

Rating Action: Moody's affirms Ringkjobing's deposit ratings at A1/P-1; outlook stable

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First-time A2/P-1 long- and short-term issuer ratings assigned

Frankfurt am Main, September 26, 2017 -- Moody's Investors Service (Moody's) has today affirmed Ringkjobing Landbobank A/S's (Ringkjobing) long- and short-term deposit ratings at A1/P-1 respectively. At the same time, Moody's affirmed the bank's baseline credit assessment (BCA) and its Adjusted BCA at a3. Ringkjobing's long- and short-term CR Assessments were also affirmed at Aa3(cr)/P-1(cr).

As part of today's rating action, Moody's has also assigned, for the first-time, A2 long-term issuer ratings and P-1 short-term issuer ratings to Ringkjobing. The outlook on the bank's long-term issuer and deposit ratings is stable.

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

RATINGS RATIONALE

-- AFFIRMATION OF RINGKJOBING'S DEPOSIT RATINGS

The rating affirmation primarily reflects the bank's BCA of a3, which is underpinned by Ringkjobing's solid capital and leverage position, good earnings from core activities and high operating efficiency, as well as its healthy deposit-funded structure. These strengths are balanced against the bank's relatively elevated -- albeit improving -- level of problem loans and its somewhat concentrated loan book by geography and industry. The affirmation also takes into consideration the bank's above-market growth rate in lending, including mortgage loans in a rising house price environment. Ringkjobing's A1 long-term deposit rating benefits from two notches of uplift added on top of the bank's a3 BCA, as per Moody's Advanced Loss Given Failure (LGF) approach due to a significant volume of junior deposits.

The bank reports solid capital and leverage position, which stood at 17.2% Common Equity Tier 1 (CET1) ratio at end-June 2017, almost unchanged compared with 16.9% at end-2016. Further, at 14.2% at end-June 2017, Ringkjobing has one of the highest leverage ratios (measured as equity to assets) among Nordic and international banks.

The affirmation of the BCA also reflects Moody's expectation of continued ample earnings and high operating efficiency, reflected in Ringkjobing's low cost-to-income ratio of 28% during the period January to June 2017 (2016: 31%). The benign domestic environment will further support Ringkjobing's earnings, as impairment charges are likely to further decline from an already very low level. During 2016, Ringkjobing reported a return on assets (ROA) of 2.2%, compared with 2.1% in 2015. During 1H17, the improving trend continued, as underpinned by an annualized ROA of around 2.5%.

As a counterbalance to these strengths, Ringkjobing's standalone credit profile remains challenged by its elevated -- albeit improving -- level of problem loans and somewhat concentrated loan book by geography and industry. The bank's problem loans as a percentage of gross loans decreased to 5.0% at end-2016 compared with 5.8% in 2015, based on Moody's calculations, and exhibits some sector- and single-name concentrations, reflecting its narrow banking franchise. Further, Ringkjobing manages an unseasoned loan portfolio, reflecting significant loan growth of around 52% between 2012 and 1H2017. While outstanding loans (excluding guarantees) only increased by 2.6% during 2016, growth picked up again during 1H2017, increasing the bank's gross loan portfolio by 8.7% to DKK20.0 billion compared with year-end 2016.

The other driver for the affirmation of Ringkjobing's long-term deposit ratings relates to Moody's unchanged assessment around the severity of loss faced by the different liability classes in resolution. The ample volume of junior deposits will provide a significant degree of protection for these liabilities, resulting in two notches of uplift, according to the Loss Given Failure (LGF) approach.

-- ASSIGNMENT OF ISSUER RATINGS

Moody's assignment of first-time A2/P-1 long- and short-term issuer ratings to Ringkjobing reflects the bank's standalone credit profile as expressed by its adjusted BCA of a3 and also takes into account the Loss Given Failure (LGF) analysis of the bank's volume of deposits and subordinated liabilities, resulting in one notch of rating uplift. In addition, the agency's assessment of a low probability of government support does not result in any rating uplift for the bank's senior unsecured debt. Issuer Ratings are opinions of the ability to honor senior unsecured debt and debt-like obligations.

For Ringkjobing's A2 issuer ratings, Moody's LGF analysis - which takes into account the severity of loss faced by the different liability classes in resolution - indicates a low loss-given-failure, leading to one notch of rating uplift from the bank's a3 Adjusted BCA.

-- RATIONALE FOR THE STABLE OUTLOOK

The stable outlook on Ringkjobing reflects Moody's anticipation that the key credit characteristics of the bank will remain supported by the benign operating environment over the next 12 to 18 months.

WHAT COULD CHANGE THE RATING UP/DOWN

Upward pressure on Ringkjobing's ratings could develop from (1) further improvement in asset-quality metrics, especially in relation to agricultural lending; (2) a significant reduction of loan and sector concentrations, leading to a lower susceptibility to adverse events; and (3) an improvement of the bank's liquidity.

Upward rating momentum for the long-term ratings of Ringkjobing could develop as a result of a change in the bank's funding structure, such as the issuance of higher volumes of senior unsecured debt or subordinated debt that would result in notching uplift under Moody's LGF framework.

Downward pressure on Ringkjobing's ratings could emerge from (1) a deterioration in asset quality or capital metrics; (2) a persistent weakening of the bank's recurring earnings power and operating efficiency; and/or (3) an increase in the bank's reliance on market funding from the current low level.

Ringkjobing's long-term ratings could be downgraded following (1) a downgrade of the bank's BCA; or (2) a significant decrease in the bank's junior deposits, leading to fewer notches of rating uplift under Moody's Advanced LGF analysis.

LIST OF ASSIGNED & AFFECTED RATINGS

Issuer: Ringkjobing Landbobank A/S

Assignments:

...LT Issuer Rating, Assigned A2 Stable

...ST Issuer Rating, Assigned P-1

Affirmations:

...LT Bank Deposits, Affirmed A1, Outlook Remains Stable

...ST Bank Deposits, Affirmed P-1

...Adjusted Baseline Credit Assessment, Affirmed a3

...Baseline Credit Assessment, Affirmed a3

...LT Counterparty Risk Assessment, Affirmed Aa3(cr)

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

Outlook Actions:

...Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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