

CREDIT OPINION

7 July 2025

New Issue



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RATINGS

Vestjysk Bank A/S

| | |
|-------------------|--|
| Domicile | Denmark |
| Long Term CRR | A2 |
| Type | LT Counterparty Risk Rating - Fgn Curr |
| Outlook | Not Assigned |
| Long Term Debt | Withdrawn |
| Type | Senior Unsecured - Fgn Curr |
| Outlook | Not Assigned |
| Long Term Deposit | A2 |
| Type | LT Bank Deposits - Fgn Curr |
| Outlook | Stable |

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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Vestjysk Bank A/S

Credit analysis following first-time assignment of Long-Term Deposit and Issuer Ratings of A2 (stable)

Summary

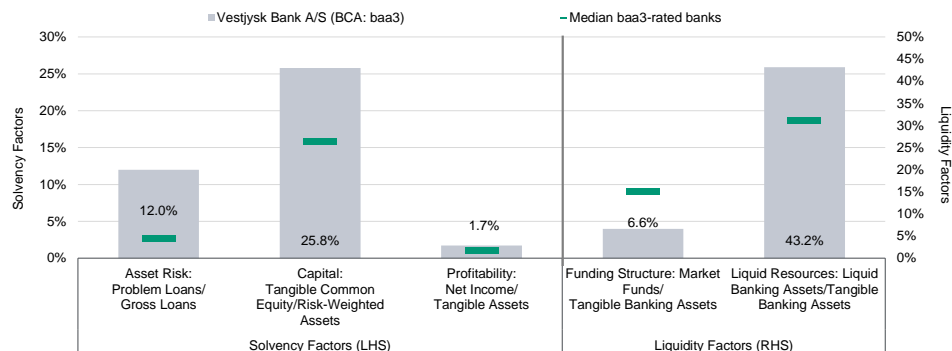
Vestjysk Bank A/S' ('Vestjysk Bank') A2/P-1 long-and-short-term deposit and issuer ratings reflect the bank's baa3 Baseline Credit Assessment (BCA), one notch of rating uplift to an Adjusted BCA of baa2 from our assumption of a high probability of affiliate support from its parent bank [A/S Arbejdernes Landsbank](#) ('AL Bank', A2 stable, baa2), and three notches of rating uplift from the application of our Advanced Loss Given Failure (LGF) analysis.

Vestjysk Bank's baa3 BCA reflects its well-established regional lending and deposit franchise in the central Jutland region of Denmark, its strong profitability and robust capitalization. The bank is largely deposit-funded with low dependence on market funding and had comfortable liquidity resources.

These strengths are balanced against a high Moody's-adjusted problem loans ratio, stemming mainly from non-performing legacy loans which remain relatively high despite having reduced over recent years. The BCA also reflects a history of control weaknesses which the bank is addressing under new ownership and management, its high recent loan growth and sectoral concentrations in real estate and agriculture, as well as geographic concentration in the bank's home region.

Exhibit 1

Rating scorecard - Key financial ratios



The metrics presented in the exhibit are our Banks Methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average or the latest annual figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures.

Source: Moody's Ratings

Credit strengths

- » Robust profitability and capitalization
- » Deposit-funded with comfortable liquidity
- » Well-entrenched regional franchise underpins strong recurring earnings

Credit challenges

- » High problem loans ratio, stemming mainly from legacy non-performing agricultural loans
- » History of control weaknesses which the bank is addressing under new ownership and management
- » Lack of geographic diversification combined with rapid loan growth

Rating outlook

The stable outlook on Vestjysk Bank's long-term deposit and issuer ratings balances its robust underlying financial performance, against downside risks from asset quality and seasoning of the loan book.

Factors that could lead to an upgrade

- » Factors that could lead to an upgrade of Vestjysk Bank's ratings and standalone BCA include: 1) significant improvement in the problem loan ratio based on a reduction in the stock of problem loans rather than just due to loan growth; 2) building a track record of sustained improvement in risk governance, 3) sustained strong profitability performance combined with high capitalization.

Factors that could lead to a downgrade

- » Vestjysk Bank's adjusted BCA could be downgraded in case of a downgrade of the BCA of parent group AL Bank or in case of a significant loosening of the relationship and integration with the parent bank.
- » Vestjysk Bank's ratings and BCA could also be downgraded if: (i) problem loans increase rapidly; or (ii) tangible common equity to risk-weighted assets falls significantly; or (iii) recurring profitability declines or if there is large volatility in profitability metrics; or (iv) liquidity deteriorates significantly.
- » The LGF-driven rating uplift could be impacted if, at the level of the parent group AL Bank, the volumes of junior debt as a percentage of tangible banking assets were to decline significantly.

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.com> for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

Vestjysk Bank A/S (Unconsolidated Financials) [1]

| | 03-25 ² | 12-24 ² | 12-23 ² | 12-22 ² | 12-21 ² | CAGR/Avg. ³ |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|------------------------|
| Total Assets (DKK Million) | 48,261.5 | 48,491.8 | 44,437.3 | 41,953.3 | 43,310.0 | 3.4 ⁴ |
| Total Assets (USD Million) | 6,987.6 | 6,733.5 | 6,584.9 | 6,021.0 | 6,599.3 | 1.8 ⁴ |
| Tangible Common Equity (DKK Million) | 6,394.9 | 6,663.3 | 6,347.7 | 5,469.7 | 4,934.3 | 8.3 ⁴ |
| Tangible Common Equity (USD Million) | 925.9 | 925.3 | 940.6 | 785.0 | 751.9 | 6.6 ⁴ |
| Problem Loans / Gross Loans (%) | 9.5 | 9.8 | 10.7 | 15.4 | 19.1 | 12.9 ⁵ |
| Tangible Common Equity / Risk Weighted Assets (%) | 24.9 | 25.8 | 27.2 | 24.8 | 21.0 | 24.7 ⁶ |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 28.0 | 27.3 | 27.6 | 39.5 | 52.0 | 34.9 ⁵ |
| Net Interest Margin (%) | 2.2 | 2.6 | 2.9 | 1.9 | 2.3 | 2.4 ⁵ |
| PPI / Average RWA (%) | 3.5 | 4.5 | 5.3 | 2.1 | 2.3 | 3.5 ⁶ |
| Net Income / Tangible Assets (%) | 1.4 | 1.7 | 2.3 | 1.2 | 1.3 | 1.6 ⁵ |
| Cost / Income Ratio (%) | 53.2 | 47.9 | 45.8 | 66.0 | 72.6 | 57.1 ⁵ |
| Market Funds / Tangible Banking Assets (%) | 6.5 | 6.6 | 5.0 | 4.0 | 2.3 | 4.9 ⁵ |
| Liquid Banking Assets / Tangible Banking Assets (%) | 41.5 | 43.2 | 44.9 | 46.4 | 45.8 | 44.4 ⁵ |
| Gross Loans / Due to Customers (%) | 83.7 | 82.3 | 79.1 | 73.1 | 72.0 | 78.0 ⁵ |

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [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

Vestjysk Bank is a commercial and retail bank headquartered in Herning, Denmark, with a regional focus in the Central Jutland region of the country. It had total assets of DKK 48.3 billion (€6.5 billion), 25 branches and 674 employees as of March 2025.

Vestjysk Bank is listed on the NASDAQ Copenhagen stock exchange and since 2021 has been 73% owned by AL Bank, a retail and commercial bank headquartered in Copenhagen, Denmark. The remainder of the shares is primarily owned by individual investors in its home region.

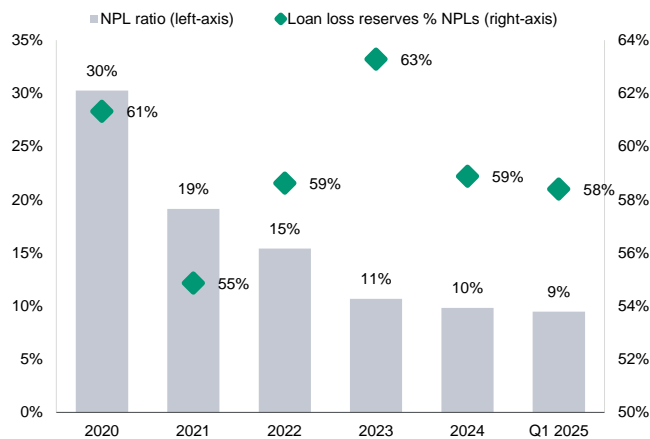
Detailed credit considerations

High problem loans, stemming from legacy agricultural lending and a historically higher risk appetite, which the bank is working to address

Our assigned b1 Asset Risk score reflects the bank's high Moody's-adjusted problem loan ratio, substantially stemming from non-performing legacy loans which remain relatively high despite having reduced over recent years. It also reflects the bank's high recent loan growth as well as sectoral concentrations.

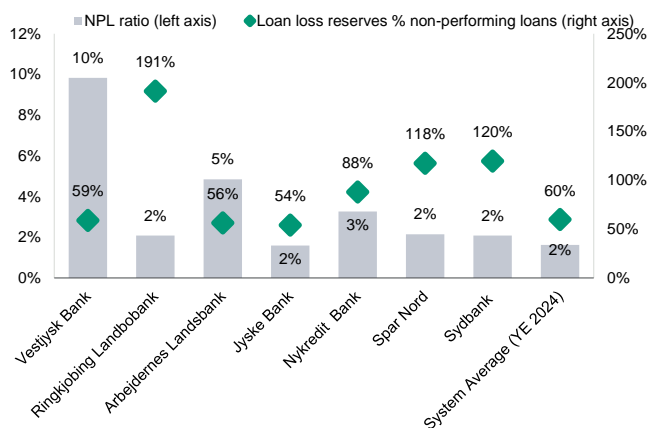
Vestjysk Bank has a Moody's-adjusted problem loans ratio of 9.5% as of March 2025, which is considerably above the average of Danish peer banks. The bank has made significant progress in reducing its problem loan ratio over the last years, from 19.1% in 2021 to 9.5% in Q1 2025. This improvement has been partly due to a reduction in problem loans due to repayments and workout, particularly of agricultural loans, which the bank expects to continue. However, the problem loans ratio has also been supported by strong loan growth of 12.1% in 2024 and 11.6% in 2023, which increases the denominator of the ratio but also brings unseasoned credit risk onto the balance sheet.

Exhibit 3

Vestjysk Bank's non-performing loan ratio has been improving...

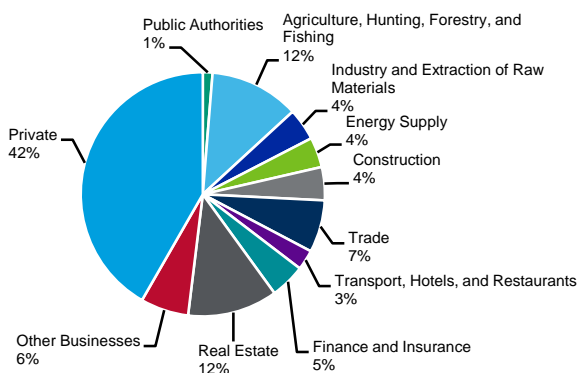
Sources: Bank's financial statements, Moody's Ratings

Exhibit 4

...but remains high relative to peersNote: Arbejdernes Landsbank includes Vestjysk Bank
Sources: Bank's financial statements, Moody's Ratings

Vestjysk Bank had loans and guarantees of DKK 26.5 billion as of Q1 2025, of which DKK 16.7 billion were commercial and DKK 11.0 billion retail exposures. The bank's commercial loan book has sectoral concentrations in real estate and construction (respectively, 12% and 4% of loan book) and agriculture, hunting and forestry (9%).¹

Exhibit 5

Loan book breakdown by sector as end-March 2025

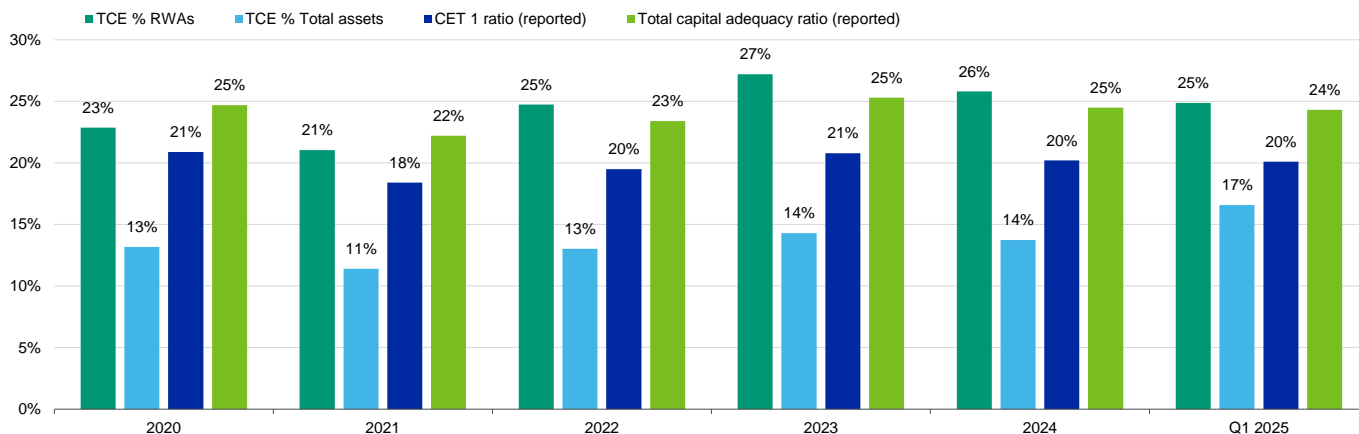
Sources: Bank's financial statements, Moody's Ratings

The regional business model leads to some further concentrations, with two-thirds of loans and guarantees in the central Jutland region of Denmark. Regional concentration is reflected in a business and geographic diversification adjustment outside of the bank's financial profile.

Robust capitalisation, although metrics expected to decline

Our assigned a1 capital score reflects Vestjysk Bank's robust capitalisation. The bank's ratio of tangible common equity (TCE) to risk weighted assets (RWA) was 24.9% at end-March 2025, down slightly from 27.2% as of year-end 2023. Our assessment also takes into consideration the bank's target capital metrics, dividend guidance of 25-50% of post-tax profit, and an expected downward trend from increase in RWA from expected balance sheet growth. The bank applies the standardized approach to credit risk-weighting.

Exhibit 6

Vestjysk Bank's capitalisation is robust and well above requirements

Sources: Bank's financial statements, Moody's Ratings

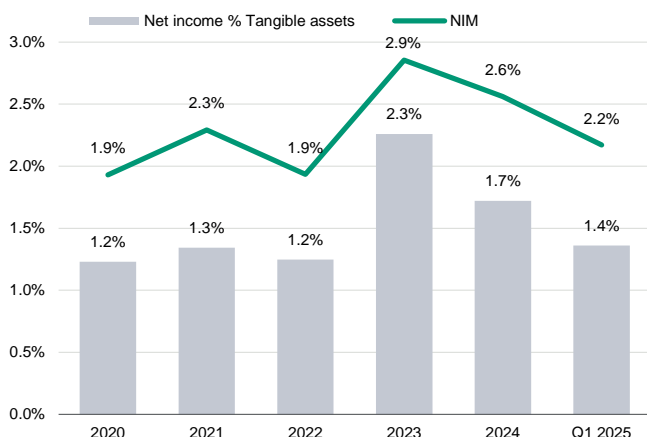
As of March 2025, the bank's consolidated CET1 and total capital ratios were 20.1% and 24.3% respectively, comfortably exceeding the regulatory requirements of 12.1% for the CET1 ratio and 16.3% for the total capital ratio. The capital ratios are projected to decline somewhat going forward based on the bank's business plan, while remaining well above requirements.

The requirements include the Danish Financial Supervisory Authority's pillar 1 and pillar 2 components, a systemically important financial institution (SIFI) buffer of 1.0% (due to majority shareholder AL Bank's SIFI status in Denmark), a 2.5% capital conservation buffer, a 2.5% countercyclical buffer and a 0.7% systemic buffer, introduced in June 2024, for exposures to commercial property companies.

Strong profitability in recent years, although currently facing some headwinds

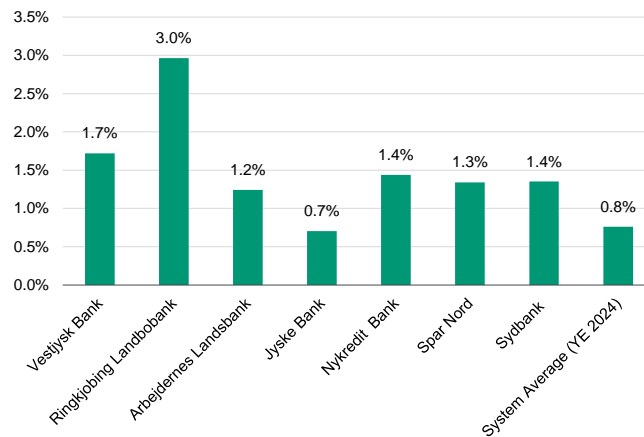
We assign a baa1 profitability score to Vestjysk Bank, reflecting the bank's solid position among the more profitable of its Danish peer banks. The bank reported a return on assets of 1.7% in 2024 (up from 1.6% in 2023 and 1.2% in 2022), supported by a solid net interest margin of 2.6% and good efficiency as indicated by a cost-income ratio of 47.9%.

Exhibit 7

Profitability has been strong

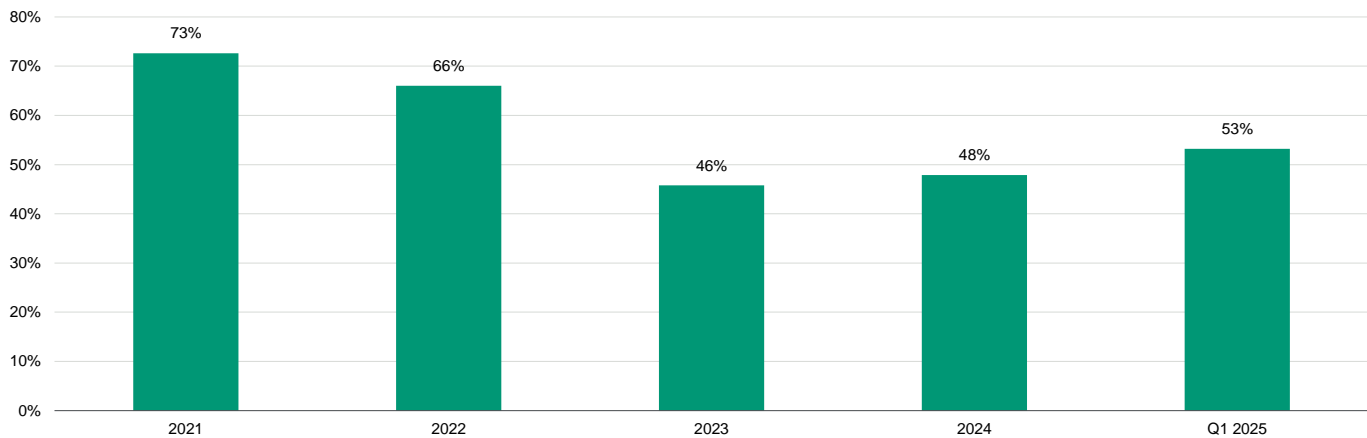
Sources: Bank's financial statements, Moody's Ratings

Exhibit 8

Vestjysk profitability is strong compared to peers
Net income / tangible assets

Sources: Bank's financial statements, Moody's Ratings

Exhibit 9

Vestjysk Bank's cost-to-income ratio

Sources: Bank's financial statements, Moody's Ratings

In 2024, operating income was stable year-on-year and composed principally of 57% net interest income, 26% net fees and commissions, and 16% from market value adjustments on the fair-valued bond portfolio and from dividend income.

Operating expenses were up 3% to DKK 1.0 billion in 2024, driven by wage increases from sector-wide collective salary agreements, and the cost-income ratio was 47.9%. While this is within the bank's targets for a cost-income ratio of under 50%, it has further scope for efficiency gains by simplifying and automating internal processes.

Impairment provisions saw a DKK 16 million reversal in 2024, significantly less than the DKK 208 million reversal in 2023, which was the main driver of the year-on-year decrease in profit after tax.

We generally expect that Danish banks' profitability will decline moderately from current high levels as lower rates reduce net interest income, partly offset by increased lending and higher fee income. Consistent with this, Vestjysk Bank reduced its guidance for profit after tax for 2025 to DKK 600-800 million, compared with an actual profit after tax of DKK 877 million in 2024.

Granular deposit-based funding structure and strong liquidity buffers

Vestjysk Bank's a3 funding structure score captures the bank's strong deposit funding franchise, with limited reliance on more confidence-sensitive market funding which stood at 6.6% of tangible banking assets as of December 2024.

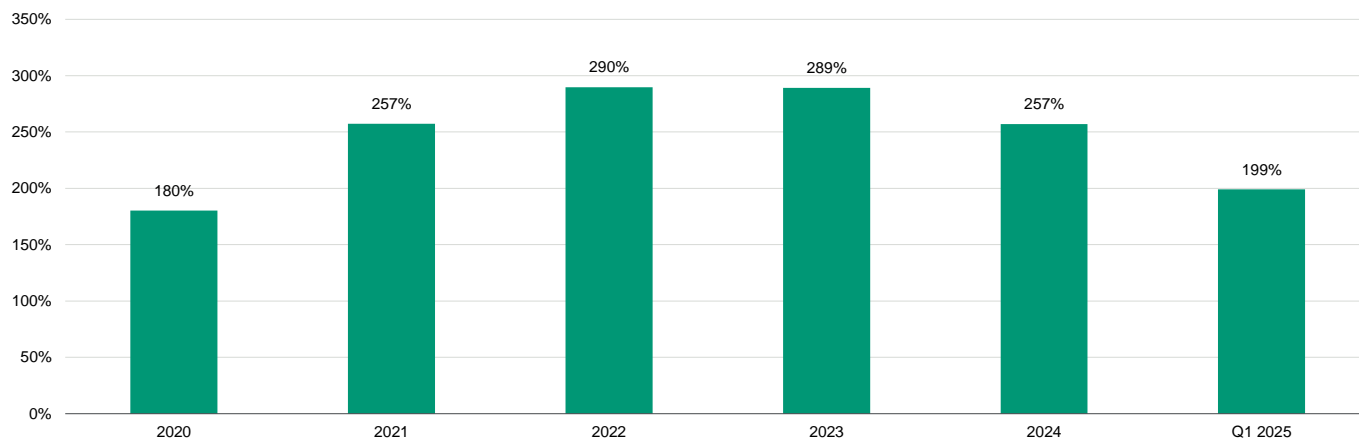
The bank is predominantly deposit-funded, with customer deposits representing around 64% of the bank's total non-equity funding, and deposits in pooled schemes accounting for a further 25% as of December 2024. The bank's loan-to-deposit ratio was 78% as of December 2024, broadly in line with 74% as of December 2023. Out of the total amount of customer deposits, 72% were retail deposits (85% of which covered by deposit insurance) and 28% were business deposits (50% of which covered by deposit insurance). While this is an overall stable deposit base, our a3 funding structure score also considers that the bank's deposits are almost exclusively available on demand, with 14% of total deposits being business deposits not covered by deposit insurance.

The bank's limited market funding reliance is mainly driven by issuances to meet the minimum requirement for own funds and eligible liabilities (MREL). Vestjysk Bank's fully-phased in minimum requirement for own funds and eligible liabilities (MREL) is set at 30.3% and will take effect on January 1, 2026. This compares with an MREL ratio of 33.9% for the bank as of March 2025, well above the regulatory requirement. Vestjysk Bank is integrated into the resolution perimeter of its ultimate parent AL Bank which provides MREL-eligible funding to Vestjysk Bank.

AL Bank provides all of the market funding of Vestjysk Bank as internal MREL. Market funding from other capital providers has nearly been phased out over the last 4 years since the acquisition by AL Bank and is expected to be fully phased out. While there is no concern about provision of market funding by the parent as internal MREL, we adjust downwards to reflect the lack of demonstrated market access by Vestjysk Bank.

We assign an a1 liquidity score. As of the end of December 2024, Vestjysk Bank's liquid banking assets accounted for 43% of tangible banking assets. We also consider the High Quality Liquid Assets (HQLA) to tangible banking assets ratio, which was 38% at end of year 2024. The bank also reported a liquidity coverage ratio of 199% as of the end of March 2025 (December 2024: 257%), well above the 100% regulatory minimum requirement.

Exhibit 10

Vestjysk Bank's Liquidity Coverage Ratio (LCR)

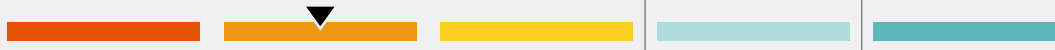
Sources: Bank's financial statements, Moody's Ratings

ESG considerations**Vestjysk Bank A/S' ESG credit impact score is CIS-4**

Exhibit 11

ESG credit impact score**CIS-4**

Score



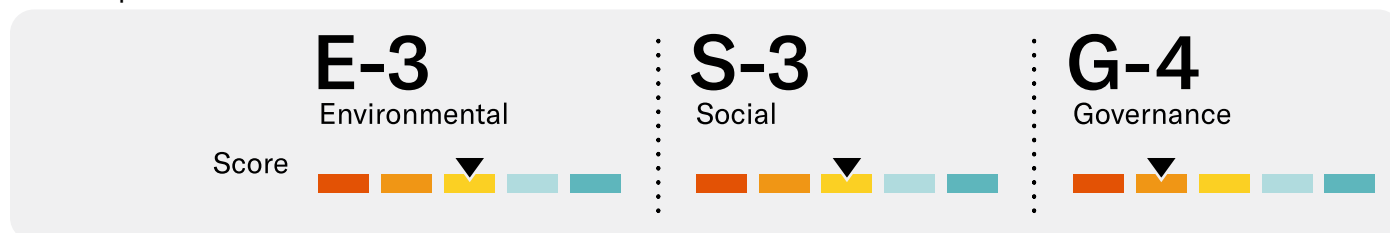
ESG considerations have a discernible impact on the current rating, which is lower than it would have been if ESG risks did not exist. The negative impact of ESG considerations on the rating is higher than for an issuer scored CIS-3.

Source: Moody's Ratings

Vestjysk Bank A/S's **CIS-4** indicates a material impact of ESG considerations on the bank's ratings, mostly because of the bank's high governance risks, which are reflected in a one-notch negative rating adjustment for corporate behaviour. The bank's corporate governance risks mainly stem from a history of high risk appetite and control weaknesses, with only a limited track record of sustained improvement in risk governance under new ownership and management. Environmental and social risk factors have a limited credit impact on the ratings to date.

Exhibit 12

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Vestjysk Bank A/S faces moderately negative 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, Arbejdernes Landsbank is developing its climate risk and portfolio management capabilities.

Social

Vestjysk Bank A/S faces moderate industry-wide social risks related to regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by the bank's developed policies and procedures. High cyber and personal data risks are mitigated by the bank's strong IT framework. Vestjysk Bank A/S has moderate exposure to customer relations risks.

Governance

Vestjysk Bank has faced high governance risks due to past control weaknesses and a high stock of non-performing loans. While recent improvements under new ownership show promise, the bank still has a limited track record of sustained improvement in risk governance.

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

Affiliate support

We assign a high probability of affiliate support for Vestjysk Bank, reflecting our view of the high importance of the bank's balance sheet and earnings contribution to AL Bank's consolidated financial statements and performance, as well as the partial integration with the parent. These group features are balanced against Vestjysk Bank's distinct brand and regional focus, with a significant degree of independence in its operations, and 27% minority interests.

Vestjysk Bank's baa2 Adjusted BCA, therefore, benefits from one notch of affiliate support uplift from its baa3 standalone BCA.

Loss Given Failure (LGF) analysis

Vestjysk Bank, together with its parent institution, AL Bank, is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. In line with our methodology, and the Danish Financial Supervisory Authority's single-point-of-entry resolution strategy for the parent, we apply our Advanced LGF analysis to AL Bank's liabilities at the consolidated group level for both entities, considering the risks faced by the different debt and deposit classes across the liability structure should the group enter resolution.

In our Advanced LGF analysis, we use our standard assumptions and assume residual TCE of 3% and losses post-failure of 8% of tangible banking assets. We also assume a 25% runoff in "junior" wholesale deposits and a 5% runoff in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt.

Under these assumptions, our Advanced LGF analysis indicates that Vestjysk's deposit and senior unsecured ratings are likely to face an extremely low loss given failure because of the loss absorption provided by the substantial volume of more junior instruments, leading to three notches of uplift from the bank's baa2 Adjusted BCA.

Government support considerations

We consider a low probability of support from the Government of Denmark for Vestjysk Bank, resulting in no uplift incorporated in its A2 long-term Deposit and Senior Unsecured ratings.

Rating methodology and scorecard factors

Exhibit 13

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 | 11.3% | b1 | ↑ | b1 | Sector concentration | Loan growth | |
| Capital | | | | | | | |
| Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in) | 24.9% | aa1 | ↓↓ | a1 | Expected trend | | |
| Profitability | | | | | | | |
| Net Income / Tangible Assets | 1.4% | a2 | ↔ | baa1 | Expected trend | Earnings quality | |
| Combined Solvency Score | | baa1 | | baa2 | | | |
| Liquidity | | | | | | | |
| Funding Structure | | | | | | | |
| Market Funds / Tangible Banking Assets | 6.6% | aa3 | ↔ | a3 | Lack of market access | Deposit quality | |
| Liquid Resources | | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | 43.2% | aa3 | ↓ | a1 | Expected trend | | |
| Combined Liquidity Score | | aa3 | | a2 | | | |
| Financial Profile | | a3 | | baa1 | | | |
| Qualitative Adjustments | | | | Adjustment | | | |
| Business Diversification | | | | -1 | | | |
| Opacity and Complexity | | | | 0 | | | |
| Corporate Behavior | | | | -1 | | | |
| Total Qualitative Adjustments | | | | -2 | | | |
| Sovereign or Affiliate constraint | | | | Aaa | | | |
| BCA Scorecard-indicated Outcome - Range | | | | baa2 - ba1 | | | |
| Assigned BCA | | | | baa3 | | | |
| Affiliate Support notching | | | | 1 | | | |
| Adjusted BCA | | | | baa2 | | | |

Balance Sheet is not applicable.

| Debt Class | De Jure waterfall | | De Facto waterfall | | Notching | | LGF Notching Guidance vs. Adjusted BCA | Assigned LGF notching | Additional Notching | Preliminary Rating Assessment |
|------------------------------|-------------------|----------------------------|--------------------|--------------------------------|----------|----------|--|-----------------------|---------------------|-------------------------------|
| | Instrument | Sub-volume + subordination | Instrument | Sub-ordination + subordination | De Jure | De Facto | | | | |
| Counterparty Risk Rating | - | - | - | - | - | - | - | 3 | 0 | a2 |
| Counterparty Risk Assessment | - | - | - | - | - | - | - | 3 | 0 | a2 (cr) |
| Deposits | - | - | - | - | - | - | - | 3 | 0 | a2 |
| Senior unsecured bank debt | - | - | - | - | - | - | - | 3 | 0 | a2 |

| 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 | a2 | 0 | A2 | A2 |
| Counterparty Risk Assessment | 3 | 0 | a2 (cr) | 0 | A2(cr) | |
| Deposits | 3 | 0 | a2 | 0 | A2 | A2 |
| Senior unsecured bank debt | 3 | 0 | a2 | 0 | A2 | A2 |

[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 14

| Category | Moody's Rating |
|---|----------------|
| VESTJYSK BANK A/S | |
| Outlook | Stable |
| Counterparty Risk Rating | A2/P-1 |
| Bank Deposits | A2/P-1 |
| Baseline Credit Assessment | baa3 |
| Adjusted Baseline Credit Assessment | baa2 |
| Counterparty Risk Assessment | A2(cr)/P-1(cr) |
| Issuer Rating | A2 |
| ST Issuer Rating -Dom Curr | P-1 |
| PARENT: A/S ARBEJDERNES LANDBANK | |
| Outlook | Stable |
| Counterparty Risk Rating | A2/P-1 |
| Bank Deposits | A2/P-1 |
| Baseline Credit Assessment | baa2 |
| Adjusted Baseline Credit Assessment | baa2 |
| Counterparty Risk Assessment | A2(cr)/P-1(cr) |
| Issuer Rating | A2 |
| Senior Unsecured | A2 |
| Junior Senior Unsecured | Baa1 |
| Junior Senior Unsecured MTN | (P)Baa1 |
| ST Issuer Rating | P-1 |

Source: Moody's Ratings

Endnotes

- 1 A further 3% of lending exposures was to the fishery sector, totaling 12% for agriculture, hunting, forestry and fishery in the loan book breakdown chart below.

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