

CREDIT OPINION

20 December 2024

Update

Send Your Feedback

RATINGS

Spar Nord Bank A/S

Domicile	Aalborg, Denmark
Long Term CRR	A1 , Possible Upgrade
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1 , Possible Upgrade
Type	Senior Unsecured - Fgn Curr
Outlook	Rating(s) Under Review
Long Term Deposit	A1 , Possible Upgrade
Type	LT Bank Deposits - Fgn Curr
Outlook	Rating(s) Under Review

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.

Contacts

Niclas Boheman +46.8.5179.1281
VP-Sr Credit Officer
niclas.boheman@moodys.com

Marina Hadjitsangari +357.2569.3034
Lead Ratings Associate
marina.hadjitsangari@moodys.com

Edoardo Calandro +44.20.7772.1097
VP-Sr Credit Officer
edoardo.calandro@moodys.com

Simon James Robin +44 207 772 5347
Ainsworth
Associate Managing Director
simon.ainsworth@moodys.com

Spar Nord Bank A/S

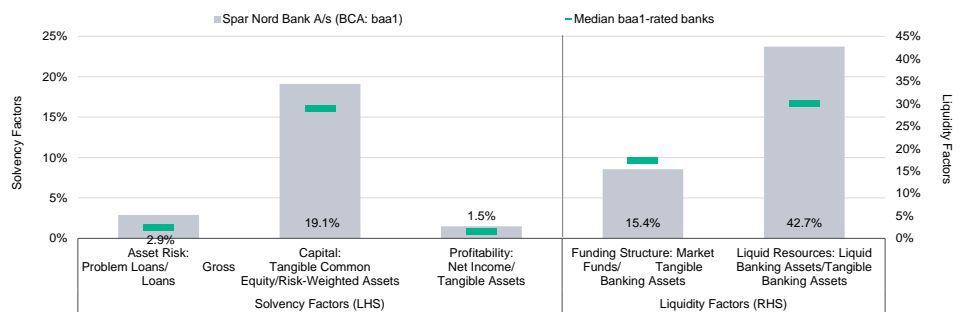
Update following initiation of review for upgrade

Summary

[Spar Nord Bank A/S](#)' (Spar Nord) A1 (on review for upgrade) long-term deposit and senior unsecured ratings reflect the bank's baa1 standalone Baseline Credit Assessment (BCA); and three notches of rating uplift from our Advanced Loss Given Failure (LGF) analysis, which takes into account the loss severity for junior depositors and senior creditors should the bank enter into resolution. The bank's long-term deposit and senior unsecured ratings have a stable outlook. On 12 December 2024, the long-term deposit ratings of Spar Nord Bank were placed on review for upgrade.

Spar Nord's baa1 standalone BCA balances the bank's robust capitalisation, strong recurring profitability, and strong liquidity buffer against the higher levels of nonperforming loans to gross loans compared to peers.

Exhibit 1
Rating Scorecard - Key financial ratios



These ratios are calculated based on our [Banks Methodology](#) scorecard. The bank's problem loan and profitability ratios are the weaker of the average of the latest three year-end ratios and the latest reported ratio. The bank's capital ratio is the latest reported figure. The bank's funding structure and liquid resources ratios are the latest year-end figures.
Source: Moody's Ratings

Credit strengths

- » Robust capitalisation and a strong leverage ratio
- » Strengthened profitability on the back of higher interest rates
- » Low dependence on market funding
- » Strong liquidity buffer

Credit challenges

- » Relatively higher problem loans ratio compared to peers

Outlook

The review for upgrade on Spar Nord's Adjusted BCA and its long-term ratings will assess the affiliate support received by Nykredit post acquisition and its resolution perimeter as part of the Nykredit group.

Factors that could lead to an upgrade

- » Following a successful acquisition by Nykredit, Spar Nord's Adjusted BCA could be upgraded to reflect the support from the new owner. Spar Nord's long-term ratings and assessments could also be upgraded as a result of the higher Adjusted BCA. An upgrade of the Adjusted BCA would likely align the ratings and assessments of Spar Nord with those of Nykredit Bank should we consider that both banks would be resolved together.
- » On a standalone basis, Spar Nord's ratings could be upgraded following an upgrade of the BCA, which could occur should the improvement in the bank's asset risk metrics, reflecting lower risk lending, be sustained alongside the maintenance of higher profitability.

Factors that could lead to a downgrade

- » In the case of Spar Nord remaining a standalone bank, downward pressure on Spar Nord's long-term deposit and senior unsecured debt ratings would arise if there is a shift in the bank's funding mix, such as lower loss absorbing instrument volumes or a significant reduction in junior deposit amounts, which would result in lower rating uplift than currently assumed under our Advanced LGF framework.

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

Spar Nord Bank A/S (Consolidated Financials) [1]

	09-24 ²	12-23 ²	12-22 ²	12-21 ²	12-20 ²	CAGR/Avg. ³
Total Assets (DKK Million)	139,482.0	134,834.0	123,883.0	116,497.0	101,264.0	8.9 ⁴
Total Assets (USD Million)	20,882.1	19,980.3	17,779.2	17,751.1	16,645.7	6.2 ⁴
Tangible Common Equity (DKK Million)	12,515.0	12,300.0	10,790.0	10,224.0	9,355.0	8.1 ⁴
Tangible Common Equity (USD Million)	1,873.6	1,822.7	1,548.5	1,557.9	1,537.8	5.4 ⁴
Problem Loans / Gross Loans (%)	2.4	2.5	2.9	3.6	4.2	3.1 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	19.6	20.4	17.8	16.9	17.1	18.3 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.4	10.4	13.1	15.5	17.0	13.3 ⁵
Net Interest Margin (%)	2.6	2.8	1.7	1.5	1.6	2.0 ⁵
PPI / Average RWA (%)	4.5	4.9	2.8	2.5	2.1	3.4 ⁶
Net Income / Tangible Assets (%)	1.7	1.8	1.1	1.2	0.7	1.3 ⁵
Cost / Income Ratio (%)	48.7	46.3	58.0	59.7	63.6	55.3 ⁵
Market Funds / Tangible Banking Assets (%)	14.6	15.4	11.8	11.7	9.9	12.7 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	41.9	42.7	40.2	40.1	41.4	41.3 ⁵
Gross Loans / Due to Customers (%)	81.3	79.6	78.8	79.4	76.0	79.0 ⁵

[–] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [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

Spar Nord Bank A/S (Spar Nord) is a full-service commercial bank in Denmark that provides retail, corporate and private banking services, with a focus on private individuals and small and medium-sized enterprises. It operates through a network of 62 branches in Denmark. Spar Nord was founded in 1824 and merged with Sparbank A/S, a smaller Danish regional bank, in 2012.

Spar Nord is the sixth-largest banking group in Denmark, with total reported assets of DKK139 billion (around €20.9 billion) as of September 2024. It has a strong presence in the northern Jutland region of Denmark, where it has a significant market share. Its national market share as of 2023 was 1.4% in loans (excluding loans transferred to mortgage credit institutions [MCIs]) and 4.7% in deposits.

Recent developments

Nykredit announced on 10 December 2024 a recommended voluntary all-cash public tender offer for Spar Nord, valuing the total share capital of the target at DKK25 billion. The acquisition is expected to close in the first half of 2025 subject to approvals from regulatory authorities, including the Danish FSA and Competition and Consumer Authority. Nykredit already owns about 20% of Spar Nord, which is also one of the 41 partner banks distributing mortgage loans from Totalkredit A/S, a wholly owned mortgage institution of Nykredit. As such, mortgages originated by Spar Nord are already consolidated by Nykredit.

Assuming a successful acquisition, Spar Nord, will be merged with Nykredit Bank, which is wholly owned by Nykredit to create the third largest bank in Denmark, with combined domestic market shares of 13% and 11% in bank lending and deposits, respectively. We view the transaction as supportive to the combined entity's credit profile because of improved scale, business and geographic diversification across Denmark in the banking business.

Detailed credit considerations

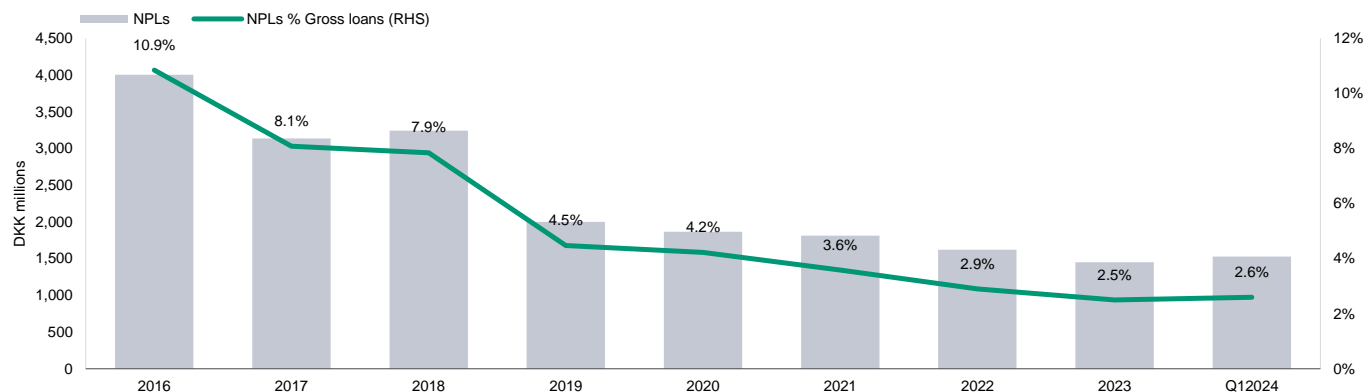
Problem loans ratio higher than peers but gradually improving

Our assessment of Spar Nord's asset risk, reflected in our assigned Asset Risk score of baa3, takes into account the bank's problem loan ratio, which has declined in recent years and the bank's loan portfolio mix. Our assigned score also takes into consideration the bank's loan growth, which was slightly higher than the system average over the last five years, and limited concentration in a couple of higher-risk or cyclical sectors.

As of September 2024, Spar Nord's problem loans (defined as IFRS 9 stage 3 loans) stood at 2.4% of gross loans and these were adequately covered by loan loss reserves at 109%. The bank's problem loan ratio remains higher than the system average of 0.9% as of June 2024¹, which partly reflects the higher quality off-balance sheet mortgages it transfers to its mortgage distributors, but where Spar Nord still holds part of the risk and is contractually committed to cover part of the losses.

Exhibit 3

Spar Nord's problem loans have declined since 2016



Gross loans exclude reverse repos.

Sources: Company and Moody's Ratings

Like other medium-sized Danish banks, Spar Nord does not own or consolidate an MCI but partners with Totalkredit (subsidiary of [Nykredit Realkredit A/S](#) [A1 RUR, a2]) and DLR Kredit (not rated) to originate mortgages. The bank covers all losses for mortgages transferred to DLR Kredit, while for mortgages transferred to Totalkredit, no guarantees are needed since 2022. However, the bank carries the first loss on loans issued prior to that date. As of September 2024, Spar Nord had on-balance sheet loans and advances of DKK59.6 billion, and had transferred mortgages of DKK105.4 billion to MCIs (for which it earns a fee).

Our assessment of Spar Nord's Asset Risk score also takes into consideration the bank's loan growth, which has been higher than the sector average over the last five years. Furthermore, the bank has moderate sector concentration. As of September 2024, real estate loans made up 11.5% of total loans; building and construction 5.3%; and loans to the agriculture sector, which is a historically volatile segment, accounted for 3.2% of the total, albeit down from 10.2% in 2012.

Robust capitalisation and a strong leverage ratio

Our assigned aa3 Capital score reflects Spar Nord's solid capital position with tangible common equity to risk weighted assets (TCE/RWA) remaining at 19.5% at the end of September 2024, a relative strength in our assessment of the bank's standalone profile. We expect capital ratios to remain strong and well above regulatory requirements. Spar Nord uses the standardised approach to calculate risk weights, and this renders the bank less susceptible to a rise in risk exposure amounts from the macroeconomic downturn. When the bank implements the internal rating based (IRB) model, likely to be approved during end of 2024 or beginning of 2025, it is likely that risk weighted capital ratios will improve.

Spar Nord's reported CET1 ratio was 16.8% as of September 2024 (December 2023: 17.7%) and its total capital ratio was 21.1% (December 2023: 22.3%). The decline compared with year-end 2023 was mainly driven by capital release to shareholders through dividends and share buybacks. The bank's capital metrics however remain well above its regulatory requirements of 9.5% solvency need as of September 2024 and 16.0% for the total capital ratio, which include the Danish Financial Supervisory Authority's (FSA) Pillar 1 and Pillar 2 components, a 2.5% capital conservation buffer, a 1.0% countercyclical capital buffer (CCyB) and a 1.0% systemically important financial institution (SIFI) requirement²

Spar Nord aims to distribute 40–60% of the net profit for the year with due consideration to meeting the Bank's capital targets. The Bank intends to make distributions in the form of cash dividends and share buybacks, always provided that at least 30% of the net profit will be distributed as cash dividends. As of December 2023 the bank distributed of 69% of net profit in form of ordinary dividend of DKK 10 per share and share buyback of DKK 500 million.

Spar Nord's risk density, measured as RWA/total assets, was 45.2% as of September 2024, reflecting the bank's standardised approach for calculating risk weights. With its designation as a SIFI, in July of 2023 the bank submitted its IRB application to the Danish FSA and expects to obtain the FSA's approval for implementation by the end of 2024. The effect on the bank's RWAs is likely to be significant.

Spar Nord's tangible common equity/tangible banking assets was 9.0% as of September 2024 which compares well with the average of around 5.0%-5.5% for other Nordic and euro area banks. While Spar Nord's move to the IRB model for calculating risk weights will likely reduce this ratio, we expect the bank's leverage ratio to remain higher than that of most of its regional peers.

Strengthened profitability on the back of higher interest rates

Our assigned a3 Profitability score reflects our expectation that Spar Nord's profitability will remain strong but decline moderately over the coming 12 to 18 months. The bank's net income/tangible assets improved to 1.9% in the first nine months of 2024 from 1.8% as of year-end 2023. The increase in net income was primarily driven by an increase in net interest margins. While interest rate margins have likely peaked, due to competition and a shift toward higher rate savings accounts by depositors, profitability will remain strong as long as we do not foresee a return to negative policy rates in Denmark.

Spar Nord's profitability is stronger than Danish peers that consolidate MCIs because profitability for low risk mortgages is typically lower than that for bank lending. However, we adjust our profitability score down by one notch to reflect Spar Nord's loss agreements on transferred mortgages.

The bank's guidance for net income for 2025 is in the range of DKK1.6-DKK1.9 billion, indicating a net income to tangible assets ratio ranging from 1.2%-1.4%.

Low dependence on market funding and a strong liquidity buffer

Our a3 score for Funding Structure reflects Spar Nord's relatively solid funding profile. Spar Nord's customer deposits (excluding deposits from pooled plans and repo transactions) accounted for the bulk of total assets (54%) as of September 2024. Furthermore, the bank's reliance on confidence sensitive market funding remained low at 14.6% of tangible banking assets as of September 2024. Due to fully phased-in MREL requirements, there is limited need to increase the share of MREL-eligible debt. The outstanding amount of senior non-preferred debt as of December 2023 was DKK6.7 billion and for senior was DKK2.6 billion. As of September 2024, Spar Nord conducted its first euro issuance of MREL capital, under the bank's Green Bond Framework. the bank's issued senior non-preferred bonds of DKK 1.9 billion (€250 million).

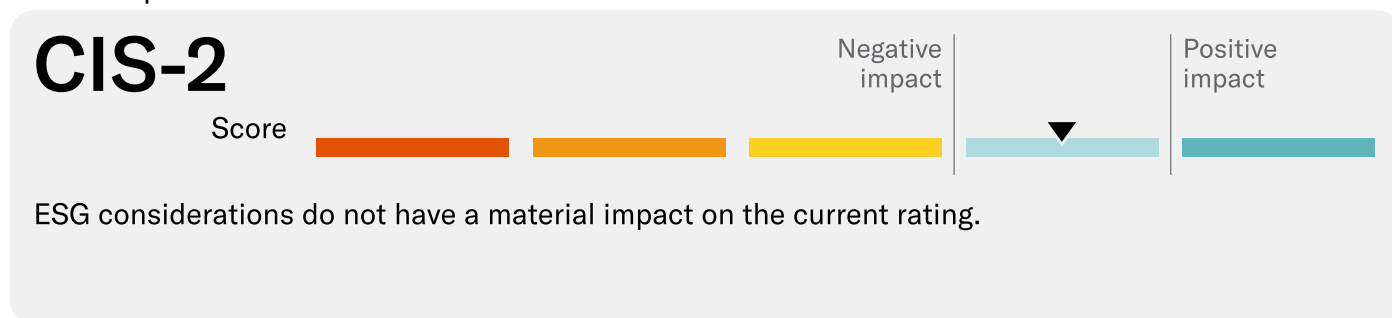
As of September 2024, Spar Nord's liquid banking assets (including reverse repos) accounted for 42% of its tangible banking assets. Our assigned a3 Liquidity score takes into consideration asset encumbrance and the bank's the HQLA to tangible banking assets ratio of 24.8%. The bank also reported a strong liquidity coverage ratio of 229% in September 2024 (246% as of year-end 2023). Spar Nord's liquidity coverage ratio is well above the 100% minimum requirement set by the Danish FSA.

ESG considerations

Spar Nord Bank A/S' ESG credit impact score is CIS-2

Exhibit 4

ESG credit impact score

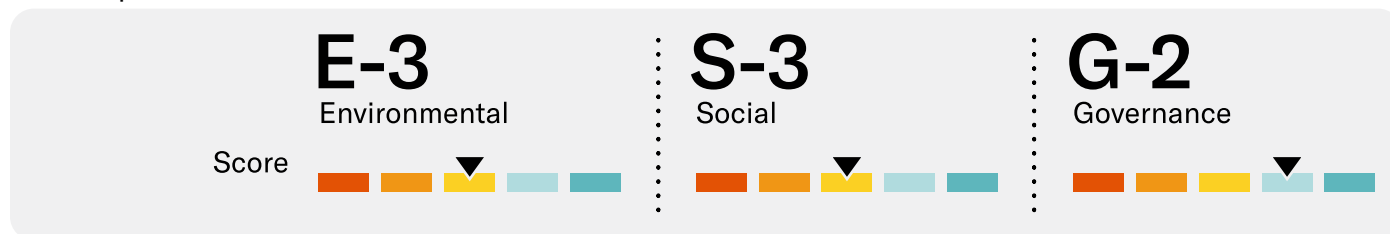


Source: Moody's Ratings

Spar Nord's **CIS-2** reflects the limited credit impact of ESG considerations on the ratings.

Exhibit 5

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Spar Nord 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 facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Spar Nord is developing its climate risk and portfolio management capabilities.

Social

Spar Nord faces moderate social risks related to regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by the bank's developed policies and procedures. Spar Nord has exposure to customer relations risks, considering high cyber and personal data risks. These risks are mitigated by the bank's strong IT framework.

Governance

Spar Nord faces low governance risks, and its risk management, policies and procedures are in line with industry best practices. Spar Nord is a regional bank with a stable track record of good risk management and financial strategy. The bank has a clear and simple organisational structure with no identified concerns regarding ownership and control.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.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 (LGF) analysis

Spar Nord operates in Denmark, which we consider an operational resolution regime. In accordance with our methodology, we apply our Advanced LGF analysis to Spar Nord's liabilities, taking into account the risks faced by different debt and deposit classes across the liability structure should the bank enter resolution. In our Advanced LGF analysis, we take a forward-looking view on how the bank's balance sheet will evolve over the next 12-18 months.

For the analysis, in line with our standard assumptions, we assume residual tangible common equity of 3%, losses post failure of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits, and we assign a 25% probability to deposits being preferred to senior unsecured debt. We assume that 10% of deposits will be treated as junior. This reflects the bank's more retail-based deposit structure. Our forward-looking LGF analysis takes into account our assessment of MREL and the needed issuances of senior non-preferred debt. The fully phased-in MREL requirement results in around DKK 9 billion MREL eligible debt which Spar Nord has fulfilled.

Spar Nord's A1 deposit and A1 senior unsecured ratings incorporate three notches of rating uplift from the bank's baa1 Adjusted BCA, reflecting an extremely low loss given failure. The bank's A3 junior senior unsecured ratings are positioned one notch above the bank's Adjusted BCA, indicating a low loss given failure. Our LGF analysis indicates a high loss given failure for subordinated debt, leading us to position the rating at (P)Baa1, in line with the adjusted BCA.

Government support considerations

We do not incorporate any government support uplift on Spar Nord's ratings because we consider the probability of government support, in case of need, to be low.

Rating methodology and scorecard factors

Exhibit 6

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	2.8%	a2	↔	baa3	Quality of assets	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	19.6%	aa2	↔	aa3	Expected trend		
Profitability							
Net Income / Tangible Assets	1.4%	a2	↔	a3	Expected trend	Loan loss charge coverage	
Combined Solvency Score		a1		a3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	15.4%	a3	↔	a3	Expected trend		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	42.7%	aa3	↔	a3	Stock of liquid assets	Asset encumbrance	
Combined Liquidity Score		a2		a3			
Financial Profile				a3			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Aaa			
BCA Scorecard-indicated Outcome - Range				a2 - baa1			
Assigned BCA				baa1			
Affiliate Support notching				0			
Adjusted BCA				baa1			
Balance Sheet		in-scope (DKK Million)	% in-scope	at-failure (DKK Million)	% at-failure		
Other liabilities		21,163	18.9%	26,434	23.7%		
Deposits		75,294	67.4%	70,023	62.7%		
Preferred deposits		67,765	60.7%	64,376	57.6%		
Junior deposits		7,529	6.7%	5,647	5.1%		
Senior unsecured bank debt		1,864	1.7%	1,864	1.7%		
Junior senior unsecured bank debt		7,247	6.5%	7,247	6.5%		
Dated subordinated bank debt		1,600	1.4%	1,600	1.4%		
Preference shares (bank)		1,180	1.1%	1,180	1.1%		
Equity		3,351	3.0%	3,351	3.0%		
Total Tangible Banking Assets		111,699	100.0%	111,699	100.0%		

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	18.7%	18.7%	18.7%	18.7%	3	3	3	3	0	a1
Counterparty Risk Assessment	18.7%	18.7%	18.7%	18.7%	3	3	3	3	0	a1 (cr)
Deposits	18.7%	12.0%	18.7%	13.6%	3	3	3	3	0	a1
Senior unsecured bank debt	18.7%	12.0%	13.6%	12.0%	3	2	3	-	-	-
Junior senior unsecured bank debt	12.0%	5.5%	12.0%	5.5%	1	1	1	1	0	a3
Dated subordinated bank debt	5.5%	4.1%	5.5%	4.1%	0	0	0	0	0	baa1

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	a1	0	A1 RUR Possible Upgrade	A1 RUR Possible Upgrade
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr) RUR Possible Upgrade	
Deposits	3	0	a1	0	A1 RUR Possible Upgrade	A1 RUR Possible Upgrade
Senior unsecured bank debt	-	-	-	0	A1 RUR Possible Upgrade	A1 RUR Possible Upgrade
Junior senior unsecured bank debt	1	0	a3	0	A3 RUR Possible Upgrade	A3 RUR Possible Upgrade
Dated subordinated bank debt	0	0	baa1	0	(P)Baa1 RUR Possible Upgrade	(P)Baa1 RUR Possible Upgrade

[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 7

Category	Moody's Rating
SPAR NORD BANK A/S	
Outlook	Rating(s) Under Review
Counterparty Risk Rating	A1/P-1 ¹
Bank Deposits	A1/P-1 ¹
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1 ²
Counterparty Risk Assessment	A1(cr)/P-1(cr) ¹
Senior Unsecured	A1 ²
Junior Senior Unsecured	A3 ²
Junior Senior Unsecured MTN	(P)A3 ²
Subordinate MTN	(P)Baa1 ²

[1] Rating(s) within this class was/were placed on review on December 12 2024 [2] Placed under review for possible upgrade on December 12 2024

Source: Moody's Ratings

Endnotes

- 1 According to data from the central bank, Nationalbanken.
- 2 Spar Nord was designated as a SIFI in January 2019.

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