

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Ringkjobing Landbobank A/S's long-term issuer and deposit ratings at Aa3, outlook stable

11 Jun 2024

Stockholm, June 11, 2024 -- Moody's Ratings (Moody's) has today affirmed Ringkjobing Landbobank A/S's (Ringkjobing) long- and short-term issuer and deposit ratings at Aa3/P-1 and the Baseline Credit Assessment (BCA) and Adjusted BCA at a3. Also, the long- and short-term Counterparty Risk Ratings (CRR) and Counterparty Risk (CR) Assessments were affirmed at Aa3/P-1 and Aa3(cr)/P-1(cr), respectively. The outlook on the long-term issuer and deposit ratings remains stable.

RATINGS RATIONALE

BASELINE CREDIT ASSESSMENT

The affirmation of Ringkjobing's a3 standalone BCA and Adjusted BCA reflects the bank's: (1) very strong capitalization, with a 19.0% tangible common equity (TCE) to risk-weighted assets ratio as of end March 2024, (2) strong recurring profitability with a net income to tangible assets ratio of 3.0% in 2023 and 3.4% in the first three months of 2024, and very 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 has concentrations by geography, industry and single borrowers. Problem loans to gross loans ratio has improved and reached 2.58% at end of March 2024, down from 2.86% at the end of 2022.

DEPOSIT AND ISSUER RATINGS

Ringkjobing's Aa3 long-term issuer and deposit ratings reflect the bank's a3 Adjusted BCA, and a three-notch uplift and up according to Moody's Advanced Loss Given Failure (LGF) analysis, which considers that senior creditors and junior depositors are likely to face extremely low losses given failure due to the ample buffers of loss absorbing liabilities.

OUTLOOK

The stable outlook on the long-term issuer and deposit ratings 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 deterioration in credit quality.

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

Ringkjobing'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; and (2) increased geographic diversification, a constraint at the bank's current level, without an increase in risk taken.

Downward pressure on Ringkjobing'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 Ringkjobing, 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.

Ringkjobing'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.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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