Bulletin:

Digital Lender Bank Norwegian Now Considered Critical Player In Norway

November 29, 2019

FRANKFURT (S&P Global Ratings) Nov. 29, 2019--S&P Global Ratings said today that the decision by the Norwegian Financial Supervisory Authority to set a high bail-in buffer requirement for Bank Norwegian AS' parent Norwegian Finans Holding ASA (NFH), reflects the regulator's view that Bank Norwegian is now considered a critical player in Norway.

We believe the decision to set a high bail-in buffer could be positive for Bank Norwegian's senior creditors because, after 2022, it would comprise only subordinated instruments. However, we will await further details before coming to our final conclusions on this matter.

Bank Norwegian (BBB/Negative/A-2) is a small, consumer finance focused, digital bank that is active mainly in Norway, but also Sweden, Finland, and Denmark. In our view, the regulator's decision likely indicates that it believes the bank is providing sufficient critical functions and would not simply be liquidated if it failed. We believe this view could stem from the bank's deposit-focused funding profile and cross-border presence.

As the group holding company, NFH will be subject to a minimum requirement of own funds and eligible liabilities (MREL) equaling 37.135% of consolidated group risk-weighted assets (based on year-end 2018), equating to Norwegian krone (NOK) 12.9 billion (€1.27 billion). NFH must meet the requirement by June 30, 2020, but can initially include senior preferred debt. Once the phase-in period ends on Dec. 31, 2022, all the MREL must be in a senior nonpreferred format. This implies that NFH will need to issue senior nonpreferred debt of at least NOK4,675 million (€463 million) before then.

We see the regulator's decision as potentially positive for Bank Norwegian's senior creditors because, 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. We will monitor further developments, not least the group's strategy to meet its end-point MREL requirement and any associated impact on the bank's funding costs.

We also see the decision as notable in the broader European context for two reasons. Firstly, it highlights the marked differences in how European resolution authorities would address the failure of second- and third-tier banks in their markets--some will be targeted for open bank bail-in resolution that restores their viability, and others could be carved up under a partial transfer strategy. Alternatively, banks could be liquidated. Secondly, the requirement imposed on NFH appears to demand that the MREL would need to be both structurally and contractually subordinated to operating company senior unsecured claims. Resolution authorities typically require only one form of subordination.

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