Nordic Credit Rating

FINANCIAL INSTITUTION

Sweden
20 Mar. 2024

Norion Bank AB (publ)

Rating Action Report

LONG-TERM RATING

BBB-

OUTLOOK

Negative

SHORT-TERM RATING

N3

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Norion Bank AB outlook revised to negative; 'BBB-' long-term issuer rating affirmed

Nordic Credit Rating (NCR) said today that it had revised the outlook on its 'BBB-' long-term issuer rating on Sweden-based Norion Bank AB (publ) to negative from stable. At the same time, the long-term issuer rating was affirmed, as were the 'N3' short-term rating, the 'BBB-' issue ratings on the bank's senior unsecured bonds and the 'B+' issue rating on an additional Tier 1 bond. The bank has indicated that it aims to issue a tier 2 instrument in early 2024, which we expect to rate at 'BB'.

Rating rationale

The outlook revision reflects a recent deterioration in Norion Bank’s asset quality metrics and increased downside risk associated with a higher proportion of impaired and non-performing loans (NPLs). We have revised our assessment of the bank's credit risk and believe that risk associated with specific real estate and corporate loans has increased as evidenced by a rise in corporate net Stage 2 impaired loans to 16.4%, from 10.3% a year ago, and net Stage 3 NPLs to 3.5% from 1.2% at end-2022.

The rating affirmation reflects Norion Bank's strong earnings performance and improved common equity Tier 1 ratio as of end-2023. The bank's real estate and corporate lending is highly collateralised and credit losses have been maintained at below 2.5% of net loans over the past two years despite a heightened credit risk environment for real estate companies, SMEs and consumers as borrowing costs have increased.

Our base-case loss projections reflect a likely increase in credit losses to 3.5% of net loans in 2024. Although we believe such losses could be absorbed by Norion Bank's strong earnings buffers and that its capital ratios could be maintained by moderating its growth strategy, the negative outlook reflects our view that the bank faces a material risk of higher loss provisions if single-name exposures are not reduced or repaid given the high level of Stage 2 loans. Norion Bank also has a high level of junior lien real estate lending, which increases uncertainty about loss recovery and could limit control if a senior creditor accelerates repayment demands in an event of default. In addition, a migration of loans from Stage 2 to Stage 3 restricts net interest income recognition according to IFRS 9, which could reduce pre-provision profits as loss provisions increase.

We have also revised our view of other risks associated with increasing weakness in the third-party NPL market, which could negatively affect provisioning levels and/or capital ratios given the large proportion of consumer-related NPLs on the bank's balance sheet.

Negative outlook

The negative outlook reflects the recent increase in impaired loans and NPLs in the real estate and corporate loan book, which has increased single-name risk to interest income and loss provisions. We see possible further weakness in asset quality in the bank's core operating segments, which could lead to credit losses in excess of our base-case projections. Our forecast assumes an increase in loss reserves due to specific provisions in the commercial and retail loan books. In our base case, we believe that the bank can manage the projected increase in credit provisions due to strong earnings, and maintain capital ratios by moderating its loan growth, if necessary.

We could lower the rating to reflect higher-than-projected credit losses or a continued increase in impaired loans and NPLs. We could also lower the rating in response to regulatory changes affecting the business model and/or recovery prospects for consumer loans, or to reflect a Tier 1 ratio below 15% over a protracted period.

We could revise the outlook to stable to reflect reduced credit risk in terms of impaired loans, NPLs and single-name concentrations. We could also revise the outlook to stable due to an improved operating environment for the bank's core segments or to reflect a Tier 1 ratio sustainably above 18%.

Rating list	**To**	**From**
Long-term issuer credit rating:	BBB-	BBB-
Outlook:	Negative	Stable
Short-term issuer credit rating:	N3	N3
Senior unsecured issue rating:	BBB-	BBB-
Tier 2 issue rating:	BB	BB
Additional Tier 1 issue rating:	B+	B+

Figure 1. Norion Bank rating scorecard

Subfactors	Impact	To	From
National factors	5.0%	a-	a-
Regional, cross border, sector	15.0%	bb+	bb+
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%	b+	bb-
Market risk	-	-	-
Other risks	2.5%	bb+	bbb-
Risk appetite	50.0%	bb+	bbb-
Competitive 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 calibration		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		Negative	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 14 Feb. 2024 NCR's Rating Principles published on 14 Feb. 2024 NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024 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.
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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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