Nordic Credit Rating

FINANCIAL INSTITUTION

Sweden
22 Apr. 2024

NOBA Bank Group AB (publ)

Rating Action Report

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N3

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NOBA Bank Group AB (publ) '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 NOBA Bank Group AB (publ). The outlook is stable. At the same time NCR affirmed the 'N3' short-term rating. At the same time NCR affirmed its 'BBB' issue ratings on NOBA's senior unsecured bonds, its 'BB+' issue ratings to its Tier 2 instruments and its 'BB-' issue ratings to its additional Tier 1 instruments.

Rating rationale

The long-term issuer rating reflects NOBA's strong risk-adjusted earnings and cost efficiency, increasing economies of scale and diverse funding relative to its peers. It also reflects robust creditor rights across the Nordic region. We expect capital ratios to improve materially due to strong capital generation and supported by the implementation of the Capital Requirements Regulation 3 (CRR3) in 2025, even as the bank pursues significant growth. We view increased secured lending, in particular equity release mortgages for seniors and non-traditional mortgage lending in Sweden and Norway, as a positive contributor to greater diversity.

The rating is constrained by the higher-than-average risk appetite associated with consumer lending, and the relatively higher risk profile of credit cards. The consumer lending industry is subject to tough competition for loans and low customer loyalty within the bank's key markets, with a funding model driven by price-sensitive deposits. In addition, consumer lending is under intensified regulatory scrutiny in all Nordic countries, which could negatively affect the bank's business model and profitability over time.

Stable outlook

The stable outlook reflects our expectations of stronger earnings, further synergies from the merger with Bank Norwegian, and the implementation of CRR3 will support capitalisation as the bank expands. These anticipated improvements are partly offset by the high risk profile of the loan book, elevated credit provisions and high loan growth. We project a material increase in loss provisions in 2024 and 2025 as borrowers continue to be affected by cost inflation and declining real wage growth. Nevertheless, the bank's increasing economies of scale improves resilience.

We could raise the ratings to reflect a combination of the Tier 1 ratio being sustainably above 20%, improvement in the bank's competitive advantage and increased stability in the operating environment for consumer lenders leading to improved asset quality metrics.

We could lower the ratings to reflect the Tier 1 ratio being sustainably below 15% or a common equity Tier 1 ratio margin to regulatory requirements sustainably below 4%. We could also lower the rating due to weaker loss performance or increased credit risk appetite or if regulatory changes adversely affect consumer lending operations.

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+
Additional Tier 1 issue rating:	BB-	BB-

Figure 1. NOBA 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%	bbb	bbb
Credit risk	10.0%	bb+	bb+
Market risk	-	-	-
Other risks	2.5%	bbb	bbb
Risk appetite	50.0%	bbb	bbb
Competitive position	15.0%	bbb-	bbb-
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		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	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:	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.
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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