

CREDIT OPINION

25 November 2024

Update

Send Your Feedback

RATINGS

Novo Banco, S.A.

Domicile	Lisboa, Portugal
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa2
Type	Senior Unsecured - Dom Curr
Outlook	Positive
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Novo Banco, S.A.

Update following rating upgrade, outlook remains positive

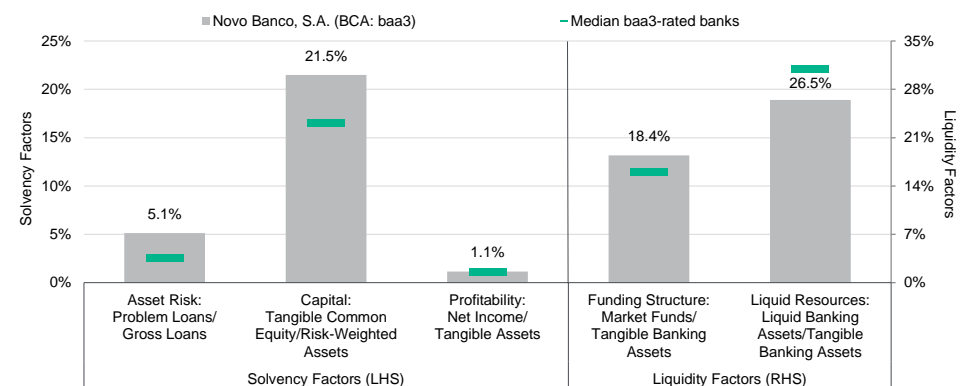
Summary

[Novo Banco, S.A.](#)'s (Novo Banco) long-term deposit ratings of A3 and long-term senior unsecured debt ratings of Baa2 reflect the bank's Baseline Credit Assessment (BCA) of baa3; the outcome of our Advanced Loss Given Failure (LGF) analysis, which results in a three-notch uplift for the deposit ratings and a one-notch uplift for the senior debt ratings; and our assumption of a low probability of government support, which results in no further rating uplift.

Novo Banco's BCA of baa3 reflects its significantly improved credit profile as a result of a de-risking strategy pursued over several years in accordance with a restructuring plan agreed with the European Commission (EC), which has been successfully completed. In particular, Novo Banco's BCA reflects its improved asset-quality metrics, although those are still above the system average; strong profitability metrics; and improved loss-absorption capacity amid very high capital levels. The BCA also reflects Novo Banco's high reliance on short-term funding and adequate liquidity position.

Exhibit 1

Rating Scorecard - Key Financial ratios



Source: Moody's Financial Metrics

Credit strengths

- » Significant reduction in nonperforming assets (NPA) over recent years.
- » Profitability metrics will remain strong over the outlook period.
- » Customer deposits are the bank's main source of funding.
- » Liquidity buffers have improved.

Credit challenges

- » Asset quality remains weaker than system average.
- » Capital levels will reduce once the bank resumes dividend payments.
- » Reliance on short-term funding is high.
- » There is a risk that the largest shareholder, a private-equity firm, will prioritise high short-term returns over long-term stability.

Outlook

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

Factors that could lead to an upgrade

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 12-18 months. The bank's senior unsecured debt ratings could also be upgraded in case the volume of senior unsecured debt or subordinated instruments, or both, were to increase without a significant increase in tangible banking assets.

Factors that could lead to a downgrade

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 because of an erosion of its solvency, or if its combined liquidity profile were to deteriorate from the current levels.

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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Novo Banco, S.A. (Consolidated Financials) [1]

	06-24 ²	12-23 ²	12-22 ²	12-21 ²	12-20 ²	CAGR/Avg. ³
Total Assets (EUR Million)	45,141.2	43,500.8	45,995.0	44,618.5	44,395.6	0.5 ⁴
Total Assets (USD Million)	48,380.2	48,053.4	49,088.1	50,557.5	54,320.5	(3.3) ⁴
Tangible Common Equity (EUR Million)	4,749.1	4,412.4	3,579.7	2,982.1	2,828.8	16.0 ⁴
Tangible Common Equity (USD Million)	5,089.9	4,874.2	3,820.5	3,379.1	3,461.2	11.6 ⁴
Problem Loans / Gross Loans (%)	4.0	4.3	5.3	6.9	9.7	6.0 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	21.5	20.6	15.4	10.8	9.5	15.5 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	17.8	20.6	29.2	40.4	55.2	32.6 ⁵
Net Interest Margin (%)	2.8	2.7	1.5	1.4	1.3	1.9 ⁵
PPI / Average RWA (%)	4.3	4.0	2.5	1.8	-0.4	2.4 ⁶
Net Income / Tangible Assets (%)	1.5	2.0	0.6	0.4	-3.0	0.3 ⁵
Cost / Income Ratio (%)	34.1	34.2	41.3	43.9	139.4	58.6 ⁵
Market Funds / Tangible Banking Assets (%)	17.9	18.4	25.2	27.4	25.6	22.9 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	28.8	26.5	29.3	30.6	25.7	28.2 ⁵
Gross Loans / Due to Customers (%)	85.9	89.1	88.9	90.3	95.6	89.9 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

With total assets of €45.1 billion as of the end of June 2024, Novo Banco, S.A. is [Portugal's](#) (A3 stable) fourth-largest bank. As of the end of June 2024, the bank had 290 branches plus 20 corporate centres and 4,239 employees.

The sale process of Novo Banco was closed on 18 October 2017, after Lone Star acquired a 75% stake in Novo Banco's capital, becoming its majority shareholder. As part of Novo Banco's sale process, which was approved by the EC, a "contingent capital agreement" (CCA) was set up and managed by the Resolution Fund. Under this mechanism, Novo Banco can be compensated up to a limit of €3.89 billion for losses related to a predefined portfolio of problematic assets, subject to the breach of a capital ratio trigger (Common Equity Tier 1 [CET1] capital ratio below 12%) and some additional requirements. The mechanism is in place until December 2025, and this date can be extended, under certain conditions, by one additional year. Since 2017, Novo Banco has received €3.4 billion out of the €3.89 billion approved under this support mechanism.

The Portuguese government presented to the EC a restructuring plan prepared by Lone Star, which aimed to ensure the viability of Novo Banco by 2021 and that has successfully come to an end.

Detailed credit considerations

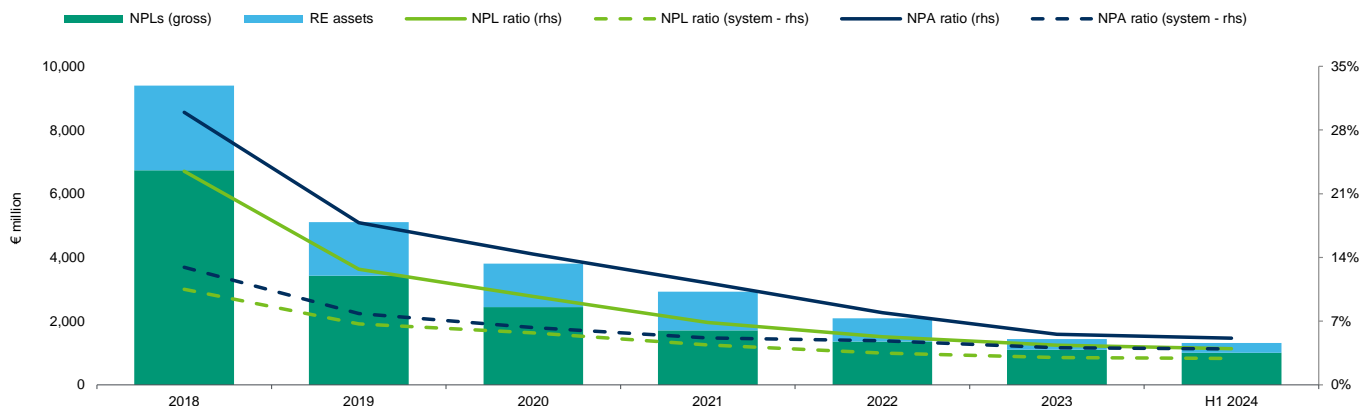
Asset quality will remain weak

We assign Novo Banco an Asset Risk score of baa3, which is aligned with the Macro-Adjusted score, to reflect the bank's still-large stock of NPA (nonperforming loans [NPLs] + foreclosed real estate assets); and our expectation that this stock of NPA will be broadly stable over the outlook period, as ongoing recoveries and sales will offset the expected asset quality deterioration driven by still high interest rates and high cost of living that will continue to erode both households' and corporate finances.

Between 2018 and June 2024, Novo Banco significantly reduced its stock of NPA principally by several large portfolio sales. As a result, the bank's NPL ratio declined to 4.0%¹ as of the end of June 2024 from 4.8% a year earlier. We have estimated Novo Banco's NPL ratio at around 5.1% as of June 2024, below our estimated NPL ratio of 5.6% as of year-end 2023.

Although there is a significant reduction in Novo Banco's stock of NPA, the bank's asset-quality metrics still compare poorly with those of its domestic and European peers. The average NPL ratio for Portuguese banks was 2.9% as of the end of June 2024 and the EU average was 2.2%² as of the same date.

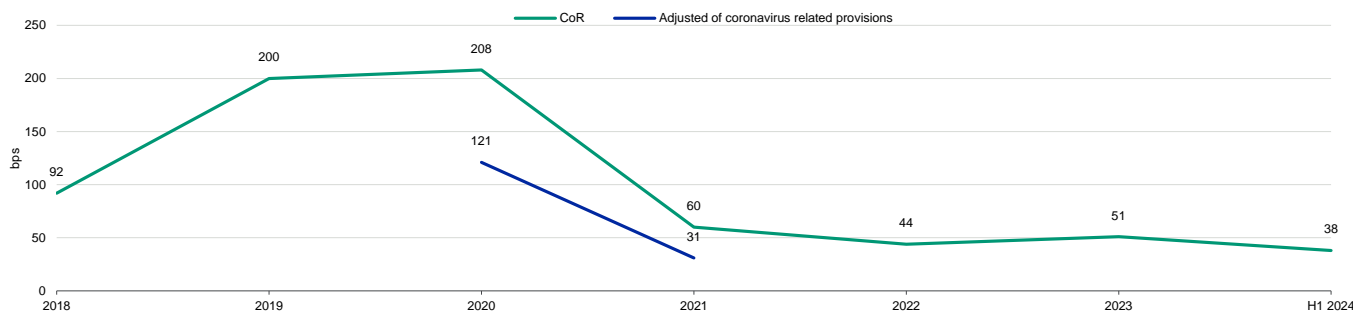
Exhibit 3
Still-weak asset risk despite the significant decline in the stock of NPA



Sources: Moody's Ratings and Novo Banco

In June 2024, cost of risk² was 38 basis points (bps), below the 51 bps reported as of year-end 2023⁴ (see Exhibit 4). Going forward, Novo Banco expects normalised cost of risk levels below 50 bps per year.

Exhibit 4
Cost of risk trending towards more normalised levels
 Loan loss provisions/gross loans



Sources: Moody's Ratings and Novo Banco

Novo Banco's coverage ratio (loan loss reserves as a percentage of NPLs) was 90.6% as of the end of June 2024, up from 86.2% as of year-end 2023. The coverage of NPA was 74.0% as of the same date (71.4% as of year-end 2023).

High capital levels will reduce once the bank resumes dividend payments

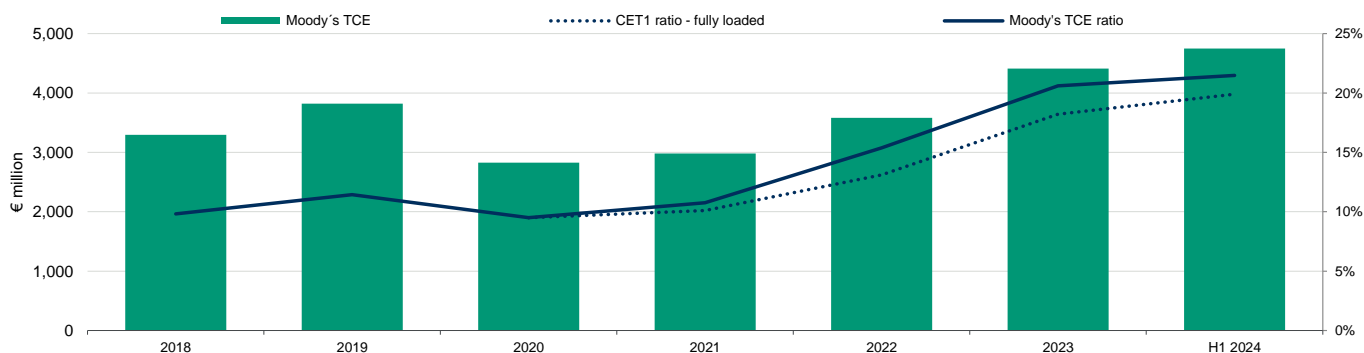
We assign an a3 Capital score to Novo Banco, four notches below the Macro-Adjusted score. We make this negative adjustment to reflect our expectation that Novo Banco's capital ratio will decrease once it resumes dividend payments.

Novo Banco's capital metrics have significantly improved in recent years because of the significant improvement in profitability coupled with the fact that the bank is subject to a dividend ban agreed under the CCA. Although capital metrics will continue to improve until the end of the CCA (December 2025), we expect the bank's capital to return to more normalised levels of 13%-14% once this dividend ban is lifted.

The bank's TCE/risk-weighted assets (RWA) was 21.5% as of June 2024, up from 20.6% as of the end of December 2023. This improvement is primarily attributable to the incorporation of the net income for the period.

Novo Banco reported a fully loaded CET1 ratio of 19.9% and a total capital ratio of 22.7% as of the end of June 2024, against the European Central Bank's (ECB) minimum requirements⁵ of 9.3% and 14.1% for 2024, respectively. As the bank's CET1 ratio is now well above the 12% ratio trigger of the CCA, it is highly unlikely that it asks for additional funds under this mechanism.

Exhibit 5

High capital levels will return to more normalised levels once the dividend ban is lifted

Sources: Moody's Ratings and Novo Banco

Profitability metrics will remain strong over the outlook period

We assign a Profitability score of a3 to Novo Banco. This reflects Novo Banco's strong profitability metrics, as well as our expectation that profitability will remain broadly stable over the outlook period, as the negative impact of lower interest rates on the bank's net interest income will be compensated by volume growth and increased fees and commissions, as well as by the bank's active interest rate hedging strategy.

Novo Banco reported a net profit of €370 million in H1 2024, in line with that a year earlier and equivalent to net income/tangible assets of 1.7%. Novo Banco's recurring pre-provision income (PPI) increased by 9% year over year, mainly driven by the 14% increase in net interest income, coupled with an 11% increase in fees, which more than offset the 8% increase in operating cost resulting from higher staff costs (+9% year over year).

Novo Banco's efficiency levels have also improved as a result of the deep restructuring of its operations and the improvement in operating income. The bank reported a cost-to-income ratio of 32%⁵ for H1 2024, down from 34% in the year-earlier period.

Mainly funded by customer deposits, but high reliance on short-term funding

Novo Banco's market funds/tangible banking assets was 17.9% as of June 2024, equivalent to a Funding Structure score of baa1. We assign a Funding Structure score of ba1 to reflect Novo Banco's expected issuance of Minimum Requirement for own funds and Eligible Liabilities (MREL)-eligible debt once capital levels are reduced and the bank's high reliance on short-term funding primarily in the form of market repos.

Novo Banco is mainly deposit funded, with customer deposits representing around 80% of the bank's total funding. Out of the total amount of customer deposits, 74% are retail deposits. The bank's reported loan-to-deposit ratio was 79% as of June 2024, broadly in line with that as of December 2023.

Novo Banco's market funding is mainly composed of ECB funding, which amounted to €1.0 billion as of the end of June 2024, equivalent to 2% of total assets, and market repos for an amount of €4.3 billion. The bank also has €2.7 billion senior preferred notes and €500 million subordinated debt.

Novo Banco has a final MREL requirement of 27.01% of its total risk exposure amount, which needs to be fulfilled by 1 January 2025. After the recent issuance of €500 million senior preferred debt in September 2024, the bank has reached an MREL ratio above 28%.

Novo Banco has a Macro-Adjusted Liquid Resources score of baa1, to which we made a negative adjustment of one notch to baa2, to reflect the encumbrance of some of the liquid assets that are not readily available for the bank.

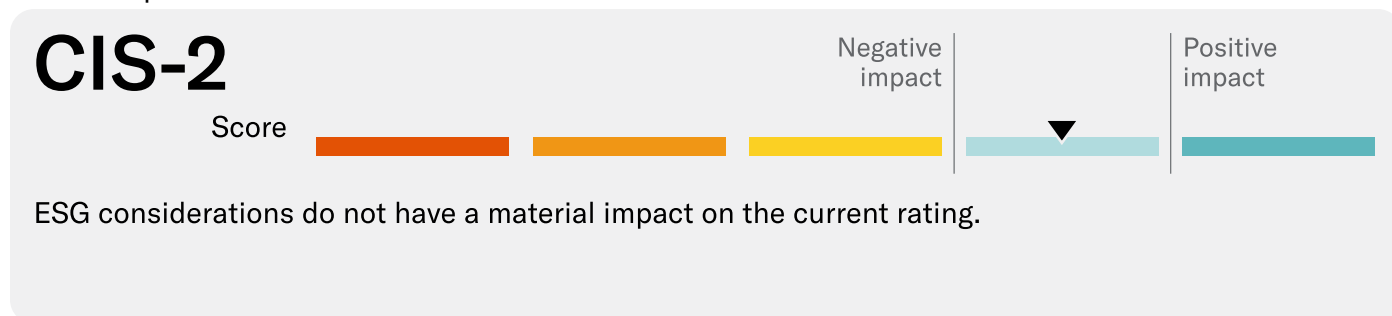
Novo Banco had a buffer of ECB-eligible liquid assets mainly in the form of sovereign bonds amounting €14.9 billion (net of haircuts) as of the end of June 2024, up €1.3 billion from year-end 2023, and including €5.7 billion in cash, that more than covers the expected repayment of ECB funding of €1.0 billion.

Novo Banco reported a liquidity coverage ratio of 198% as of June 2024, compared with 163% by year-end 2023, mainly reflecting the increased portfolio of government bonds. The net stable funding ratio was 121% as of June 2024.

ESG considerations

Novo Banco, S.A.'s ESG credit impact score is CIS-2

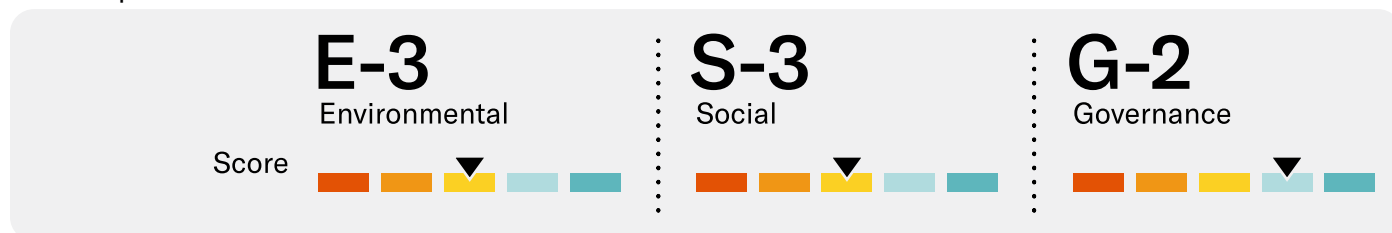
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Novo Banco's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Novo Banco faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with its peers, the bank is exposed to mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Novo Banco is developing its climate risk and portfolio management capabilities and is actively transitioning its lending portfolios to achieve carbon neutrality targets.

Social

Novo Banco is exposed to moderate industrywide social risks particularly related to customer relations risk and associated regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by Novo Banco's developed policies and procedures. Novo Banco's high cyber and personal data risks are mitigated by the bank's sound IT framework.

Governance

Novo Banco's governance risks are low. The successful completion of restructuring program agreed with the European Commission has led to a risk management framework and corporate governance practices in line with industry practices. In recent years, the bank has been able to meet its strategic and financial targets. Novo Banco is controlled by Lone Star, which owns 75% of its capital. Therefore, the bank is exposed to potential outside influence by the controlling shareholder on the bank's management and board. The risk is however mitigated by the presence of independent directors which are majority in the board and Portugal's developed institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss given failure

Novo Banco is subject to the EU Bank Recovery and Resolution Directive, which we consider an operational resolution regime. Thus, we apply our advanced LGF analysis, using our standard assumptions. We assign a 26% proportion of junior deposits over total deposits. We also take into account full depositor preference, whereby junior deposits are preferred over senior debt creditors in accordance with the law that was passed by the Portuguese government in March 2019.

For Novo Banco's deposits, senior unsecured debt and junior senior unsecured debt, our LGF analysis reflects the likely impact on loss given failure of the combination of its own volume and subordination. Our LGF analysis indicates an extremely low loss given failure for deposits, low loss given failure for senior unsecured debt and moderate loss given failure for junior senior unsecured debt, which leads us to position these preliminary rating assessments three notches above, one notch above and in line with the Adjusted BCA, respectively. Novo Banco's LGF analysis takes into account the bank's issuance of a €500 million senior preferred bond in September 2024.

For junior securities, our LGF analysis confirms a high level of loss given failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity.

Government support

We assign a low probability of government support to Novo Banco's ratings, which results in no uplift for the deposit and senior debt ratings.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 8

Rating Factors

Macro Factors							
Weighted Macro Profile	Strong	100%					
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	5.1%	baa3	↔	baa3	Quality of assets	Expected trend	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	21.5%	aa2	↓↓	a3	Expected trend		
Profitability							
Net Income / Tangible Assets	1.1%	baa1	↔	a3	Expected trend		
Combined Solvency Score		a3		baa1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	18.4%	baa1	↓	ba1	Market funding quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	26.5%	baa1	↔	baa2	Asset encumbrance		
Combined Liquidity Score		baa1		baa3			
Financial Profile				baa2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				A3			
BCA Scorecard-indicated Outcome - Range				baa1 - baa3			
Assigned BCA				baa3			
Affiliate Support notching				0			
Adjusted BCA				baa3			
Balance Sheet							
		in-scope (EUR Million)		% in-scope		at-failure (EUR Million)	% at-failure
Other liabilities		11,485		25.5%		13,999	31.1%
Deposits		29,545		65.6%		26,532	58.9%
Preferred deposits		21,864		48.5%		20,770	46.1%
Junior deposits		7,682		17.1%		5,761	12.8%
Senior unsecured bank debt		2,166		4.8%		2,666	5.9%
Dated subordinated bank debt		500		1.1%		500	1.1%
Equity		1,351		3.0%		1,351	3.0%
Total Tangible Banking Assets		45,048		100.0%		45,048	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned LGF	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	22.8%	22.8%	22.8%	22.8%	3	3	3	3	0	a3
Counterparty Risk Assessment	22.8%	22.8%	22.8%	22.8%	3	3	3	3	0	a3 (cr)
Deposits	22.8%	4.1%	22.8%	10.0%	2	3	3	3	0	a3
Senior unsecured bank debt	22.8%	4.1%	10.0%	4.1%	2	1	1	1	0	baa2
Junior senior unsecured bank debt	4.1%	4.1%	4.1%	4.1%	0	0	0	0	0	baa3
Dated subordinated bank debt	4.1%	3.0%	4.1%	3.0%	-1	-1	-1	-1	0	ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a3	0	A3	A3
Counterparty Risk Assessment	3	0	a3 (cr)	0	A3(cr)	
Deposits	3	0	a3	0	A3	A3
Senior unsecured bank debt	1	0	baa2	0	Baa2	(P)Baa2
Junior senior unsecured bank debt	0	0	baa3	0	(P)Baa3	(P)Baa3
Dated subordinated bank debt	-1	0	ba1	0	Ba1	(P)Ba1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 9

Category	Moody's Rating
NOVO BANCO, S.A.	
Outlook	Positive
Counterparty Risk Rating	A3/P-2
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured -Dom Curr	Baa2
Junior Senior Unsecured MTN	(P)Baa3
Subordinate -Dom Curr	Ba1
Commercial Paper -Dom Curr	P-2
NOVO BANCO S.A., LUXEMBOURG BRANCH	
Outlook	Positive
Counterparty Risk Rating	A3/P-2
Bank Deposits	A3/P-2
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured -Dom Curr	Baa2
NB FINANCE LTD.	
Outlook	Positive
Bkd Senior Unsecured	Baa2

Source: Moody's Ratings

Endnotes

- [1](#) Per our criteria.
- [2](#) Source: European Banking Authority's Risk Dashboard.
- [3](#) Measured as loan loss provisions/gross loans.
- [4](#) Including management overlays.
- [5](#) Including the introduction of a 0.5% Other Systemically Important Institutions (O-SII) buffer of which 50% is applicable from 1 July 2024 (100% applicable from 1 July 2025) and a 0.3% buffer related to exposures secured by residential real estate (applicable from 1 October 2024).
- [6](#) Excluding markets and other operating results.

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