

Bulletin:

Bank Norwegian May Gain Scale And Lose Efficiency Benefits If Acquired By Nordax Bank

March 5, 2021

FRANKFURT (S&P Global Ratings) March 5, 2021--S&P Global Ratings today said that Bank Norwegian AS (BBB/Stable/A-2) stands to gain in scale and lose in autonomy if it is acquired by Nordax Bank AB. While the transaction could make Bank Norwegian part of the leading consumer finance bank in the Nordic market, over the short to medium term, belonging to a group might hinder the agility and efficiency it has enjoyed as an independent digital bank.

On March 4, 2021, Sweden-based niche lender Nordax Bank offered to acquire all shares in Bank Norwegian's holding company, Norwegian Finans Holding AS (NFH), in an all-cash transaction valued at Norwegian krone (NOK) 17.8 billion. Nordax Bank would carry out the acquisition with the support of its shareholders Nordic Capital Fund and Sampo PLC (A/Stable/--), which together already indirectly hold 22.7% of NFH since they purchased this minority stake from Norwegian Air Shuttle in 2019. Although the cash offer would be extended to NFH's entire outstanding shares, subject to regulatory approvals, Nordax Bank targets holding at least 50.1% in NFH, including the holdings by its two owners.

In our view, the contemplated transaction would strengthen the combined banks' position relative to incumbent banks in the rapidly growing Nordic consumer finance market. Together, the banks would have a broader customer offer and a wider customer base through multi-distribution channels. Bank Norwegian and Nordax Bank combined cater to about two million customers across four Nordic markets and collectively manage a loan book of an estimate Swedish krona (SEK) 64 billion (€6.3 billion). The acquisition could also deepen the risk expertise by combining the credit data across the markets and portfolios.

However, we believe the transaction could yield efficiency losses. Our current ratings on Bank Norwegian incorporate its fully digital and highly effective operating model (cost-income ratio of 23% in 2020). Thanks to this operating model, the bank has superior risk-adjusted profitability and elevated capitalization (RoE of 18.9% and CET1 of 22% in 2020), even amid last year's COVID-19-related operating constraints. We understand Nordax Bank aims to leverage the digital experience, but we believe the transaction could compromise, at least in the short to medium term, the benefits we consider Bank Norwegian's efficient platform offers. Furthermore, there is the possibility that the transaction delays Bank Norwegian's expansion plans outside the Nordic. We note that Bank Norwegian recently communicated plans to enter the German and Spanish consumer markets in 2021-2022 through cross-border operations by using its digital-only approach.

We will assess the potential rating impact on Bank Norwegian if the transaction proceeds and

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once we have more insight on the combined bank's business and financial plans.

This report does not constitute a rating action.

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