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 has affirmed its 'BBB' long-term issuer rating on Sweden-based NOBA Bank Group AB (publ). The outlook is stable. The 'N3' short-term issuer rating has also been affirmed, as have the 'BBB' senior unsecured issue rating, the 'BB+' Tier 2 issue rating and the 'BB-' Additional Tier 1 issue rating.

Rating rationale

The affirmation reflects that the bank's scale, cost efficiency and slower growth should contribute to improved capital generation. NOBA has grown quickly in recent years, and with SEK 159bn in total assets is one the largest niche banks in the Nordic region.

The long-term issuer rating reflects the bank's strong and improving 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 strong capital generation will improve capital ratios as the bank's growth slows, while dividend payments should maintain capital ratios within the bank's internal targets. We view secured lending, in particular equity release mortgages for seniors and non-traditional mortgage lending, as a positive contributor to credit risk and diversification.

The rating is constrained by NOBA's higher-than-average risk appetite associated with consumer lending and the higher risk profile of credit cards, which drive credit losses and weaken asset quality metrics. The consumer lending industry is subject to tough competition and low customer loyalty in the Nordic region, despite the bank's considerable scale. In addition, consumer lending remains under intense regulatory scrutiny in all Nordic countries.

We have revised our view of NOBA's competitive position given that the bank's advantages over its Nordic niche peers have increased with larger scale, market share in relevant products and cost efficiency. We have also improved our view of the bank's loss performance and project lower credit provisions over our forecast period through end-2027. We also believe that the bank will be able to offload a larger share of its non-performing loans in the coming years as the non-performing loan market stabilises.

Stable outlook

The stable outlook reflects our expectation that NOBA's strong earnings and growth rates of 10-13% will provide improved capital flexibility. We project a reduction in loss provisions in our forecast, although years of low real wage growth continue to hamper the bank's customer base. Nevertheless, the bank's increasing economies of scale improve resilience and continued growth across its markets, and its products provide diversification. We do not expect an eventual change in ownership will affect our long-term rating on NOBA.

We could raise the ratings to reflect a combination of increased stability in the operating environment for consumer lenders, demonstrated improvements in NOBA's asset quality metrics and economies of scale, and a Tier 1 ratio sustainably above 15%, with improved capital flexibility.

We could lower the ratings to reflect a Tier 1 ratio sustainably below 15% or a common equity Tier 1 ratio margin to requirements sustainably below 3%. We could also lower the ratings due to weakened 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

Rating list	To	From
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-
Risk governance	5.0%	bbb	bbb
Capital	17.5%	bbb	bbb
Funding and liquidity	15.0%	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.
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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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