Nordic Credit Rating

FINANCIAL INSTITUTION

Sweden
21 Jun. 2023

NOBA Bank Group AB (publ)

Full Rating Report

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N3

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RATING RATIONALE

Our 'BBB' long-term issuer rating on Sweden-based NOBA Bank Group AB (publ) reflects the bank's improving risk-adjusted earnings, increasing economies of scale and diversity relative to its peers. It also reflects robust creditor rights across the Nordic region. We expect strong earnings and a lack of dividends to support Tier 1 capital levels above 15% even as the bank pursues significant growth. We view increased secured lending, in particular non-traditional mortgage lending in Sweden and Norway, as a positive contributor 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 the relatively higher risk profile in the growth areas of credit cards and expansion into Germany and Spain. 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, 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.

STABLE OUTLOOK

The outlook is stable, reflecting our expectations that increasing synergies from the merger with Bank Norwegian will support strong earnings and capital generation as the bank expands, primarily in credit card lending and mortgage products. These anticipated improvements are partly offset by the higher risk profile of the resulting loan book, increasing credit provisions and high expected loan growth. We project a material increase in loss provisions in 2023 and 2024 as borrowers continue to be affected by cost inflation and declining re al wage growth. Nevertheless, the bank's increasing economies of scale improve resilience to an economic downturn, and the bank has a track record of adapting its growth strategy to improve capital buffers when necessary.

POTENTIAL POSITIVE RATING DRIVERS

- Tier 1 ratio sustainably above 20%.
- Increased stability in the operating environment for consumer lenders and improved asset quality metrics.

POTENTIAL NEGATIVE RATING DRIVERS

- Tier 1 ratio sustainably below 15% or common equity Tier 1 ratio sustainably below 4% over regulatory requirements.
- Regulatory changes adversely affecting consumer lending operations.
- Increased credit risk appetite, reflected in loan losses to net loans sustainably over 4%.

Figure 1. NOBA key credit metrics, 2019–2025e

%	2019	2020	2021	2022	2023e	2024e	2025e
Net interest margin	6.2	5.7	3.9	6.5	6.6	6.4	6.2
Loan losses/net loans	1.4	1.6	2.1	3.0	4.0	3.8	3.2
Pre-provision income/REA	4.3	5.5	2.4	5.7	7.1	7.5	7.7
Return on equity	13.5	17.9	-0.2	5.5	6.5	9.0	11.9
Loan growth	66.9	9.4	155.6	25.6	25.0	20.0	15.0
CET1 ratio	14.0	16.2	16.2	15.1	14.4	14.2	15.0
Tier 1 ratio	14.0	16.2	18.8	17.1	16.0	15.5	16.3

Based on NCR estimates and company data. e–estimate. REA–risk exposure amount. CET1–common equity Tier 1. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

On 7 Jun. 2023, Nordax Bank AB (publ) announced its name change to NOBA Bank Group AB (publ), although it continues to offer its banking services through the Nordax Bank and Bank Norwegian brands. NOBA is a niche bank that specialises in consumer loans, credit cards, non-standard mortgage loans and equity-release mortgages in the Nordic region, with expansion plans targeting Germany and Spain. The bank is a fully owned subsidiary of NOBA Group AB, which is ultimately controlled by Nordic Capital (74%) and Sampo (19%) through NOBA Holding AB. NOBA was founded in 2003 and obtained its banking licence in 2014. Our ratings reflect both NOBA and its subsidiaries and take into account the consolidated capital position of the wider group including NOBA Group and NOBA Holding.

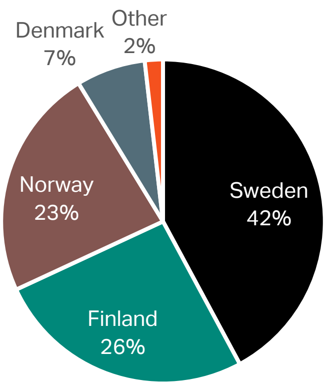
NOBA completed the Bank Norwegian acquisition on 3 Nov. 2021, creating the largest consumer bank in the Nordic region, and a subsequent merger was finalised on 30 Nov. 2022. Following the merger, the bank has a strong niche market position in Sweden, Norway, Finland, and targets significant growth opportunities in consumer loan and credit cards in Germany, with a somewhat slower roll-out in Spain.

OPERATING ENVIRONMENT

Operating environment assessment 'bbb-'

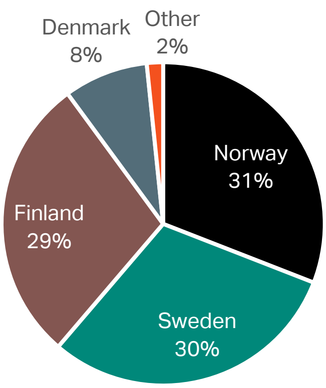
Our assessment of the operating environment reflects our view that unsecured consumer lending and credit cards are more sensitive to shifts in the economy than typical bank lending. It also reflects our view that NOBA and its industry peers are under significant pressure from Nordic regulators and consumer protection agencies. For this reason, we regard the operating environment as representing higher-than-average risk relative to our respective national banking assessments.

Figure 2. NOBA net loans by country, 31 Mar. 2023



Source: company. Other reflects Spain and Germany.

Figure 3. NOBA net interest income by country, 2022



Source: company.

Regional banking sector supported by robust Nordic economies

National factors 'a-'

NOBA's largest exposures are to the Swedish, Finnish and Norwegian consumer lending markets. In our national banking assessments, we apply a score of 'a-' to the Swedish and Finnish markets and 'a' to the Norwegian market. The operating environment for banks has changed in the past year, due mainly to rising interest rates supporting stronger earnings and stable labour markets despite economic turbulence. However, we expect customers to demonstrate weaker repayment capacity due to higher costs of living and slowing economies in each of NABO's major markets. We do not currently expect lending growth outside the Nordic region to adversely affect our view of national factors.

Consumer lending faces intense regulatory scrutiny

Regional, sectoral, and cross-border factors 'bb+'

NCR views NOBA's consumer lending as more sensitive to shifts in the economy than a typical retail loan portfolio in the Nordic markets and we give more weight to the characteristics of consumer lending. Consumer lending increases NOBA's sensitivity to the wider economy and the target customer tends to be more financially constrained than holders of higher quality accounts, as demonstrated by higher losses and a higher share of non-performing loans (NPLs) relative to traditional banks.

We expect inflation and interest rates to have a greater impact on consumer banks and their customers during 2023 and into 2024, before stabilising as the additional pressure of higher costs of living and interest rates recedes. Banks have been raising interest rates on consumer loans and individuals with already weak financial profiles are also being negatively affected by inflationary pressure. Homeowners face material increases in interest costs, and housing prices are coming off record highs, dampening customer sentiment and demand for larger ticket consumer loans.

NOBA's private loans are extended primarily to borrowers in Sweden, Norway, and Finland, which have strong legal frameworks that benefit creditors and incentivise borrowers to repay debt. This improves recovery prospects, despite the unsecured nature of consumer loans, relative to many other European markets. However, rising indebtedness has sharpened the regulatory focus on consumer lending in the Nordic markets and subjected the sector to regulatory risk factors such as more cumbersome underwriting requirements and the possibility of interest rate ceilings. In June 2023, the Swedish government is expected to present the findings of a special investigation into the domestic consumer credit market. The review could result in the introduction of more comprehensive national debt registers, interest rate ceilings, more extensive underwriting requirements, marketing restrictions, and easier access to debt relief for borrowers.

The increased regulatory review of consumer credit continues to drive the sector towards products that attract less scrutiny such as credit cards and non-traditional mortgage loans and to seek less competitive consumer banking markets. NOBA's Bank Norwegian acquisition provided access to credit cards and European expansion plans. We therefore expect credit cards' share to double to 20–25% of net loans and non-traditional mortgage lending, second-lien mortgages in Norway, and equity release mortgages for senior borrowers to represent about 20% of total lending by 2025.

RISK APPETITE

Risk appetite assessment 'bbb'

NOBA has a well-defined risk appetite, which permits higher credit risk while enabling a low risk profile in other areas. In our view, the bank's risk appetite increased with the acquisition of Bank Norwegian. Though NOBA has reduced the risk appetite for Bank Norwegian exposures, it remains higher than pre-merger levels. We view the NOBA's diversification into secured lending as positive, but also see the high growth rate and expansion into new markets as a risk factor. We foresee the bank's capital ratios remaining stable due to improved earnings efficiency and a lack of dividend payments. NOBA's funding profile is the most diverse among its regional peer group, but we project a significant increase in its reliance on price-sensitive, multi-currency deposits to finance growth.

Risk governance remains robust despite higher risk appetite

Risk governance 'bbb'

We view NOBA's risk governance framework in the light of its appetite for higher credit risk and high-margin loans. The bank has robust internal risk monitoring and reporting arrangements in place, which increase transparency in terms of risk appetite, and allow the bank to adapt its underwriting to minimal changes in the risk performance of its credit portfolios. NOBA has established risk appetites, risk indicators and limits for all identified risk areas and compares its financial risk exposure across risk types. The Bank Norwegian acquisition resulted in higher risk in the loan book and expansion outside of its previous core markets. As part of its integration, NOBA has reduced its risk appetite tolerance for Bank Norwegian loans, though risk levels are higher than they were before the merger.

Thus far, NOBA has avoided missteps and run-ins with its regulators with respect to underwriting practices, such as those which resulted in fines by the Swedish regulator for some of its peers. We view this as a positive sign of the bank's internal processes in a heavily scrutinised segment. However, due to the nature of higher-risk consumer and credit card lending, the bank reported 10.9% gross Stage 3 NPLs at 31 Mar. 2023 and has accelerated its NPL sales to external parties to offset the impact of the EU's NPL backstop regulations. While reducing the risk for further write-downs of non-performing loans, these sales could be perceived as reducing the bank's commitment to supporting its weaker customers.

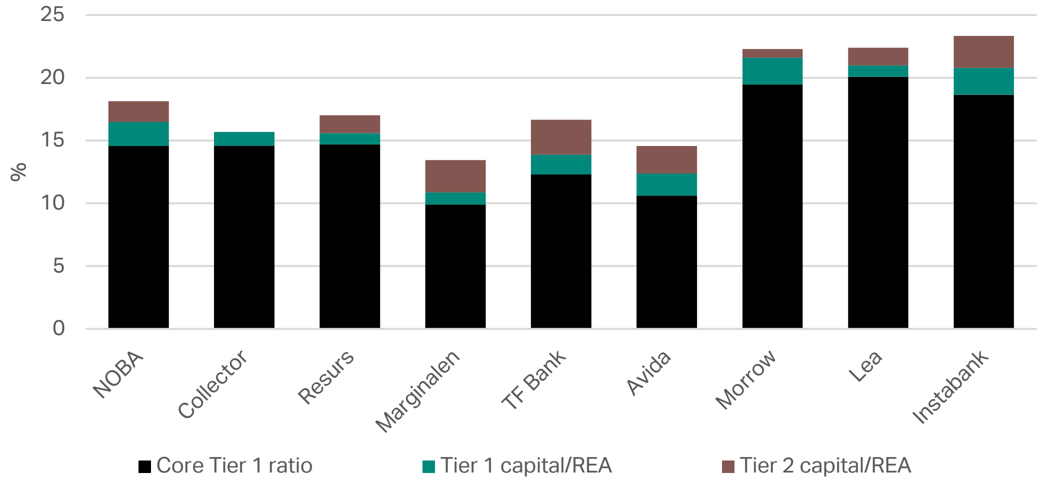
Reduced capital requirements following merger

Capital 'bbb'

We consider NOBA's consolidated regulatory capital situation in our capital assessment. The consolidated group reported a CET1 ratio of 14.6% as of 31 Mar. 2023. We project that the group's CET1 ratio will remain at 14.0%–15.0% through 2025. NOBA's capital ratios are average among its Nordic consumer finance peer group, particularly when Tier 1 capital instruments are included. We take into consideration Tier 1 capital instruments, which adds 1–2pp to our assessment of the bank's capital position. Our forecast includes our expectations that NOBA will call its NOK 125m Tier 1 capital instrument issued by Bank Norwegian in 2023. We expect the bank to expand lending by 20% on average annually over our forecast period, given its guidance and expectations of improved cost efficiency due to synergies from the merger. Given the high growth level, we do not forecast any dividend payments but believe that the bank would likely pay dividends to maintain CET1 ratios below 15%.

Following the merger, the bank's capital requirements have been reduced, primarily due to the removal of the Norwegian systemic risk buffer. As of 31 Mar. 2023, the bank's regulatory CET1 requirement was 8.9% (10.4% as of 31 Dec. 2022). The Swedish regulator also reduced the total capital requirement to 12.9% (15.0%), compared with the reported total capital ratio of 18.1%. However, reciprocity of Norwegian capital requirements for Norwegian exposures and increases in countercyclical buffers are expected to result in a 1–1.5pp increase, resulting in a total capital requirement around 14.5% by the end of 2023. NOBA uses standardised capital models and had a Basel leverage ratio of 10.4% as of 31 Mar. 2023, which was well above the regulatory minimum of 3%.

Figure 4. Selected Nordic niche banks' capitalisation, Q1 2023



Source: bank reports. REA–risk exposure amount.

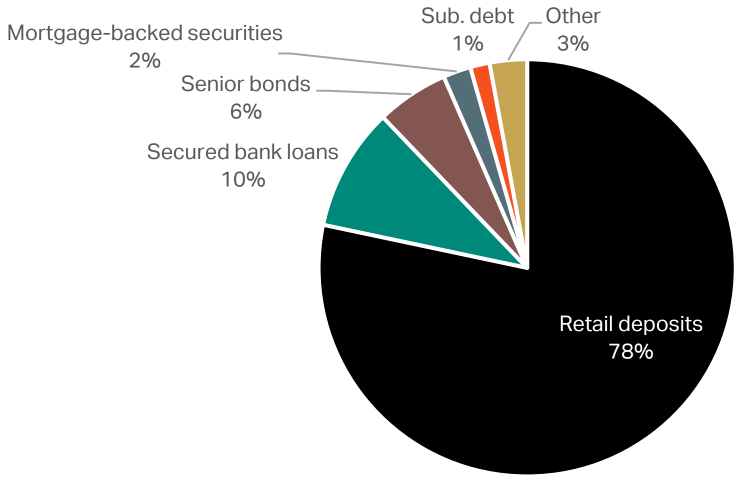
Strong liquidity buffers and diverse funding across instruments and currencies

Funding and liquidity 'bbb'

NOBA has a deposit base with retail customers that have chosen the bank primarily because it offers higher interest rates than their transactional banks. We expect the bank to increase its reliance on price-sensitive deposit financing as it grows in the coming years. Deposit funding is more than 90% on-demand, but remains granular, with 97% covered by the Swedish deposit guarantee scheme, including a top-up from Norway for Norwegian depositors exceeding Swedish limits. The bank has an adequate currency balance from its retail depositors and collecting deposits in its four relevant currencies mitigates foreign exchange risk.

NOBA also has demonstrated access to senior secured, senior unsecured and capital instrument investors, though increased market rates and risk premiums have led the bank to increase its share of retail deposits even more over the last 18 months. Issued senior unsecured securities totalled SEK 5.7bn as of 31 Mar. 2022 and we project capital market financing to fall as forthcoming maturities are not refinanced and funded via retail deposits. The bank has a SEK 5bn medium-term note programme and a EUR 1.5bn medium-term note programme. We expect secured financing to remain a part of the bank's funding as the mortgage book grows, which provides longer-term funding at the expense of asset encumbrance for senior unsecured bondholders. The equity release mortgage portfolio is financed by SEK 2.25bn in mortgage-backed notes maturing in 2024, as well as two warehouse facilities totalling SEK 4.8bn. The bank also has a warehouse facility of SEK 3.0bn backed by consumer loans. In total, the bank pledged consumer loans, Swedish mortgage loans and equity release mortgages totalling SEK 13.5bn as of 31 Mar. 2023 against these financing sources.

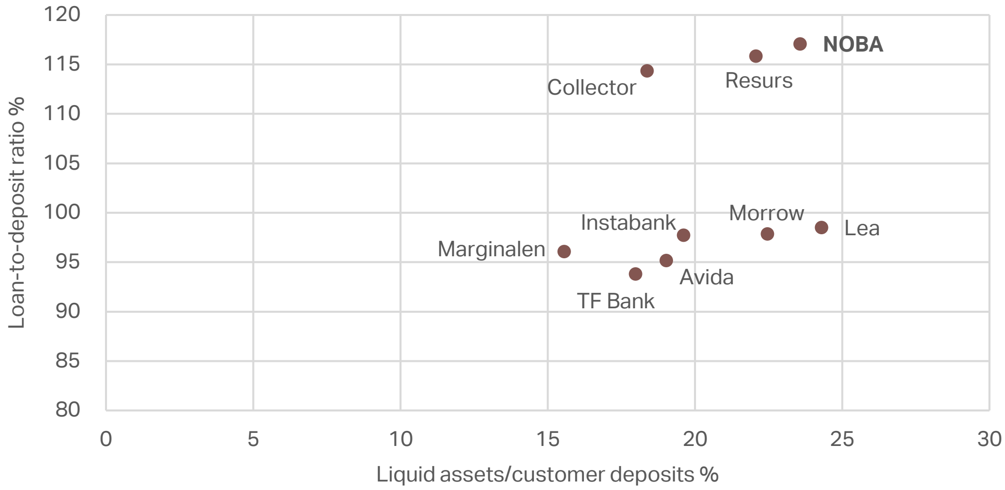
Figure 5. NOBA funding profile, 31 Mar. 2023



Source: company.

Liquidity levels have been actively reduced since the merger of Bank Norwegian. However, NOBA maintains solid buffers against regulatory and internal requirements; its net stable funding ratio stood at 119% and its liquidity coverage ratio (LCR) at 223% at 31 Mar. 2023. At the same time, the bank had a liquidity reserve of SEK 18bn (22% of customer deposits), which remains at the high end compared with the peer group.

Figure 6. Selected Nordic niche banks' funding and liquidity ratios (%), 31 Mar. 2023



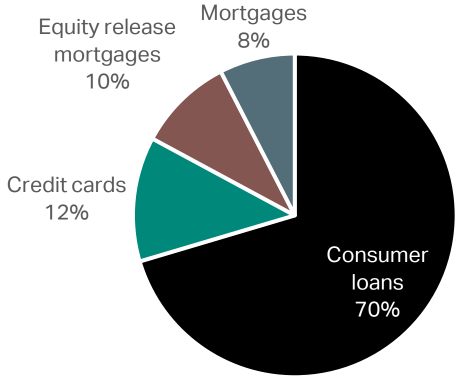
Source: bank reports.

Higher credit risk profile following merger, aggressive growth plans

Credit risk 'bb+'

Our assessment of credit risk balances NOBA's unsecured loan book, the higher risk profile of Bank Norwegian's loan book, and the bank's ambitious growth objectives. Although NOBA is also increasing levels of secured lending, we expect credit card exposures to be a significantly higher share of loans by 2025. The expansion into Germany and Spain has also resulted in higher credit risk as the company calibrates its underwriting to new markets. We project credit cards will grow from 12% of exposures to over 20% by year-end 2025 (12% at year-end 2022), driven in part by the European expansion plans. Consumer loans are expected to fall to around 60% of exposures (70%), while mortgage and equity release mortgages are expected to account for the remaining 20% (18%).

Figure 7. NOBA net lending by product type, 31 Mar. 2023



Source: company.

We consider NOBA's mortgage portfolio carries higher risk than a traditional mortgage portfolio, given the bank's focus on non-traditional borrowers such as entrepreneurs and individuals with volatile incomes. All loans in the Swedish mortgage portfolio have first-lien collateral, although the higher risk profile is compensated by materially higher margins than standard mortgages. The Norwegian mortgage book has a higher risk profile, with nearly 15% of lending issued as second-lien mortgages. These loans have nearly twice the interest margin of their Swedish counterparts and are extended to a higher proportion of customers classified as belonging to high-risk groups.

Equity release mortgages have low credit risk, supporting our overall view of NOBA's credit risk profile. The loans are aimed at elderly borrowers with low loan to value (LTV) and interest is added to the principal, eliminating the risk that active loans will become non-performing. However, the bank maintains risk on the loans if collateral values are unable to cover the loan principal when a home is sold by the borrower or the borrower's estate and can report NPLs due to delays in disposing of the estate.

Integration increases risk associated with third-party collections and market pricing of NPLs

Other risks 'bbb'

Our assessment of 'other risks' takes into account receding integration risk associated with the Bank Norwegian merger. We also consider that NOBA has mitigated its balance sheet risk and the capital impact of the NPL backstop regulation by reducing its gross non-performing loans via sales to third-party debt collectors. However, many of NOBA's collection partners and debt purchasing companies are highly leveraged and financed in the high-yield capital markets, which could affect future access.

We do not view market risk as a significant factor for NOBA, apart from the hedged currency risk described in the funding section. Interest rates on the bank's loans can be adjusted to increased funding costs, mitigating the risk of increased interest rates on net interest margins.

COMPETITIVE POSITION

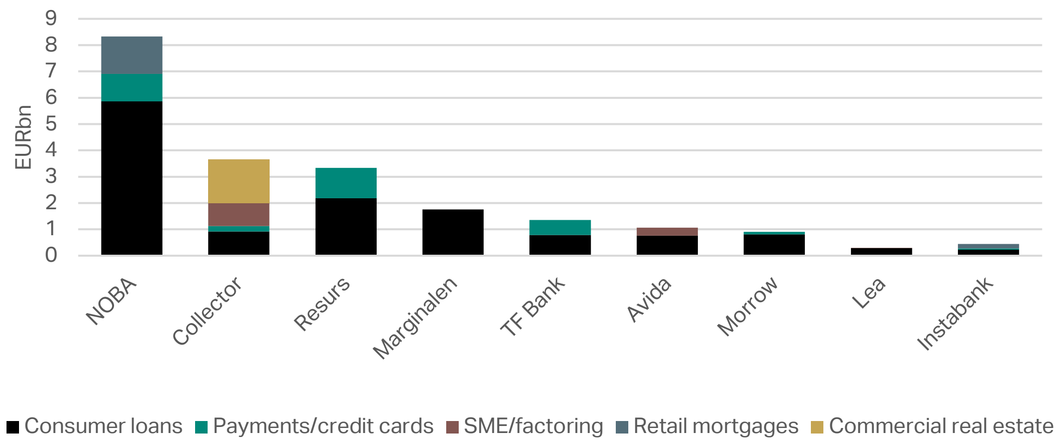
Competitive position assessment 'bbb-'

Our view of the NOBA's competitive position reflects the increasing diversity of its revenues and the improvements in scale benefits across the bank. NOBA is now the largest and most diverse niche bank in the Nordic market in terms of geographic and product footprint. Following the acquisition, NOBA has improved its market position, particularly in Norway and Finland. The Nordic consumer loan and credit card markets are characterised by fierce competition. While we believe it is difficult for banks to gain an advantage in terms of driving pricing or attracting stronger customers on the basis of reputation, we nonetheless feel that NOBA's scale advantages and cost efficiency provide advantages in competitive markets.

NOBA does not have a large environmental impact but plays an important social role, both positively and negatively. The bank has a strategy of providing mortgage loans to under-banked individuals and providing income streams to elderly customers with high levels of housing equity. The bank has also contributed positively via campaigns to promote financial literacy and its relationship report highlighted the impact of money on equality within private relationships. However, the bank's lending to higher-risk customers also results in a high proportion of loans that become non-performing within a year or two of being underwritten and material volumes of NPL portfolios are sold to third-party collectors (see loss performance section).

On 23 May 2023, Bank Norwegian filed a lawsuit requesting a declaratory judgement against the Norwegian Air Shuttle group to confirm its right to continue to use the Bank Norwegian brand even after taken on the NOBA brand in June 2023. We view this as a precautionary measure to protect intellectual property and to comply with Norwegian law. The lawsuit has resulted in the write-down of intangible assets with no impact on capital or our credit rating on NOBA.

Figure 8. Nordic consumer banks' net loans by product type, Q1 2023



Source: bank reports.

PERFORMANCE INDICATORS

Performance indicators assessment 'bbb+'

We expect the synergies from the Bank Norwegian merger to further improve NOBA's earnings capacity and efficiency. Margins have increased since the acquisition, though our forecast sees rising costs of deposit financing to offset further margin gains from a higher share of credit card lending. The bank's loan losses have also increased due to the higher risk nature of Bank Norwegians loans. We expect NOBA's loan loss ratio to be elevated in 2023 and 2024 due to the cumulative impact of cost inflation on retail customers' ability to repay high interest costs, more than offsetting lower losses from secured lending. We expect the bank to continue to offload NPLs via portfolio sales, with a focus on reducing the capital impact of the EU's NPL backstop rules.

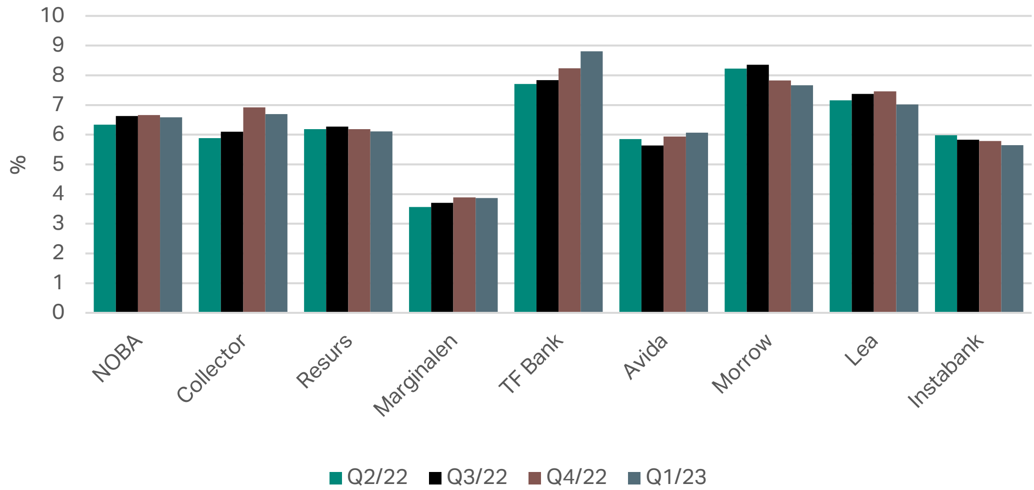
Margins increase after acquisition, with cost efficiency synergies to follow

Earnings 'aa'

We anticipate improvements in NOBA's earnings and cost efficiency as synergies from the Bank Norwegian merger are realised. In our forecast, we expect the combination of higher margin lending and improved cost efficiency to drive NOBA's pre-provision earnings to over 7% of risk exposure amount (REA), nearly 2pp higher than pre-merger levels.

We expect earnings to improve as a result of cost efficiencies, due to fewer one-off integration costs and greater economies of scale as the company grows relatively faster in high-margin credit cards and via its European expansion. We project the cost-to-income ratio to fall towards the bank's goal of 25% by 2025, providing an exceptional earnings buffer for expected increases in credit losses.

Figure 9. Selected Nordic niche banks' pre-provision earnings to REA, Q2 2022–Q1 2023



Source: bank reports. REA–risk exposure amount.

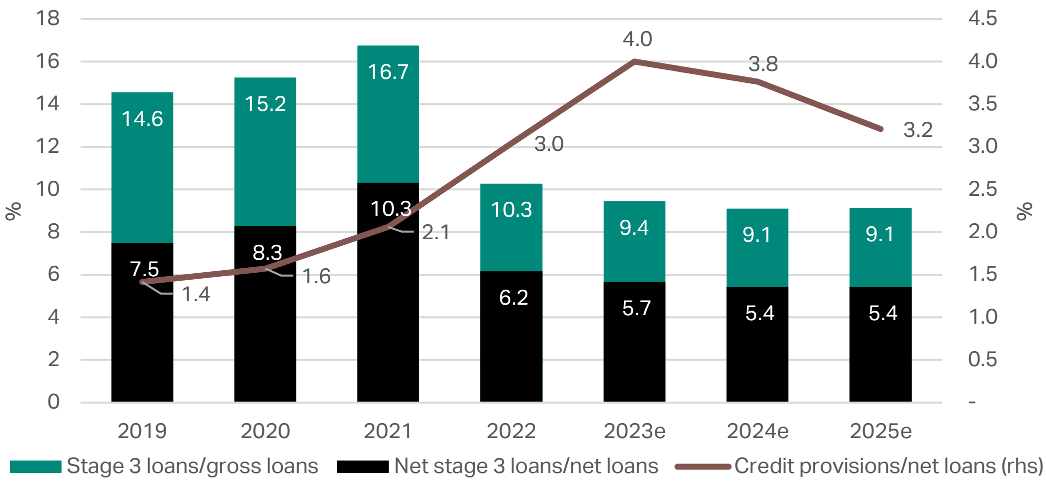
Asset quality metrics likely to improve, but loss provisions remain high

Loss performance 'bb-'

The acquisition of Bank Norwegian increased loss provisions for NOBA and subsequently increased credit provisioning to net loans to 3.6% in the first quarter of 2023 (3.0% at year-end 2022). We expect strong lending growth in consumer loans and credit cards to lead to higher projected credit losses, but believe increases will be partly offset by continued growth in low-risk equity release mortgages and increased mortgage volumes. We project loan losses will rise to a peak of 4.0% in 2023 and remain elevated in 2024 before declining. The high projected growth rate masks some of the increase in lending by adding on average 20% of new, presumably performing, loans per year. Our loss projections reflect our expectations that the current economic downturn will have a larger impact on employment and consumption and add to financial pressure on households through rising costs and interest rates.

The acquisition of Bank Norwegian resulted in a material increase in Stage 3 NPLs, at 16.7% of the gross loan book at year-end 2021. Subsequently, non-performing loans have decreased significantly to 10.6% in the first quarter of 2023 (10.3% at year-end 2022), mainly driven by strong lending growth and high activity within sale of NPL portfolios to third-party collectors. Since 2022, NOBA has sold NPL portfolios consisting of instalment loans and credit card loans totalling SEK 6.1bn, gross. We project levels to fall further in 2023 as the bank reduces the impact of the EU's NPL backstop on its capital ratios. Nevertheless, we anticipate that the bank and its peers will need to continue to increase reserve ratios to reflect market pricing of NPLs, as the European secondary market is currently awash with offloaded NPLs due to the backstop regulation. Our forecast assumes problem loans will rise in nominal terms but will be offset by a higher lending rate, resulting in declining NPLs to lending.

Figure 10. NOBA NPLs and credit provision metrics, 2019–2025e



Based on company data. e–NCR estimates. NPL–non-performing loan.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

Moderately negative aggregate ESG impact

Environmental, social and governance (ESG) factors are considered throughout our analysis, where material to the credit assessment. On aggregate, we view the bank's ESG profile as having a moderately negative impact on its creditworthiness.

Figure 11. NOBA priority ESG factors

Issue/area	Risk/opportunity	Impacted subsections (impact on credit assessment*)
Responsible lending	Regulatory scrutiny. Media attention. Reputational brand damage. Impact of NPL backstop.	Operating environment (--) Risk governance (-) Other risks (-)
Anti-money laundering capacity	Risk of sanctions and fraud. Insufficient control of customers.	Risk governance (0)
Financial accessibility and literacy	Providing mortgage loans to under-served banking segment and seniors. Improving financial literacy and contributing research to social impacts of money.	Competitive position (+)

*Defined on a 5-step scale ranging from double minus (--) to double plus (++) , with (--) representing the most negative impact and (++) the most positive. See ESG factors in financial institution ratings.

ADJUSTMENT FACTORS

Support analysis

Support analysis neutral

NOBA is ultimately owned by Nordic Capital and Sampo, which control 74.4% and 19.1% respectively of the share capital through NOBA Holding. Given the nature of the investors, we do not consider these owners to be part of the NOBA group structure. Both primary owners are active within the Nordic financial sector and are important to the bank's strategic development. We do not expect the owners to inject additional capital. However, Nordic Capital has previously injected capital into troubled companies, which demonstrates potential for ownership support, if necessary.

Figure 12. NOBA Holding direct and indirect ownership, 31 Dec. 2022

Owner	Ownership share (%)	of which direct (%)
Cidron Xingu Sarl (Nordic Capital Fund IX)	45.16%	41.31%
Cidron Humber Sarl (Nordic Capital Fund VIII)	34.74%	33.13%
Sampo	20.01%	19.07%
Other	0.09%	6.49%
Total	100.0%	100.0%

Source: annual report.

ISSUE RATINGS

Our rating on NOBA's unsecured senior debt is in line with the issuer rating, i.e. 'BBB'. We rate the bank's Tier 2 capital instruments two notches below the issuer rating at 'BB+'. We do not rate the bank's internal capital instruments, which are owned in full by NOBA Group, nor do we rate any external capital instruments issued by NOBA Holding.

METHODOLOGIES USED

(i) Financial Institutions Rating Methodology, 18 Feb. 2022.
(ii) Rating Principles, 24 May 2022.
(iii) Group and Government Support Rating Methodology, 18 Feb. 2022.

RELEVANT RESEARCH

(i) Nordic consumer banks increase loss provisions amid rising cost of living, 31 Mar. 2023.
(ii) Nordic consumer banks improve margins to offset higher loss provisions, 29 Nov. 2022.
(iii) Bank Norwegian rating withdrawn following merger with Nordax Bank, 6 Dec. 2022.
(iv) Nordax Bank subsidiary Bank Norwegian assigned 'BBB' long-term issuer rating; Outlook stable, 14 Nov. 2022.

Figure 13. NOBA key financial data, 2018–Q1 2023 YTD

Key credit metrics (%)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Q1 2023 YTD
INCOME COMPOSITION						
Net interest income to op. revenue	96.0	96.0	96.6	96.3	97.0	93.8
Net fee income to op. revenue	1.3	4.7	3.9	6.3	6.0	5.2
Net trading income to op. revenue	2.7	-0.7	-0.6	-2.6	-3.0	1.0
Net other income to op. revenue		0.0				
EARNINGS						
Net interest income to financial assets	7.5	6.2	5.7	3.9	6.5	6.6
Net interest income to net loans	9.3	7.5	6.6	5.1	8.5	2.0
Pre-provision income to REA	5.9	4.3	5.5	2.4	5.7	6.9
Core pre-provision income to REA (NII & NF&C)	5.7	4.4	5.6	2.6	6.0	1.7
Return on ordinary equity	13.8	13.5	17.9	-0.2	5.5	7.8
Return on assets	1.8	1.4	1.7	0.0	0.9	1.2
Cost-to-income ratio	41.4	52.3	38.3	62.7	46.0	35.4
Core cost-to-income ratio (NII & NF&C)	42.5	51.9	38.0	61.2	44.7	35.7
CAPITAL						
CET1 ratio	17.0	14.0	16.2	16.2	15.1	14.6
Tier 1 ratio	17.6	14.0	16.2	18.8	17.1	16.5
Capital ratio	19.0	15.3	17.2	20.8	18.9	18.1
REA to assets	75.6	63.7	63.0	55.9	59.6	61.3
Dividend payout ratio						
Leverage ratio	15.4	8.9	10.2	10.6	10.1	10.2
GROWTH						
Asset growth	16.0	58.4	6.7	228.3	9.9	2.0
Loan growth	12.2	66.9	9.4	155.6	25.6	5.6
Deposit growth	50.2	70.4	25.9	178.6	14.4	3.8
LOSS PERFORMANCE						
Credit provisions to net loans	2.65	1.42	1.57	2.06	3.04	3.61
Stage 3 coverage ratio	59.10	53.27	50.95	43.78	43.83	44.47
Stage 3 loans to gross loans	18.22	14.56	15.25	16.74	10.27	10.58
Net stage 3 loans to net loans	8.55	7.50	8.27	10.32	6.16	6.29
Net stage 3 loans/ordinary equity	53.03	68.29	68.26	42.42	29.88	32.62
FUNDING & LIQUIDITY						
Loan to deposit ratio	134.2	131.5	114.3	104.8	115.1	117.1
Liquid assets to deposit ratio	34.3	22.7	17.2	42.2	27.3	23.6
Net stable funding ratio	117.0	120.0	120.0	134.5	122.0	119.5
Liquidity coverage ratio	194.0	514.0	472.0	623.0	168.2	191.6

Key financials (SEKm)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Q1 2023 YTD
BALANCE SHEET						
Total assets	19,564	30,988	33,071	108,580	119,325	121,664
Total tangible assets	19,277	29,979	32,067	99,536	110,433	113,313
Total financial assets	19,010	29,643	31,816	99,143	109,838	112,602
Net loans and advances to customers	15,140	25,271	27,656	70,681	88,756	93,734
Total securities	1,189	3,120	2,331	23,458	14,027	14,691
Customer deposits	11,278	19,222	24,203	67,424	77,104	80,054
Issued securities	2,830	5,703	3,678	12,681	10,015	1,535
of which other senior debt	2,581	5,105	3,330	10,948	8,484	–
of which subordinated debt	249	598	348	1,733	1,531	1,535
Total equity	2,440	2,775	3,352	18,953	19,754	19,535
of which ordinary equity	2,440	2,775	3,352	17,196	18,284	18,070
CAPITAL						
Common equity tier 1	2,518	2,770	3,384	9,837	10,710	10,861
Tier 1	2,599	2,770	3,384	11,382	12,138	12,279
Total capital	2,814	3,030	3,582	12,643	13,434	13,512
REA	14,797	19,747	20,839	60,690	71,148	74,536
INCOME STATEMENT						
Operating revenues	1,380	1,570	1,814	2,630	6,954	1,953
Pre-provision operating profit	809	749	1,120	980	3,754	1,262
Impairments	380	286	416	1,013	2,425	823
Net Income	326	352	549	-23	973	356

Source: company. FY–full year. YTD–year to date.

Figure 14. NOBA rating scorecard

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

Figure 15. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB
Tier 2	BB+

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