

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades Novo Banco, S.A.'s senior unsecured debt ratings to Baa3; outlook positive

29 Aug 2024

Madrid, August 29, 2024 -- Moody's Ratings (Moody's) has today upgraded Novo Banco, S.A. (Novo Banco) and – where applicable – its supported entities' senior unsecured debt and medium-term note (MTN) programme ratings to Baa3/(P)Baa3 from Ba1/(P)Ba1. At the same time, the rating agency has affirmed: (1) the long-term deposit ratings at Baa1; (2) the junior senior unsecured MTN programme ratings at (P)Ba1; (3) the subordinated debt and subordinate MTN programme ratings at Ba2/(P)Ba2; (4) the Counterparty Risk (CR) Assessments at Baa1(cr)/Prime-2(cr); and (5) the long-term and short-term Counterparty Risk Ratings (CRRs) at Baa1/Prime-2. The outlook on the long-term deposit and senior unsecured debt ratings remains positive.

We have also upgraded the bank's commercial paper ratings to Prime-3 from Not Prime and affirmed its short-term deposit ratings at Prime-2. The bank's Baseline Credit Assessment (BCA) and Adjusted BCA of ba1 remains unaffected by today's rating action.

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

RATINGS RATIONALE

-- RATIONALE FOR UPGRADING THE SENIOR UNSECURED DEBT AND COMMERCIAL PAPER RATINGS

The upgrade of Novo Banco's senior unsecured debt and commercial paper ratings to Baa3 and Prime-3, respectively, from Ba1 and Not Prime reflects: (1) the unchanged BCA and Adjusted BCA of ba1; (2) the outcome of our Advanced Loss Given Failure (LGF) analysis, that now leads to one notch of uplift for the bank's senior unsecured debt ratings from previously no uplift; and (3) our unchanged assumption of a low likelihood of support from the Government of Portugal (A3 stable), which continues to result in no further uplift to the bank's senior unsecured debt ratings.

Today's rating action is predicated on our assumption that there is a high likelihood that Novo Banco will continue to issue debt in order to comply with its Minimum Requirement for own funds and Eligible Liabilities (MREL), as it is planning to normalise its capital structure by reducing capital levels and issuing debt instruments ahead of the lifting of the dividend ban that is currently in place. This lifting is expected to occur in December 2025 with the end of the so-called "contingent capital agreement" that was established in 2017 as part of Novo Banco's sale process.

As a result of the additional expected issuance, our revised Advanced LGF analysis now indicates a low loss-given-failure for senior unsecured creditors, leading to one notch of uplift from the ba1 Adjusted BCA.

Novo Banco's MREL requirement is set at 27.0% of its total risk exposure amount (TREA) and needs to be fulfilled by 1 January 2026. At end-June 2024, Novo Banco's MREL ratio stood at 28.3%, already above the regulatory requirement.

-- RATIONALE FOR AFFIRMING THE LONG-TERM DEPOSIT RATING

For Novo Banco's deposits, our Advanced LGF analysis continues to indicate an extremely low loss severity in the event of the bank's failure, leading to a Baa1 long-term deposit rating, three notches above the bank's Adjusted BCA. The rating of this debt class does not benefit from any government support uplift, in line with our assumption of a low probability of government support to be forthcoming to instruments specifically designated as loss-absorbing in resolution.

-- OUTLOOK

The outlook on Novo Banco's long-term deposit and senior unsecured debt ratings remains positive, reflecting our view that the strengthening in the bank's credit profile could be sustained over the next 12 to 18 months.

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

An upgrade of Novo Banco's long-term deposit and senior unsecured debt ratings could be prompted by an upgrade of its BCA. The bank's BCA could be upgraded if recent improvements in its credit profile are sustained over the next 12 to 18 months.

The bank's senior unsecured debt ratings could also be upgraded in case the bank issues a significant amount of senior unsecured debt and/or subordinated instruments beyond our expectations.

Novo Banco's long-term deposit and senior unsecured debt ratings could be downgraded following a downgrade of the BCA. The bank's BCA could be downgraded if its financial profile weakens due to an erosion of its solvency, or if its combined liquidity profile was to deteriorate from current levels.

Novo Banco's senior unsecured debt ratings could also be downgraded in case the bank fails to issue additional MREL eligible instruments. In addition, the bank's long-term deposit and senior unsecured debt ratings could be downgraded should the bank's volume of loss-absorbing liabilities shrink or in case it expands its balance sheet more than we currently expect, such that it increases the loss severity.

LIST OF AFFECTED RATINGS

Issuer: Novo Banco, S.A.

..Upgrades:

.... Senior Unsecured (Local Currency), Upgraded to Baa3 POS from Ba1 POS

.... Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)Baa3 from (P)Ba1

.... Senior Unsecured Medium-Term Note Program (Local Currency), Upgraded to (P)Baa3 from (P)Ba1

.... Commercial Paper (Local Currency), Upgraded to P-3 from NP

..Affirmations:

.... LT Counterparty Risk Rating (Foreign Currency), Affirmed Baa1

.... LT Counterparty Risk Rating (Local Currency), Affirmed Baa1

.... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-2

.... ST Counterparty Risk Rating (Local Currency), Affirmed P-2

.... LT Bank Deposits (Foreign Currency), Affirmed Baa1 POS

.... LT Bank Deposits (Local Currency), Affirmed Baa1 POS

.... ST Bank Deposits (Foreign Currency), Affirmed P-2

.... ST Bank Deposits (Local Currency), Affirmed P-2

.... LT Counterparty Risk Assessment, Affirmed Baa1(cr)

.... ST Counterparty Risk Assessment, Affirmed P-2(cr)

.... Junior Senior Unsecured Medium-Term Note Program (Foreign Currency), Affirmed (P)Ba1

.... Junior Senior Unsecured Medium-Term Note Program (Local Currency), Affirmed

(P)Ba1

.... Subordinate (Local Currency), Affirmed Ba2

.... Subordinate Medium-Term Note Program (Foreign Currency), Affirmed (P)Ba2

.... Subordinate Medium-Term Note Program (Local Currency), Affirmed (P)Ba2

..Outlook Actions:

....Outlook, Remains Positive

Issuer: NB Finance Ltd.

..Upgrades:

.... Backed Senior Unsecured (Foreign Currency), Upgraded to Baa3 POS from Ba1 POS

..Outlook Actions:

....Outlook, Remains Positive

Issuer: Novo Banco S.A., Luxembourg Branch

..Upgrades:

.... Senior Unsecured (Local Currency), Upgraded to Baa3 POS from Ba1 POS

..Affirmations:

.... LT Counterparty Risk Rating (Foreign Currency), Affirmed Baa1

.... LT Counterparty Risk Rating (Local Currency), Affirmed Baa1

.... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-2

.... ST Counterparty Risk Rating (Local Currency), Affirmed P-2

.... LT Bank Deposits (Foreign Currency), Affirmed Baa1 POS

.... LT Bank Deposits (Local Currency), Affirmed Baa1 POS

.... ST Bank Deposits (Foreign Currency), Affirmed P-2

.... ST Bank Deposits (Local Currency), Affirmed P-2

.... LT Counterparty Risk Assessment, Affirmed Baa1(cr)

... ST Counterparty Risk Assessment, Affirmed P-2(cr)

..Outlook Actions:

...Outlook, Remains Positive

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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