

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 \(publ\)](#) (NOBA). The outlook is stable. At the same time NCR affirmed the 'N3' short-term rating. The 'BBB' issue ratings on NOBA's senior unsecured bonds and its 'BB+' issue ratings on NOBA's tier 2 bonds were also affirmed.

Rating rationale

The long-term issuer rating reflects NOBA'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.

We have revised our assessment of the bank's operating environment and loss performance downwards to reflect increasing risks for consumer lending and higher credit losses. We have also revised our view of capital to reflect lower capital ratios due to significant loan growth in our projections. Our view on funding and liquidity has weakened somewhat due to a higher share of on-demand, price-sensitive deposits. Positively, our view of the bank's competitive position and business diversity has improved due to increasing synergies and scale, as well as lower implementation risks associated with the merger with Bank Norwegian.

Stable outlook

The stable outlook reflects 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 real 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.

We could raise the ratings to reflect the Tier 1 ratio being sustainably above 20%. We could also raise the ratings in the event of increased stability in the operating environment for consumer lenders and improved asset quality metrics.

We could lower the ratings to reflect the Tier 1 ratio being sustainably below 15% or common equity Tier 1 ratio sustainably below 4% over regulatory requirements. We could also lower the rating if regulatory changes adversely affect consumer lending operations, or due to an increased credit risk appetite, reflected in loan losses to net loans sustainably over 4%.

Rating list

Long-term issuer credit rating:

To	From
BBB	BBB

Rating list

	To	From
Outlook:	Stable	Stable
Short-term issuer credit rating:	N3	N3
Senior unsecured issue rating:	BBB	BBB
Tier 2 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+	bbb-
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-	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		Stable	Stable
Short-term rating		N3	N3

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BBB	BBB
Tier 2	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 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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