S&P Global
Ratings

RatingsDirect®

Bank Norwegian AS

Primary Credit Analyst:
Salla von Steinaecker, Frankfurt (49) 69-33-999-164; salla.vonsteinaecker@spglobal.com

Secondary Contact:
Marcus Kylberg, Stockholm + 46 8 440 5916; marcus.kylberg@spglobal.com

Research Contributor:
Joshua C Joseph, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Bank Norwegian AS

SACP	bbb-

Anchor	a-	
Business Position	Weak	-2
Capital and Earnings	Very Strong	+2
Risk Position	Weak	-2
Funding	Below Average	-1
Liquidity	Adequate	

+

Support	0

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

+

Additional Factors	+1

Issuer Credit Rating
BBB/Negative/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Fully-digital Nordic consumer lender with high cost efficiency. • Very high risk-adjusted profitability in a low interest rate environment. • Comfortable capitalization.	• Concentrated on two high risk products--consumer lending and credit cards. • Rapid growth and changes in exposures. • Funding dependent on price-sensitive retail deposits.

Outlook: Negative

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 risk-adjusted capital (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 senior non-preferred (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.

Rationale

We base our analysis and financial metrics on the consolidated group under Norwegian Finans Holding ASA (NFH). Our issuer credit rating is assigned to Bank Norwegian, which is the group's primary operating company.

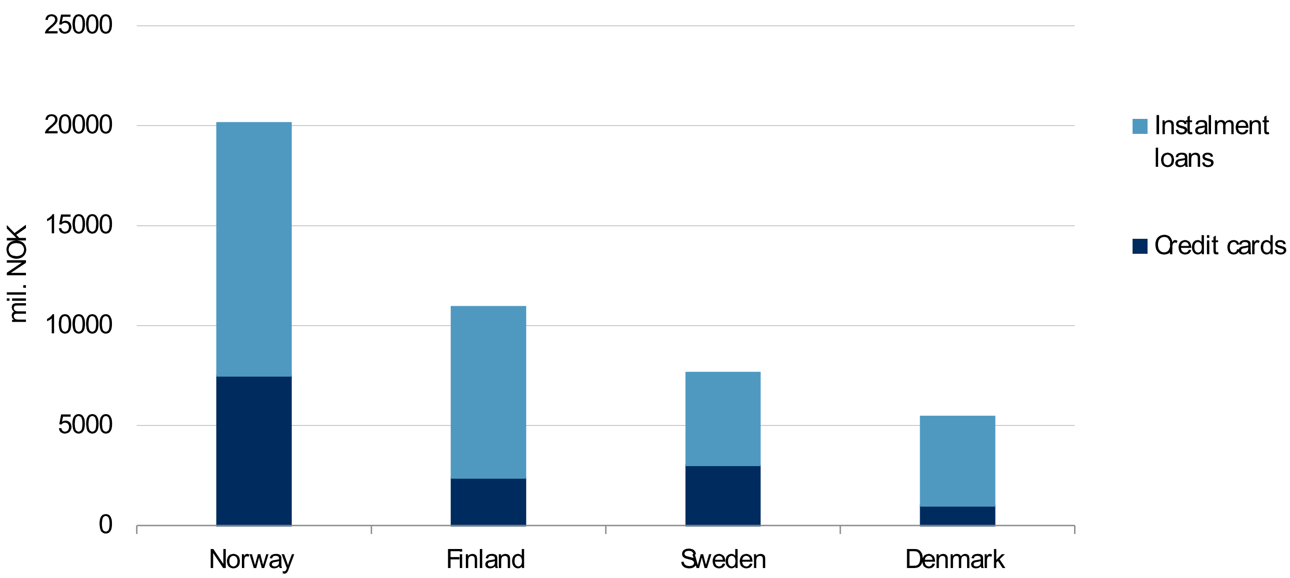
In our view, Bank Norwegian, which started its operations in 2007, has a high product concentration, limited operating history in some of the home markets, and is more confidence-sensitive than larger international banks. In particular, we think the bank's niche focus on consumer finance limits its revenue diversity and increases its potential exposure to more pronounced credit cycles when compared with larger domestic and Nordic universal banks that have a broader asset class focus. However, the rating also accounts for its very strong capitalization and high profitability, which, combined with its satisfactory asset quality, underpin its financial profile.

Anchor:'a-' reflecting blended economic risk in Bank Norwegian's home markets and industry risk in Norway.

The anchor for Bank Norwegian is 'a-'. Given Bank Norwegian's geographic diversification, we take into account the economic risks in the countries where it operates. We base our blended assessment on the bank's disclosed loan balances (Norway 46%, Finland 26%, Sweden 16%, and Denmark 12% in 2019). The 'a-' anchor reflects our opinion that the Nordic countries in which Bank Norwegian operates all have highly competitive, resilient, and diverse economies that we expect to remain resilient in the current COVID-19 induced crises. While we maintain our view of a stable trend for economic risk on Norway, Sweden, and Denmark we now we believe economic risks may be building in Finland (see COVID-19: Resilient Fundamentals And Assertive Policy Measures Will Buoy Nordic Banking Systems, published on June 16, 2020).

Chart 1

Bank Norwegian: Gross Loans By Country (Year End 2019)



NOK--Norwegian krone. Source: Bank Norwegian.

Our assessment of low economic risk in Norway balances the rising stress for the banking sector from the COVID-19 pandemic with the high level of wealth, strong returns from the sovereign investment fund, and a predictable political environment. We expect government programs aimed at businesses and households to provide substantial offset against the dual pressures of a sharp decline in oil prices and a recessionary environment prompted by the COVID-19 pandemic. In our base case, we project that Norway will undergo a sharp recession, with a 6.2% GDP contraction in 2020, followed by a 3.9% rebound in 2021. We believe the current macro stress will result in intensifying pressure for the banking sector's asset quality, revenue, and profitability over the next two years. Specific segments of concern include the oil sector, small and midsize enterprises (SMEs), commercial real estate, and other cyclical sectors.

Authorities in Norway, and across many other European countries, have delivered unprecedented policy responses to the COVID-19 crisis in the form of monetary, fiscal, and regulatory support to their economies. Given the ample reserves in its sovereign wealth fund, we believe Norway enjoys a unique position with respect to its ability to fund its fiscal support programs. We consider that this, in turn, will largely stabilize the banking sector's asset quality. In addition, we consider that the accumulated earnings and capital buffers will allow banks in Norway to absorb the increase in credit losses in 2020-2021 related to the current stress, and will support their credit standing.

We consider that the residential mortgage portfolio, which accounts for about 55% of total bank loans, will be more resilient to the present stress than the corporate sector exposure, due to various government employment and income support measures. That said, we recognize some latent risks to banks from structurally high levels of household debt, driven by strong growth in house prices over the past decade, and banks' exposure to the cyclical commercial real estate segment.

Our assessment of industry risks for Norwegian banks incorporates our view of an effective banking regulation, stable competitive environment, and strong capitalization of the banking sector. We consider that the government authorities including the banking regulator have been proactively addressing the difficulties related to the current stress, including introducing an unprecedented key policy rate cut and temporary relaxation of the countercyclical capital buffer requirements, as well as providing liquidity support to the banking sector.

Moreover, we consider that Norwegian banks have benefited from being at the forefront of digital transformation in banking, including offering mobile payment and investment solutions and mortgages, inter alia. A high adoption rate of digital technology when servicing clients and in process automation, as well as the population's openness toward sharing data, have helped drive this progress. In a context of social-distancing requirements, being digital frontrunners should enable banks to continue providing a high-quality service to customers, as banks have already moved from branch-based operations into a predominantly digital environment a while ago. We consider that this will also help Norwegian banks keep their costs under control, which will be supportive for their profitability, given the revenue pressure we anticipate over the next two years. Although domestic deposits in the total funding base is lower in Norway than in many other European markets, we believe Norwegian banks will maintain their reliable access to domestic and international capital markets, in addition to deposits.

Table 1

Bank Norwegian AS--Key Figures					
	--Fiscal year ended Dec. 31--				
(Mil. NOK)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	59,448.7	57,559.9	50,302.1	42,868.5	30,337.2
Customer loans (gross)	47,015.4	44,155.9	39,473.1	33,619.7	25,233.9
Adjusted common equity	8,684.7	8,309.9	6,757.6	4,931.2	2,927.5
Operating revenues	1,466.2	5,582.5	4,652.3	3,852.4	2,702.0
Noninterest expenses	358.6	1,324.7	1,236.2	1,056.8	976.0
Core earnings	368.0	1,981.1	1,796.6	1,597.1	959.4

*Data at March 31, 2020. NOK--Norwegian krone.

Business position: Good position in Nordic consumer finance market.

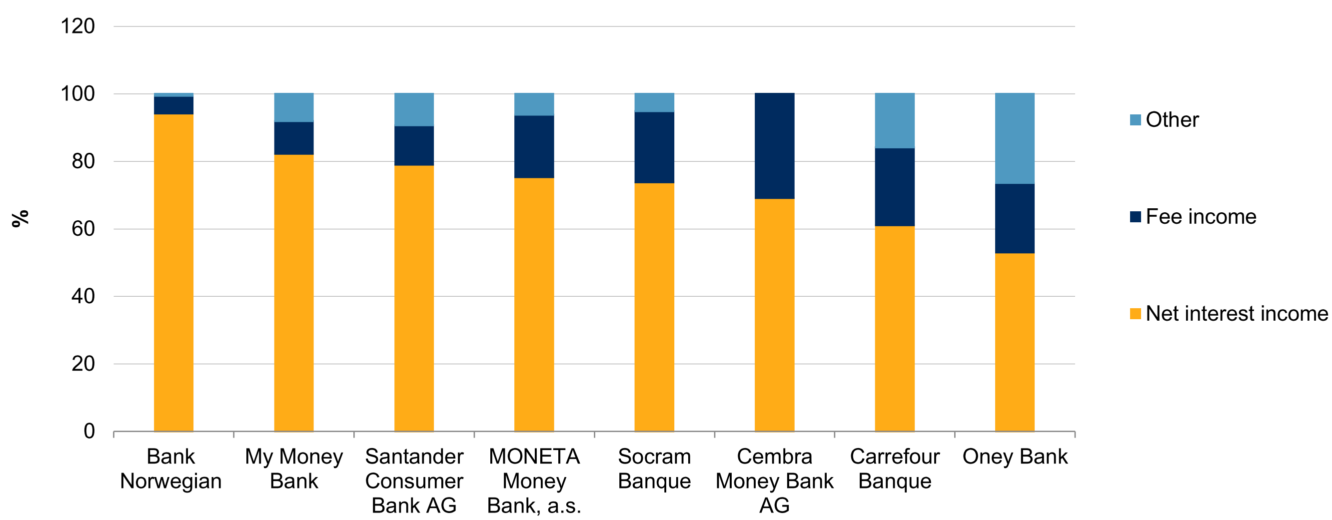
We consider Bank Norwegian's niche focus, which could be volatile in its chosen segments, and limited operating history in some of the home markets, to be factors that constrain the rating on the bank. That said, its earnings growth to date, brand recognition, and good market shares in consumer credit partly offset these factors. As a fully digital bank, Bank Norwegian operates very cost-efficiently and can rapidly adjust to changes in customer behavior and preferences.

With total assets of Norwegian krone (NOK) 60.0 billion (about €5.6 billion) as of March 31, 2020, Bank Norwegian is smaller than most of the European consumer lenders we rate, but it maintains a good position in its primary niche market of consumer lending in Norway, with more than 17% market share. The bank has grown rapidly in the other Nordic market to reach a market share around 5%-10% in Sweden, Denmark, and Finland.

In our view, the concentration in unsecured consumer lending, in the form of installment loans (69% of total loans in 2019) and credit cards (31% of total loans), makes Bank Norwegian more vulnerable to adverse operating conditions than larger domestic and Nordic universal banks. This is because demand for consumer loans tends to decrease in times of recession and the ability to further increase lending interest rates is limited, leading to some sensitivity to central bank rates and general funding costs. We also observe an increased scrutiny by the authorities to curb household indebtedness and consumer finance is therefore facing more regulatory pressure as the Norwegian and Nordic consumer finance market continues to expand.

Chart 2

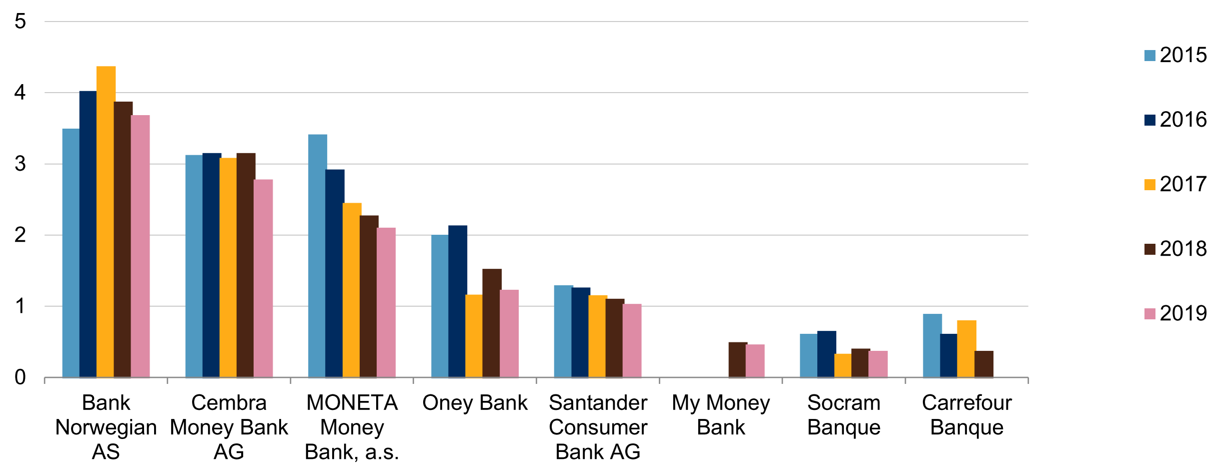
Bank Norwegian’s Revenues Are Less Diversified Than Peers



Data as of June 25, 2020. Each bank's business position score is in brackets. All other data year end 2019.
Source: S&P Global Ratings and company accounts.

Chart 3

But The Bank Outperforms Peers In Terms Of Profitability (Core Earnings/Average Adjusted Assets)

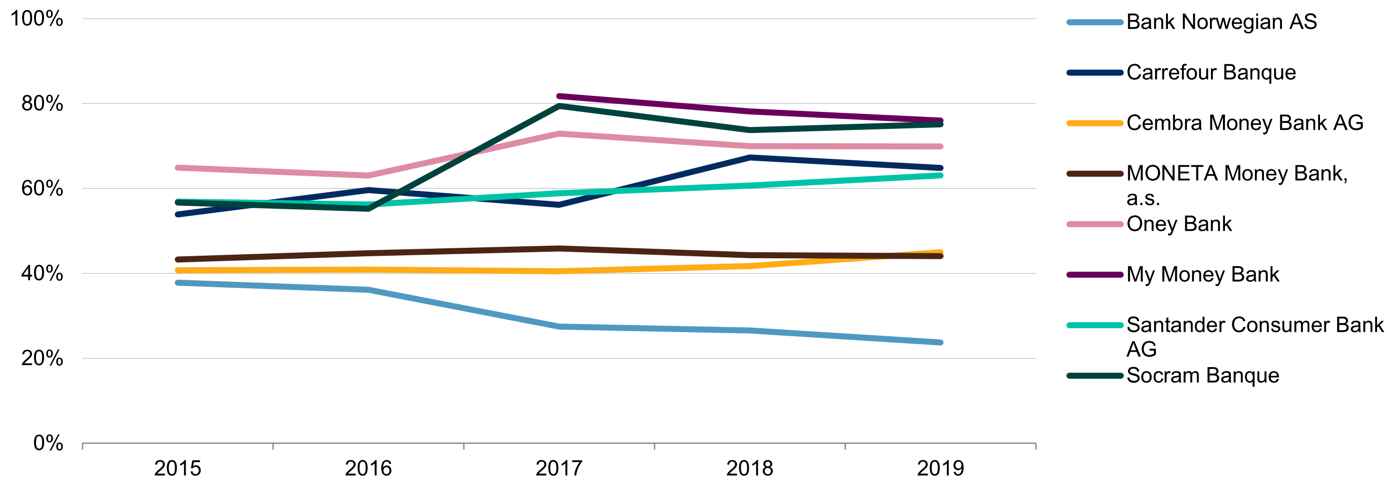


Source: S&P Global Ratings.

To date, Bank Norwegian has demonstrated stable high-margin core earnings, with steadily increasing net interest income due to its high pace of credit growth. The bank's continued expansion in each of its markets--Norway, Sweden since 2013, and Denmark and Finland since 2015--supports its earnings growth. We expect the newer additions of Denmark and Finland will contribute a higher percentage of growth over the next two years. In addition to volume growth, we see geographic diversification as supportive of revenue stability, given the relatively low correlation among the Nordic consumer finance markets. We also recognize that the bank has an efficient operating model, which has so far proved to be scalable across its chosen markets. As a purely online bank that is increasing in scale, we anticipate some further upside to the bank's cost-to-income ratio of 24% at the end of Q1 2020 and 2019, which compares well with European consumer finance banks, and will support the bank's profitability.

Chart 4

Bank Norwegian Demonstrates Higher Cost Efficiency (S&P Global Ratings Cost-To-Income Ratio)



Source: S&P Global Ratings .

We believe that as fully-digital bank, Bank Norwegian is well positioned to respond to technology disruption while expanding its business. Although the bank uses an external core banking system, its digital solutions and internal internet technology (IT) capabilities allow it to react rapidly to changes in customer preferences and behavior and to adjust its offering and risk scorecards. Furthermore, we understand that the bank closely follows a number of digital key performance indicators, for example to monitor customer experience and internal efficiency.

We consider that Bank Norwegian's potential redomiciliation to Ireland could broaden the bank's operations into new markets outside the Nordics and geographically diversify its revenue base over the medium term. The bank announced a strategic investment in Ireland-based Lilienthal Finance Ltd. in December 2018 in order to develop banking services across Europe. In May 2019, the bank entered into an agreement to secure full control of Lilienthal Finance and exclusive rights to use the brand name "Norwegian" and the airline's logo in Europe. In June 2020, Bank Norwegian concluded the exploratory phase for a potential banking license in Ireland and based on the recommendation of Central Bank of Ireland it has decided to postpone the application process amid the COVID-19 pandemic.

Norwegian Air Shuttle (NAS) sold its entire 17.4% shareholding in the holding company of Bank Norwegian group, Norwegian Finans Holding (NOFI), to Cidron Xingu Ltd., a company indirectly controlled by Nordic Capital Fund IX and Finland-based insurer Sampo PLC (A/Stable/--). Despite the divestment by NAS we believe that the transaction won't affect Bank Norwegian's franchise in the short term, as the collaboration and long-term commercial agreements between NAS and NOFI remain unchanged. We believe the bank still benefits from its ties with NAS, for branding, customer loyalty, and credit card CashPoints for customers. The airline's financial distress could, however, have some spillover effects on Bank Norwegian's business momentum, but given its strong brand name we believe these would be of limited magnitude. Ultimately, we believe that the bank could replace the reward program, if the airline was to default. At the same time, support from the new owners, in our view, will be crucial to Bank Norwegian's future expansion strategy, since the bank continues to explore how to replicate its Nordic business model in new markets across Europe.

Table 2

Bank Norwegian AS--Business Position					
	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (mil. NOK)	1,466.2	5,582.5	4,652.3	3,852.4	2,702.0
Retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	16.3	25.2	30.0	39.5	41.0

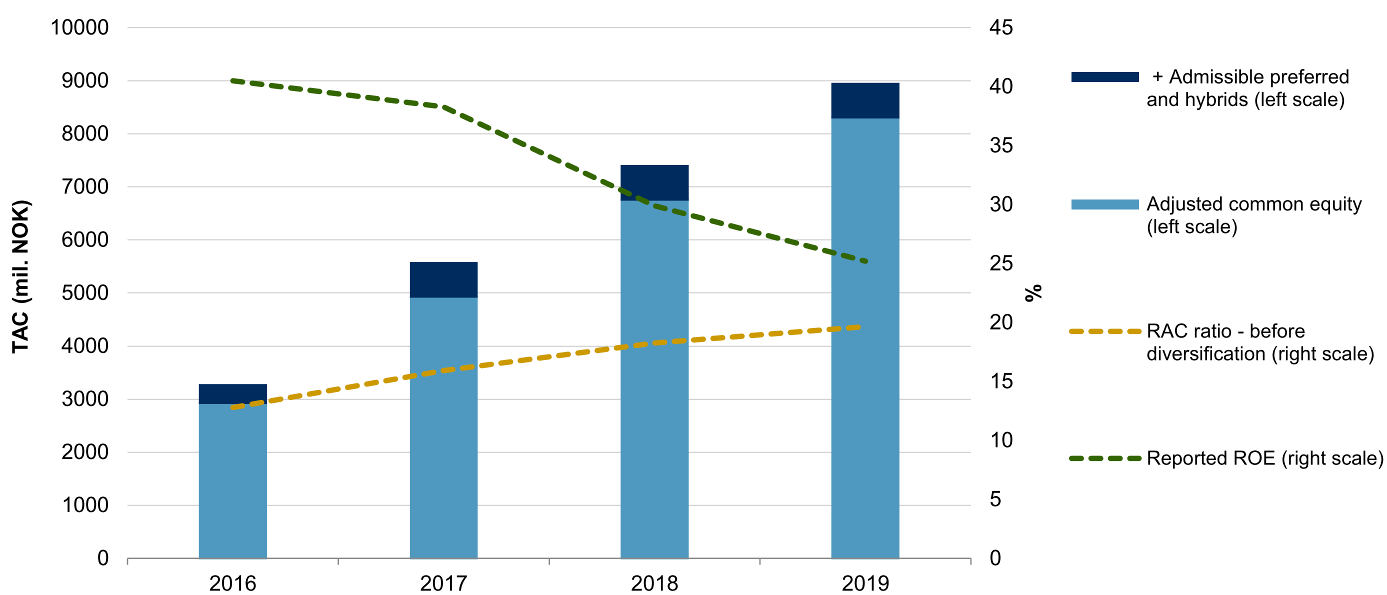
*Data at March 31, 2020. NOK--Norwegian krone.

Capital and earnings: Strong earnings underpin robust capital ratios.

We view Bank Norwegian's capitalization and earnings as very strong, based on our expectation that our RAC ratio will be comfortably above 15% over the next 18-24 months. As of Dec. 31, 2019, the RAC ratio stood at 19.6% after 18.2% in 2018.

Chart 5

Bank Norwegian's Risk Adjusted Capital Developments 2016-2019



TAC--Total adjusted capital. RAC--Risk-adjusted capital. ROE--Return on equity. NOK--Norwegian krone.
Source: S&P Global Ratings.

To date, strong profitability and full earnings retention have supported capital generation. We project loan growth of about 5%-8% over the next two years, translating into a similar increase in S&P Global Ratings' risk-weighted assets. This is well below the pace we have observed over the last three years, firstly due to the maturing consumer finance markets and secondly because of the COVID-19 induced recession in Nordics. The lower demand for consumer loans and increased cost of funding will weigh on net interest income. While Bank Norwegian's superior cost efficiency will support the bottom line while we project the cost of risk to surge to around 7% in 2020 from 3.9% in 2019 on the back of the weakening asset quality. The bank booked a COVID-19-related discretionary additional provision of NOK230 million in Q1 2020 leading to a cost of risk of 5.5% in the same period.

We consider that Bank Norwegian continues to have a strong earnings capacity and high quality of capital, with share capital and retained earnings comprising 93% of its total adjusted capital. The bank reported another year of strong profitability in 2019, with reported return on equity (ROE) at 25.2% (16.1% in Q1 2020) and return on average adjusted assets of 3.8% (2.5% in Q1 2020). Over the next two years, we expect continued strong core earnings, which will support internal capital generation needed to sustain growth. We continue to see profits as an important first line of defense against increased credit losses.

We previously expected the bank to start paying dividends in 2019, given that its capital will be strong enough to maintain a 1% management buffer above the regulatory common equity tier 1 capital ratio requirement of 16.2% at the group level (following the reduction of countercyclical buffer requirements in Norway, Sweden and Denmark) and well above its 17.5% target level. The common equity tier 1 ratio equaled 19.6% at the end of Q1 2020. However, the Norwegian FSA urged banks not to pay dividend amid COVID-19-induced stress and we understand Bank Norwegian will follow the recommendation. Going forward, we expect the bank will maintain stable regulatory capital ratios, paying all excess earnings to shareholders; we therefore forecast the payout at 40%-60%, reflecting the bank's publicly announced 40% minimum target.

Bank Norwegian conducted a share buyback of NOK160 million in May 2019. The company used shares worth NOK150 million as a consideration to NAS to ensure exclusive rights to use the Norwegian brand for banking services in connection with Lilienthal.

We incorporate the NOK635 million tier 1 issue with intermediate equity content into total adjusted capital, our measure of loss-absorbing capital. Given that AT1 issues make 6.8% of the capital we consider Bank Norwegian's capital to be strong.

Table 3

Bank Norwegian AS--Capital And Earnings

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	21.1	21.3	21.3	19.3	15.3
S&P Global Ratings' RAC ratio before diversification	N/A	19.6	18.2	15.9	12.8
S&P Global Ratings' RAC ratio after diversification	N/A	15.9	14.6	12.7	9.9
Adjusted common equity/total adjusted capital	93.2	92.9	91.4	88.6	89.7
Net interest income/operating revenues	95.1	94.2	94.7	94.9	92.5
Fee income/operating revenues	9.6	5.2	5.0	4.9	4.7

Table 3

Bank Norwegian AS--Capital And Earnings (cont.)

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Market-sensitive income/operating revenues	(4.7)	0.6	0.3	0.2	2.7
Noninterest expenses/operating revenues	24.5	23.7	26.6	27.4	36.1
Preprovision operating income/average assets	7.5	7.8	7.3	7.6	7.2
Core earnings/average managed assets	2.5	3.7	3.8	4.4	4.0

*Data at March 31, 2020. RAC--Risk-adjusted capital. N/A--Not applicable.

Table 4

Bank Norwegian AS--Risk-Adjusted Capital Framework Data

(NOK 000s)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	7,450,836.2	87,123.4	1.2	224,083.8	3.0
Of which regional governments and local authorities	1,461,880.9	87,123.4	6.0	46,470.1	3.2
Institutions and CCPs	9,391,441.9	1,498,028.9	16.0	1,478,749.9	15.7
Retail	35,667,959.6	26,750,969.7	75.0	31,472,709.5	88.2
Other assets†	4,975,482.7	5,077,308.1	102.0	4,922,173.9	98.9
Total credit risk	57,485,720.4	33,413,430.1	58.1	38,097,717.1	66.3
Credit valuation adjustment					
Total credit valuation adjustment	--	1,575.0	--	--	--
Operational risk					
Total operational risk	--	5,728,062.6	--	7,423,246.5	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	39,143,067.8	--	45,520,963.6	100.0
Total Diversification/ Concentration Adjustments	--	--	--	10,626,224.7	23.3
RWA after diversification	--	39,143,067.8	--	56,147,188.4	123.3
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		8,385,007.6	21.4	8,944,867.0	19.6
Capital ratio after adjustments‡		8,385,007.6	21.4	8,944,867.0	15.9

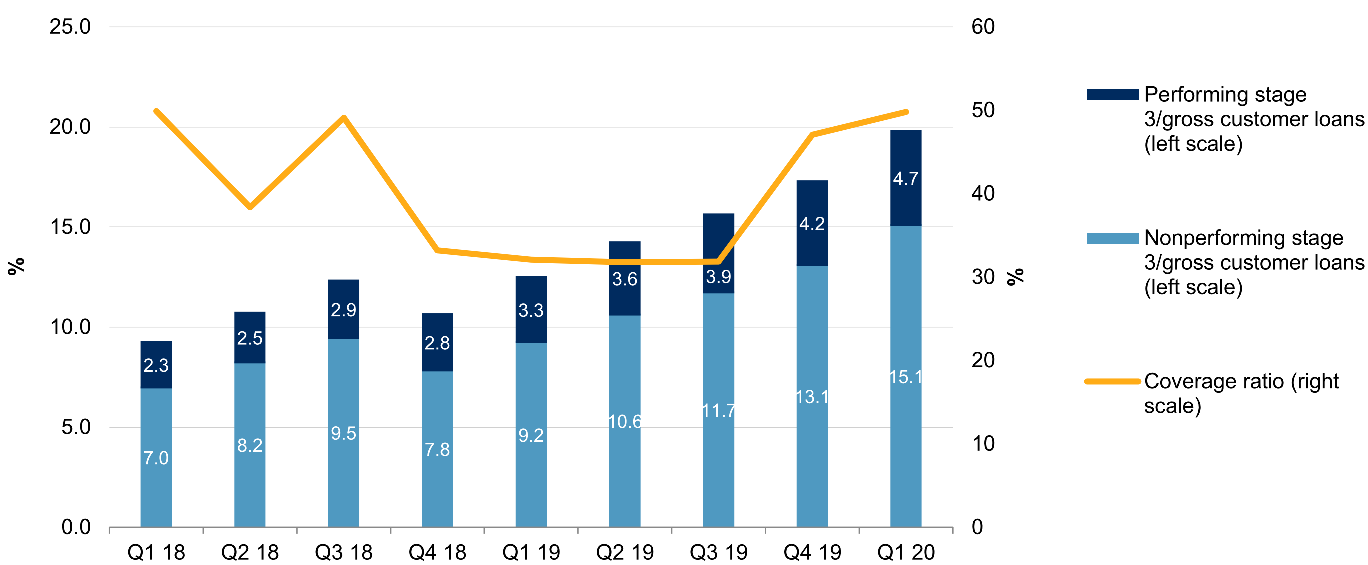
*Exposure at default. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. NOK--Norway krone. Sources: Company data as of 'Dec. 31 2019', S&P Global Ratings.

Risk position: Some geographic diversification, but higher risk in an uncertain environment.
Given its concentrated focus on higher-risk products, Bank Norwegian's credit loss experience is higher than that of universal banks operating in the Nordics. We also believe its business model leads to potentially higher operational risks relative to traditional banks, it is expanding rapidly into new markets, and there is increasing competition within the industry, all of which constrain its rating.

At the end of Q1 2020, Bank Norwegian's gross loan portfolio amounted to NOK47.0 billion. As we expected, business in Denmark and Finland, which the bank entered in 2015 and 2017, has contributed to growth but also led to weaker asset quality metrics. The reported nonperforming Stage 3 loans peaked at 15.1% at Q1 2020 after 13.1% at year-end 2019. Our definition of nonperforming loans (NPLs; Stage 3 loans including accruing loans) reached 19.8% as of March 31, 2020. We will continue to closely monitor the bank's asset quality and loan losses given its fast pace of growth in in the prevailing economic conditions and, more importantly, how COVID-19 will affect Bank Norwegian's nonperforming and forborne loans. We do not exclude further NPA sales which Bank Norwegian has used in the past (sale of portfolios in Finland in 2018 and in Sweden (Swedish krona 43 million) and Norway (NOK50 million) in 2017).

Chart 6

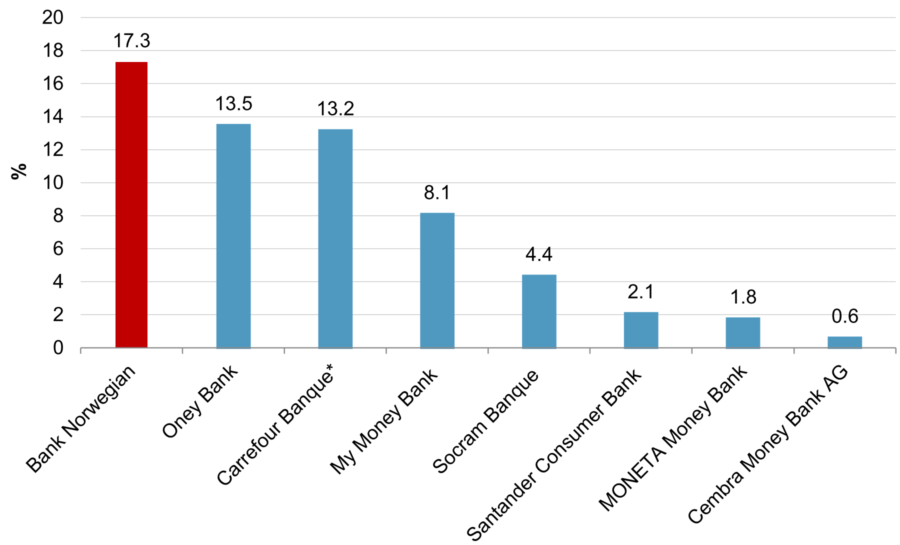
Bank Norwegian's Share Of Nonperforming Assets Continues To Increase



Q--Quarter. Source: S&P Global Ratings.

Chart 7

And Asset Quality Is Weaker Than Peers (NPA Ratio In 2019)

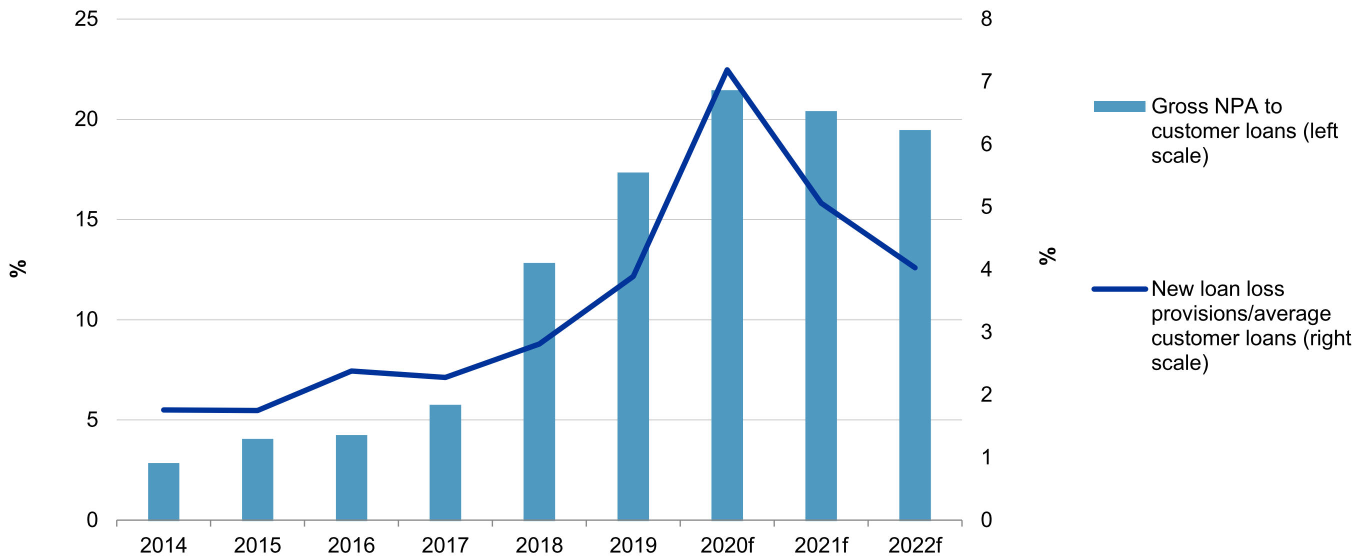


All data as of Dec. 2019. NPA--Nonperforming assets. Source: S&P Global Ratings database.

We forecast new loan loss provisions will peak in 2020 and stabilize around NOK2.1-2.4 billion in 2021-2022 due to the maturing portfolio and the headwinds from the COVID-19 impact. The high-risk nature of unsecured lending leads to larger loan losses. Bank Norwegian's loan loss provisions in 2019 were NOK1.6 billion, or 3.9% of average customer loans including some one-off items for the sale of the NPL portfolio in Finland and the correction of a model error in Finnish score cards. However, its pre-provision operating income the same year was NOK4.3 billion, and provides a critical buffer, in our view. All else being equal, the bank could absorb more than 2.5x higher losses compared with 2019, or more than 2.3% of average customer loans above our base-case losses for 2020-2021, before affecting its capital base.

Chart 8

Bank Norwegian Cost of Risk Is Expected To Peak In 2020



NPL--Nonperforming loan. NPA--Nonperforming asset. f--Forecast. Source: S&P Global Ratings.

As a relatively new digital-only bank, Bank Norwegian outsources some of the bank's less critical functions to external service providers. Although this leads to an efficient and scalable operating model, we believe it could increase the bank's operational risks relative to larger well-established banks, given its greater reliance on the performance of external parties, for example in debt collection. This is somewhat mitigated by the bank's simple operations, internal audit process, risk governance framework, and track record of effectively changing providers in the past.

Table 5

Bank Norwegian AS--Risk Position

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	25.9	11.9	17.4	33.2	78.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	23.3	25.2	25.0	29.4
Total managed assets/adjusted common equity (x)	6.9	7.0	7.5	8.7	10.4
New loan loss provisions/average customer loans	5.4	3.9	2.8	2.3	2.4
Net charge-offs/average customer loans	0.1	1.2	0.1	N.M.	N.M.
Gross nonperforming assets/customer loans + other real estate owned	19.8	17.3	12.8	5.7	4.2
Loan loss reserves/gross nonperforming assets	47.3	47.1	33.2	59.5	78.4

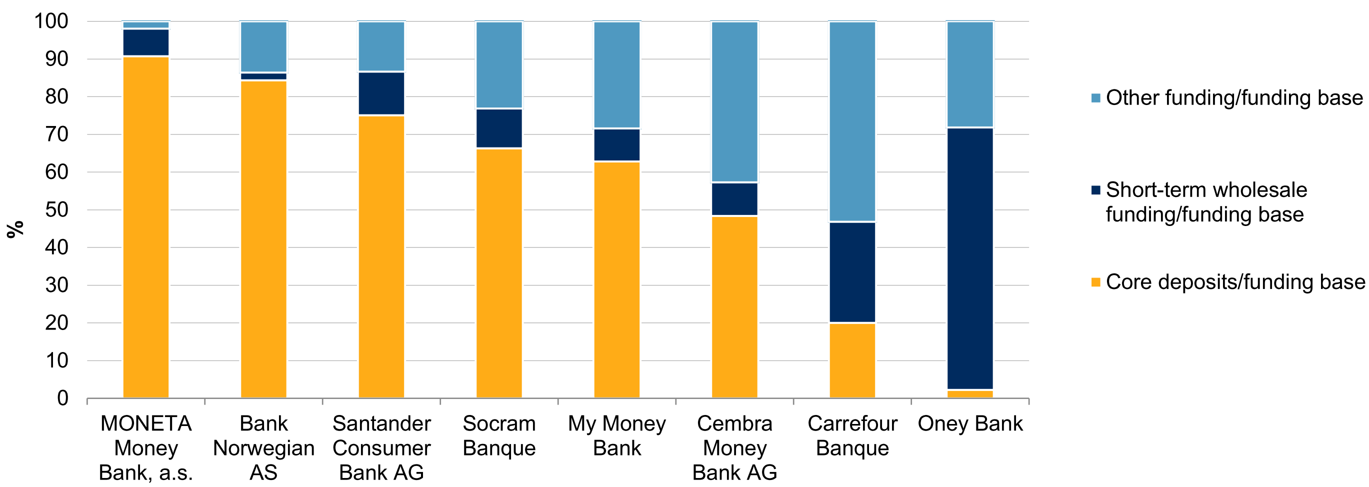
*Data at March 31, 2020. N/A--Not applicable. N.M.--Not meaningful. RWA--Risk-weighted assets.

Funding and liquidity: Dependence on price-sensitive retail deposits, but with sound liquidity buffers. Bank Norwegian is a predominantly deposit-funded institution but we consider its funding profile to be more price- and confidence-sensitive and less diversified than that of the domestic universal peers. At the same time, the bank has sound liquidity buffers and we consider its liquidity position as adequately managed.

We observe that Bank Norwegian has financed its expansion primarily through granular customer deposits, entirely from households and private individuals in each country, and demonstrates balanced key funding metrics. The stable funding ratio is estimated at 116% and core deposits to loans at 84% as of year-end 2019. Although Bank Norwegian aims to broaden its funding profile with senior unsecured debt and senior subordinated, we consider that its funding will remain less diversified than peers' in Norway.

Chart 9

Bank Norwegian Remains A Predominantly Deposit-Funded Institution



Source: S&P Global Ratings.

We observe that Bank Norwegian recently participated Norwegian Central Bank's extraordinary funding through F-Loans with a total amount of NOK1.4 billion and maturities of three and 12 months.

While Bank Norwegian's customer deposits are almost fully covered by Norway's deposit guarantee scheme (NOK2 million per depositor in Norway and €100,000 per depositor in foreign branches), in our view, the deposit franchise remains more price- and confidence-sensitive than that of universal Nordic banks. Also, an amendment in Norway's deposit guarantee scheme as of Jan. 1, 2019 has weighed on Bank Norwegian's non-domestic deposit base. We therefore consider Bank Norwegian's funding to be below average.

Liquid securities, cash, and interbank deposits amounted to 29% of total assets at year-end 2019, and comprised highly rated bank bonds, 44% local and national government securities, and 20% covered bonds. The bank's liquidity coverage is measured using the netted figure of liquid assets, over its customer deposits. This is a better indicator than our traditional broad liquid assets to short-term wholesale funding, since the bank does not make meaningful use of wholesale funding. The ratio stood at 25.7% for 2019 (2018: 23.2%) and was comparable to that of the bank's peers. We see the significant liquidity portfolio as a necessary buffer for the bank's aggressive lending strategy, and less stable deposits compared with domestic peers'.

Table 6

Bank Norwegian AS--Funding And Liquidity					
	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	81.3	84.4	93.2	92.5	92.1
Customer loans (net)/customer deposits	107.7	101.1	96.7	96.4	99.9
Long-term funding ratio	95.6	98.6	99.3	98.8	98.2
Stable funding ratio	115.8	122.1	114.2	120.5	108.7
Short-term wholesale funding/funding base	5.2	1.7	0.8	1.4	2.0
Broad liquid assets/short-term wholesale funding (x)	NA	17.4	27.0	19.0	8.5
Net broad liquid assets/short-term customer deposits	29.6	33.3	23.2	27.9	16.2
Short-term wholesale funding/total wholesale funding	26.1	10.1	10.0	15.6	21.6

*Data at March 31, 2020. N/A--Not applicable.

Support: No uplift for external support.

We do not factor any external support into our assessment of the group's credit profile. Norway has transposed key elements of the EU's Banking Recovery and Resolution Directive (BRRD) into national law. Consequently, we consider government support toward the banking sector to be uncertain and the resolution regime to be effective under our additional loss-absorbing capacity criteria.

That said, Norwegian Finans Holding will need to comply with full subordination by extended phase-in Jan. 1, 2024 (previously 2022). We see this as potentially positive for senior unsecured creditors of Bank Norwegian as the group will need to hold a substantial amount of liabilities that can be written down or converted to equity to restore the bank's own funds in a crisis before senior unsecured creditors would be exposed to losses (see Digital Lender Bank Norwegian Now Considered Critical Player In Norway, published on Nov. 29, 2019). As a result, we consider that, as NFH starts to build these buffers, we could potentially recognize the protection for senior bondholders by including ALAC notches in our issuer credit rating on the bank. However, we still lack visibility on the NOF's ability to issue sizable subordinated debt up to NOK6.8 billion within the indicated timeframe.

Additional rating factors:

We factor one notch of uplift above the 'bbb-' SACP because we believe Bank Norwegian will continue to outperform its peer group in terms of profitability. This reflects the bank's high risk-adjusted margins and its ability to generate capital by retaining earnings if needed, to support its growth plans.

Bank Norwegian's earnings buffer of more than 6% also indicates a greater capacity for earnings to cover normalized losses than that of its European consumer finance peers. This earnings buffer would act as a first line of defense in a potential adverse macroeconomic scenario and compares very favorably with our calculated earnings buffers at universal banks. High profitability is supported by strong gross margins compared with credit losses and high cost efficiency, in particular compared to consumer lenders in other countries. Moreover, Bank Norwegian's maintenance of a RAC ratio of about 17%-18% over the next two years underpins its ability to sustain capital.

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: Resilient Fundamentals And Assertive Policy Measures Will Buoy Nordic Banking Systems, June 16, 2020
- Bank Regulatory Buffers Face Their First Usability Test, June 11, 2020
- How COVID-19 Is Affecting Bank Ratings: June 2020 Update, June 11, 2020
- Bank Norwegian AS 'BBB/A-2' Ratings Affirmed Despite COVID-19 Uncertainty; Outlook Negative, March 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

Anchor Matrix

Industry Risk	Economic Risk									
	1	**2**	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	**a-**	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of July 15, 2020)*

Bank Norwegian AS	
Issuer Credit Rating	BBB/Negative/A-2
Issuer Credit Ratings History	
03-Mar-2017	BBB/Negative/A-2
Sovereign Rating	
Norway	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@spglobal.com