



# RISK

REPORT 2010



spar nord

# RISK REPORT

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# PREFACE

This report is intended to present an overview of the Spar Nord Bank Group's risk and capital management and has been prepared in accordance with the legal disclosure requirements pursuant to the Danish Executive Order on Capital Adequacy. It provides a description of the various categories of on-balance-sheet and off-balance-sheet risks to which the Group is exposed. In addition, the report includes an account of the Group's risk and capital management and the composition of the capital base and the associated risks.

The structure of the report is as follows:

- Highlights of 2010
- Risk management
- Capital management (incl. ICAAP result)
- Credit risk
- Market risk
- Liquidity risk
- Operational risk

The rules regarding the capital adequacy requirements of credit institutions are laid down in the EU's Capital Requirements Directive (CRD). This Directive originates from the Basel II rules, with Pillar 3 setting the rules for the disclosure of capital adequacy and risk management. The Spar Nord Group complies with the Danish Financial Business Act and the Danish Financial Supervisory Authority's Executive Order on Capital Adequacy, which are both based on the CRD.

The Bank's disclosure requirements pursuant to Pillar 3 relate to Spar Nord Bank A/S, CVR no. 13737584, and all its fully consolidated subsidiaries ("Spar Nord"). This report for the Spar Nord Group is available at [www.sparnord.dk/ir](http://www.sparnord.dk/ir). In addition, the Annual Report of Spar Nord Bank A/S discloses information about the Group's risks and risk management.

Reporting pursuant to the disclosure requirements in Pillar 3 takes place annually in connection with the presentation of the financial statements, while the ICAAP result is published quarterly.

Further disclosures regarding risk, liquidity and asset management are given in the Spar Nord Annual Report in accordance with the International Financial Reporting Standards, IFRS.

# HIGHLIGHTS OF 2010

In macroeconomic terms, the credit crunch in Europe - first in Greece and then a number of other countries - made the top headlines in 2010. All of the countries hit by the crisis have economies that experienced extreme growth throughout most of the century's first decade, driven by low interest rates, lenient credit terms and a construction boom.

After the financial crisis had put an end to the lenient credit terms, and the mounting risk of national bankruptcies to the low interest level, the countries in question found themselves in a dire situation with high unemployment levels, outdated structures and weak competitiveness. This precipitated substantial budgetary deficits and sharply rising debts that can only be sliced through structural reforms and major cutdowns in public finances. These cuts will lock the economies in a low-growth scenario for many years to come.

Unlike the situation in Southern Europe, business trends in Denmark improved during 2010 - fuelled by tax concessions and major advances in our important export markets in Sweden and Germany. After a combined production loss (GDP) of 8% following in the wake of the financial crisis, growth climbed during the most recent five quarterly periods - although it will remain 5% below the 2007 peak. Unemployment, which rose sharply throughout 2009, stabilized at a level around 4.2%.

## Liquidity

2010 saw financial markets make an incipient return to their pre-crisis pattern. This development culminated in Denmark with the expiry of Bank Package I on 30 September 2010. Thus, Q4 2010 was the first quarterly period in two years during which the mutual confidence of financial institutions was tested in an environment without the general government-backed guarantees.

In terms of cash resources, Spar Nord Bank had a strong platform upon the expiry of Bank Package I, as the Group's strategic liquidity excess coverage on 30 September 2010 stood at DKK 7.6 billion, with the liquidity excess coverage rate being 101% when measured pursuant to section 152 of the Danish Financial Business Act. The expiry of Bank Package I did not result in an exodus of customers or deposit defections for Spar Nord Bank.

In Q4 2010 the Group saw the strategic liquidity excess coverage diminish because lending rose while deposits fell as several customers chose to rearrange their cash resources from cash deposits to various types of securities. At end-2010, the excess coverage relative to the Group's strategic liquidity target thus stood at DKK 5.2 billion.

## Credit rating

The Group's total loans, advances and guarantees before offsetting of impairment amounted to DKK 46.1 billion at end-2010 compared with DKK 45.7 billion at end-2009. Retail customers account for 33% of total loans and guarantees, with business customers accounting for 67%.

During the year under review, Spar Nord focused on adjusting its spread of loans and guarantees in terms of trades and industries, by this means reducing its exposure to industries and trades that the Bank has defined as particularly risk-prone. For instance, at Group level exposure to agriculture has been reduced from 12.5% at end-2009 to 11.9% at end-2010.

As a matter of course, the adverse market conditions impacted developments in the Group's loan impairment. The overall impact on the income statement, which is recognized in core earnings, amounted to DKK 454 million, equal to 1.0% of average loans and guarantees.

## Capital

In connection with the Q2 2010 report, Spar Nord prepared a stress test based on the same assumptions and scenarios that form the basis of CEBS' stress tests performed on the largest banks in Europe. With a core capital ratio of 12.8% or more throughout the full stress period, the test result shows that the Bank has substantial resilience and a robust capital base.

At end-2010, Spar Nord's ICAAP result was calculated at 8.5%, and is thus unchanged compared with end-2009. At the end of 2010, the solvency ratio of Spar Nord may be calculated at 13.4, which yields a capital excess coverage of 4.9 percentage points, equal to DKK 2.1 billion. During the year under review, Spar Nord repaid a subordinated loan of DKK 250 million in full at the loan's maturity date.

## New legislation

From 2011 onwards, a range of new legislative and regulatory initiatives is expected to be introduced in Denmark and on a pan-European level, which will impact on the capital adequacy and risk management positions. Fresh initiatives will include new models for calculating financial institutions' impairment of loans, implementation of changed solvency and capital rules in accordance with the Basel III regulations, and new requirements regarding the amount of stable funding and liquidity coverage ratios.

Together, the new initiatives involve a major change and expansion of administrative procedures. However, Spar Nord's assessment is that, given its existing procedures, the Group has an excellent point of departure and is well positioned to tackle the new challenges.

# RISK MANAGEMENT

Risk assumption is pivotal to banking, and risk management is a central focus area across the Spar Nord organization. The various types of risk that the Group assumes and the initiatives taken to manage and monitor developments are reviewed in the following sections.

## Risk profile

The risks assumed by Spar Nord and its proclivity for assuming risks within the individual risk categories are rooted in the Bank's general strategic goals, set by the Supervisory Board. As a supplement, specific risk policies have been introduced, laying down the general guidelines for handling and managing risks. All policies are reviewed at least once a year.

The goal is to ensure coherence between the Bank's vision, mission and strategy, and that at all times the Bank has a risk profile that bears an appropriate relation to its capital base.

In light of the general risk policies and the risk profile, specific instructions have been prepared for the most important areas of risk.

## Distribution of duties

Spar Nord has a two-tier management structure with an Executive Board and a Supervisory Board. The Supervisory Board has formulated a set of written guidelines governing the Executive Board's actions in the risk area, clearly defining the areas of responsibility for each level of management. The Supervisory Board lays down general policies, while the Executive Board is responsible for the day-to-day management of the Group.

The Supervisory Board is responsible for ensuring that the Group has an appropriate organization and that risk policies and limits are established for all important risk categories. In addition, all major credit facilities must be submitted to the Supervisory Board for approval. The Supervisory Board also makes decisions regarding general principles for handling and monitoring risks. Regular reporting makes it possible for the Supervisory Board to check whether combined risk policies and the limits introduced are observed.

The Executive Board is responsible for the day-to-day management of Spar Nord. The Executive Board issues specific instructions for the Bank's risks and the Group's risk management procedures. In addition, the Executive Board reports to the Supervisory Board as concerns the Group's risk exposure, as well as approves customer facilities up to a predefined limit.

The Supervisory Board and the Executive Board have appointed a number of committees and working parties that contribute to the Group's risk governance in specific areas, and which prepare cases and themes for processing by the Supervisory Board.

The Supervisory Board oversees the activities of Spar Nord's Internal Audit Department, which reports to both the Supervisory Board and the Executive Board. The Internal Audit Department bases its activities on the annual plan adopted by the Supervisory Board. These include test examinations of business procedures and internal control systems in key areas subject to risk, including in connection with preparing the financial statements.

Internal Audit and the Compliance function continually check that relevant legislation and other rules, regulations and provisions are complied with when the financial statements are presented.

Finally, Spar Nord Bank's Supervisory Board has set up an audit committee charged with monitoring and controlling accounting and auditing matters and drafting accounting and risk-related material for use by the Supervisory Board.

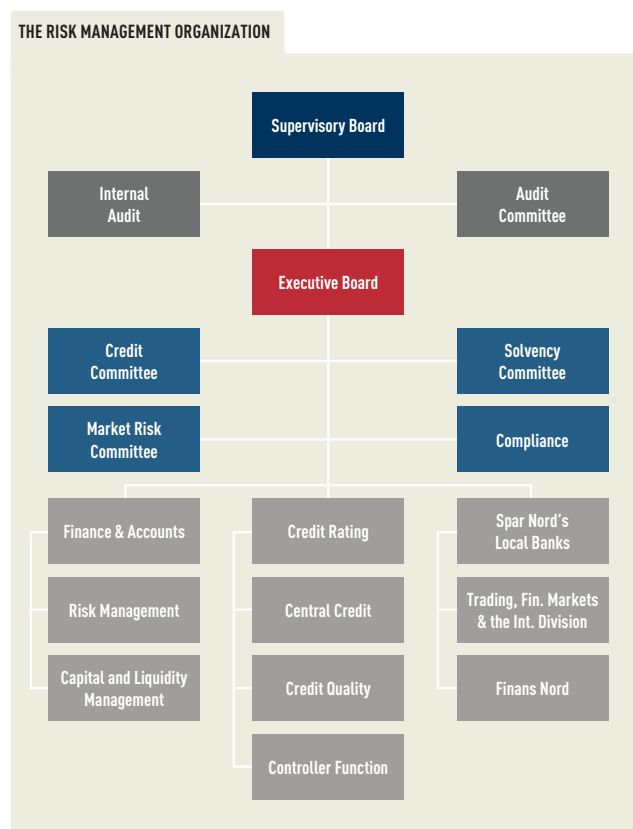


Figure 1.1

#### *Credit Committee*

involve a matter of principle. The Committee, composed of the General Manager of Credit Rating and an Executive Board member, convenes three times a week. Frequently, matters that have been dealt with by the Credit Committee will be prepared for subsequent discussion among all members of the Supervisory Board

#### *Market Risk Committee*

The Market Risk Committee is composed of representatives of the Executive Board, Finance & Accounts and Trading, Financial Markets & the International Division. The Committee meets every quarter and reviews developments in the Bank's positions and risks as well as the liquidity situation and expectations regarding market developments and future plans. In addition, the Committee receives input from a more operationally slanted Capital Market Committee, for example regarding any issues that may require specific discussion in terms of principles.

#### *Solvency Committee*

The Solvency Committee is composed of members of the Executive Board, Credit Rating and Finance & Accounts. The objective of the Committee is to formulate targets and principles for calculating the appropriate capital base and the ICAAP result. The Solvency Committee prepares a recommendation for the ICAAP result and passes it on to the Supervisory Board for approval.

#### *Day-to-day risk management*

The day-to-day management of credit risks is undertaken by customer advisers, branch managers and Credit Rating. The remit of Trading, Financial Markets & the International Division includes managing market and liquidity risks. Finance & Accounts, in consultation with the Executive Board, is in charge of managing the strategic and more long-term funding. Day-to-day operational risks are managed by the individual business units of the Group.

# CAPITAL MANAGEMENT

## Capital goal

The Bank-wide capital management system is intended to manage the Group's total capital relative to the risk profile the Group has chosen. Spar Nord's capital goal is intended to ensure that the Group never encounters a situation where the solvency ratio drops below the statutory requirement of 8% and/or below the ICAAP result. Thus, the targets have been fixed to enable the Bank to withstand recessions, unexpectedly large credit losses and major adverse changes in the value of the market-risk-related positions.

The Bank's capital goals since the beginning of 2010 are:

- The core capital ratio, excl. hybrid core capital, must be at least 8.0.
- The core capital ratio, incl. hybrid core capital, must be at least 12.0.

At end-2010, Spar Nord had a core capital ratio, excl. hybrid capital, of 9.3, a core capital ratio, incl. hybrid capital, of 13.2 and a solvency ratio of 13.4.

The Group's capital planning has the supplementary target of Spar Nord maintaining an A-level rating at all times. This is because Spar Nord considers a rating at this level to be an important prerequisite for success, given the Group's business model.

## SOLVENCY RATIO AND CORE CAPITAL RATIO

%	2010	2009
Core capital ratio, excl. hybrid	9.3	9.3
Core capital ratio, incl. hybrid	13.2	13.2
Solvency ratio, %	13.4	14.2
ICAAP result	8.5	8.5

Figure 2.1

Despite the negatives of the unfavourable economic climate that have marked the two most recent years, Spar Nord continues to have a robust capital base. This is due to the fact that in 2009 the Bank chose to strengthen its capital base by raising a government loan via hybrid core capital in the amount of DKK 1,265 million. The decision to raise capital in this way was tied to the high level of uncertainty surrounding future macroeconomic developments, general trends towards a higher capitalization ratio in the sector and the wish to secure capital for growth in lending at the new local banks.

## Capital base and risk-weighted items

The capital base is characterized by the fact that the claims of depositors of this type of capital are subordinated to ordinary creditors in the event that the Bank goes under. The capital base consists of three types of capital: core capital, hybrid core capital and supplementary capital. Developments in the capital base are determined by profits for the year, the raising and redemption of subordinated loan capital and dividend and repurchase policies. The capital base is used as the point of departure for calculating the solvency ratio.

## STATEMENT OF CAPITAL BASE

DKK m	2010	2009
Share capital	571	571
Other reserves	440	412
Retained earnings	3,299	3,105
<b>Total</b>	<b>4,310</b>	<b>4,088</b>
- Proposed dividend	0	0
- Intangible assets	-158	-166
- Goodwill in associates	-37	-37
- Deduction for equity investments >10%	-24	-21
- Deduction for the sum of equity investments < 10%	-43	0
<b>Core capital (excl. hybrid core capital) after deductions</b>	<b>4,048</b>	<b>3,864</b>
- Hybrid core capital	1,669	1,638
<b>Core capital (incl. hybrid core capital) after deductions</b>	<b>5,717</b>	<b>5,502</b>
- Supplementary capital	807	1,043
- Revaluation reserves	65	54
- Deduction for equity investments in associates	-702	-672
- Deduction for equity investments >10%	-24	-21
- Deduction for the sum of equity investments <10%	-43	0
<b>Capital base</b>	<b>5,820</b>	<b>5,906</b>

Figure 2.2

Risk-weighted items constitute an important risk target used for determining the minimum capital requirement and calculating the key risk indicators, such as core capital ratio, solvency ratio and the ICAAP result.

A variety of factors impact risk-weighted items, including the distribution of credit exposure on customer categories and products.

Risk-weighted items for credit risk and market risk are calculated based on the Basel II standard method. The market value approach is used for calculating counterparty risk, while the risk-weighted items for operational risk are calculated using the basic indicator approach. In addition, Spar Nord uses the option of applying lower weighting to credit risks, including using the exposure categories retail customers and real property mortgages and the expanded approach to financial collateral.

Compared with the Risk Report 2009, derivative instruments have been reclassified from credit exposure to counterparty risk. All comparative figures have been restated.



As appears from figure 2.3, the bulk of the combined capital requirement (83%) is attributable to credit risk.

RISK CATEGORY DKK m	Capital requirement*]		Risk-weighted items	
	2010	2009	2010	2009
<b>Kreditrisiko</b>				
- Public entities	0	0	2	3
- Institutions	77	27	959	337
- Trade and industry	1,171	1,116	14,636	13,953
- Retail customers	1,209	1,213	15,117	15,165
- Exp. secured by mortgages on real prop.	102	132	1,273	1,648
- Exp. past due or overdrawn	105	104	1,314	1,304
- Exp. to short-term rating	0	17	0	218
- Other exposure	99	81	1,241	1,009
Counterparty risk	111	106	1,386	1,319
<b>Total credit risk</b>	<b>2,874</b>	<b>2,796</b>	<b>35,928</b>	<b>34,956</b>
<b>Market risk</b>				
- Debt instruments	207	193	2,594	2,417
- Shares, etc.	34	19	419	235
- Foreign-exchange risk	13	13	163	161
- Commodity risks	0	0	0	0
<b>Market risk, total</b>	<b>254</b>	<b>225</b>	<b>3,176</b>	<b>2,813</b>
<b>Operational risk, total</b>	<b>344</b>	<b>314</b>	<b>4,302</b>	<b>3,923</b>
<b>Risk-weighted items, total</b>			<b>43,406</b>	<b>41,692</b>
<b>Capital requirement, total</b>	<b>3,472</b>	<b>3,335</b>		

\*] The capital requirement is calculated as 8% of risk-weighted items Figure 2.3

### Risk-weighted items for credit risk

During 2010, a small shift in credit exposure by exposure category occurred, including a reduction in the share of exposure secured by mortgages on real property, which is partly attributable to customers' refinancing their bank loans by mortgages. The increase in risk-weighted items in the category "Business customers" is attributable to general growth in lending to business customers.

The increase in risk-weighted items as concerns counterparty risk is due primarily to the favourable trends in receivables under contracts concluded. In isolation, the expiry of Bank Package I at end-September 2010 caused risk-weighted items regarding Danish financial institutions to grow in the amount of DKK 478 million.

### Risk-weighted items for market risk

In 2010, the risk-weighted items for the Bank's market risk increased by DKK 363 million, corresponding to a DKK 29 million increase in the capital requirement. The primary reasons for this growth are that in 2010 the bond portfolio increased by DKK 1,059 million and the portfolio of equities and collective unit trusts grew.

### Risk-weighted items for operational risks

The Bank's operational risk has been calculated using the basic indicator approach. The risk-weighted items for the Bank's operational risk increased by DKK 379 million in 2010, which boosts the capital requirement by DKK 30 million. This increase is due to the fact that the basic indicator for 2010 is DKK 605 million larger than the basic indicator for 2007, which does not appear from the statement as the calculations are performed on a three-year basis according to the approach used.

### RISK-WEIGHTED ITEMS

DKK bn

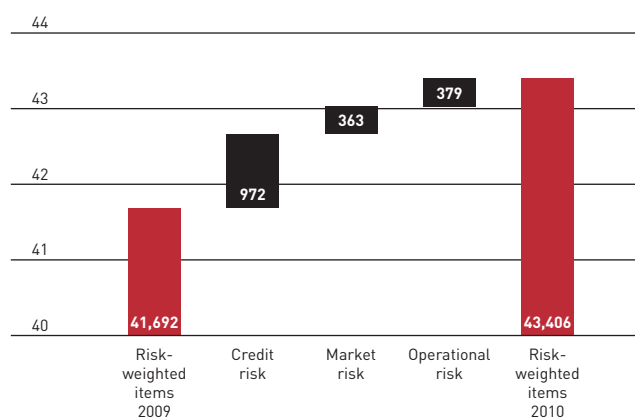


Figure 2.4

### ICAAP result

While Pillar I determines the capital requirement based on uniform rules and calculation methodologies, Pillar II only contains general frameworks within which a bank must calculate the requirements based on its situation and individual characteristics. Using the Danish Financial Supervisory Authority's "Guidelines on adequate base capital and individual solvency needs for financial institutions", the Supervisory Board and the Executive Board determine the adequate capital base of the Bank and its ICAAP result pursuant to section 124 of the Danish Financial Business Act.

Once a year, the Supervisory Board reviews and approves the calculation methodology for the Bank's adequate capital base and solvency needs, including the risk areas and stress levels to be used in calculating the ICAAP result. In addition, the solvency needs are subject to a quarterly review and approval procedure by the Supervisory Board.

The reviews are based on recommendations prepared by the Bank's Solvency Committee (the Executive Board, Credit Rating and Finance & Accounts). The recommendations include proposals for the amount of the solvency needs, including a proposal for choice of stress variables, stress levels and risk areas to be included in calculating the ICAAP result.



### Process and method for calculating the ICAAP result

Since the beginning of 2008, the Bank's calculation of the ICAAP result has been based on an adaptation of a calculation methodology prepared by the Association of Local Banks in Denmark. The determination has a three-level structure:

#### Level 1

The Bank's income statement is subjected to a stress test, using a total of six stress parameters:

1. Decline in core income
2. Loss of credit
3. Interest increase
4. Share price drop
5. Foreign-exchange loss
6. Loss on counterparty risks

The objective of stress testing is to subject the Bank's income statement to a number of adverse events, thus determining what worst case losses the Bank should at least be capable of covering via its core capital. Thus the ICAAP model includes the stress test results by virtue of the fact that the Bank must, as a minimum, maintain a capital level capable of covering the loss incurred if the scenario concerned occurs.

For each individual stress factor, 97.5% fractile values are used, calculated on the basis of historical data spanning the past 25 years. The stress level is assessed to be very extreme: all stress parameters are fixed at values more extreme than the worst historical figure in any one year since 1986, apart from the stress parameter for share price drops. The level used as a guide by the Danish Financial Supervisory Authority for declining share prices is lower than what is used here.

#### Value for the most important stress variables:

	%
Decline in core income	13.0
Impairment of loans and advances	3.3
Interest increase	1.7
Share price drop	38.0

#### Level 2

The capital requirement connected with the anticipated growth is calculated based on the expected growth in business volume.

#### Level 3

An assessment is made whether the Bank's business and risk areas in general warrant additional supplements to the calculated ICAAP result in level 1. These are the four risk areas:

1. Credit risks: Customers having financial difficulties, large facilities, business and geographical concentration and concentration of collateral
2. Market risks, including interest-rate risks outside the trading portfolio, risks attaching to the term structure of interest rates and risks connected with unlisted shares and the like
3. Operational risks
4. Other risks: Business profile, strategic risks, reputation risks, real property risks, risks associated with floating capital, liquidity risks and other risks

The impact of these areas on the ICAAP ratio is determined directly via supplementary calculations. Management has made an estimate in selected risk areas.

In the Bank's opinion, the risk factors included in the model cover all the risk areas that legislation requires Management to take into consideration in calculating the ICAAP result and the risks that the Management finds the Bank has assumed.

### Breakdown of the combined ICAAP result on risk areas

The total ICAAP result is broken down by risk area according to the following principles:

*Credit risks:* The risk as a result of borrowers or other counterparties defaulting on their payment obligations, including the risks attaching to customers having financial difficulties, large facilities, concentration risks and risks attaching to granted, unutilized credit lines.

*Market risks:* Comprise the risk of loss due to the fact that the fair value of the Bank's assets or liabilities changes on account of changes in prices on the financial markets.

*Operational risks:* Comprise the risk of financial loss as a result of deficient or inexpedient or erroneous internal procedures, human or system errors and similar errors, or losses as a result of external events.

*Other risks:* Comprise the risk of loss as a result of business profile, strategic risks, reputation risks, real property risks, risks in connection with capital procurement, liquidity risks and other risks (Group risks, the Bank's size, settlement risks, external risks, etc.). The capital requirement for covering these risks is reduced by the recognized positive results before impairment of loans, etc.

*Statutory requirements:* The situations in which the requirements laid down in the Danish Financial Business Act stipulate a lower limit for the ICAAP result.

The necessary core capital has been calculated at DKK 3,705 million at both Group and Parent Company level. This corresponds to an ICAAP ratio of 8.5% at Group level, and 8.4% at Parent Company level.

Of the total capital requirement, DKK 2,669 million, or 72%, is attributable to credit risks, while market risks account for 19% of the total capital requirement.

The capital requirement in connection with other risks has been calculated at DKK -72 million (net), as the capital requirement for covering these risks is reduced by the recognized positive results before impairment of loans, etc.

#### ICAAP RATIO BY RISK AREA

DKK m / %	2010			2009		
	Adequate capital base	Group, ICAAP result	Parent Company, ICAAP result	Adequate capital base	Group, ICAAP result	Parent Company, ICAAP result
Credit risk	2,669	6.2	6.1	2,402	5.9	5.8
Market risk	710	1.6	1.6	666	1.6	1.6
Operational risk	398	0.9	0.9	357	0.8	0.8
Other risks	-72	-0.2	-0.2	100	0.2	0.2
Supplement, if required by law	0	0.0	0.0	0	0.0	0.0
<b>Total</b>	<b>3,705</b>	<b>8.5</b>	<b>8.4</b>	<b>3,525</b>	<b>8.5</b>	<b>8.4</b>

Figure 2.5

#### Excess coverage relative to statutory requirement

At end-2010, the Group's solvency ratio stood at 13.4%, corresponding to an excess coverage of 57% relative to the ICAAP result.

#### EXCESS COVERAGE RELATIVE TO STATUTORY REQUIREMENT

	Koncern 2010	Moder-selskab 2010	Koncern 2009	Moder-selskab 2009
Capital base after deductions (DKK m)	5,820	5,849	5,906	5,889
Adequate capital base (DKK m)	3,705	3,705	3,525	3,525
Excess coverage (DKK m)	2,115	2,144	2,381	2,364
Solvency ratio, %	13.4	13.2	14.2	14.0
ICAAP result (%)	8.5	8.4	8.5	8.4
Excess coverage in %	57	58	68	67

Figure 2.6

#### ICAAP RESULT AND CAPITAL BUFFER

DKK m

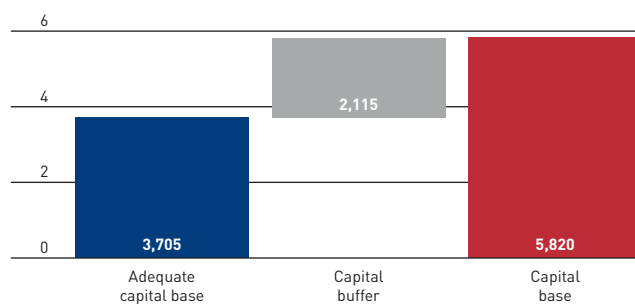


Figure 2.7

# CREDIT RISK

Credit risk is defined as the risk of loss if Spar Nord customers default on their agreed obligations in whole or in part.

Credit risks at Spar Nord mainly arise from various types of lending to business and retail customers, but also from guarantees and letters of credit.

Credit risks also include counterparty risk, delivery risk and settlement risk. Counterparty risk is the risk that Spar Nord's counterparty to a currency, interest, commodity or share derivative contract defaults before the expiry of the contract, and that Spar Nord has a claim against such counterparty at the relevant time.

## Credit policy

Spar Nord's overall credit risk is controlled on the basis of the Bank's credit policy, which the Supervisory Board determines in conjunction with the overarching policies and frameworks for the Group's credit risk.

The pivotal objective of Spar Nord's credit policy is to ensure that earnings and risks are balanced, and that the assumption of risk is always quantified.

Spar Nord's policy is to have full insight into customers' financial health and paying behaviour before granting credit facilities. Also, creditworthiness - the customer's ability and determination to meet current and future obligations - is a key parameter in all customer relations.

Spar Nord aims to develop long-term relationships with customers and does not want to use risk appetite as a competitive parameter. Spar Nord only wants to conclude transactions that conform to good banking practice and do not jeopardize the Group's reputation and professional image.

As a basic rule, Spar Nord does not grant loans and credit facilities based on collateral alone. Thus, the customer should show the determination and have the ability to repay loans without the Bank having to realize the collateral.

In its endeavours to ensure sound risk diversification of its credit exposure, Spar Nord has introduced a number of internal targets. The Group does not want to be exposed to individual customers or industries that might solely and separately jeopardize the Bank's independence. Consequently, Spar Nord has introduced a cap on credit facilities at DKK 400 million, and the unsecured share of credit exposure may not exceed DKK 150 million in respect of any facility.

In determining the amount of exposure, due provision is made for the so-called 'particularly secure claims', which are defined in the Danish Financial Supervisory Authority's Executive Order on Large Exposures. The DKK 400 million cap does not apply to exposures to trading partners in the financial sector. At end-2010, the sum of large exposures calculated pursuant to the applicable computational model used by the Danish Financial Supervisory Authority amounted to 35.9% and is composed of exposures to three large Danish credit institutions. Pursuant to the calculation methodology used in the Danish Financial Supervisory Authority's Diamond Test Model, the sum amounts to 0.0%.

In addition, Spar Nord has introduced some trade and industry limitations. Thus, Spar Nord aims for its agricultural exposures not to exceed 10% of the Group's total exposures, and for property exposures to be lower than the sector average. Another goal is that Finans Nord may not exceed 25% of the Group's total exposures. Finally, Spar Nord also strives to maintain the share of retail customers at a level that is higher than the sector average and amounts to more than 30% of total exposures.

## Credit control and credit risk monitoring

The credit facility process at Spar Nord is centrally managed. The decentralized credit authorization limits range between DKK 2 and 10 million for existing customers. As concerns new customers, the facility authorization rights are typically half of that for existing customers. The powers of authority in the credit area are governed by two factors: The individual local managers' ability and need and the wish that a certain share of authorizations from the local banks is to be dealt with by Credit Rating.

Customer advisers, in consultation with local managers, handle day-to-day management of the Bank's credit risks. If a credit facility exceeds the local loan approval limits, it will be passed on and dealt with by Credit Rating, the Credit Committee (General Manager, Credit Rating and an Executive Board member) or the Supervisory Board.

Credit Rating may authorize facilities up to DKK 20 million for existing customers and DKK 15 million for new customers. The Credit Committee may authorize all facilities up to DKK 60 million, and up to DKK 30 million for new customers. All credit facilities in excess of DKK 60 million and all credit facilities exceeding DKK 30 million for new customers must be authorized by the Supervisory Board.

Overall monitoring of the Group's credit risk exposure is managed by the Credit Quality function. This department oversees changes in the credit quality of all exposures and undertakes a systematic credit quality control of the entire exposure portfolio.

The Credit Quality function reviews all new retail customer facilities above DKK 100,000 and all new business customer facilities above DKK 300,000. New customers with weak credit quality are registered on an ongoing basis.

Spar Nord has developed IT tools for controlling and monitoring credit risks. The Bank's credit analysis system is used for monitoring purposes, and key data regarding credit facilities and customers' financial affairs is recorded in it. This is done to detect danger signals at an early stage as well as to monitor changes in the credit quality of portfolios and organizational units.

Every month a statistically-based scoring of both retail and business customers is performed. Credit scoring has been introduced in all the Bank's departments, and these tools are used at the local level to grant credit facilities. Thus, customers in the risk categories accorded the least risk exposure are likelier to be given higher credit limits or extensions than those with the greatest risk exposure. In addition, the systems are used for managing overdrafts and for pricing purposes.

### Credit scoring of retail and business customers

Retail customers are divided into seven risk groups on the basis of behavioural data (with 1 being the best), and a separate credit-watchlisted group has also been established.

The model for scoring retail customers, which is based on the customers' behaviour history, is used to quantify the likelihood that a loan will not be repaid and fall into default in the forthcoming 12-month period (the so-called Probability of Default", (PD)). This model is based on 10-20 variables picked from a comprehensive gross list as those that best describe previously defaulted loans.

A statistically-based credit application scoring model is used to classify new borrowing customers according to risk. A smaller number of variables are used for credit application scoring than for behaviour scoring. Once a credit limit has been assigned, the models are adapted on a sliding scale, and after six months the shift to using behavioural data alone is completed.

Business customers are divided into nine risk groups on the basis of accounting data. A PD business model is used that categorizes customers based on their default probability within the next 12 months. Starting in 2010, the model has become statistically based, and from spring 2011 it will be expanded with our behavioural model for business customers and a business assessment for the individual customer. At the same time, the model will henceforth encompass macro variables that add information regarding trends in the business cycle.

The above models are not yet used for all retail and business customers. Efforts are ongoing at Spar Nord to become an IRB bank according to the Basel II rules, but the Bank has yet to determine the time for applying to the Danish Financial Supervisory Authority for permission to calculate solvency using its own models.

### The Group's loans, advances and guarantees

The Group's total loans, advances and guarantees before offsetting of impairment amounted to DKK 46.1 billion at end-2010 compared with DKK 45.7 billion at end-2009. Retail customers account for 33% of total loans and guarantees, with business customers accounting for 67%.

Customers are divided into four groups as part of the ongoing risk monitoring: retail customers at the local banks, business customers at the local banks, financial customers and customers at Finans Nord. As appears from figure 3.1, total credit exposures advanced slightly during 2010. The retail customer group was the only customer category to recede in 2010. The largest advance was seen for financial customers, experiencing a growth of DKK 0.9 billion.

### THE GROUP'S EXPOSURE BY CATEGORY

DKK bn

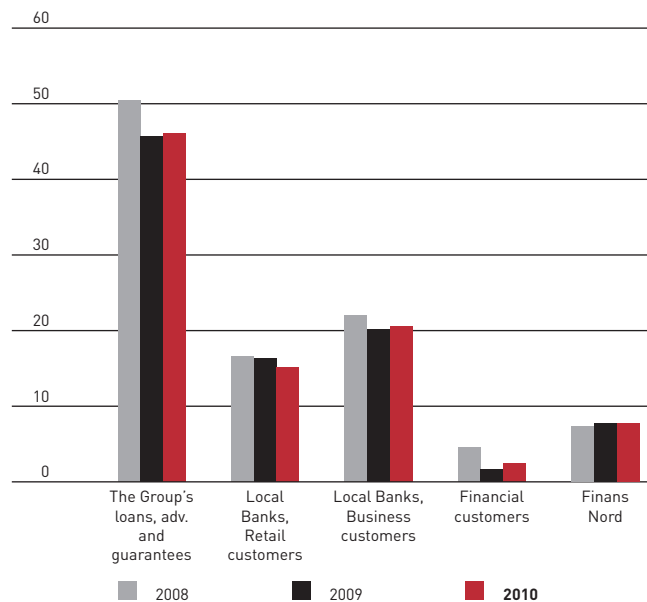


Figure 3.1

The Group's primary credit risk stems from the above four categories. No losses or impairment were recorded in 2010 or in the previous years with respect to other debtors than the Group's business and retail customers

The increase in the overall credit exposure is attributable primarily to reverse transactions, aggregating DKK 1.5 billion in 2010. Exposures to business customers rose slightly in 2010, both for the bank areas and Finans Nord. Retail customer exposures dropped by DKK 1.1 billion in 2010, due to a decrease in lending of DKK 0.3 billion and a drop in guarantees of DKK 0.8 billion.

### THE GROUP'S LOANS, ADVANCES AND GUARANTEES BROKEN DOWN BY SIZE OF FACILITY\*)

DKK m	Number 2010	Number 2009	Share in % 2010	Share in % 2009
0 - 0.1	40,677	38,965	1.3	1.5
0.1 - 0.5	28,694	27,670	11.2	11.1
0.5 - 1.0	8,584	8,200	9.2	9.7
1.0 - 5.0	7,298	7,790	27.2	30.2
5.0 - 10.0	925	912	11.6	11.3
10.0 - 20.0	394	376	10.1	9.7
20.0 - 50.0	213	202	11.8	11.0
50.0 - 100.0	60	50	6.8	6.0
100.0 -	35	33	10.8	9.5
<b>I alt</b>	<b>86,880</b>	<b>84,198</b>	<b>100.0</b>	<b>100.0</b>

\*) Excl. reverse transactions

Figure 3.2

A breakdown by facility size shows that the Group's portfolio of loans, advances and guarantees is well-diversified, as 61% is attributable to facilities of less than DKK 10 million.

### Retail customers at the local banks

The Bank's credit exposure to retail customers at Spar Nord's Local Banks amounts to DKK 15.2 billion, equivalent to 32.9% of the Group's total loans, advances and guarantees. The breakdown on the above risk categories and the developments in them appear from figure 3.3.

### RETAIL CUSTOMERS' FACILITIES BY RISK CATEGORY

DKK bn

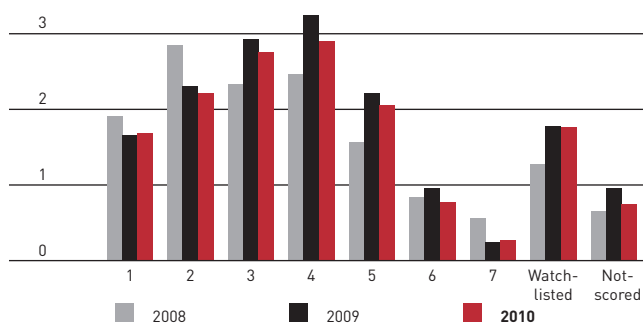


Figure 3.3

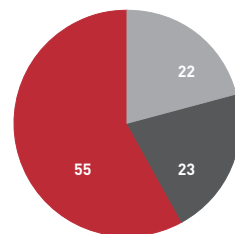
After several years of credit quality improvement in the retail customer portfolio, the financial crisis in 2008 and 2009 resulted in a slight downturn in the average credit quality. However, given developments in 2010 we once more see progress. Thus, in relative terms there was an overall increase in the share of the Group's total exposure attributable to the best categories and a decrease in the weakest categories.

In the past five or six years, during which regular back tests were performed, our model has proved its worth as a highly accurate risk classification tool, capable of predicting default rates for a given year.

The retail customer model comprises only customers in risk categories 1 to 7, as the retail customers in the credit-watchlisted group have been transferred to individual monitoring. Thus, the credit-watchlist flagging in the model is used as part of the default definition. Spar Nord has not yet developed so-called LGD-models, i.e. models that can predict losses when a customer is certain to default (Loss Given Default).

Figures 3.4 and 3.5 below show the share of retail customers that improved and that deteriorated, plus the share whose credit quality remained unchanged from the beginning to the end of the years. Both the number of customer upgrades/downgrades and the share of migrating customer facilities are shown. It is evident that developments in 2010 were better than in 2009. In particular, a smaller, combined exposure was downgraded to weaker risk categories in 2010 than in the previous year. However, measured in terms of customer number the trend remained slightly adverse in 2010. Thus, more customers were downgraded to weaker than upgraded to stronger categories. Overall credit quality nevertheless improved because growth in lending was basically concentrated on retail customers in the better risk categories.

### MIGRATION - NUMBER RETAIL CUSTOMERS 2009-2010



Upgraded Downgraded Unchanged

### MIGRATION - NUMBER RETAIL CUSTOMERS 2008-2009

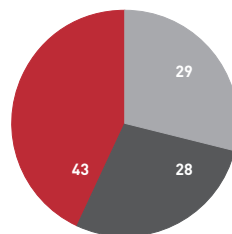
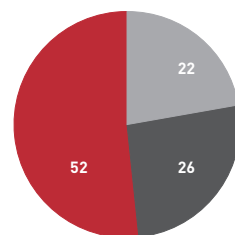


Figure 3.4

### MIGRATION - EXPOSURE RETAIL CUSTOMERS 2009-2010



Upgraded Downgraded Unchanged

### MIGRATION - EXPOSURE RETAIL CUSTOMERS 2008-2009

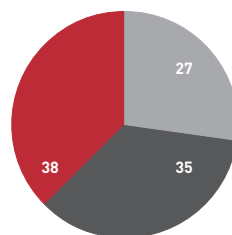


Figure 3.5

### RETAIL CUSTOMERS - DEVELOPMENT IN UNAUTHORIZED OVERDRAFTS

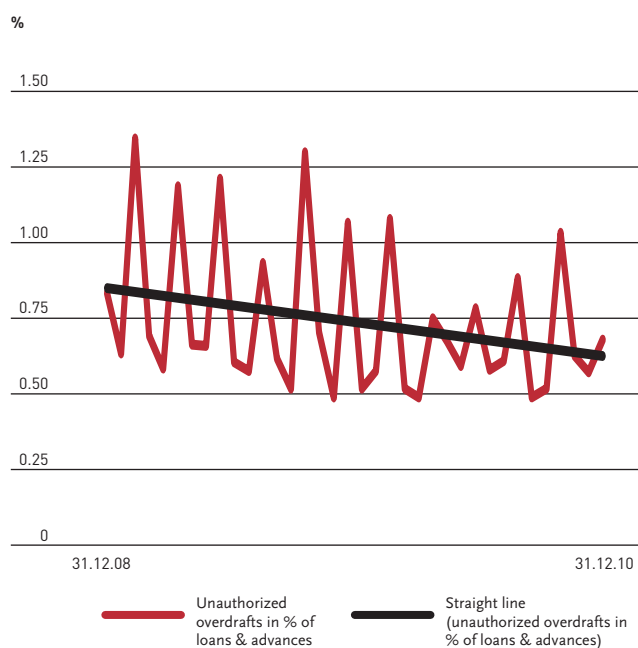


Figure 3.6

In general, Management finds that developments in the retail customer portfolio must be considered satisfactory. Overall credit quality improved slightly in 2010, while the credit quality of the retail customer portfolio remained largely unchanged from end-2007 until end-2010.

Ongoing monitoring of unauthorized overdrafts shows a reduction in retail customers' unauthorized overdrafts month by month during the past two years. Average unauthorized overdrafts were down from some 0.8% to about 0.6% at end-2010.

### Business customers at Spar Nord's Local Banks

Loans, advances and guarantees to business customers at Spar Nord's Local Banks amount to DKK 20.6 billion, equivalent to 44.7% of the Group's total loans, advances and guarantees.

As appears from figure 3.7, in 2010 facilities increased in several of the better risk categories and decreased in several of the weak risk categories. The only exception is the group of default customers. The overall conclusion is that the credit quality of the business customer portfolio improved slightly from the beginning to the end of 2010.

### BUSINESS CUSTOMERS BROKEN DOWN BY RISK GROUP

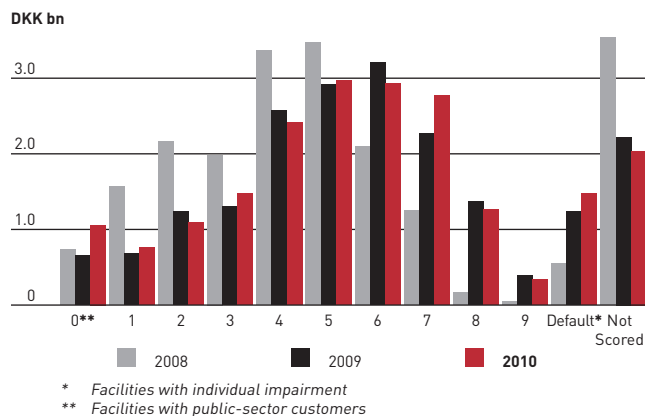
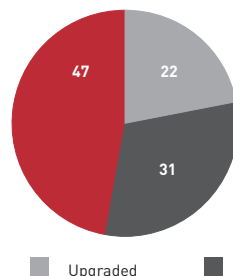


Figure 3.7

Figures 3.8 and 3.9 below show the share of business customers who improved and the share that deteriorated from the beginning to the end of the respective years. Both the number of customer upgrades/downgrades and the share of upgraded/downgraded customer facilities together with customers are shown. As concerns business customers, the situation in 2010 was much better compared to 2009. There was a sharp rise in the number of customers who improved and a similarly sharp dip for customers whose facilities deteriorated.

### MIGRATION - NUMBER BUSINESS CUSTOMERS 2009-2010



### MIGRATION - NUMBER BUSINESS CUSTOMERS 2008-2009

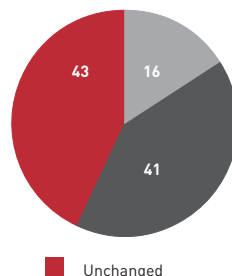
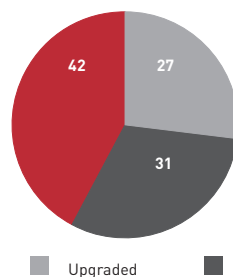


Figure 3.8

### MIGRATION - EXPOSURE BUSINESS CUSTOMERS 2009-2010



### MIGRATION - EXPOSURE BUSINESS CUSTOMERS 2008-2009

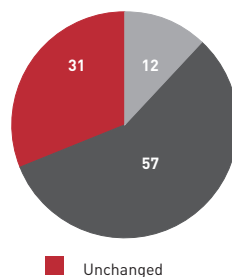


Figure 3.9

Over the past two years, business customers' unauthorized overdrafts have remained at an unchanged low level of about 0.45% of lending to business customers at local banks. This development is considered highly satisfactory in light of economic trends.

It appears from the figure that the last month in a quarter is the month having the highest amount of unauthorized overdrafts. The level reaches almost 0.6%, but these "peaks" are dropping off, as can be seen from the figure. Authorized overdrafts have been reduced for both retail and business customers during the same period.

### BUSINESS CUSTOMERS - DEVELOPMENT IN UNAUTHORIZED OVERDRAFTS

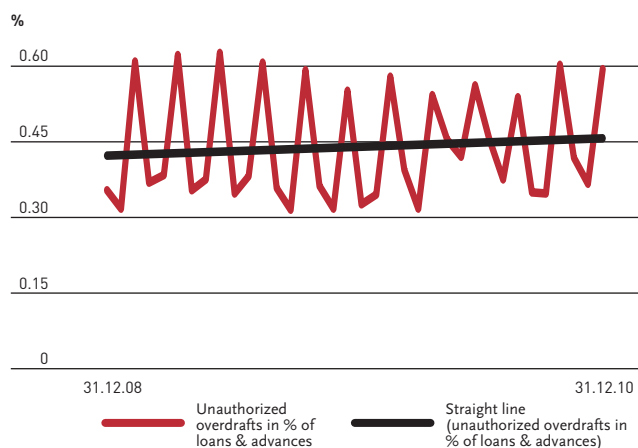


Figure 3.10

## Finans Nord

Finans Nord's total loans and advances (financial leasing and purchase contracts) amounted to approx. DKK 7.8 billion, equivalent to 17% of the Group's total loans, advances and guarantees.

In addition to financial leasing and purchase contracts, Finans Nord also has a small share of operational leasing. This particularly applies to Easyfleet, which deals with leasing cars to both businesses and retail customers. Easyfleet is a market leader in leasing to retail customers.

### DEVELOPMENTS IN OPERATIONAL LEASING AT FINANS NORD

DKK m	2010	2009
Other operational leasing	55	41
Easyfleet	382	158
<b>Total</b>	<b>437</b>	<b>199</b>

Figure 3.11

In line with Spar Nord Bank's policy, Finans Nord's credit application processing is based on an assessment of customers' ability and willingness to meet their current and future obligations.

Finans Nord differs from Spar Nord Bank in that it always has security in the assets, either through ownership or charges. Thus, the credit portfolio held by Finans Nord is composed of 88% lease contracts and 12% asset purchase financing and loans.

### REPOSSESSED EQUIPMENT

DKK m	2010	2009
Repossessed equipment	80	97

Figure 3.12

As a result of targeted efforts, Finans Nord has succeeded in reducing its portfolio of repossessed equipment from DKK 97 million in 2009 to DKK 80 million in 2010.

The agricultural and transporting industries constitute the two largest categories for Finans Nord. Whereas the agricultural sector fared reasonably well in 2010 from a leasing perspective, the transport sector rallied, particularly in the second half of the year, after a number of highly challenging quarterly periods characterized by customers whose financial difficulties meant that equipment had to be repossessed and impairment losses taken. The third core area, industry, also saw improvements.

Nonetheless, continued challenges made their mark on the year's performance, with Finans Nord recording an overall impact of impairment on the income statement in the amount of DKK 97.3 million, equal to 1.3% of average loans and advances.

## FINANS NORD

Industry %	Loans, adv. and guarantees		Individual impairment
	2010	2009	2010
Public authorities	0.2	0.2	0.0
Agriculture, hunting and forestry	23.2	22.0	9.7
Fisheries	0.0	0.0	0.0
Industry and raw materials extraction	9.8	10.5	15.5
Energy supply	1.9	1.8	0.8
Building and construction	14.7	12.9	15.7
Trade	7.8	8.1	4.6
Transport, hotels and restaurants	26.3	28.5	37.0
Information and communication	0.4	0.4	1.1
Financing and insurance	1.5	1.5	0.7
Real estate	1.9	1.8	3.2
Other business areas	12.2	12.2	11.7
<b>Business customers, total</b>	<b>99.9</b>	<b>99.9</b>	<b>100.0</b>
<b>Retail customers</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Figure 3.13

### Financial customers

The Bank's credit exposure to financial customers is DKK 2.5 billion, equivalent to 5.4% of the Group's total loans, advances and guarantees. The exposure primarily consists of foreign loans to customers at other banks that request the provision of a guarantee. At the same time, the exposure includes DKK 1.5 billion in reverse transactions.

### Breakdown by industry

The breakdown of the Spar Nord Group's loans, advances and guarantees by industry appears from figure 3.14. Compared with the average for the Danish banking sector, a relatively larger share of Spar Nord's loans, advances and guarantees is attributable to retail customers, whereas Spar Nord has a lower than average share of loans, advances and guarantees attributable to "financing and insurance". Finally, the Spar Nord Group has a larger-than-average exposure to the agricultural sector.

## THE GROUP

Industry %	Loans, adv. and guarantees		Individual impairment
	Spar Nord Bank 2010	Spar Nord Bank 2009	Spar Nord Bank 2010
Public authorities	2.3	1.4	0.0
Agriculture, hunting and forestry	11.9	12.5	23.4
Fisheries	0.3	0.5	0.7
Industry and raw materials extraction	3.8	4.2	5.2
Energy supply	3.0	2.6	0.1
Building and construction	4.9	4.4	5.5
Trade	8.4	7.7	13.2
Transport, hotels and restaurants	6.6	7.0	7.6
Information and communication	0.2	0.2	0.4
Financing and insurance	7.9	4.5	5.9
Real estate	10.7	11.0	9.4
Other business areas	6.7	7.3	7.7
<b>Business customers, total</b>	<b>66.7</b>	<b>63.3</b>	<b>79.1</b>
<b>Retail customers, total</b>	<b>33.3</b>	<b>36.7</b>	<b>20.9</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Figure 3.14



## Collateral

Spar Nord wants to reduce the risk attaching to individual exposures by accepting collateral such as mortgages and charges over physical assets, securities and guarantees, etc. whenever possible. Mortgages on real property, securities and vehicles constitute the most common type of collateral. Mortgages on property are by far the most important collateral type provided to the Group. In this connection, it should be noted that although these properties are located throughout Denmark, only a very small share is located in Copenhagen where the recent years' fall in housing prices has been most pronounced. Mortgages on real property consist mainly of mortgages on private housing.

## MORTGAGES WITH POSITIVE EQUITY

2010	DKK bn	Share in %
Private housing	6.8	62
Summer cottages	0.7	6
Agriculture	1.0	9
Offices and businesses	2.0	18
Miscellaneous	0.6	5
<b>Total</b>	<b>11.1</b>	<b>100</b>

Figure 3.15

## GEOGRAPHICAL BREAKDOWN OF MORTGAGES - END 2010

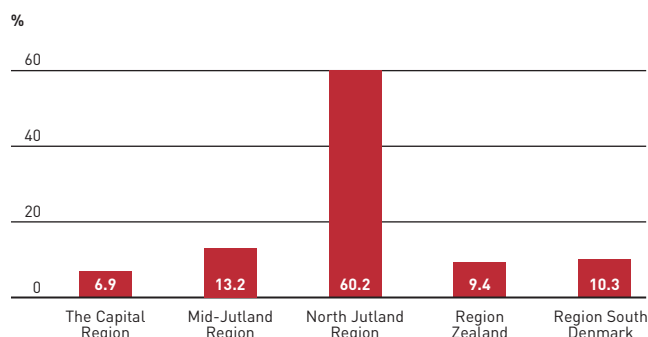


Figure 3.16

Spar Nord continuously monitors the value of the collateral furnished. If the risk attaching to a counterparty increases, the collateral is subjected to particularly critical scrutiny. The value is assessed based on the expected price to be fetched in a compulsory sale of the collateral, less any expenses arising from its realization.

The unsecured share of the Group's credit exposure in 2010 shrank from 44.2% to 43.3%. This reduction is attributable to a general increase in collateral, both as concerns new and existing credit facilities and to the decline in the unsecured share for customers repaying their loans. In addition, the collateral provided by many customers is unchanged, while the exposures have tapered off in volume.

## THE GROUP'S UNSECURED SHARE OF CREDIT EXPOSURE

Unsecured share of credit exposure - %	2010	2009
<10	37.1	33.2
10-50	19.3	24.7
50-75	12.1	10.6
>75	31.5	31.5
<b>Average unsecured share of credit exposure</b>	<b>43.3</b>	<b>44.2</b>

Figure 3.17

## THE GROUP'S UNSECURED SHARE OF CREDIT EXPOSURE IN DKK M AND %

Industry	2010		2009	
	DKK m	%	DKK m	%
Public authorities	1,035	99.1	651	100.0
Agriculture, hunting and forestry	1,881	34.4	2,121	37.2
Fisheries	83	48.6	78	37.8
Industry and raw materials extraction	876	50.4	1,033	54.6
Energy supply	478	34.2	402	33.4
Building and construction	757	33.2	729	36.4
Trade	2,554	66.1	2,533	72.3
Transport, hotels and restaurants	711	23.4	969	30.4
Information and communication	42	50.0	47	44.9
Financing and insurance	1,427	39.1	947	44.3
Real estate	2,529	51.3	2,278	45.4
Other business areas	1,579	51.2	1,513	45.4
<b>Business customers, total</b>	<b>13,952</b>	<b>45.4</b>	<b>13,301</b>	<b>46.0</b>
<b>Retail customers, total</b>	<b>6,015</b>	<b>39.1</b>	<b>6,883</b>	<b>41.2</b>
<b>Total</b>	<b>19,967</b>	<b>43.3</b>	<b>20,184</b>	<b>44.2</b>

Figure 3.18

## CREDIT-MITIGATING FINANCIAL COLLATERAL

Type of collateral	2010	2009
DKK m		
Properties	8,338	8,768
Custody accounts / securities	3,829	2,231
Guarantees / suretyships	799	974
Vehicles	723	913
Cash	739	792
Other collateral	1,094	1,094
<b>Other collateral, total</b>	<b>15,522</b>	<b>14,772</b>
Spec. secured trans. (mortgage-credit inst. guarant.)	3,735	4,329
<b>Total collateral accepted, excl. Finans Nord</b>	<b>19,257</b>	<b>19,101</b>
Collateral accepted, Finans Nord	6,893	6,365
<b>Total</b>	<b>26,150</b>	<b>25,466</b>

Figure 3.19

Figure 3.19 shows total collateral broken down by category and Finans Nord. Assets are valued on an ongoing basis, and the collateral values are reduced as and when market prices are estimated to wane.

The property value under mortgages broken down by property type is calculated at DKK 11.1 billion while only DKK 8.3 billion is recorded as security on the properties (see figure 3.19) because the DKK 11.1 billion represents the amount mortgaged to the Bank and recorded as collateral, while the DKK 8.3 billion is the share actually used for calculating collateral regarding a facility. Some facilities are smaller than the collateral value, and collateral has also been provided by customers who do not currently have any facilities.

### Impairment of loans and advances

All significant loans and advances and those slated for credit quality review are re-evaluated individually, and other loans are reviewed on a group basis. All loans and advances that have not been impaired on an individual basis are assigned to groups having uniform credit risk exposure. If the review discloses objective indications of impairment, an impairment loss is recognized. Impairment is calculated as the difference between the carrying amount of loans and advances and the present value of anticipated repayments on the loan. A credit facility need not be in default before impairment is recognized and approval procedures regarding any new extension of credit are tightened.

Group impairment losses are recognized when objective indications show that expected future losses exceed the anticipated loss when the loan was granted. Accordingly, in addition to objective indications for a group, group impairment losses are basically recognized when customers are transferred to groups with a higher credit risk exposure. Groups of impairment losses break down as follows: retail customers accounted for DKK 40.6 million, and business customers for DKK 50.8 million.

Credit scoring constitutes the primary source of customer categorization, but customers slated for credit review without individual impairment provisions also constitute a group.

Doubtful loans – loans for which interest accruals have been suspended because full collection of the principal is unlikely or because no interest has been paid for an extensive period of time – are subject to special scrutiny, and if repayment is considered doubtful and loss unavoidable, the loan is categorized as partially or fully impaired and uncollectible. Interest on the parts of facilities that have been written down for impairment is not recognized as income.

The impact on the income statement from impairment amounted to an expense of DKK 550.2 million in 2010, DKK 93.6 million of which is attributable to Bank Package I.

At the beginning of 2010, impairment of loans and advances was expected to impact the income statement by about 1.0-1.25% of total loans, advances and guarantees. After Q2, the forecast was adjusted downwards to around 1.0%. The ultimate impact on the income statement for the year was 1.0%. As concerns impairment, there was a predominance of business customers in relative terms, including with respect to the categories "Agriculture", "Trade" and "Real properties", which accounted for the largest shares.

The total impairment allowance account amounts to 2.2% at end-2010 compared to 2.1% at end-2009 (excl. sector-targeted solutions).

### THE GROUP'S LOSSES AND IMPAIRMENT

DKK m	2010	2009
Losses, incl. losses covered by prov./impairment	482,4	282,1
Covered by prov./impairment	-277,8	-177,1
Losses not covered by prov./impairment	204,6	105,0
<b>Losses on sector-targeted solutions, incl. losses covered by provisions/impairment</b>	<b>224,0</b>	<b>0,0</b>
Covered by provisions/impairment	-130,4	0,0
<b>Losses on sector-targeted solutions not covered by provisions/impairment</b>	<b>93,6</b>	<b>0,0</b>
<b>Provisions/impairm., excl. sector-targeted solutions</b>	<b>484,2</b>	<b>608,5</b>
New provisions for sector-targeted solutions	0,0	107,3
Reversal of provisions/impairment	-148,5	-45,0
<b>Interest on impaired loans and advances taken to income</b>	<b>-56,1</b>	<b>-62,5</b>
Provisions/impairment, net	279,6	608,3
Recoveries on loans written off as uncollectible	-30,6	-23,1
Impact on income statement	547,2	690,2
Losses and provisions for credit inst. and other losses	3,0	1,6
<b>Total impact on income statement</b>	<b>550,2</b>	<b>691,8</b>
- of which sector-targeted solutions	93,6	107,3
- of which earnings from investment portfolios	3,0	0,5
<b>Impact on the income statement, excl. sector-targ. sol.</b>	<b>453,6</b>	<b>584,0</b>

Figure 3.20

### THE GROUP'S MOVEMENTS IN LOSSES AND IMPAIRMENT AND NON-PERFORMING LOANS

DKK m	2010	2009
Loans, advances and guarantees, gross, end of year	46.116	45.650
Losses and impairment for the year	550	692
- in % of loans, advances and guarantees	1,2	1,5
<b>Impairment balance</b>	<b>1.027</b>	<b>1.100</b>
- in proportion to loans, advances and guarantees	2,2	2,4
<b>Impairment balance, excl. sector-targeted solutions</b>	<b>1.027</b>	<b>970</b>
- in proportion to loans, adv. and guarantees, end of year	2,2	2,1
<b>Non-performing loans, end of year</b>	<b>105</b>	<b>103</b>
- in % of loans, advances and guarantees	0,2	0,2
<b>Impairment balance in % of non-performing loans</b>	<b>975</b>	<b>1.064</b>

Figure 3.21

## THE GROUP'S MOVEMENTS IN LOSSES AND INDIVIDUAL IMPAIRMENT 2010

DKK m	Past due and impaired	Value adjustments and impairment losses*	Recognized losses
Public authorities	0	0	0
Agriculture, hunting and forestry	595	219	38
Fisheries	14	6	0
Industry and raw mat. extraction	101	48	79
Energy supply	6	1	0
Building and construction	127	50	18
Trade	279	124	73
Transport, hotels and restaurants	227	71	58
Information and communication	8	4	1
Financing and insurance	84	56	32
Real estate	234	88	53
Other business areas	144	72	33
<b>Business customers, total</b>	<b>1,819</b>	<b>739</b>	<b>385</b>
<b>Retail customers</b>	<b>319</b>	<b>196</b>	<b>97</b>
<b>Total</b>	<b>2,138</b>	<b>935</b>	<b>482</b>

## THE GROUP'S MOVEMENTS IN LOSSES AND INDIVIDUAL IMPAIRMENT 2009

DKK m	Past due and impaired	Value adjustments and impairment losses*	Recognized losses
Public authorities	0	0	0
Agriculture, hunting and forestry	453	157	24
Fisheries	11	5	0
Industry and raw materials extraction	124	93	27
Energy supply	12	0	0
Building and construction	100	44	28
Trade	295	125	43
Transport, hotels and restaurants	258	77	24
Information and communication	2	1	4
Financing and insurance	87	43	8
Real estate	133	67	13
Other business areas	149	64	39
<b>Business customers, total</b>	<b>1,624</b>	<b>676</b>	<b>210</b>
<b>Retail customers</b>	<b>279</b>	<b>184</b>	<b>72</b>
<b>Total</b>	<b>1,903</b>	<b>860</b>	<b>282</b>

\* The Group's total value adjustments and impairment losses must be supplemented by groups of impairment losses amounting to DKK 91 million (2009: DKK 109 million) and impairment in the amount of DKK 0 mio. kr. (2009: 130 million) regarding the Private Contingency Association.

Figure 3.22

In this report we focus specifically on two industries, viz. the agricultural and the real property sectors. The agricultural industry has been chosen because Spar Nord expects this sector to have a major impact on operating results in 2011 as well. Loans granted to the real property sector triggered the problems experienced by a number of Danish banks in the past two years.

### Agriculture

Total loans, advances and guarantees to agricultural customers dropped by about DKK 300 million in 2010. At end-2010, loans and advances to agricultural customers amounted to 11.9% of total loans, advances and guarantees, 0.6 percentage point down on end-2009.

Agriculture is a significant customer category both for the Bank and Finans Nord. Developments at the Bank and at Finans Nord were as follows:

## SHARE OF CREDIT EXPOSURE TO THE AGRICULTURAL SECTOR

%	2010	2009
Spar Nord Bank A/S	7.9	8.8
Finans Nord	4.0	3.7
<b>The Group, total</b>	<b>11.9</b>	<b>12.5</b>

Figure 3.23

Thus, in 2010 Spar Nord Bank saw a reduction in its agricultural exposures, while they increased slightly at Finans Nord.

Despite the challenges for the agricultural sector, Finans Nord is still not recording losses or impairment on its agricultural exposures at any appreciable level. This is because there is still excellent potential for leasing equipment to the agricultural sector. In 2010, Finans Nord's overall impairment of agricultural exposures ended at an insignificant 0.6%.

In addition to its share of agricultural exposures in 2010, the Group reduced its unsecured share of exposures from 37.2% at end-2009 to 34.4% at end-2010.

## AGRICULTURAL EXPOSURE BY RISK GROUP

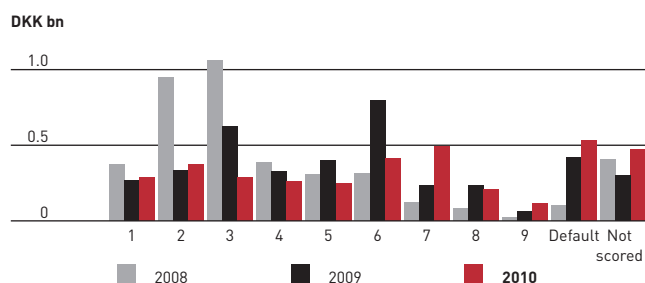


Figure 3.24

## THE BANK'S AGRICULTURAL EXPOSURE BY PRODUCTION LINE

%	2010
Cattle producers	40
Pig producers	33
Plant cultivation and other production lines	27

Figure 3.25

Figure 3.24 shows agricultural customers' credit quality development at Spar Nord's Local Banks during the period from 2008 to 2010. The Bank uses its new agricultural model, which is an adjusted version of the new business model. As appears from the figure, the trend moves towards the highly risk-prone groups.

Thus, agriculture is the sector in the Bank's business portfolio that has dipped most steeply in terms of credit quality in the period from 2008 to 2010: The growth in the share of agricultural customers who defaulted was high, and the Bank's impairment losses grew from about DKK 37 million to DKK 219 million.

Overall, however, the Group's portfolio of agricultural exposures is considered to be sound and satisfactorily diversified in terms of production lines. Nonetheless, Spar Nord is aware that the sector is facing massive problems, a profitable business being very difficult to run given the prices that can currently be fetched on agricultural produce. Thus, it has been necessary, and will remain so in future, to finance operating losses for farmers who report satisfactory breakeven turnover and realistic and sound budgets.

Spar Nord operates on the principle that when farmers cannot live up to the predetermined breakeven prices for both milk and pork, this will be defined as an objective indication of impairment. The calculation of breakeven prices is based on a financing rate of 5% interest for each farmer.

If a particular farming property that meets these requirements cannot present a realistic budget, impairment calculation procedures will be implemented. The anticipated value of the land is a crucial factor in setting the amount of impairment. In this respect, Spar Nord employs a price of max. DKK 150,000 per hectare.

### Properties

The real property sector has proved to be highly risky in recent years on account of the adverse price developments on the market. For a number of years, Spar Nord has been reluctant to assume exposures to property sector customers, and the Group's exposure in this regard extensively consists of customers with long-term relations with the Bank and wide experience in the sector.

During 2010, the Group cut its combined exposures to customers in the real property sector by about DKK 0.1 billion to some DKK 4.9 billion, equal to 10.7% of total loans, advances and guarantees. At end-2010, the impairment ratio for the sector as a whole stood at 1.8% against a beginning-of-year comprehensive impairment balance of 1.4%. For 2010, total losses on customers in the sector amounted to about DKK 53 million.

### Credit risk exposure to financial counterparties

As part of its trading in and holding of securities, foreign currency and derivative instruments and its payment services, etc., the Bank will experience credit risk exposure to financial counterparties.

Spar Nord's Management allocates lines for credit risk exposure to financial counterparties, based on the particular counterparty's risk profile, rating, amount of exposure and solvency. The risks and lines of financial instruments are constantly monitored.

Overall, Management assesses Spar Nord's credit risk exposure to financial counterparties to be moderate. Thus, 97% of Spar Nord Bank's financial credit risk is attributable to counterparties having a rating of A or better.

### FINANCIAL CREDIT RISK

DKK m	2010	2009	Percentage breakdown
			2010
AAA	9,086	10,857	59
AA	4,434	4,463	29
A	1,394	530	9
BBB	3	0	0
BB	123	0	1
B	0	0	0
CCC	0	11	0
CC	12	0	0
Unrated	293	16	2
Unallocated	17	91	0
<b>Total financial credit risk</b>	<b>15,362</b>	<b>15,968</b>	<b>100</b>

Figure 3.26

### Bond portfolio

The Group's bond portfolio is the most significant source of financial credit risk. Spar Nord's bond portfolio is composed of 87% mortgage-credit bonds, 12% bonds from financial issuers and 1% from other issuers. The increase in bonds from financial issuers is attributable primarily to bond issuances by Danish banks backed by an individual state guarantee.

Corporate bonds amount to DKK 238 million, the bulk of which are Scandinotes. The Bank still expects that tranches of senior loans will be repaid.

### BOND PORTFOLIO BY ISSUER TYPE\*)

DKK m	2010	2009	Percentage breakdown
			2010
Government bonds	-134	-41	-1
Mortgage-credit bonds	10,833	10,243	87
Financial issuers	1,504	977	12
CDOs	0	36	0
Other issuers	238	127	2
<b>Bonds</b>	<b>12,441</b>	<b>11,342</b>	<b>100</b>

\*) The bond portfolio plus spot and forward transactions (purchase + sale) Figure 3.27

### BOND PORTFOLIO BY RATING\*)

DKK m	2010	2009	Percentage breakdown
			2010
AAA	8,097	7,190	65
AA	3,221	3,724	26
A	984	417	8
BBB	2	0	0
BB	123	0	1
CCC	0	11	0
CC	12	0	0
Unrated	2	0	0
Unallocated	0	0	0
<b>Bonds</b>	<b>12,441</b>	<b>11,342</b>	<b>100</b>

\*) The bond portfolio plus spot and forward transactions (purchase + sale) Figure 3.28

2010

DKK m	Origin/ underlying	Rating category	Amount	%
Mortgage-credit bonds	Denmark	AAA-A	10,625	85.4
		Unrated	2	0.0
	Sweden	AAA	206	1.7
Financial issuers	Denmark	AAA-A	931	7.5
		BBB	1	0.0
	Sweden	AAA-A	272	2.2
	Norway	AA-A	123	1.0
	UK	AAA-AA	102	0.8
	Holland	AAA	75	0.6
	Luxembg.	A	0	0.0
Miscellaneous	Scandi Notes V Senior	AAA	99	0.8
	Scandi Notes IV Senior	BB	123	1.0
	Scandi Notes IV Mezzanin	CC	12	0.1
	Scandi Notes II Senior	CC	0	0.0
	Other Danish issuances	BBB - Unrated	2	0.0
	Finland	AA	2	0.0
	Other issuances	Unrated	0	0.0
Government bonds	Denmark	AAA	-136	-1.1
	EU	AAA	2	0.0
<b>Grand total</b>			<b>12,441</b>	<b>100.0</b>
Own bonds	Denmark	AAA	500	
	Denmark	B	0	

Figure 3.29

### Receivables from credit institutions and central banks

The other major source of financial credit risk is the Bank's receivables from credit institutions and central banks. In this area, Spar Nord's exposure is typically to central banks with a triple A rating or to Danish banks with which the Bank's Trading, Financial Markets & the International Division has a customer relationship.

89% of Spar Nord's receivables from credit institutions concerns banks with an A rating or higher. Of the total DKK 2.9 billion receivables from credit institutions, 34% is attributable to institutions with an AAA rating, 41% to institutions with an AA rating, and 14% to institutions with an A rating. Receivables from unrated credit institutions are attributable primarily to Danish financial institutions that perform their clearing through Spar Nord Bank.

### RECEIVABLES FROM CREDIT INSTITUTIONS BY PRODUCT TYPE

DKK m	2010	2009	Percentage breakdown 2010
Certificates of deposit	0	800	0
Reverse transactions	812	1,375	28
Unlisted CDOs	56	33	2
Deposits and unlisted bonds	222	1,074	8
Subordinated loans	10	10	0
Current accounts	367	357	13
CSA accounts, etc.	570	178	19
Market value, derivatives	693	612	24
Undisclosed	191	187	6
<b>Receivables from credit institutions</b>	<b>2,921</b>	<b>4,626</b>	<b>100</b>

Figure 3.30

### TILGODEHAVENDER I KREDITINSTITUTTER FORDELT PÅ RATING

Mio. kr.	2010	2009	Procentvis fordeling 02010
AAA	989	3,667	34
AA	1,213	739	41
A	410	113	14
BBB	1	0	0
Unrated	291	16	10
Unallocated	17	91	1
<b>Receivables from credit institutions</b>	<b>2,921</b>	<b>4,626</b>	<b>100</b>

Figure 3.31

### Counterparty risk

Counterparty risk is the risk of loss because a financial counterparty defaults on its obligations under a financial contract. In addition, settlement risks may arise when financial contracts are concluded and settled, as principals in various currencies are not necessarily exchanged at the same time or securities are not received simultaneously with the appropriate payment.

Before lines are granted to financial counterparties, a thorough credit assessment is made of the financial counterparties based on the financial statements of the individual credit institution. As concerns foreign and major Danish credit institutions, attention is also paid to how the credit institutions are rated by internationally recognized rating bureaus, such as Moody's, Standard & Poors or Fitch.

Spar Nord cooperates with a number of small Danish credit institutions, as the Bank supplies services within clearing, securities and foreign-exchange transactions. Spar Nord has developed a rating model to assess such credit institutions. This model is used to calculate the score/rating of the individual credit institution based on specific key ratios. Together with the financial statements of the individual credit institutions, this model forms the basis for recommending and authorizing lines.

Utilization of lines with respect to financial contracts is calculated on a gross basis as weighted principals of all transactions concluded, to which is added the sum of all positive market values, whereas negative market values are not offset. The size of principal weighting for the individual financial transactions is calculated based on the volatility of the interest rate and the currency, and due consideration is paid to the term to maturity of the specific financial transaction.

Spar Nord's business procedures specify the maximum term to maturity for the individual financial transactions, and compliance is followed up on a daily basis, as is compliance with the authorized lines. Powers to authorize lines to credit institutions are communicated via instructions from the Supervisory Board to the Executive Board and down through the organization, and recommendations are passed on for authorization to the officer(s) entitled to authorize lines according to the applicable instructions.

In connection with authorizing and coding lines, a check is performed to verify whether the coded lines accord with the authorization details, and Spar Nord Bank additionally has a controller function that conducts random sampling of compliance as concerns authorization of lines, procedures and business procedures.

In order to counter the counterparty risk, Spar Nord Bank enters into framework, netting and collateral agreements to the widest extent possible.

As concerns small Danish credit institutions, such agreements will be based on the framework agreement prepared by the Danish Bankers Association for forex and securities transactions, and when assessed to be necessary, also a collateral agreement, according to which it is agreed that if the net market value of the concluded financial contracts exceeds an individually fixed maximum for each credit institution, then appropriate collateral must be furnished, in most cases by way of cash deposits in DKK.

For foreign and large Danish credit institutions, netting and framework agreements will be based on the international ISDA Master Agreements, often with associated Credit Support Annexes (CSA), according to which it is agreed that if the net market value of the concluded financial contracts exceeds an individually fixed maximum for each agreement, then collateral will have to be exchanged, most frequently by way of cash deposits in EUR.

In addition, when deemed appropriate, Global Master Repurchase Agreements (GMRA) and Global Master Securities Lending Agreements (GMSLA) will be concluded to secure repo/reverse transactions and share loan transactions.

Both Danish and foreign collateral agreements are followed up on a daily basis, as are exchanges of collateral in step with fluctuations in the market values of the transactions concluded. In addition, to the widest extent possible Spar Nord settles transactions via CLS, VP or Euroclear, which serves to minimize settlement risks as much as possible.

The table below shows developments in the number of authorized lines from 2009 to 2010:

#### DEVELOPMENT IN NUMBER OF AUTHORIZED LINES

	End-2010	End-2009
Number of authorized lines, total	147	142
Of which, to local Danish financial institutions	57	54

Figure 3.32

Just as compliance with authorized lines is controlled daily, ongoing controls are performed to check whether authorized lines are being utilized, and if not, the lines are either withdrawn or the limit reduced to current requirements.

#### The Group's combined credit exposures

The total credit exposure is the sum total of:

- Loans, advances and receivables
- Guarantees
- Unutilized credit limits
- Credit commitments
- Equity investments in group enterprises
- Non-current assets
- Intangible assets
- Other property, plant and equipment
- Counterparty risk

A comprehensive statement of the Group's credit risk shows an exposure of DKK 74.9 billion. This statement corresponds to the Group's credit risk, which is treated according to the standardized approach.

In general, exposures were reduced by DKK 0.7 billion in 2010, equal to a 1.0% drop. Average figures increased DKK 0.7 billion, equal to an increase of 0.9%.

#### TOTAL CREDIT EXPOSURE

DKK m	31.12.10	31.12.09	Ave. 2010*	Ave. 2009*
Central governments/central banks	217	1,166	478	1,803
Regional/local authorities	5,708	5,072	5,497	6,013
Public entities	87	103	100	125
Credit institutions	6,738	7,878	7,662	6,317
Trade and industry	22,903	20,280	22,077	21,403
Retail customers	32,703	32,997	33,398	32,011
Exp. secured by mortg. on real prop.	3,626	4,699	4,136	4,846
Exp. past due/overdrawn	1,048	1,035	1,272	1,522
Short-term exp. to businesses, etc.	0	676	433	437
Collective investment schemes	0	1	1	181
Miscellaneous assets	1,902	1,766	2,019	1,755
	<b>74,932</b>	<b>75,673</b>	<b>77,073</b>	<b>76,413</b>

\*] Average exposure is a simple average based on quarterly data.

Figure 3.33

## TOTAL CREDIT EXPOSURE BY INDUSTRY

2010	Exposure category											
Industry - DKK m	Central gov./central banks	Regional or local authorities	Public entities	Institutions	Businesses, etc.	Retail customers	Exp. secured by mortg. on real prop.	Exp. past due or overdrawn	Short-term exp. to businesses, etc.	Collective investment schemes	Exp. in other items, incl. assets w/o counterp. risk	Grand total
Public authorities	0	5,645	0	0	0	5		0	0	0	9	5,659
Agriculture, hunting and forestry	0	0	0	0	2,697	2,975	403	128	0	0	0	6,203
Fisheries	0	0	0	0	125	84	5	2	0	0	0	216
Industry and raw materials extraction	0	0	0	0	1,327	1,086	35	12	0	0	0	2,460
Energy supply	0	10	83	0	1,407	196	6	12	0	0	0	1,714
Building and construction	0	0	0	0	700	1,687	202	76	0	0	0	2,665
Trade	0	0	0	0	3,376	1,966	133	56	0	0	0	5,531
Transport, hotels and restaurants	0	50	0	0	1,260	1,880	46	106	0	0	527	3,869
Information and communication	0	0	0	0	276	190	13	1	0	0	0	480
Financing and insurance	0	0	4	6,716	4,136	1,011	101	75	0	0	1,251	13,294
Real estate	0	0	0	0	4,682	1,617	284	291	0	0	0	6,874
Other business areas	217	2	0	5	1,733	3,037	161	145	0	0	115	5,415
<b>Business customers, total</b>	<b>217</b>	<b>5,707</b>	<b>87</b>	<b>6,721</b>	<b>21,719</b>	<b>15,734</b>	<b>1,389</b>	<b>904</b>	<b>0</b>	<b>0</b>	<b>1,902</b>	<b>54,380</b>
<b>Retail customers</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>17</b>	<b>1,184</b>	<b>16,969</b>	<b>2,237</b>	<b>144</b>	<b>0</b>	<b>0</b>		<b>20,552</b>
<b>Grand total</b>	<b>217</b>	<b>5,708</b>	<b>87</b>	<b>6,738</b>	<b>22,903</b>	<b>32,703</b>	<b>3,626</b>	<b>1,048</b>	<b>0</b>	<b>0</b>	<b>1,902</b>	<b>74,932</b>

## TOTAL CREDIT EXPOSURE BY INDUSTRY

2009	Exposure category											
Industry - DKK m	Central gov./central banks	Regional or local authorities	Public entities	Institutions	Businesses, etc.	Retail customers	Exp. secured by mortg. on real prop.	Exp. past due or overdrawn	Short-term exp. to businesses, etc.	Collective investment schemes	Exp. in other items, incl. assets w/o counterp. risk	Grand total
Public authorities	1,166	4,969	0	0	1	506	0	0	0	0	7	6,649
Agriculture, hunting and forestry	0	0	0	0	2,943	3,237	443	141	18	0	0	6,782
Fisheries	0	0	0	0	124	88	6	10	0	0	0	228
Industry and raw materials extraction	0	0	0	0	1,124	909	44	25	12	0	0	2,114
Energy supply	0	0	77	0	1,373	186	5	10	0	0	0	1,651
Building and construction	0	0	0	0	580	1,510	190	137	3	0	0	2,420
Trade	0	0	0	0	2,255	1,459	14	25	-4	1	0	3,750
Transport, hotels and restaurants	0	92	0	0	1,731	1,235	66	39	64	0	0	3,226
Information and communication	0	0	0	0	975	1,754	37	166	10	0	1,300	4,242
Financing and insurance	0	0	1	7,205	1,985	919	117	78	531	0	0	10,836
Real estate	0	0	0	0	3,833	1,663	707	94	22	0	0	6,318
Other business areas	0	11	25	1	1,565	2,024	143	118	6	0	459	4,352
<b>Business customers, total</b>	<b>1,166</b>	<b>5,072</b>	<b>103</b>	<b>7,206</b>	<b>18,489</b>	<b>15,489</b>	<b>1,772</b>	<b>842</b>	<b>662</b>	<b>1</b>	<b>1,766</b>	<b>52,568</b>
<b>Retail customers</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>672</b>	<b>1,791</b>	<b>17,508</b>	<b>2,927</b>	<b>193</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>23,105</b>
<b>Grand total</b>	<b>1,166</b>	<b>5,072</b>	<b>103</b>	<b>7,878</b>	<b>20,280</b>	<b>32,997</b>	<b>4,699</b>	<b>1,035</b>	<b>676</b>	<b>1</b>	<b>1,766</b>	<b>75,673</b>

Figure 3.34

The Group's credit exposure is predominantly limited to Denmark. Thus, in 2010, debtors based in Denmark accounted for more than 95% of the Group's credit exposure, for which reason a geographical breakdown of data is not considered important below

Breakdown by term to maturity of the Group's credit exposure is shown by exposure category and appears from figure 3.35

## CREDIT EXPOSURE BY TERM TO MATURITY

	2010						2009					
DKK m	On demand	0 - 3 mths	3 mths - 1 year	1 year - 5 years	Over 5 years	Grand total	On demand	0 - 3 mths	3 mths - 1 year	1 year - 5 years	Over 5 years	Grand total
Central governments/central banks	176	41	0	0	0	217	366	800	0	0	0	1,166
Regional/local authorities	1	405	1,761	3,514	27	5,708	0	272	1,768	3,017	15	5,072
Public entities	0	0	37	50	0	87	0	103	0	0	0	103
Institutions	503	2,464	337	1,217	2,217	6,738	767	4,706	883	625	897	7,878
Trade and industry	3,247	6,879	6,196	3,521	3,060	22,903	6,303	4,794	3,571	2,639	2,973	20,280
Retail customers	2,290	6,018	6,570	9,329	8,496	32,703	3,642	5,617	6,670	8,746	8,322	32,997
Exp. secured by mortgages on real prop.	492	571	545	642	1,376	3,626	1,223	692	480	638	1,666	4,699
Exp. past due/overdrawn	138	356	95	374	85	1,048	150	212	92	461	120	1,035
Short-term exp. to businesses, etc.	0	0	0	0	0	0	0	676	0	0	0	676
Collective investment schemes	0	0	0	0	0	0	0	1	0	0	0	1
Other assets	402	8	87	925	480	1,902	475	6	98	693	494	1,766
<b>Grand total</b>	<b>7,249</b>	<b>16,742</b>	<b>15,628</b>	<b>19,572</b>	<b>15,741</b>	<b>74,932</b>	<b>12,926</b>	<b>17,879</b>	<b>13,562</b>	<b>16,819</b>	<b>14,487</b>	<b>75,673</b>

Figure 3.35



Collateral that may be used for credit risk mitigation purposes under the standardized approach is included for the purpose of calculating the Group's solvency ratio. The figures are shown after a reduction to reflect volatility adjustments.

CREDIT-MITIGATING FINANCIAL COLLATERAL DKK m	2010		2009	
	Exposures covered by guarantees	Other financial collateral	Exposures covered by guarantees	Other financial collateral
Central gov./central banks	0	40	0	0
Regional/local authorities	0	0	0	0
Public entities	0	0	0	0
Credit institutions	0	1,545	0	3,308
Businesses, etc.	392	3,048	528	769
Retail customers	479	893	715	822
Exp. secured by mortg. on real prop.	0	0	0	0
Exp. past due or overdrawn	3	29	3	55
Short-term exp. to businesses, etc.	0	0	0	0
Collective investment schemes	0	0	0	0
Exp. in other items, etc.	0	0	0	0
	<b>874</b>	<b>5,555</b>	<b>1,246</b>	<b>4,954</b>

Figure 3.36

# MARKET RISK

Spar Nord assumes market risks in connection with transactions on financial markets. Generally, market risk is defined as the risk of losses on the Group's assets and liabilities because of movements in the financial markets. Thus, market risks are a consequence of the Bank's open positions in the financial markets and may be divided thus:

- Interest-rate risk
- Equity market risk
- Foreign-exchange risk
- Commodity risks
- Own properties

Spar Nord deals and takes positions in products that hold a number of market-based risks. Most of the Bank's activities regarding turnover and position-taking include relatively simple products. The most traded products are interest-based. The Bank also deals and takes positions in listed shares and foreign-exchange instruments, whereas trading in commodities is limited.

## Market risk policy and platform

As discussed elsewhere in this report, Spar Nord's Supervisory Board determines the overarching policies, frameworks and principles for risk governance. Some of the policies are concerned with identifying and estimating various types of market risk. The frameworks support the general proclivity to assume risks and indicate specific limits on the extent of risk the Bank is ready to assume. The principles establish the methods to be used in calculating the various risk targets. The Supervisory Board receives continuous reporting on risk developments and the utilization of allocated risk limits.

For its management of market risks, the Bank has established a three-tier instruction hierarchy. At the first tier, the Supervisory Board issues the definition of the limits for the Spar Nord Group to the Executive Board. At the second tier-level, the Executive Board delegates limits to the other units of the Group, with Trading, Financial Markets & the International Division being the distinctly largest unit. At the third and last tier, the executives of Trading, Financial Markets & the International Division are granted the limits within which they may operate.

## Monitoring and reporting

The Middle Office function of the Finance & Accounts Department is responsible for estimating, monitoring, controlling and reporting market risks. Market risk is calculated for the following purposes:

- Regular reporting to the Executive Board and the Supervisory Board
- Reporting of regulatory capital for use by the Danish Financial Supervisory Authority
- Daily follow-up on individual business units

Market risks are controlled and monitored through an integrated risk management system, with day-to-day follow-up action taken with respect to all market risk categories with respect to all units subject to instructions, and failure to comply with instructions are reported upstream in the hierarchy.

To ensure independence, the Middle Office function has no position-taking authority. All trades are settled by Spar Nord's Back Office according to the guidelines issued by the Danish Financial Supervisory Authority regarding functional separation.

## Developments in market risk

In 2010, Spar Nord experienced a slight increase in its market risk. This affected the risk-weighted items for market risk, which have increased by 13% since end-2009.

In 2010, the bond portfolio increased by DKK 1,059 million, while shares in the trading portfolio grew DKK 114 million. Spar Nord's largest equity portfolio, incl. associates, is not included in the trading portfolio, which increased by DKK 171 million to a total exposure of DKK 1,642 million.

It should be noted that the interest-rate risk, assuming an increase in the interest level, was negative throughout most of 2010, which is tantamount to a gain in the event of rising interest rates, all other things being equal. In addition, the exchange-rate risk remained a low level in 2010.

## Market risk types

Below follows a more detailed introduction to Spar Nord's work on the various types of market risks and its exposure to them.

### Interest-rate risk

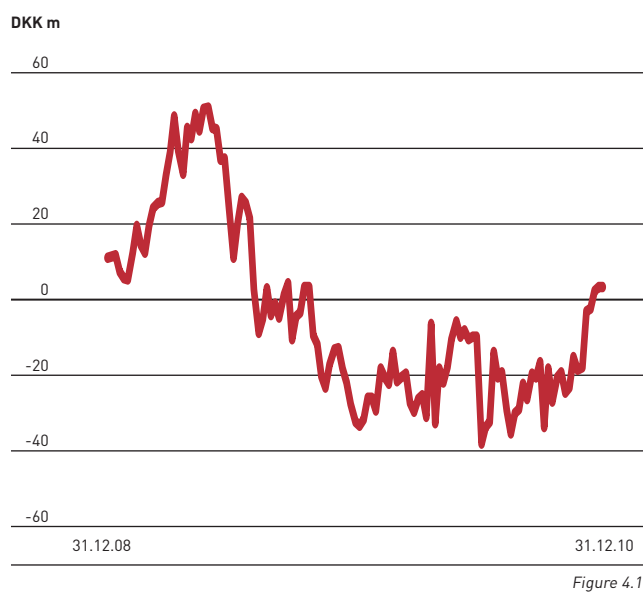
The interest-rate risk is the risk of loss due to fluctuating interest rates. The majority of Spar Nord's interest-rate risks derive from activities involving ordinary banking transactions, such as deposits and lending, trading and position-taking in interest-related products. Most of these activities incorporate simple interest-rate products such as interest swaps, bonds, futures and standard interest-rate options.

Spar Nord's interest-rate risk is calculated on the basis of the target duration and agreed cash flow. For managing the Group's portfolio of convertible Danish mortgage-credit bonds, the Bank uses model-based key risk indicators that provide for the inherent option element. As concerns interest-rate options, the above-mentioned key indicators are supplemented by the most important risk factors expressing sensitivity of the option premium based on the underlying parameters.

The interest-rate risk is assessed on a daily basis and decisions are made in light of expectations for the macroeconomic and market developments. The Bank converts the interest-rate risk in foreign currencies into Danish kroner and offsets the negative interest-rate risk against the positive one to calculate the net interest-rate risk.

The figure below shows the total net interest-rate risk that Spar Nord will encounter if the interest rate rises 1 percentage point. This means that all yield curves are displaced parallel to each other.

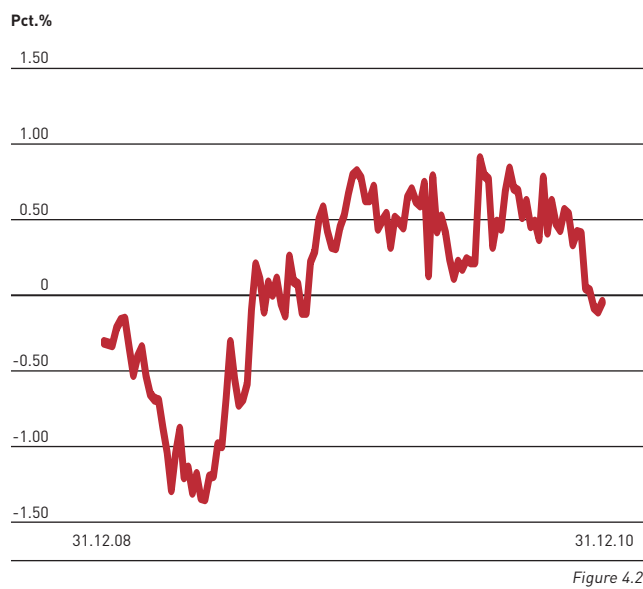
#### DEVELOPMENT IN THE GROUP'S NET INTEREST-RATE RISK



As appears from the figure, the Group's net interest-rate risk in 2010 was negative throughout almost the entire period. The negative interest-rate risk is primarily caused by fixed-interest deposits, which are subject to a negative interest-rate risk.

It appears from figure 4.2 that the shareholders' equity would be impacted positively by max. 1% in 2010 if the yield curves were displaced upwards in parallel by 1 percentage point. This is tantamount to a negative interest-rate risk having a positive impact on the equity if interest rates rise.

#### INTEREST-RATE RISK IN % OF SHAREHOLDERS' EQUITY



In addition, Spar Nord calculates the interest-rate risk broken down by yield curve. This shows Spar Nord's risk of changes in a delimited time interval in the yield curve. The table below shows the interest-rate risk broken down on the individual time interval, given an increase in the interest rate of 1 percentage point.

#### INTEREST-RATE RISK BY TERM TO MATURITY AND CURRENCY

2010 Currency, DKK m	Less than 3 mths	3 mths - 1 year	1 year - 3 years	3 years - 7 years	Over 7 years	Total
DKK	10.7	4.2	-43.9	35.5	17.7	<b>24.2</b>
EUR	4.1	-5.0	8.2	-27.4	-1.8	<b>-21.9</b>
USD	-1.3	-1.5	0.0	0.4	0.0	<b>-2.4</b>
GBP	0.0	0.0	0.0	0.0	0.0	<b>0.0</b>
NOK	0.0	-0.1	-0.1	0.1	0.0	<b>-0.1</b>
CHF	0.1	3.5	-0.4	-0.4	0.4	<b>3.2</b>
JPY	0.3	0.0	0.0	0.0	0.0	<b>0.3</b>
SEK	-0.5	0.0	0.1	0.4	0.0	<b>0.0</b>
Other	0.1	0.1	0.2	0.1	0.0	<b>0.5</b>
<b>Total</b>	<b>13.5</b>	<b>1.2</b>	<b>-35.9</b>	<b>8.7</b>	<b>16.3</b>	<b>3.8</b>

2009 Currency, DKK m	Less than 3 mths	3 mths - 1 year	1 year - 3 years	3 years - 7 years	Over 7 years	Total
DKK	9.0	-12.7	16.3	-2.1	7.2	<b>17.7</b>
EUR	-1.8	-14.7	-15.5	-12.8	5.6	<b>-39.2</b>
USD	0.0	0.0	0.0	0.0	0.0	<b>0.0</b>
GBP	0.1	0.0	0.0	0.0	0.0	<b>0.1</b>
NOK	-0.3	-0.2	-0.3	0.0	0.0	<b>-0.8</b>
CHF	2.4	0.2	-0.4	-0.4	0.8	<b>2.6</b>
JPY	0.3	0.1	0.1	0.0	0.0	<b>0.5</b>
SEK	-0.1	-0.1	-0.2	0.0	0.0	<b>-0.4</b>
Other	-0.2	0.2	0.3	0.0	0.0	<b>0.3</b>
<b>Total</b>	<b>9.4</b>	<b>-27.2</b>	<b>0.3</b>	<b>-15.3</b>	<b>13.6</b>	<b>-19.2</b>

Figure 4.3

It appears from the table that the total interest-rate risk is primarily denominated in DKK and hedged against EUR. It also appears that since end-2009, the interest-rate risk switched from being negative in the amount of DKK 19.2 million to being positive in the amount of DKK 3.8 million at end-2010.

#### Interest-rate risk outside the trading portfolio

The interest-rate risk attaching to positions outside the trading portfolio at Spar Nord primarily relates to:

- Fixed-interest deposits and lending from ordinary banking transactions
- Interest-rate risk related to the Bank's funding
- Interest-rate risk relating to specially hedged positions (fair-value hedge accounting)

#### INTEREST-RATE RISK OUTSIDE THE TRADING PORTFOLIO

Currency, DKK m	Ultimo 2010	Ultimo 2009
DKK	-22.7	4.8
Net interest-rate risk	-22.7	4.8

Figure 4.4

The table shows the net interest-rate risk outside the trading portfolio, given an increase in the interest rate of 1 percentage point. Since 31.12.2009, the interest-rate risk has changed from DKK 4.8 million to DKK -22.7 million, a development caused by fixed-interest deposits.

### Foreign-exchange risk

The foreign-exchange risk is the risk of loss on positions due to exchange-rate fluctuations. Foreign-exchange positions are included in the statement at the Delta-adjusted position.

Spar Nord calculates the foreign-exchange risk in two ways. The first calculation is based on the assumption that all exchange rates develop unfavourably for the Bank by 2%. The other calculation is based on foreign-exchange indicator 1 according to the Capital Adequacy Order issued by the Danish Financial Supervisory Authority. This indicator is computed based on the sum of all currencies in which the Bank is in a net payable position (short position) and all the currencies in which the Bank is in a net receivable position (long position). Foreign-exchange indicator 1 is calculated by correlating the numerically highest value of the two sums to the Bank's core capital after deductions.

The table below shows foreign-exchange indicator 1, foreign-exchange indicator 1 compared with the core capital and the foreign-exchange risk broken down on the individual currencies.

### FOREIGN-EXCHANGE RISK

	End-2010	End-2009
Foreign-exchange indicator 1 in DKK m	163.2	160.6
Foreign-exchange indicator 1 in % of core capital (incl. hybrid capital) after deductions	2.9	2.9
<i>Foreign-exchange risk broken down by currency in DKK m</i>		
EUR	-0.4	-1.5
SEK	0.0	-0.3
USD	-1.4	-0.1
CHF	-1.1	-1.0
JPY	-0.4	0.0
Other currencies	-0.4	-0.3
<b>Foreign-exchange risk, total</b>	<b>-3.7</b>	<b>-3.2</b>

Figure 4.5

As appears from the table, the overall foreign-exchange risk did not change significantly from 2009 to 2010. However, it should be noted that the exposure to EUR fell, while the foreign-exchange risk in USD rose.

### Equity market risk

The equity market risk is the risk of loss due to fluctuating equity prices. Equity positions are calculated as being the net value of long and short equity positions and equity-related instruments. The equity positions have been determined depending on whether they are included in the trading portfolio or not.

### Equities included in the trading portfolio

The equities and shares in the trading portfolio have been acquired with a view to trading. This includes shares acquired through the wholly-owned subsidiary Erhvervsinvest Nord A/S. In addition, the trading portfolio includes equity investments made by Vækstinvest Nordjylland A/S and the Erhvervsinvest K/S limited partnerships, which the Bank owns jointly with Nykredit and Vækstfonden (the Danish Fund for Industrial Growth) and other partners. Shares and equities are included in the trading portfolio appear from the table below.

### SHARES IN THE TRADING PORTFOLIO

DKK m	End-2010	End-2009
Listed shares in the trading portfolio	170	75
Unlisted shares in the trading portfolio	62	43
<b>Total shares in the trading portfolio</b>	<b>232</b>	<b>118</b>

Figure 4.6

### Equities outside the trading portfolio

A salient feature of equities and shares outside the trading portfolio is that they have not been acquired with a view to trading. In addition, Spar Nord makes a distinction between equities and shares in associates and shares in strategic partners.

Shares in associates include Nørresundby Bank A/S, in which Spar Nord has a 50.2% interest.

Shares in strategic partners in the financial sector are shares in companies whose purpose is to support financial institutions' transactions in the fields of mortgage credit, payment services, unit trusts, etc. Spar Nord has no plans to sell its shares in this portfolio, as participation in the companies in question is considered a prerequisite for the Bank's operations.

In several of the sector companies, the shares are reallocated such that the ownership interest of the banks will reflect the business volume of the relevant institution with the sector company at all times. Typically, this reallocation is made based on the net asset value of the sector company in question. In light of this, Spar Nord adjusts the recognized value of these shares when new information is available that supports a change of valuation. In other sector companies, the shares are not reallocated, but instead measured based on a recognized valuation method. The adjustments of the values of the shares in these companies are also recognized in the income statement.

## SHARE RISK OUTSIDE THE TRADING PORTFOLIO

DKK m	End-2010	End-2009
Shares in credit and financing institutions	440	360
Shares in unit trust man. companies	48	46
Shares in pension institutions	18	21
Shares in data supplier	172	127
Shares in payment services business	161	157
Other shares	51	41
<b>Shares in strategic partners, total</b>	<b>890</b>	<b>752</b>
Realized gains	0	0
Unrealized gains	44	48
<b>Total associates</b>	<b>752</b>	<b>719</b>
<b>Shares outside the trading portfolio, total</b>	<b>1,642</b>	<b>1,471</b>

Figure 4.7

## Commodity risk

Spar Nord only accepts commodity risks on its own books to a very limited extent. The acceptance of such risks primarily occurs in connection with hedging transactions on behalf of the Bank's customers. The commodity exposure is calculated as a gross exposure, with setoffs only being made with respect to contracts having the same underlying commodity, the same maturity date, etc.

## Option risk

Spar Nord uses derivatives to hedge and manage the Group's risks. These include options and products that contain an integral option. The Bank's option risks stem primarily from interest and currency options and positions in mortgage-credit bonds.

Option risks are calculated by computing the positions' Delta, Gamma, Vega and Theta risks.

## Sensitivity analysis

This section shows a number of sensitivity analyses. These illustrate the sensitivity to changes in the interest rate, share prices and foreign-exchange rates.

### SENSITIVITY ANALYSIS \*)

	End-2010 %	End-2009 %	Impact on the income statement	
			End-2010 DKK m	End-2009 DKK m
Interest increase of 1 percentage point	-0.1	0.3	-2.8	14.4
Interest decrease of 1 percentage point	0.1	-0.3	2.8	-14.4
Share price decrease of 10 % (trading portfolio)	-0.4	-0.2	-17.4	-8.9
Exchange-rate fluctuation of 2% in unfavourable direction	-0.1	-0.1	-2.8	-2.4

\*) The sensitivity information shows the impact of isolated changes on the interest rate, share price and exchange rate. The impact on the income statement and the impact on the shareholders' equity have been calculated after tax.

Figure 4.8

It appears from the table above how the income statement will be impacted if the interest rate increases, if share prices drop and if all exchange rates move adversely.

It appears from the table that the shareholders' equity will drop 0.1% if the interest rate rises by 1 percentage point. In addition, it can be seen that a 10% drop in share prices will result in a 0.4% drop in the shareholders' equity. Lastly, it can be seen that the shareholders' equity will drop 0.1% if foreign exchange rates shift adversely by 2%. It should be noted that the portfolios must remain unchanged.

## Spar Nord's own properties

Properties are recognized at cost upon acquisition and subsequently measured at fair value. The fair value is calculated on the basis of current market data according to an asset return model that includes the property's rental income, operating expenses, as well as management and maintenance.

Operating expenses and maintenance costs are calculated on the basis of the condition of the individual property, construction year, materials used, etc. The fair value of the property is determined based on the calculated return on its operation and the individually determined rate of return. The return rate is fixed on the basis of the location of the individual property, potential use, the state of maintenance, etc.

The fair value of the individual property is reassessed at least once a year based on the current letting market and the interest level. An external valuation is obtained from a real estate agent to support the calculation of fair value, including the rental rates and rates of return used. In 2010, revaluations of corporate properties totalling DKK 1 million were reversed and recognized directly in shareholders' equity, and impairment losses totalling DKK 4 million were recognized under depreciation and impairment in the income statement. Reference is made to the Bank's Annual Report for a more detailed description of the accounting treatment of properties.

As appears from figure 4.9, the rate of return on the Bank's properties ranges between 6 and 8%.

## YIELD/RETURN

	No. of properties	Value 31.12.10
6-7 %	9	134
7-8 %	27	342
8 %	19	38
<b>Grand total</b>	<b>55</b>	<b>514</b>

Figure 4.9

# LIQUIDITY RISK

Liquidity risk is the risk that the Group's financing costs rise disproportionately, that the Group is prevented from entering into new transactions because it lacks adequate cash funds, and – ultimately – that the Group cannot honour its payment obligations on account of insufficient cash resources.

In terms of liquidity, 2010 was characterized by Bank Package I and its expiry on 30 September 2010. The expiry as such of the Bank Package was undramatic, although major uncertainty prevailed in the liquidity market until 30 September. The consequence of the lapse of the general and individual government-backed guarantee will thus only make its mark when the financial institutions will commence work during the next few years on refinancing the existing state-guaranteed funding until 2013.

The ability to attract liquidity at the right prices will be a significant competitive parameter in future. Spar Nord Bank has commenced work on establishing a desired maturity structure for senior funding without use of government-backed guarantees.

## Cash management

Based on the high-level policies and strategic targets for the Group's liquidity risk laid down by the Supervisory Board,

1. Liquidity policy, including a contingency plan in the event of insufficient or unavailability of cash funds
2. Plan for capital procurement and funding

the Executive Board has issued specific and operational frameworks and limits to Finance & Accounts and Trading, Financial Markets & the International Division. Trading, Financial Markets & the International Division is charged with managing day-to-day cash funds, whereas Finance & Accounts is responsible for managing long-term, strategic funding.

The objective of Spar Nord's cash management is thus to ensure suitable cash funds to allow the Bank to honour its payment obligations as and when they fall due, and to ensure reasonable funding costs. This work is carried out at three levels.

1. Deposits, senior funding, supplementary capital and shareholders' equity must exceed loans and advances, and only the part of senior funding and supplementary capital that has a term to maturity of more than one year is included.
2. The Group must have free liquidity to meet the liquidity requirements in section 152 of the Danish Financial Business Act and supplementary liquidity reserves.
3. Minimum requirements as concerns short-term liquidity, including requirements as to maturity if money market funding is unavailable.

## Cash monitoring

The Middle Office function of the Finance & Accounts Department is responsible for estimating, monitoring and checking that the Bank's liquidity risk does not exceed the boundaries of the instruction limits. The calculation of the cash resource buffer is used for the following purposes:

1. Regular reporting to the Executive Board and the Supervisory Board
2. Reporting cash resources to the Danish Financial Supervisory Authority
3. Cash stress test for the Danish Financial Supervisory Authority and Danmarks Nationalbank (the central bank).

## Short-term liquidity

Over a number of years, Spar Nord has been employing a fixed model to manage the Bank's short-term liquidity. The model is based on the one developed by the Danish Financial Supervisory Authority.

The first step in using the model is to compute the Bank's cash resources. Next, the model is used to calculate developments in the Bank's liquidity on the assumption that all money market funding falls due according to the terms of the appropriate contract and is not renewed. This is done on a daily basis over a period of eight weeks. The Supervisory Board determines the time window in which Spar Nord's liquidity is to remain positive according to the model.

In relation to the calculation of the Bank's cash resources, the Supervisory Board has determined a requirement as to the Bank's available cash resources at DKK 7 billion. In addition, the Supervisory Board has had a goal over an extended period of time that the Bank must have positive liquidity for a period of five weeks onwards, calculated according to the above model, only interrupted by exemptions for a short period of time in 2008.

## Strategic liquidity

The long-term internal liquidity target is for Spar Nord's cash deposits, senior funding, subordinated loan capital and shareholders' equity to exceed loans and advances to customers. In addition, subordinated loans and senior funding having a term to maturity of less than 12 months are not included

At the end of 2009, the excess coverage in strategic liquidity amounted to DKK 7.4 billion. Throughout 2010 the Bank has maintained the high excess coverage with respect to strategic liquidity and at end-2010 thus had an excess coverage of DKK 5.2 billion.

## STRATEGIC LIQUIDITY

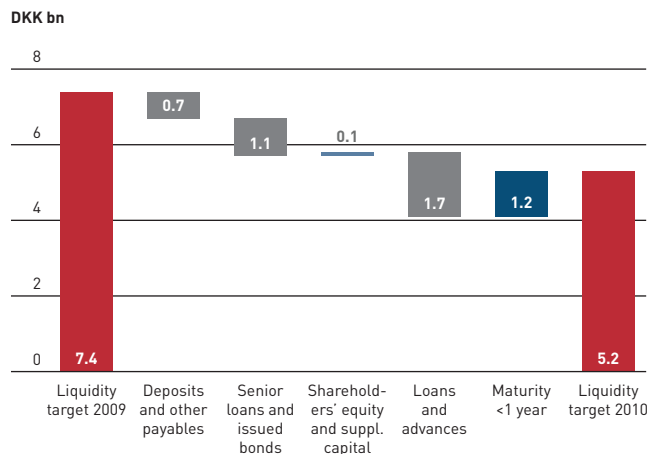


Figure 5.1

## STRATEGIC LIQUIDITY

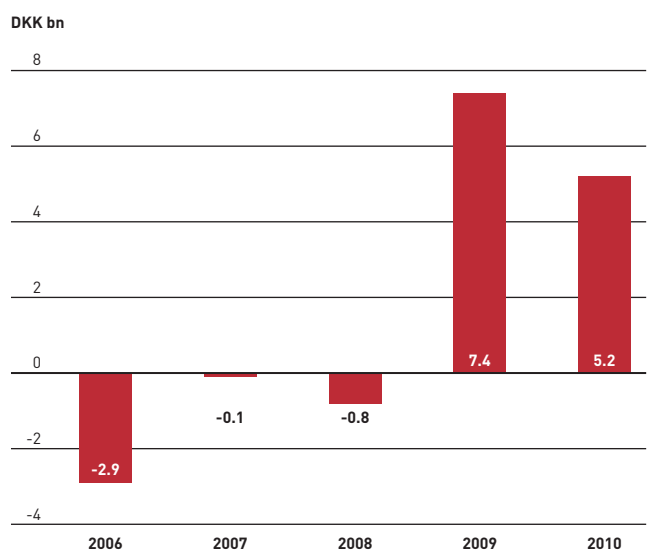


Figure 5.2

In connection with Spar Nord's rating, Moody's makes specific requirements as to the Bank's liquidity situation and management. Moody's uses a model called "12-month scenario with no access to funding", which defines a capital market crisis with a survival horizon of 12 months, with all money and capital market funding falling due according to the terms of the contract without any option of extension or new funding being raised.

Spar Nord Bank has no problems meeting Moody's requirements as to positive liquidity during a 12 month period.

## MOODY'S 12-MTH SCENARIO WITH NO ACCESS TO FUNDING

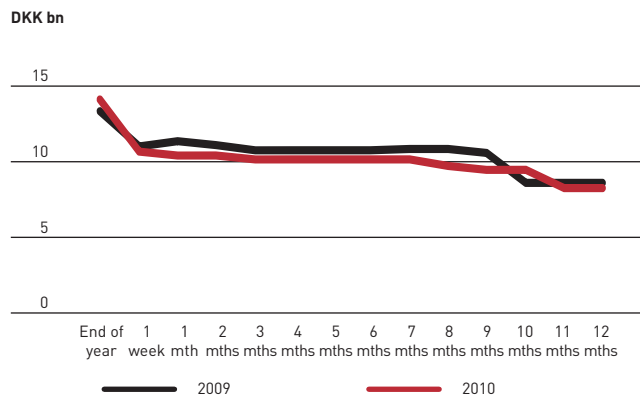


Figure 5.3

In addition to Spar Nord's own stress test and Moody's 12-month scenario with no access to funding, monthly liquidity stress tests are prepared and sent to the Danish Financial Supervisory Authority and Danmarks Nationalbank. The Danish Financial Supervisory Authority's liquidity stress test is based on Moody's 12-month scenario with no access to funding and the Basel Committee's Liquidity Coverage Ratio.

## Cash resources

Spar Nord Bank's objective for liquidity management is that the Bank must always have adequate free liquidity to ensure that the Bank lives up to the liquidity requirement pursuant to section 152 of the Danish Financial Business Act, and that the Bank has adequate liquidity reserves. Free liquidity is defined as uncollateralized listed securities, deposits on demand with credit institutions, certificates of deposit, or cash balances.

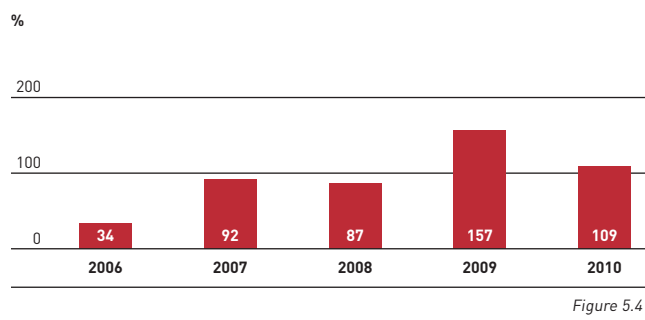
During the first half of 2010, Spar Nord Bank gave notice terminating temporary loan facilities with Danmarks Nationalbank, loans granted against solvency surplus reserves and unlisted shares. Thus, the calculated liquidity reserve at end-2010 comprised no temporary facilities.

Spar Nord monitors deposits and payables to credit institutions to ensure that exposures to individual counterparties are acceptable.

The liquidity excess coverage, the so-called 10% requirement, stood at DKK 7.3 billion at end-2010 compared with an excess coverage of DKK 10.0 billion in 2009. If the excess coverage is converted to a percentage ratio, this corresponds to an excess coverage of 109% in 2010, whereas it amounted to 157% in 2009.



#### EXCESS COVERAGE RELATIVE TO STATUTORY LIQUIDITY REQUIREMENT (SECTION 152)



#### Stress test

The Bank's cash management procedures include a stress test. A rating by Moody's requires that a stress test of 12 months' liquidity should generally show positive cash flow. One of the assumptions for the calculation is that Spar Nord Bank has no access to the capital markets and that refinancing on these markets is not feasible. Thus it is assumed that issued bonds and subordinated debt will not be refinanced upon expiry. On the other hand, the stable deposit base will remain an accessible funding source. The analysis also assumes a moderate reduction only in the Bank's assets.

#### Emergency liquidity plan

Spar Nord has prepared an emergency liquidity plan pursuant to section 71 of the Danish Financial Business Act. This plan contains a catalogue of possible courses of action to strengthen the Group's liquidity position in a critical situation, including a more detailed description of the expected effect of and time horizon for the individual courses of action. The catalogue contains a more detailed description of the expected impact and time span of the individual actions.

The emergency liquidity plan enters into force if the Bank can only meet the predetermined liquidity instructions with difficulty and with resulting sharply increased funding costs.

#### Funding and maturity structure

The Bank's assets are funded through four funding sources:

- Customer deposits
- Loans or repo transactions with other credit institutions and Danmarks Nationalbank
- Issued bonds
- Capital base (subordinated loan capital and shareholders' equity).

Spar Nord Bank's total funding amounted to DKK 53.2 billion in 2010, down DKK 1.3 billion on 2009.

Customer deposits constitute the largest source of funding, amounting to 58 % of the Bank's total funding in 2010. Time deposits amounted to 13% of total deposits in 2010, up three percentage points on 2009.

Senior funding with a term to maturity in excess of 12 months amounted to 14% of total funding in 2010, which was in line with 2009. During 2010, senior funding aggregating DKK 3.2 billion matured. In the same period, Spar Nord raised new bond loans of DKK 2.5 billion.

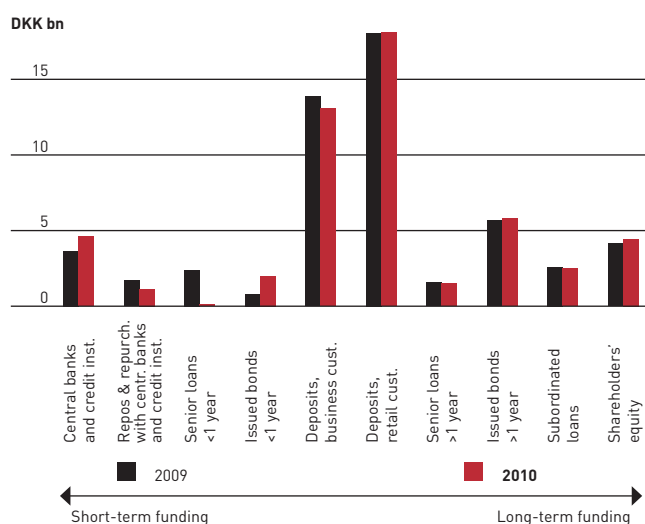
The sum total of the Bank's subordinated loan capital and shareholders' equity amounted to DKK 6.9 billion at end-2010, which is in line with the 2009 figure. In relation to the Bank's total funding, the capital base amounted to 13% in 2010, which was also on a line with 2009.

#### FUNDING

DKK m /%	2010	2009	2010	2009
Central banks and credit institutions	4,577	3,656	9	7
Repos and repurchases with central banks and credit inst.	1,163	1,697	2	3
Senior loans <1 year	83	2,408	0	4
Issued bonds <1 year	1,992	795	4	2
Deposits, business customers	13,089	13,855	24	25
Deposits, retail customers	18,115	18,076	34	33
Senior loans >1 year	1,491	1,566	3	3
Issued bonds >1 year	5,814	5,650	11	10
Subordinated loans	2,477	2,681	5	5
Shareholders' equity	4,374	4,143	8	8
<b>Total</b>	<b>53,175</b>	<b>54,527</b>	<b>100</b>	<b>100</b>

Figure 5.5

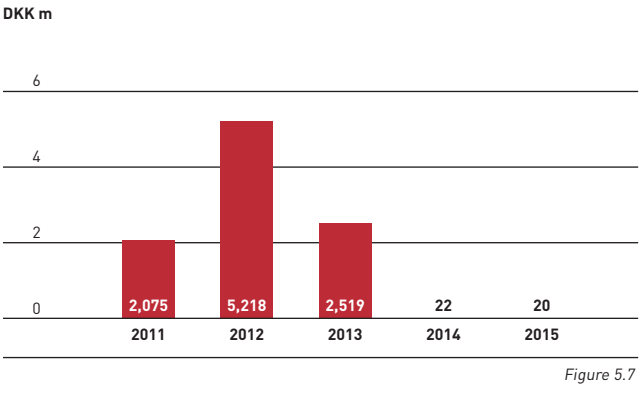
#### FUNDING STRUCTURE



The Bank established an EMTN bond programme of EUR 3 billion in 2008, which contributes to diversifying the Bank's funding sources and ensuring standardization in connection with the issuing of bonds. In 2009, the programme was supplemented with the option of issuing guaranteed bonds under the Danish government-backed guarantee, which applied until the end of 2010.

The Bank made a guaranteed issuance under the EMTN programme in 2010, the total value being DKK 2.5 billion. In 2011, the Bank continues the initiated work on establishing a smooth, future maturity structure for senior funding in order to thus reduce future refinancing risks and dependency on the interbank market.

#### MATURITY STRUCTURE FOR SENIOR FUNDING



#### Moody's

In August 2007, Spar Nord Bank was rated by Moody's. Spar Nord Bank chose to go through the rating process with Moody's to ensure access to loans in the bond market and thus obtain a more diversified funding structure.

The Bank's first rating was A1 for long-term debt, P-1 for short-term debt and C for financial strength. In connection with the financial crisis towards the end of 2008 and in 2009, Spar Nord Bank was downgraded together with a wide range of other banks with respect to long-term debt and financial strength.

At end-2010, Spar Nord Bank had been awarded the following ratings:

Long-term debt: A2  
 Short-term debt: P-1  
 Financial strength: C-

#### MOODY'S FINANCIAL STRENGTH RATINGS

Official ratings	2010	2009	2008
Long-term debt	A2	A2	A1
Short-term debt	P-1	P-1	P-1
Financial strength	C-	C-	C

Figure 5.8

# OPERATIONAL RISK

## **Risk identification and assessment**

Operational risk is the risk of direct or indirect losses caused by deficient or faulty internal procedures and processes, human errors, system errors or losses prompted by external events or incidents.

Operational risks include business risks and risks to reputation. As indicated by the definition, operational risk is frequently associated with certain, one-off events or incidents.

Operational risk also involves a compliance risk, which means the risk that the Bank is not run according to legal and statutory requirements, standards in the market and corporate ethics. This constitutes a threat to stakeholders' confidence and increases the risk of statutory sanctions, financial losses or damage to the reputation of and confidence in the bank. Operational risk also encompasses legal risks, i.e. the risk that an incomplete or incorrect legal assessment affects the Group adversely. All activities in the organization are subject to operational risk.

Operational risk is managed across the Group through a system of comprehensive business procedures and control measures developed to ensure an optimum process environment. The effort to minimize operational risks includes separating the execution of activities from the control of these activities.

## **Internal Audit Department**

Internal Audit carries out checks to obtain reasonable assurance that principles and procedures are adhered to at all times. Internal Audit was established by Spar Nord's Supervisory Board as an independent staff function in conformity with the Financial Supervisory Authority's Executive Order on the Conduct of Auditing in Financial Institutions

Jointly with the elected external auditors, the Internal Audit Department is responsible for auditing the financial statements of Spar Nord and the companies forming part of the Group, in accordance with applicable statutes, executive orders and the Articles of Association.

## **Compliance**

Spar Nord has an independent Compliance function charged with overseeing the Bank's compliance with financial legislation, banking sector standards and the Bank's internal guidelines in all areas. The objective of the function is to assist Management in its efforts to identify and minimize risks by developing and conducting risk analyses, advising Management and employees and checking and assessing the adequacy and prudence of the Bank's procedures. The Compliance function, managed by a Head of Compliance (a law graduate), reports to the Supervisory Board and is manned by representatives from a broad cross-section of the Bank's business areas. An annual programme for the function's activity has been approved by the Supervisory Board.

## **Fraud**

In view of the regular reporting provided to the Bank's Supervisory and Executive Boards, Management believes that the Bank's measures to counter the risk of fraud are at a satisfactory level to counter the risk of being exposed to fraud.

## **IT security**

Information and information systems are vital to Spar Nord, and IT security is therefore essential to the Bank's credibility and continued existence. An IT security function has been established, and Spar Nord's Executive Board and Supervisory Board regularly check on IT security. Spar Nord's activity in the area of IT security is based on regulatory requirements as well as considerations for day-to-day operations. All IT installations running at Spar Nord and its service providers must operate according to documented running schedules and guidelines. The operation must be safe and stable, a requirement ensured through the highest possible degree of automation and ongoing capacity adjustments. IT services run by service providers must be based on written agreements. The Bank's IT security work includes the preparation of emergency plans and recovery procedures aimed to ensure continued operation at a satisfactory level in the case of extraordinary events.

## **Capital requirement**

The capital requirement needed to cover Spar Nord's operational risks is calculated using the basic indicator approach. In 2010, the operational risk amounted to 10% of total risk-weighted assets.

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