Credit Rating Announcement

24 August 2023

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

The rating affirmation reflects the Norwegian bank's solid earnings, sound asset quality and reassuring prudential metrics.

Rating action

Scope Ratings UK Limited (Scope) has today affirmed the ratings of BN Bank ASA: issuer rating of A-, senior unsecured debt rating of A-, and senior unsecured (subordinated) 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. The business mix is about 65% retail and 35% corporate.

Since December 2008, BN Bank has been wholly owned by member banks of the SpareBank 1 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 about 20% of the retail market and about 15% of the corporate market.

Management has consistently executed its strategy to grow mortgage lending and improve efficiency over the last several years. Consequently, the bank’s operating performance has become increasingly robust. For H1 2023, the reported return on equity was 12.9%, with the cost/income ratio below 30%.

BN Bank maintains a sound asset quality profile despite being more exposed to the commercial real estate sector than peers. The bank has developed expertise in the sector and the risk profile of its exposures remains low. As of Q2 2023, Stage 3 loans accounted for 0.6% of gross loans. While high inflation and high interest rates will place pressure on the commercial real estate sector, Scope expects the bank to readily absorb potentially higher impairments through its solid earnings capacity.

The ‘developing’ long-term sustainability assessment reflects the bank’s continuing efforts to incorporate sustainability considerations throughout its business (ESG factor). Enhancing the ESG assessment of corporate customers as well as reporting to Global Reporting Initiative standards and preparing for future reporting requirements are areas of ongoing work. BN Bank also continues to invest in its technical capabilities to remain competitive in a market characterised by high digitalisation.

Underpinned by internal capital generation, BN Bank maintains comfortable buffers to regulatory solvency requirements. As of Q2 2023, the common equity tier 1 ratio was 18.7%, against a requirement of 16.6% while the leverage ratio was 7.6%, against a requirement of 3%. These figures incorporate additional buffers being held pending the Norwegian FSA's approval of revised internal ratings-based credit models for the bank's corporate exposures (with an impact of about 70 bp on the common equity tier 1 ratio).

As part of its strategy to maintain a stable funding profile, the bank actively pursues customer deposits to fund growth. Nevertheless, the use of market funding is significant. BN Bank benefits from regular access to the domestic unsecured debt market as well as to secured funding through the covered bond issuing entities of the SpareBank 1 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 reassuring liquidity metrics.

One or more key drivers of 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 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 SpareBank 1 Alliance

- A deterioration in operating conditions materially impacting earnings

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/or Outlooks, (Financial Institutions Rating Methodology, 7 February 2023), 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 these 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.
Lead analyst: Pauline Lambert, Executive Director.
Person responsible for approval of the Credit Ratings: Nicolas Hardy, Executive Director
The issuer Credit Rating/Outlook was first released by Scope Ratings on 8 August 2019. The Credit Rating/Outlook was last updated on 6 September 2022.
The senior unsecured debt Credit Rating/Outlook was first released by Scope Ratings on 8 August 2019. The Credit Rating/Outlook was last updated on 6 September 2022.
The senior unsecured (subordinated) debt Credit Rating/Outlook was first released by Scope Ratings on 28 September 2021. The Credit Rating/Outlook was last updated on 6 September 2022.

Potential conflicts

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