

Research Update:

# Bank Norwegian Downgraded To 'BBB-/A-3' After Takeover By Nordax Bank; Outlook Stable

December 7, 2021

## Overview

- Sweden-based Nordax Bank AB concluded its acquisition of Bank Norwegian ASA on Nov. 3, 2021, with the compulsory acquisition of all remaining shares.
- We believe Nordax will run a dual brand and platform strategy for now, while Bank Norwegian is gradually integrated into the group.
- We maintain our view of Bank Norwegian's 'bbb-' intrinsic credit profile, but our ratings are somewhat constrained by the Nordax group's creditworthiness and strategy execution.
- We are therefore lowering our ratings on Bank Norwegian to 'BBB-/A-3' and removed them from CreditWatch negative.
- The stable outlook reflects our expectations that Bank Norwegian's integration into Nordax will not compromise its key strengths, robust capitalization and risk-adjusted profitability, in the next 12-24 months.

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## Rating Action

On Dec. 7, 2021, S&P Global Ratings lowered its long- and short-term issuer credit ratings on Bank Norwegian to 'BBB-/A-3' from 'BBB/A-2'. The outlook is stable.

The ratings were taken off Credit watch, where we placed them on Sept. 10, 2021.

## Rationale

**We have resolved the negative CreditWatch following additional information on Nordax's strategic plans, including Bank Norwegian's integration into the group.** Nordax completed the acquisition of Bank Norwegian in early November following the compulsory acquisition of all remaining shares in the bank and Bank Norwegian's subsequent delisting from the Oslo Stock Exchange. Bank Norwegian will now operate as a fully owned subsidiary of Nordax, and we consider it core to the group, while remaining under the supervision of the Norwegian Financial

supervisory Authority. Consequently, the issuer credit rating on Bank Norwegian now reflects our combined view of the bank's 'bbb-' stand-alone credit profile and the broader group's creditworthiness.

**In our view, the combined entity has the potential to build up a highly efficient and scalable consumer finance platform in Nordics.** We expect the combined bank, with a loan book of Swedish krona (SEK) 67 billion (about €6.5 billion) and about 2 million customers, will have a leading position in the Nordic consumer lending segment with a diversified customer offering consisting of unsecured lending, credit cards, non-standard mortgage loans, and equity-release products. In our view, the group will be well capitalized to implement a growth strategy following the capital contribution by the ultimate owners--Nordic Capital Fund VIII and Sampo PLC (A/Stable/--)--and issuance of SEK1.40 billion of additional tier-1 (AT1) and SEK650 million of tier-2 capital instruments in October 2021. We project that the group's high earnings will support a further capital buildup, despite the targeted rapid growth of both collateralized and unsecured consumer lending over the next two years.

**Our ratings on Bank Norwegian are somewhat constrained by the broader group's strategic decisions and execution.** We project Bank Norwegian to continue demonstrating sounder earnings and more robust loss-absorption capacity than similarly rated peers. However, we no longer include a positive adjustment notch into our ratings, since we believe the operating performance of the bank and the group will be affected by the integration process in the near term. In our view, Bank Norwegian's integration will carry execution risks that could delay benefits to operational efficiency, customer offering, and the overall franchise.

**We do not foresee imminent pressure on Bank Norwegian's 'bbb-' stand-alone credit profile over the next 12-24 months.** We understand the new owner remains committed to maintaining Bank Norwegian's very strong capital and sound liquidity position. At midyear 2021, Bank Norwegian's stand-alone risk-adjusted capital (RAC) ratio was 22.9% leaving an ample buffer to cover risks and support new business. Similarly, thanks to its common equity tier 1 ratio of 25.7% as of Sept. 30, 2021, the bank meets its regulatory capital requirements with a sizable buffer of 940 basis points. We anticipate that the group will optimize its resources, in particular capital, over time and is likely to upstream dividends from Bank Norwegian. However, we believe the high capital requirements at Bank Norwegian and the group, as well as Nordax's conservative capital management, which targets robust capitalization mitigates this risk. We also believe the bank's management will enforce risk management and underwriting policies that could gradually improve asset quality metrics. Positively, Bank Norwegian concluded four nonperforming asset sales with net gains during 2021 reducing its Stage 3 loan portfolio to Norwegian krone (NOK) 7.9 billion or 21% of its total customer loans.

**We believe Bank Norwegian's business will benefit from the economic recovery in the Nordics, diversification into new markets, and a broader offering as part of Nordax.** Despite weak business generation during the COVID-19 pandemic, Bank Norwegian has maintained solid albeit lower profitability, not least because of its flexible cost structure (with the adjusted cost-to-income ratio at 27.8% in third-quarter 2021). This translated into a return on equity of 12.9% in the first nine months of 2021 and a risk-adjusted yield of 9.5% in third-quarter 2021. We believe Bank Norwegian's new business will pick up in tandem with the ongoing economic recovery in the Nordic region and entry into new markets Germany and Spain in the last quarter of 2021. Furthermore, we believe that Bank Norwegian could ultimately complement its offering with products from Nordax's portfolio.

## Outlook

The stable outlook reflects our view that Bank Norwegian's takeover by Nordax and its gradual integration into a broader group won't compromise the bank's franchise or robust capitalization over the next 12-24 months. We expect the bank's high operating efficiency and risk-adjusted profitability to be supported by growth in the Nordics and expansion into new markets, also reflected in the broader group's financial position.

Specifically, we expect Bank Norwegian and the broader Nordax group to maintain a RAC ratio comfortably above 15%. This will provide an adequate buffer against risks in the higher-risk retail loan book at both the bank and group levels. We believe the ongoing recovery of Nordic economies will support Bank Norwegian's business generation and that its asset quality metrics will stabilize at an acceptable level.

## Downside scenario

We could take a negative rating action if we considered Bank Norwegian's financial position to be affected by weakening creditworthiness of Nordax. In particular, more aggressive capital management at the group level or integration risks could lead to a lower assessment of the combined capital and risk position.

## Upside scenario

An upgrade seems less likely at this stage and would hinge on the broader group's operating performance, swift integration of Bank Norwegian, and overall creditworthiness.

We could consider a positive rating action if Nordax successfully executed its business plan, creating a strong consumer lender with superior performance metrics and sounder asset quality metrics, while maintaining robust capitalization. In the medium term, we could potentially see the group having a more diversified and stable funding profile.

## Ratings Score Snapshot

Issuer Credit Rating	BBB-/Stable/A-3	BBB/Watch Neg/A-2
SACP	bbb-	bbb-
Anchor	a-	a-
Business position	Weak (-2)	Weak (-2)
Capital and earnings	Very strong (+2)	Very strong (+2)
Risk position	Weak (-2)	Weak (-2)
Funding and	Below average and (-1)	Below average and (-1)
Liquidity	Adequate	Adequate
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0

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Sovereign support	0	0
Additional factors	0	+1

### Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

### Related Research

- Bank Norwegian 'BBB/A-2' Ratings Put On CreditWatch Negative On Takeover By Swedish Consumer Lender Nordax Bank, Sept. 10, 2021
- Bank Norwegian's Potential Takeover By Nordax Bank Is Progressing, But It's Too Soon To Assess The Impact, Aug. 9, 2021
- CEO Departure Won't Derail Bank Norwegian ASA's Expansion Strategy, June 29, 2021
- Bank Norwegian ASA, June 25, 2021
- Bank Norwegian May Gain Scale And Lose Efficiency Benefits If Acquired By Nordax Bank, March 5, 2021
- Digital Lender Bank Norwegian Outlook Revised To Stable On Earnings Resilience In Downturn; 'BBB/A-2' Ratings Affirmed, Nov. 12, 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

## Ratings List

### Downgraded; CreditWatch/Outlook Action

	To	From
<b>Bank Norwegian ASA</b>		
Issuer Credit Rating	BBB-/Stable/A-3	BBB/Watch Neg/A-2

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