

Research Update:

# Bank Norwegian AS 'BBB/A-2' Ratings Affirmed Despite COVID-19 Uncertainty; Outlook Negative

March 31, 2020

## Overview

- We think current economic stress will have a more pronounced effect on monoline banks such as Bank Norwegian in terms of weakened business prospects and heightened asset quality risks.
- We expect the combination of declined oil prices and COVID-19 uncertainty will have more negative implications for the Norwegian economy than we previously expected.
- That said, we think the Nordic governments will implement efficient and timely support measures to support the economies, banking sectors, and households in the region, which will help mitigate the negative effect on Bank Norwegian's home markets.
- We are affirming our 'BBB/A-2' long- and short-term issuer credit ratings on Bank Norwegian.
- The negative outlook reflects Bank Norwegian's weakened short-term business prospects, asset quality risks, and potential spillover effects from the COVID-19 pandemic on the bank's funding and liquidity position.

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## Rating Action

On March 31, 2020, S&P Global Ratings affirmed its 'BBB/A-2' long- and short-term issuer credit ratings on Bank Norwegian. The outlook remains negative.

## Rationale

The rating action follows our assessment that the combined impact of declined oil prices and COVID-19 virus threat will have high bearing on the Norwegian economy. We foresee weaker economic prospects and revise downward our assumptions on new lending growth in the banking sector. At the same time, we expect the Nordic governments will implement ample and timely support measures to support the economies, banking sectors, and households in the region. This should mitigate stress on businesses' revenue and individual borrowers' income.

We expect the COVID-19 pandemic to have a more severe, albeit manageable, effect on Bank

Norwegian's asset quality in the next 12 months compared to more diversified retail banks, considering Bank Norwegian's monoline business model focused on installment and credit card loans. In particular, we think the level of nonperforming loans could materially exceed our base-case expectations--reported nonperforming loans of 13.1% and total Stage 3 loans of 17.3% as of year-end 2019--and lead to a higher, albeit still manageable, cost of risk in 2020-2021. We currently see Bank Norwegian's risk-adjusted capital (RAC) ratio of 19.65% at year-end 2019 as a key rating strength. However, we see a heightened risk that the COVID-19 pandemic could have a more severe effect on the bank's capital and risk position, which could weigh on the rating.

We also see a risk that Bank Norwegian's business prospects and profitability could suffer if the Nordic economies slow down or fall into recession in 2020.

We already anticipated the bank's loan growth to somewhat moderate from rates above 10%, but the COVID-19 pandemic could be even more detrimental for Bank Norwegian's business generation, at least in the short term. Owing to incumbent banks' lending restrictions, Norwegian Bank might face increased demand from distressed clients for grace periods, which could lead to higher forbore loans in its portfolio.

We think Bank Norwegian could partly mitigate the above issues by building up additional loss-absorbing buffers by year-end 2022. The Norwegian Financial Supervisory Authority has decided Bank Norwegian's sizable minimum requirement on own fund and eligible liabilities (MREL) will be 37.135% of consolidated risk-weighted assets, which we think could be positive for the bank's senior creditors. In time, a substantial amount of liabilities at holding company level could be available under a bail-in resolution scenario to restore the bank's own funds and its viability. In our view, the regulator's decision indicates that it thinks the bank is providing sufficient critical functions and would not be liquidated if it failed.

We will continue to monitor Bank Norwegian's strategy to meet its end-point MREL requirement, access to the senior nonpreferred issuance (SNP) market in the current stressed market environment, and any associated effect on the funding costs.

## **Outlook**

S&P Global Ratings' negative outlook on Bank Norwegian AS stems from our expectation that further loan growth at the bank in its competitive home markets could depress its margins and ultimately put pressure on its combined capital and risk position over the next two years. Additional pressure from COVID-19 on Bank Norwegian's business prospects, its more confidence-sensitive risk exposures, and potential spillover effects on its funding and liquidity position could lead us to lower the ratings.

## **Downside scenario**

We could lower the ratings on Bank Norwegian if the bank's business prospects jeopardized its risk-adjusted profitability and asset quality, or if we observed a more aggressive capital policy leading the RAC ratio to fall below 15%. Furthermore, any negative spillover effects from distressed partner Norwegian Air Shuttle on the bank's reputation and business could lead us to lower the ratings.

## **Upside scenario**

We could revise the outlook to stable if the bank maintains a solid RAC ratio and lending growth

and business evolution become more sustainable despite the current economic environment. If the expected recovery from COVID-19 supports Bank Norwegian's business with no long-lasting negative effect on its profitability and asset quality, this could lead us to incorporate a positive adjustment notch into Bank Norwegian's stand-alone credit profile--specifically, in our business or risk position assessment.

We could also take a positive rating action if the bank maintains its intrinsic credit strength while demonstrating access to the SNP market and building a sustainable buffer of bail-inable debt instruments. The bank would also need a well-defined resolution strategy that would likely ensure full and timely payment on all of the bank's senior preferred obligations.

## Ratings Score Snapshot

### Bank Norwegian AS -- Ratings Score Snapshot

Issuer Credit Rating	BBB/Negative/A-2
SACP	bbb-
Anchor	a-
Business Position	Weak (-2)
Capital and Earnings	Very Strong (+2)
Risk Position	Weak (-2)
Funding and Liquidity	Below average and Adequate (-1)
Support	(0)
ALAC Support	(0)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)
Additional Factors	(+1)

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment

Methodology And Assumptions, Nov. 9, 2011

- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- COVID-19: The Steepening Cost To The Eurozone And U.K. Economies, March 26, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- Digital Lender Bank Norwegian Now Considered Critical Player In Norway, Nov. 29, 2019
- Bank Norwegian's New Shareholder Structure Could Uphold Future Expansion, Aug. 19, 2019
- Bank Norwegian, June 28, 2019

## Ratings List

### Ratings Affirmed

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#### Bank Norwegian AS

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Issuer Credit Rating BBB/Negative/A-2

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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