

Rating Action: Moody's upgrades Ringkjobing Landbobank's Issuer ratings to Aa3; outlook stable

18 May 2022

Stockholm, May 18, 2022 -- Moody's Investors Service ("Moody's") has today upgraded Ringkjobing Landbobank A/S's (Ringkjobing) long-term Issuer ratings to Aa3 from A1 and affirmed the short-term Issuer ratings at P-1. The rating agency also affirmed the bank's Baseline Credit Assessment (BCA) and Adjusted BCA at a3, its Deposit Ratings at Aa3/P-1, its Counterparty Risk Ratings at Aa3/P-1 and its Counterparty Risk Assessments at Aa3(cr)/P-1(cr). The outlook on the long-term Issuer and Deposit ratings is stable.

Today's rating action reflects the bank's strong a3 BCA standalone credit profile and Moody's view that the bank's senior creditors will benefit from lower loss-given-failure considering a bigger cushion of more junior liabilities in the form of senior non-preferred debt (SNP, classed as junior senior unsecured debt by Moody's). The bank has navigated the coronavirus pandemic without any deterioration in its asset risk, is regaining its pre-pandemic profitability and has a very strong capitalization.

A full list of affected ratings and assessments can be found at the end of this press release.

RATINGS RATIONALE

-- AFFIRMATION OF THE BCA AND ADJUSTED BCA REFLECTS CONTINUED STRONG SOLVENCY AND SOLID FUNDING PROFILE

The affirmation of Ringkjobing's a3 standalone BCA and Adjusted BCA reflects the bank's: (1) very strong capitalization, with a 16.96% tangible common equity (TCE)/risk-weighted assets ratio as of March 2022 and a 12.65% TCE/total assets ratio; (2) strong profitability with a net income to tangible assets of 2.07% in 2021 and 2.43% in the first three months of 2022, and strong operating efficiency; and (3) a solid funding profile, reflecting ample deposits and low reliance on market funding. These strengths are balanced against the moderate asset risks from a loan book that is somewhat concentrated by geography, industry and single borrowers.

Ringkjobing has weathered the pandemic well and is yet again showing a strong net income to tangible assets above 2%, maintaining its strong capitalization. With additional focus on private banking through acquisitions and partnerships, the bank is diversifying its income streams further. Provision levels are back at very low levels, 0.04% of average gross loans for the first three months of 2022, compared to 0.6% in 2020, and problem loans to gross loans has improved to 3.91% at end of March 2022 from 4.65% at the end of 2020.

-- ISSUER RATINGS UPGRADE REFLECTS HIGHER CUSHION OF LOSS ABSORPTION FROM SENIOR NON-PREFERRED DEBT ISSUANCES

The upgrade of Ringkjobing's long-term Issuer ratings reflects Moody's Advanced Loss Given Failure (LGF) analysis based on recently issued volumes of SNP debt and the agency's expectation of the bank's liability structure evolution over the coming years. These higher ongoing amounts of junior debt will afford a potentially greater loss-absorption buffer for more senior classes of debt, such as junior depositors and senior unsecured debt, in resolution or failure. Moody's therefore considers that senior creditors are likely to face extremely low loss-given-failure leading to a three-notch uplift from the bank's a3 Adjusted BCA, up from a two-notch uplift previously.

Ringkjobing meets its bank-specific minimum requirement for own funds and eligible liabilities (MREL) of 17.8% through a combination of SNP debt, hybrid instruments (including subordinated debt) and common equity. The bank has published a target MREL ratio of 25% or higher, considering the combined buffer requirement of 5.0% to be held above MREL (and anticipating the authorities' decision to raise the countercyclical capital buffer to 2.5% by March 2023). The bank's reported MREL ratio was 27.7% as March 2022. Moody's expects that Ringkjobing will maintain current volumes of loss-absorbing debt given the bank's public disclosures and its current capital and MREL minimum targets, which along with some tangible banking asset growth through to 2024, will provide a substantial cushion to protect senior creditors.

-- STABLE OUTLOOK

The stable outlook reflects Moody's expectation that the bank's solid capital, existing management provisions and strong revenue generating capacity will provide a substantial buffer against potential downside risks in the operating environment.

The stable outlook also reflects the rating agency's expectation of a broadly stable liability structure, resulting in unchanged rating uplift over the next 12-18 months from the bank's Advanced LGF analysis.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Ringjobing's ratings could be upgraded following a material improvement in its fundamental profile, as indicated by the bank's BCA, as a result of: (1) a significant reduction in concentrations, particularly to volatile sectors and to single borrowers, leading to lower susceptibility to adverse events, as well as, a long period with lower than historic losses; (2) increased geographic diversification, a constraint at the bank's current level, without an increase in risk taken; and (3) a substantial improvement in the bank's liquidity.

Downward pressure on Ringjobing's ratings could emerge from a deterioration in the bank's fundamental credit profile, for instance if we observe: (1) a material weakening in capital metrics; (2) a substantial increase in problem loans and higher through-the-cycle losses, compared to the low levels experienced in the past for Ringjobing, or, an increase in credit concentrations to single borrowers or higher risk sectors; (3) a persistent weakening of the bank's recurring earnings power and operating efficiency; and (4) a significant increase in the bank's reliance on market funding from the currently expected low level.

Ringjobing's Deposit and Issuer ratings could also be downgraded if there is a material shift in the bank's funding mix, or the bank's assets grow more rapidly without a corresponding increase in junior senior debt or Tier 2 issuances, resulting in lower rating uplift under our Advanced LGF framework.

LIST OF AFFECTED RATINGS

..Issuer: Ringjobing Landbobank A/S

Upgrades:

....Long-term Issuer Ratings, Upgraded to Aa3 from A1, Outlook Remains Stable

Affirmations:

....Adjusted Baseline Credit Assessment, Affirmed a3

....Baseline Credit Assessment, Affirmed a3

....Long-term Counterparty Risk Assessment, Affirmed Aa3(cr)

....Short-term Counterparty Risk Assessment, Affirmed P-1(cr)

....Long-term Counterparty Risk Ratings, Affirmed Aa3

....Short-term Counterparty Risk Ratings, Affirmed P-1

....Short-term Issuer Ratings, Affirmed P-1

....Long-term Bank Deposit Ratings, Affirmed Aa3, Outlook Remains Stable

....Short-term Bank Deposit Ratings, Affirmed P-1

Outlook Action:

....Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Niclas Boheman
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service (Nordics) AB
Norrandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Simon Ainsworth
Associate Managing Director
Financial Institutions Group

JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service (Nordics) AB
Norrandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



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