

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings affirms Borgo's long-term deposit and long-term issuer ratings, outlooks changed to stable from negative**

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18 Jun 2025

Stockholm, June 18, 2025 -- Moody's Ratings (Moody's) has today affirmed all the ratings and assessments of Borgo AB (publ) (Borgo): the Baa2/P-2 long- and short-term deposit and long- and short-term issuer ratings, the long- and short-term Counterparty Risk Ratings (CRR) of A3/P-2, and the long- and short-term Counterparty Risk (CR) Assessments of A3(cr)/P-2(cr). The Baseline Credit Assessment (BCA) and the Adjusted BCA were also affirmed at baa3.

The outlook on the long-term deposit and long-term issuer ratings changed to stable from negative.

#### RATINGS RATIONALE

The affirmation of Borgo's Baa2 long-term deposit and issuer ratings reflects the affirmation of the baa3 standalone BCA and low loss-given-failure, which results in a one-notch uplift as indicated by our Advanced Loss Given Failure (LGF) analysis.

Borgo's baa3 BCA reflects the bank's strong asset risk and risk-weighted capitalization, balanced against continued losses and a moderate reliance on wholesale funding.

The bank's problem loans to gross loans ratio was 0.3% at end of March 2025, resulting from the bank's focus on prime Swedish mortgages. Borgo's tangible common equity to risk weighted assets ratio was 21% at the same date.

Borgo has experienced difficulties in reaching break even since its launch of mortgage lending in 2022, due to rapidly increasing interest rates while building up its balance sheet. During 2024, while still loss making, with a net income to tangible assets ratio of -0.4%, its net interest margins improved to a positive, although slim, 0.02%. During the first three months of 2025, that ratio improved to 0.29% due to repricing of back book and lower funding costs. We expect the bank to continue posting losses during 2025, but the path toward a breakeven is achievable with continued organic growth and improving margins.

The funding profile remains dependent on market funding, which at the end of 2024 were 39% of the bank's tangible assets. The large share of covered bonds denominated in Swedish krona, which represents 71% of total liabilities, mitigates refinancing risks due to the strong liquidity in the domestic market.

#### OUTLOOK

The stable outlook on the long-term deposit and long-term issuer ratings reflects our view that Borgo will remain well capitalized, experience low loan loss provisions and continue improving its earnings during the next 12 to 18 months.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The rating outlooks on the long-term deposit and long-term issuer ratings could be upgraded if Borgo demonstrates a multi-year track record of stable positive earnings without increasing its

risk appetite while maintaining a strong capitalisation.

Borgo's ratings could be downgraded if its financial profile deteriorates, due to a deterioration in earnings or a substantial decline in asset quality, a deterioration in its tangible common equity/risk weighted assets; or failure to access funding sources to sustain its operations.

Furthermore, Borgo's ratings could be downgraded following lower volumes of issued unsecured debt, which would lead to lower buffers protecting senior creditors in case of failure.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at <https://ratings.moodys.com/rmc-documents/432741>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Borgo's "Assigned BCA" score of baa3 is set three notches below the "Financial Profile initial score" of a3 to reflect the issuer's monoline features and limited track record.

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