

CREDIT OPINION

21 June 2024

Update

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RATINGS

Spar Nord Bank A/S

Domicile	Aalborg, Denmark
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Positive
Long Term Deposit	A1
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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Spar Nord Bank A/S

Update following affirmation and change of outlook to positive from stable

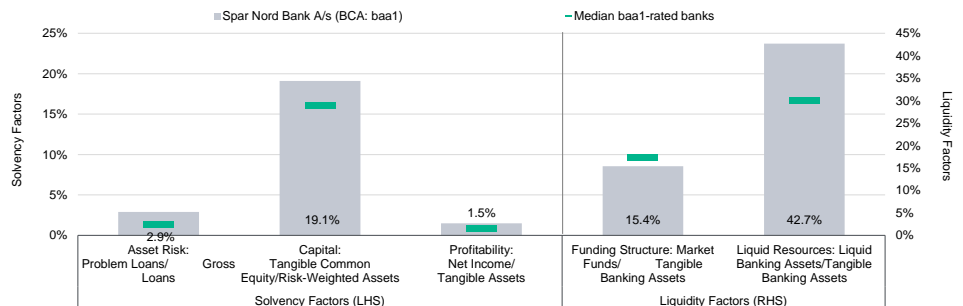
Summary

[Spar Nord Bank A/S](#) (Spar Nord) A1 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.

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
- » Low dependence on market funding
- » Strong liquidity buffer

Credit challenges

- » Relatively higher problem loans ratio compared to peers
- » High cost to income ratio compared to peers

Outlook

The positive outlook on the long-term deposit and senior unsecured debt ratings reflects Spar Nord's focused approach to reducing and resolving legacy problem loans, while continuing to build strong capital buffers and an improving earnings capability.

Factors that could lead to an upgrade

- » 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.
- » Spar Nord's long-term deposit and senior unsecured debt ratings, Counterparty Risk (CR) Assessment and Counterparty Risk Ratings (CRRs) already have the maximum uplift in our loss given failure and would, therefore, not receive further uplift from increased subordination or increased issuance volumes.

Factors that could lead to a downgrade

- » While a downgrade is less likely due to the positive outlook, factors that could lead to return to stable outlook on Spar Nord's long-term ratings include: 1) a significant deterioration in asset quality or if concentrations and exposures to more volatile segments increase; 2) a persistent weakening in the bank's recurring earnings power and operating efficiency; 3) a substantial increase in market funding reliance beyond our current expectations; or 4) weaker capital ratios that are below the bank's current capital targets of Common Equity Tier 1 of at least 13.5% and own funds ratio of 17.5%.
- » Downward pressure on Spar Nord's long-term deposit and senior unsecured debt ratings would also 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]

	03-24 ²	12-23 ²	12-22 ²	12-21 ²	12-20 ²	CAGR/Avg. ³
Total Assets (DKK Million)	135,022.0	134,834.0	123,883.0	116,497.0	101,264.0	9.3 ⁴
Total Assets (USD Million)	19,550.0	19,980.3	17,779.2	17,751.1	16,645.7	5.1 ⁴
Tangible Common Equity (DKK Million)	11,639.0	12,300.0	10,790.0	10,224.0	9,355.0	7.0 ⁴
Tangible Common Equity (USD Million)	1,685.2	1,822.7	1,548.5	1,557.9	1,537.8	2.9 ⁴
Problem Loans / Gross Loans (%)	2.6	2.5	2.9	3.6	4.2	3.1 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	19.1	20.4	17.8	16.9	17.1	18.2 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	11.5	10.4	13.1	15.5	17.0	13.5 ⁵
Net Interest Margin (%)	2.7	2.8	1.7	1.5	1.6	2.1 ⁵
PPI / Average RWA (%)	5.2	4.9	2.8	2.5	2.1	3.5 ⁶
Net Income / Tangible Assets (%)	2.0	1.8	1.1	1.2	0.7	1.3 ⁵
Cost / Income Ratio (%)	46.7	46.3	58.0	59.7	63.6	54.9 ⁵
Market Funds / Tangible Banking Assets (%)	15.6	15.4	11.8	11.7	9.9	12.8 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	42.4	42.7	40.2	40.1	41.4	41.4 ⁵
Gross Loans / Due to Customers (%)	80.6	79.6	78.8	79.4	76.0	78.9 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 60 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 DKK135 billion (around €18.1 billion) as of March 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

In November 2023, the Danish Financial Supervisory Authority inspected Spar Nord to assess whether the bank complies with specific parts of the Money Laundering Act and regulations in relation to the bank's correspondent relationships. While the bank was ordered to update some procedures to adhere to regulation, no fine was issued, not was capital requirements increased.

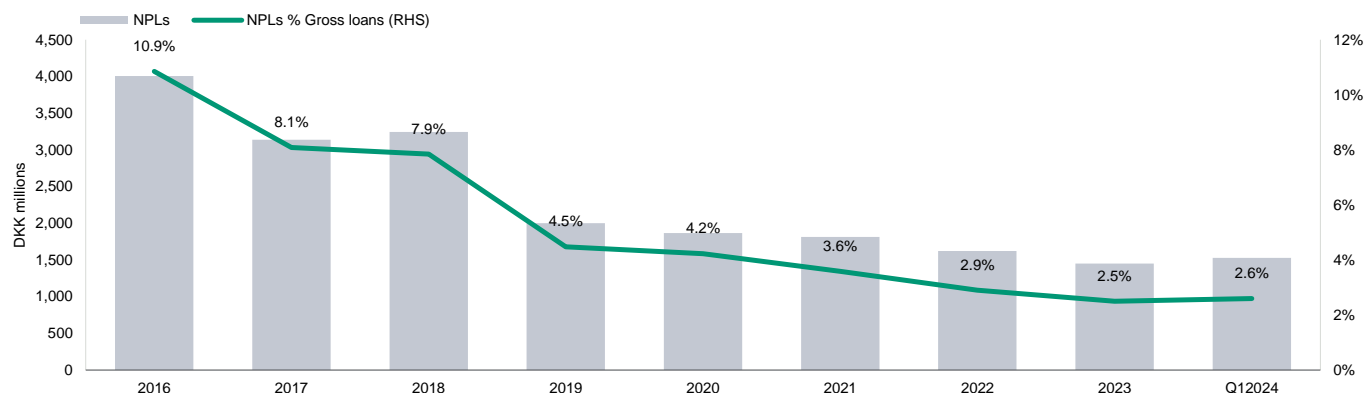
Detailed credit considerations

Asset risk will remain strong

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 banks 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 March 2024, Spar Nord's problem loans (defined as IFRS 9 stage 3 loans) stood at 2.6% of gross loans and these were adequately covered by loan loss reserves at 105%. The bank's problem loan ratio remains higher than the system average of 1.3% as of December 2023¹, 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 stable, 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 March 2024, Spar Nord had on-balance sheet loans and advances of DKK57.3 billion, and had transferred mortgages of DKK105.5 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 March 2024, real estate loans made up 12.6% of total loans; construction and engineering 4.4%; and loans to the agriculture sector, which is a historically volatile segment, accounted for 4.1% 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 19.1% at the end of March 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 16.9% as of March 2024 (December 2023: 17.7%) and its total capital ratio was 21.4% (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 March 2024 and 15.4% 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 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 March 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 8.6% as of March 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 2.0% in the first three 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 see 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 has a DKK106bn (end of December 2024) portfolio of mortgages with Totalkredit and DLR Kredit.

The bank's guidance for net income for 2024 is in the range of DKK1.7-DKK2.1 billion, indicating a net income to tangible assets ratio of around 1.2%.

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 March 2024. Furthermore, the bank's reliance on confidence sensitive market funding remained low at 15.4% of tangible banking assets as of March 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 bil

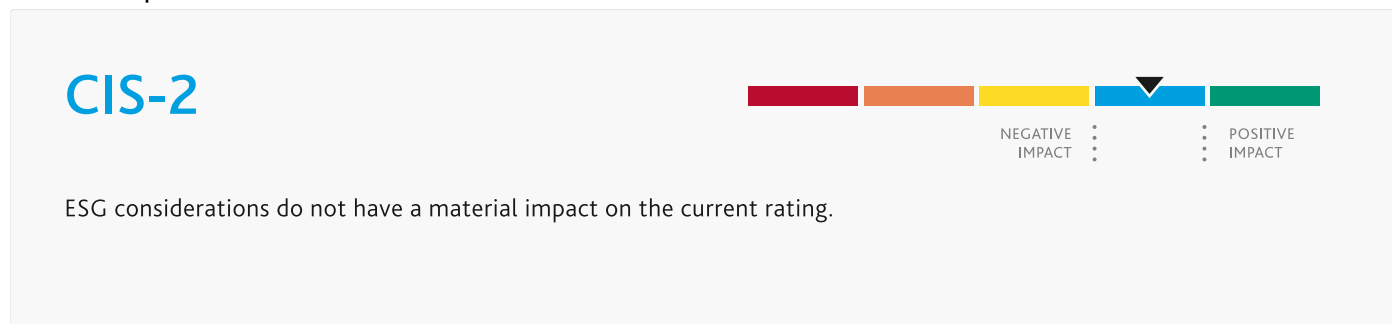
As of March 2024, Spar Nord's liquid banking assets (including reverse repos) accounted for 42% of its tangible banking assets. Our assigned a3 Liquidity score takes into consideration asset encumbrance and the bank's the HQLA to tangible banking assets ratio of 24.8%. The bank also reported a strong liquidity coverage ratio of 302% in March 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



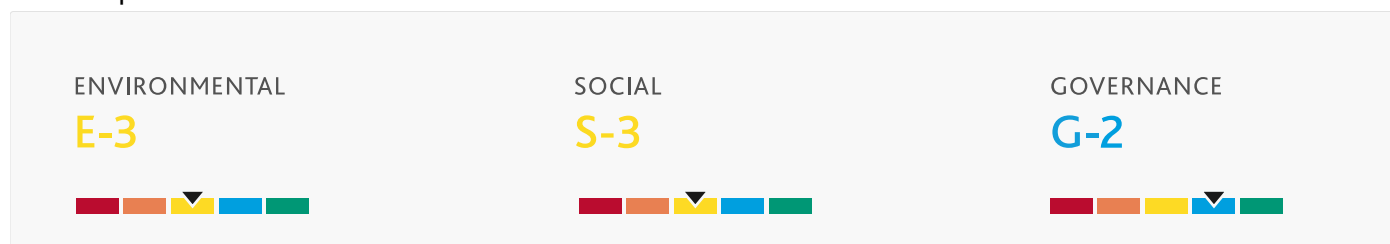
ESG considerations do not have a material impact on the current rating.

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 has neutral-to-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 and is subject to the European Union Bank Recovery and Resolution Directive, 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

Spar Nord Bank A/S

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	2.9%	a2	↔	baa3	Quality of assets	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	19.1%	aa2	↔	aa3	Expected trend		
Profitability							
Net Income / Tangible Assets	1.5%	a1	↓	a3	Expected trend		
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		20,000	18.2%	25,201	23.0%		
Deposits		74,308	67.7%	69,106	63.0%		
Preferred deposits		66,877	60.9%	63,533	57.9%		
Junior deposits		7,431	6.8%	5,573	5.1%		
Senior unsecured bank debt		2,614	2.4%	2,614	2.4%		
Junior senior unsecured bank debt		6,749	6.1%	6,749	6.1%		
Dated subordinated bank debt		1,600	1.5%	1,600	1.5%		
Preference shares (bank)		1,180	1.1%	1,180	1.1%		
Equity		3,292	3.0%	3,292	3.0%		
Total Tangible Banking Assets		109,743	100.0%	109,743	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	19.1%	19.1%	19.1%	19.1%	3	3	3	3	0	a1
Counterparty Risk Assessment	19.1%	19.1%	19.1%	19.1%	3	3	3	3	0	a1 (cr)
Deposits	19.1%	11.7%	19.1%	14.1%	3	3	3	3	0	a1
Senior unsecured bank debt	19.1%	11.7%	14.1%	11.7%	3	3	3	-	-	-
Junior senior unsecured bank debt	11.7%	5.5%	11.7%	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	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	3	0	a1	0	A1	A1
Senior unsecured bank debt	-	-	-	0	A1	A1
Junior senior unsecured bank debt	1	0	a3	0	A3	A3
Dated subordinated bank debt	0	0	baa1	0	(P)Baa1	(P)Baa1

[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	Positive
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured	A1
Junior Senior Unsecured	A3
Junior Senior Unsecured MTN	(P)A3
Subordinate MTN	(P)Baa1

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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