Collector Bank AB (publ)

Rating Action Report

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N3

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Collector Bank AB (publ) 'BBB-' long-term rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB-' long-term issuer rating on Sweden-based Collector Bank AB (publ). The outlook is stable. The outlook is stable. The 'N3' short-term rating was also affirmed. In addition, the 'BBB-' senior unsecured issue rating and the 'B+' additional tier 1 issue rating were also affirmed.

Rating rationale

The long-term rating reflects Collector Bank's strong risk-adjusted earnings, demonstrated access to diverse funding sources, and robust capital position, which is supported by a lack of dividend payments. Following a reverse merger between the bank and its former parent, Collector AB, the bank became the group's listed entity as of 15 Aug. 2022. Via strong growth in commercial real estate loans, the bank has changed its risk profile from that of a domestic Swedish consumer lender to that of mid-size regional real estate and SME lender over the past decade.

The rating is constrained by the bank's elevated risk appetite and risk governance challenges as it grows in new geographic areas and sectors. The fiercely competitive climate in the consumer lending sector has led to a greater focus on corporate lending in niches where strong demand has allowed both growth and higher margins. A heightened focus on commercial real estate and increasing single-name exposures represent a risk factor as the bank's core economies slow and we project elevated losses and non-performing loans over the next two years.

We have revised our assessment of the operating environment and the bank's credit risk downwards to reflect increasing risks in key operating segments and increasing single-name concentrations in commercial lending. We have also revised our view on funding and liquidity to reflect smaller liquidity buffers than those of other rated peers and continued capital market volatility increasing refinancing risk.

Stable outlook

The stable outlook reflects our expectation that, despite the impact of adverse economic conditions on its core operating segments, the bank will be able to manage higher credit provisions and maintain capital ratios due to lower growth and strong earnings. Our forecast assumes an increase in loss reserves due to deteriorating economic conditions as well as estimates for the impact of specific provisions in the commercial and retail loan books. In addition, we believe the bank is prepared to continue to retain earnings and adapt its loan growth to reflect higher capital requirements or worse market conditions than we currently expect, if necessary.

We could raise the rating to reflect materially higher capitalisation ratios (Tier 1 ratio sustainably above 18%), reduced risk appetite through increased collateralisation, and lower concentration risk or an improved operating environment in core markets and segments. We could lower the rating to reflect higher credit losses than we currently anticipate, increased risk appetite or regulatory change affecting the business model and/or recovery prospects for consumer loans. We could also lower the rating due to reduced access to deposit and/or capital market financing, or materially lower capitalisation ratios (Tier 1 ratio lower than 14%).

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

Rating list	To	From
Additional Tier 1 issue rating:	B+	B+

Figure 1. Collector Bank rating scorecard

Subfactors	Impact	To	From
National factors	5.0%	a-	a-
Regional, cross border, sector	15.0%	bb+	bbb-
Operating environment	20.0%	bbb-	bbb
Capital	17.5%	bbb	bbb
Funding and liquidity	15.0%	bbb-	bbb
Risk governance	5.0%	bb	bb
Credit risk	10.0%	bb-	bb
Market risk	-	-	-
Other risks	2.5%	bbb-	bbb-
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+
Indicative credit assessment		**bbb-**	**bbb-**
Transitions		Neutral	Neutral
Peer comparisons		Neutral	Neutral
Borderline assessments		Neutral	Neutral
Stand-alone credit assessment		**bbb-**	**bbb-**
Material credit enhancement		Neutral	Neutral
Rating caps		Neutral	Neutral
Support analysis		Neutral	Neutral
Issuer rating		**BBB-**	**BBB-**
Outlook		Stable	Stable
Short-term rating		**N3**	**N3**

Figure 2. Capital structure ratings

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

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 18 Mar. 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 18 Feb. 2022 NCR's Rating Principles published on 24 May 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022 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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