

Rating Action: Moody's upgrades Ringkjøbing Landbobank's deposit and issuer ratings; outlook stable

08 Sep 2020

Limassol, September 08, 2020 -- Moody's Investors Service (Moody's) has today upgraded Ringkjøbing Landbobank A/S' (Ringkjøbing) long-term deposit rating to Aa3 from A1 and its long-term issuer rating to A1 from A2. The rating agency changed the outlook on the aforementioned ratings to stable from positive. The rating agency also affirmed the bank's Baseline Credit Assessment (BCA) and Adjusted BCA at a3, its short-term deposit and issuer ratings at P-1, its Counterparty Risk Ratings at Aa3/P-1 and its Counterparty Risk Assessments at Aa3(cr)/P-1(cr).

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 in light of 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 rating agency considers that Ringkjøbing's standalone credit profile will remain resilient to the current macroeconomic challenges. Despite an expected deterioration in asset quality, the bank's capital will remain strong, supported by a growing cushion of management-estimated provisions and high pre-provision profitability.

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 RESILIENT FINANCIAL PROFILE

The affirmation of Ringkjøbing's a3 standalone BCA and Adjusted BCA reflects the bank's: (1) strong capitalisation, with a 16.9% tangible common equity (TCE)/risk-weighted assets ratio as of June 2020 and a 12.2% TCE/total assets ratio; (2) still relatively high profitability with a net income to tangible assets of 1.5% for the first half of 2020, despite current macroeconomic pressure, and improving operating efficiency; and (3) a solid funding profile, reflecting ample deposits and low reliance on market funding. As a counterbalance to the aforementioned strengths, the bank's BCA remains constrained by elevated asset risks from a loan book that is somewhat concentrated by geography, industry and single borrowers.

Moody's expects that the economic fallout from the coronavirus-induced disruption will lead to modest asset quality deterioration for the bank in the coming quarters once government support measures to businesses and households are gradually lifted. However, the bank's existing stock of management provisions to cover potential future impairment charges, equivalent to 1.4% of gross loans as of June 2020, and high pre-provision profitability will allow the bank to deal with the upcoming challenges. The full extent of the asset quality deterioration will, nevertheless, depend on the length and extend of the economic fallout.

-- RATINGS UPGRADE REFLECTS HIGHER LOSS ABSORPTION FROM JUNIOR DEBT ISSUANCES

The upgrade of Ringkjøbing's long-term deposit and issuer ratings reflects Moody's forward-looking 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.

Ringkjøbing meets its bank-specific minimum requirement for own funds and eligible liabilities (MREL) of 20.2% through a combination of SNP debt, hybrid instruments (including subordinated debt) and common equity. Over the two years to end-June 2020 the bank had issued DKK1.3 billion (approximately €178 million) of SNP debt. The bank's reported MREL ratio was 30.0% as June 2020. Moody's expects that Ringkjøbing 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 2022, will provide a substantial cushion to protect senior creditors. The bank reports that it expects to make small SNP issues in 2021 and 2022.

This issuance underpins the rating agency's forward-looking LGF analysis for the bank which indicates that junior depositors are likely to face extremely low loss-given-failure leading to a three notch uplift from the bank's a3 Adjusted BCA from which these ratings are notched, up from a two notch uplift previously. For the issuer rating the LGF analysis indicates a very low loss-given-failure, leading to a two notch uplift from the Adjusted BCA, from one notch previously.

-- STABLE OUTLOOK

The stable outlook reflects Moody's expectation that the bank's solid capital, existing management provisions and relatively robust revenue generating capacity will provide a substantial buffer against the deteriorating credit 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 further upgraded from 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.

The bank's issuer rating could also be upgraded following changes in the bank's liability structure, such as, issuances of substantial additional amounts of SNP debt than currently expected.

Downward pressure on Ringjobing's ratings could emerge from a deterioration in the bank's fundamental credit profile, for instance if Moody's observes: (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; or (4) an 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 SNP or Tier 2 issuances and that results in lower rating uplift, than currently assumed, under Moody's Advanced LGF framework.

LIST OF AFFECTED RATINGS

..Issuer: Ringjobing Landbobank A/S

Upgrades:

... Long-term Issuer Rating, Upgraded to A1 from A2, Outlook Changed To Stable From Positive

... Long-term Bank Deposits, Upgraded to Aa3 from A1, Outlook Changed To Stable From Positive

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 Rating, Affirmed Aa3

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

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

... Short-term Bank Deposits, Affirmed P-1

Outlook Actions:

....Outlook, Changed To Stable From Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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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.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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