions Rating Methodology published on 18 Feb. 2022</a>  <a href="#">NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022</a>  <a href="#">NCR's Rating Principles published on 24 May 2022</a></p> <p>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 <a href="http://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a>.  The historical default rates of entities and securities rated by NCR will be viewed on <a href="#">the central platform (CEREP) of the European Securities and Markets Authority (ESMA)</a>.</p>
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: <a href="https://nordiccreditrating.com/governance/policies">https://nordiccreditrating.com/governance/policies</a>
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: <a href="http://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> .
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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