MOODY'S
RATINGS

Rating Action: Moody's Ratings downgrades Borgo AB (publ)'s long-term deposit and issuer ratings; stable outlook

17 Sep 2026

Stockholm, September 17, 2026 -- Moody's Ratings (Moody's) today downgraded Borgo AB (publ)'s (Borgo) Baseline Credit Assessment (BCA) and Adjusted BCA to ba1 from baa3. We also downgraded Borgo's long-term local and foreign currency bank deposit ratings to Baa1 from A3, long-term local and foreign currency Counterparty Risk Ratings (CRR) to Baa1 from A3, long-term Counterparty Risk Assessment (CRA) to Baa1(cr) from A3(cr), long-term local and foreign currency issuer ratings to Baa3 from Baa2, and short-term local and foreign currency issuer ratings to P-3 from P-2. Borgo's short-term local and foreign currency bank deposit ratings and CRRs were affirmed at P-2, and the short-term CRA was affirmed at P-2(cr). The outlook on Borgo's long-term bank deposit and issuer ratings is stable.

RATINGS RATIONALE

BASELINE CREDIT ASSESSMENT

The downgrade of Borgo's BCA to ba1 from baa3 reflects higher than previously incorporated execution risk as the bank accelerates expansion while it remains loss making, and increased operational risk from the planned migration and integration of mortgage origination and servicing platforms. Borgo's growth strategy, including the potential acquisition of SEK 15 billion of mortgages from Hypoteket, increases the need for additional funding and capital, adding to execution risk during a period of rapid expansion and continued losses.

Borgo's capitalisation is currently strong, with a Tangible Common Equity (TCE) to risk-weighted assets (RWA) ratio of 17.99% and a CET1 ratio of 16.6% as of end-June 2026. However, we expect risk-weighted capitalisation to decline over the next three years as the bank expands its loan book and remains loss making. We forecast TCE/RWA to remain above 14% over this period, assuming planned capital injections are received as expected. This forecast is therefore dependent on Borgo's timely access to external capital and effective execution of its growth strategy, which should partly mitigate RWA growth from balance-sheet expansion.

Borgo appealed a 5% Pillar 2 Guidance assigned by the Swedish Financial Supervisory Authority, which is not in force during the appeal process. Any revised requirement could increase pressure on capital management, given Borgo's dependence on external capital while it grows and before it reaches sustained profitability.

Borgo remains loss making and dependent on balance-sheet growth and higher net interest income to reach break-even. We expect the bank to reach break-even during 2027, but the risk that funding and operating costs outpace revenue growth has increased. Net interest income rose to SEK 63.2 million in H1 2026 from SEK 58.8 million in H1 2025, but one-off debt repurchase costs and tax asset write-downs weighed on earnings.

Operational and governance risks have increased. Borgo's CEO will leave in November 2026 after about one year in the role, while the bank is expanding its mortgage portfolio, migrating and integrating platforms, and raising funding and capital while still loss making. Although the board has a succession plan, no successor has yet been communicated.

These risks are partly mitigated by Borgo's strong asset quality, underpinned by prime Swedish mortgages, strong collateral and conservative underwriting. Its problem loans ratio was 0.24% in Q2 2026, compared with 0.30% in Q2 2025.

Funding risk is partly mitigated by Borgo's Swedish krona covered bond funding, which accounts for most non-equity funding, and adequate liquidity. However, internet-based deposits remain price sensitive and potentially more volatile than deposits at larger established banks. As of Q2 2026, Borgo's loan-to-deposit ratio was 335%, net stable funding ratio 109% and liquidity coverage ratio 1005%.

DEPOSIT AND ISSUER RATINGS

The downgrades of the long-term deposit and issuer ratings to Baa1 and Baa3, respectively, reflect the ba1 BCA and the loss severity of each instrument according to our forward looking Advanced Loss Given Failure (LGF) analysis. For the deposit ratings, the extremely low loss given failure, due to large volumes of loss absorbing liabilities protecting junior deposits, results in three notches of uplift. The issuer ratings have a low loss given failure, given the lower volumes of loss absorbing liabilities protecting senior creditors, considering full depositor preference, resulting in one notch of uplift. The ratings do not incorporate any Government support due to the limited size of the bank in the context of the Swedish banking system.

OUTLOOK

The stable outlook on the long-term deposit and issuer ratings reflects our expectation that Borgo will maintain capitalisation above 14% TCE/RWA, manage platform migration and integration risks, and raise sufficient funding and capital to support planned growth. The outlook also assumes Borgo will restore senior unsecured debt volumes following repurchases in Q2 2026, supporting the current loss-given-failure uplift.

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

The ratings could be upgraded if Borgo achieves recurring profitability, executes its expansion and platform migration successfully, maintains strong capitalisation, and preserves access to external funding.

The ratings could be downgraded if capitalisation falls below 13%, profitability is delayed further, management succession remains unclear, or platform migration and integration risks materially weaken Borgo's risk profile. The deposit and senior unsecured ratings could also be downgraded if Borgo does not restore sufficient loss-absorbing debt to support the current loss-given-failure uplift.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2025 and available at https://ratings.moodys.com/rmc-documents/454566. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Borgo's "Assigned BCA" of ba1 is four notches below the "Financial Profile initial score" of a3, reflecting expected lower capitalisation as lending grows, price sensitive deposits, its monoline business model, limited track record and increased execution risk.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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