Credit Rating Announcement

06 September 2022

Scope affirms BN Bank ASA's issuer rating of A- with Stable Outlook

The rating continues to reflect the Norwegian bank's solid credit fundamentals and ownership by SpareBank 1 Alliance member banks.

Rating action

Scope Ratings UK Limited (Scope) has today affirmed the ratings of BN Bank ASA: issuer rating of A-, preferred senior unsecured debt rating of A-, and non-preferred senior unsecured debt rating of BBB+. All credit ratings have a Stable Outlook.

Rating rationale

BN Bank is primarily a digital bank serving both retail and corporate customers in Norway. In the retail market, the bank focuses on residential mortgage lending in eastern Norway while in the corporate market, the bank is a specialised commercial real estate lender operating mainly in the Oslo region. Over the long-term, management aims for a 70% retail / 30% corporate lending mix.

Since December 2008, BN Bank has been wholly owned by member banks of the SpareBank 1 Alliance (SB1 Alliance). Established in 1996, the alliance is comprised of regional and local banks who cooperate to achieve economies of scale and to provide a full range of competitive financial services and products. Collectively, the alliance is the second largest lender in the country with circa 20% share of the retail market and circa 15% of the corporate market.

Over the last few years, management has consistently executed on its strategy to grow mortgage lending volume, increase margins by targeting customers willing to pay for better service, and improve efficiency. Consequently, operating performance has become increasingly robust. For H1 2022, the reported return on equity was 11.4%, with the cost income ratio below 30%.

Strategic decisions such as ceasing unsecured consumer lending activities and restricting the geographic focus of the commercial real estate business support the bank’s sound asset quality profile. Nevertheless, high household debt levels (a country specific feature) and material exposure to the commercial real estate sector are structural risks. Given the current economic uncertainty, management is maintaining elevated levels of provisions in comparison to its past credit loss experience. As of 30 June 2022, non-performing and other doubtful commitments accounted for 0.4% of gross loans.

Under Scope’s bank rating methodology, the “long-term sustainability” assessment (ESG factor) captures how relevant environmental, social and governance (ESG) factors as well as an issuer’s preparedness for digital transition (D), may impact creditworthiness. The bank is actively embracing sustainability developments, including building capabilities to assess and manage ESG-related risks in the credit process as well as being a signatory to the UN's Principles for Responsible Banking. The "developing" long-term sustainability assessment on BN Bank reflects Scope's view that the progress made so far is in line with peers.

Supported by internal capital generation, the bank maintains comfortable buffers to regulatory solvency requirements. In its capital planning, management takes into consideration the expected return of the countercyclical capital buffer in Norway to 2.5% next year, from the current level of 1.5%. As of 30 June 2022, the bank's CET1 capital ratio was 19.4%, against a requirement of 15.6%.

While the bank continues to actively attract customer deposits, the use of market funding remains material. BN Banks enjoys regular access to the domestic unsecured debt market as well as to secured funding through the covered bond issuing entities of the SB1 Alliance. Mindful of past experiences during the 2008 global financial crisis, the bank is keenly aware of the need for sound liquidity management and maintains liquidity metrics (LCR, NSFR) comfortably above requirements.

One or more key drivers for the credit rating action are considered ESG factors.

Outlook and rating-change drivers

The Stable Outlook reflects Scope's expectation that BN Bank's operating performance will remain resilient even in a less benign business cycle.
What could move the rating up:

- Further strengthening of market position accompanied by sustained profitable growth, without an increase in the bank's risk profile

What could move the rating down:

- Loss of advantages from being affiliated with the SB1 Alliance

- A deterioration in operating conditions which materially impacts earnings and capitalisation

Overview of rating components

Operating environment: Very supportive

Business model: Focused

Initial mapping refinement: High

Initial mapping: bbb/bbb+

Long-term sustainability (ESG-D): Developing

Adjusted anchor: bbb

Earnings capacity and risk exposures: Supportive

Financial viability management: Comfortable

Additional rating factors: Neutral factor

External support: Not applicable

Issuer rating: A-

Stress testing & cash flow analysis
No stress testing was performed. No cash flow analysis was performed.

Methodology
The methodology used for these Credit Ratings and Outlooks, (Financial Institutions Rating Methodology, 28 January 2022), is available on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.
Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions - Credit Ratings, Ancillary and Other Services', published on https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at https://scoperatings.com/governance-and-policies/regulatory/uk-regulation. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.
The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information
The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.
The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity, and Scope Ratings' internal sources.
Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting the Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.
Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and Outlooks and the principal grounds on which the Credit Ratings and Outlooks are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures
These Credit Ratings and Outlooks are issued by Scope Ratings UK Limited at 52 Grosvenor Gardens, London, United Kingdom, SW1W 0AU, Tel +44 20 7824 5180. The Credit Ratings and Outlooks are EU-endorsed.
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The issuer Credit Rating/Outlook was first released by Scope Ratings on 8 August 2019. The Credit Rating/Outlook was last updated on 28 September 2021.
The preferred senior unsecured debt Credit Rating/Outlook was first released by Scope Ratings on 8 August 2019. The Credit Rating/Outlook was last updated on 28 September 2021.
The non-preferred senior unsecured debt Credit Rating/Outlook was first released by Scope Ratings on 28 September 2021.

Potential conflicts
See www.scoperatings.com under Governance & Policies/UK Regulation/Disclosures for a list of potential conflicts of interest related to the issuance of Credit Ratings.

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About Scope Group

With more than 250 employees operating from offices in Berlin, Frankfurt, Hamburg, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG and fund analysis. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. **Scope Ratings** is the largest European credit rating agency, registered in accordance with EU and UK rating agency regulation, offering opinion-driven and non-mechanistic credit risk analysis. **Scope ESG Analysis** provides tools for analysing and reporting on ESG impact and risk, as well as second-party opinions on green, social and sustainable bonds. **Scope Fund Analysis** rates more than 10,000 funds and asset managers across all major asset classes. The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several European countries. More on www.scopegroup.com

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