RISK REPORT 2011

spar Nord

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Preface	3
Highlights of 2011	4
Risk management	5
Capital management and solvency need	8
Basel III - CRD IV	12
Credit risk	14
Market risk	28
Liquidity risk	32
Operational risk	35
Individual solvency requirement	36

PREFACE

The objective of this report is to give an overview of the Spar Nord Group's risk and capital management practices.

The report has been prepared in accordance with the legal disclosure requirements in the Danish Executive Order on Capital Adequacy and describes the various types of balance sheet and off-balance-sheet risks to which the Group is exposed. The report also includes an account of the Group's risk and capital management methodologies and the composition of the capital base and the associated risks.

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 of information on the risk and capital management practices pursuant to Pillar 3 relate to Spar Nord Bank A/S, CVR no. 13737584, and all its fully consolidated subsidiaries ("Spar Nord"). As a result of the decision to phase out the activities of Spar Nord Leasing A/S, information about the continuing activities will be stated in selected areas. This report for the Spar Nord Group is available at 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 procedures.

Reporting pursuant to the disclosure requirements set out in Pillar 3 is an annual exercise conducted in connection with the presentation of the financial statements, while the solvency need ratio is published quarterly.

Further disclosures regarding risk, liquidity and financial resources are given in the Spar Nord Annual Report in accordance with requirements laid down in the International Financial Reporting Standards, IFRS.

HIGHLIGHTS OF 2011

Although 2011 got off to a positive start, soaring commodity prices, the debt-ravaged economies in southern Europe and fading industry and consumer confidence brought growth once more to a near standstill. For the year as a whole, growth in GDP amounted to 0.8%, and unemployment remained at an unchanged 6.0%.

The generally low economic activity level meant that total lending by Danish financial institutions dropped by 7% in the course of the year. A general down-gearing of businesses' and households' finances contributed to this development – a trend that historically emerges in the aftermath of crises, as the debt level tends to adapt itself to the lower asset values over a number of years.

Towards the end of 2011, a number of agreements were concluded in the EU regime, targeted at dealing with the debt crisis in certain euro countries and securing financial stability. However, growth forecasts from both the IMF and OECD as well as the EU still predict relatively subdued growth in the international economy in 2012, a prediction also reflected in growth forecasts for the Danish economy.

The table below shows movements in a number of important key ratios for Denmark (in per cent).

MACROECONOMIC INDICATORS - 2010-2012
REALIZED AND EXPECTED DEVELOPMENTS IN DENMARK

	2012	2011	2010
Growth in GDP, % YOY	0.5	0.8	1.3
Growth in private consumption, % YOY	0.6	-0.6	1.9
Growth in investments, % YOY	2.8	0.0	-3.7
Unemployment, %	6.5	6.0	6.0
Inflation, %	1.8	2.8	2.3
Balance of payments, DKK bn	90	120	95
EUR/DKK / year-end	744	743	745
USD/DKK / year-end	620	575	575
Long interest rate, % / year-end	2.70	1.70	2.90

Source: Statistic Denmark, Nationalbanken (the Central Bank) and Spar Nord Bank

Liquidity

2011 was an extremely challenging year in the international funding market. Among the year's many challenges, the budgetary pressures faced by governments in a number of EU countries, particularly in the second half of the year, triggered substantial turbulence across Europe, creating a situation that left almost all banks unable to raise long-term unsecured funding. At the same time, the short-term funding market was sluggish.

These challenges generally occurred across Europe, but Denmark was in a particularly negative spot as lenders were left with losses after two banks were forced to close down in accordance with the so-called Danish Bank Package III principles, and Moody's consequently downgraded its rating of a number of Danish banks.

The situation in Denmark was particularly problematic because in 2012 and 2013, Danish banks will be facing a combined refinancing requirement of DKK 190 bn to replace government-backed funding.

Spar Nord has issued government-backed bonds for a total of about DKK 6.2 billion, which fall due in 2012 and in 2013. At the beginning of 2011, the Bank's plan was to implement a major unguaranteed bond issue in the international market in Q1. However, following the bankruptcy of Amagerbanken this became unfeasible.

Since the international funding market appeared unlikely to pick up, Spar Nord decided in Q3 that the key to solving the challenge of refinancing government-backed funding was to divest and phase out the Group's leasing activities. In continuation of this decision, the forward-looking leasing activities in Denmark were transferred at 1 October to the Jyske Bank Group, with the existing portfolio being phased out as and when the underlying contracts fall due. A decision has been made to perform a similar phase-out of the Swedish leasing activities, operated by the subsidiary SN Finans Nord AB.

At 1 October 2011, the Danish central bank, Nationalbanken, gave financial institutions access to floating loans against security in good-quality lending. Later, Nationalbanken expanded the potential of financial institutions to float loans to serve monetary policy goals, initially with a six-month facility, but subsequently also with an option to float loans with a three-year term to maturity. Spar Nord thus considers it sound to launch initiatives that will boost the sector's potential when the government-backed guarantees expire, but has no current plans to procure funding via the new programmes.

Credit rating

The Group's total loans, advances and guarantees before offsetting of impairment amounted to DKK 43.7 billion at end-2011 compared with DKK 46.1 billion at end-2010. Retail customers account for 32.2% of total loans, advances and guarantees, with business customers accounting for 67.8%.

Loans, advances and guarantees relating to continuing activities (excl. leasing activities) amounted to DKK 36.4 billion at end-2011 compared to DKK 38.3 billion at end-2010. Of this amount, retail customers account for 38.6%, and business customers for 61.4%.

The bleak economic figures also impacted developments in loan impairment losses in 2011. Thus, the overall impact on the consolidated operating profit amounted to DKK 473.6 million, equal to 1.1% of average loans, advances and guarantees. Impairment losses on the continuing activities amounted to DKK 404.4 million.

Capital

At end-2011, Spar Nord's solvency need ratio was calculated at 8.8%, which is 0.3 percentage point up on end-2010. At end-2011, the solvency ratio was calculatedstood at 14.0%, equal to a capital excess coverage of 58.7 percentage points, equal%, corresponding to DKK 2.2 billion. During the year under review, Spar Nord repaid subordinated loans in the amount of DKK 200.0 million in full at the loans' maturity dates.

As at 31 December 2011, Spar Nord's core capital (Tier 1) ratio stood at 13.3%, of which 10.4% is attributable to the Common Equity (Tier 1) ratio.

New legislation

In the years to come, a range of new legislative and regulatory initiatives are expected to be introduced in Denmark and on a pan-European level, which will impact capital adequacy and risk management positions. Fresh initiatives will include new models for calculating financial institutions' impairment of loans, and implementation of amended capital and liquidity rules in accordance with the CRD IV regulations.

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

RISK MANAGEMENT

Risk assumption is pivotal to banking, and risk management is an important 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.

The Group's most important categories of risks are as follows:

- *Credit risk: The risk that results from borrowers or other counterparties defaulting on their payment obligations, including the risks attaching to customers encountering financial difficulties, large facilities, concentration risks and risks attaching to granted, unutilized credit lines. Credit risks also include settlement and counterparty risks.*

- *Market risk: The risk of loss due to the fact that the fair value of the Group's assets or liabilities changes on account of shifts in market conditions.*

- *Liquidity risk: The risk of loss that results because the Group's funding costs increase, the Group is cut off from entering into new transactions on account of unavailable funding, or because the Group ultimately becomes unable to meet its obligations as and when they fall due on account of lack of funding.*

- *Operational risk: The risk of loss that results from deficient, inexpedient or erroneous internal procedures, human or system errors and similar issues, or losses incurred as a result of external events, including legal risks, strategic risks and image risks.*

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 Board of Directors. As a supplement, specific risk policies have been introduced, laying down the general guidelines for handling and managing risks. These policies are reviewed and approved by the Board of Directors 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 overarching risk policies and the risk profile, specific instructions have been prepared for the most important areas of risk.

Distribution of responsibility

The Group has a two-tier management structure with an Executive Board and a Board of Directors. The Board of Directors 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 management echelon. The Board of Directors lays down general policies, while the Executive Board is responsible for the day-to-day management of the Group.

The Board of Directors 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 Board of Directors for approval. The Board of Directors also makes decisions regarding general principles for handling and monitoring risks. Regular reporting to the Board of Directors is undertaken with a view to enabling the Board of Directors to check whether the total risk policies and the pre-defined limits are complied with.

The Board of Directors has set up an audit committee charged with monitoring and controlling accounting and auditing matters and undertaking the preparatory work concerning the Board of Directors' processing of accounting and auditing issues. The committee is composed of three members, one of whom is a member with special expertise in auditing and accounting matters, as required by statute, and who is also impartial.

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

The Group's independent auditors are elected at the Annual General Meeting for one year at a time. The focus of the auditing team is discussed once a year between the Board of Directors and the auditors based on the recommendations of the audit committee.

The Executive Board is responsible for the day-to-day management of the Group. To this end, the Executive Board issues specific instructions for the Group's risks and its risk management procedures. The Executive Board reports regularly to the Board of Directors on the Group's risk exposure.

The Executive Board has 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 Executive Board and Board of Directors.

Credit Committee

The Credit Committee deals with credit facilities that exceed Credit Rating's authorization limits or involve a matter of principle. The Committee, composed of the Chief Credit Officer 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 Board of Directors.

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.

THE RISK MANAGEMENT ORGANIZATION

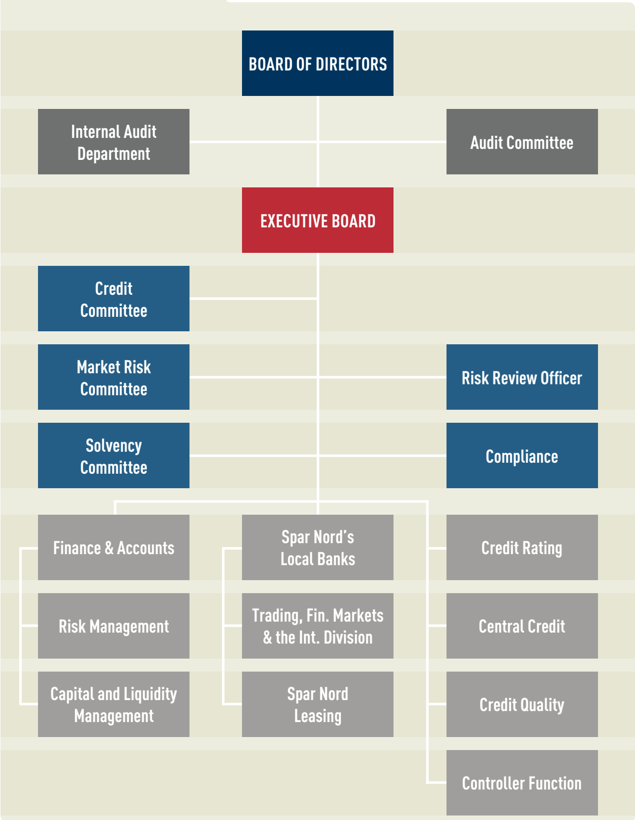


Figure 1.1

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 solvency need. The Solvency Committee prepares a recommendation for the solvency need ratio and passes it on to the Board of Directors for approval.

Risk Review Officer

The Risk Review Officer's area of responsibility comprises the Group's risk-prone activities across various risk areas and organizational units and risks deriving from outsourced functions. The Risk Review Officer is responsible for appropriate risk management of the Group's operations, including providing an overview of its risks and the overall risk exposure. The Risk Review Officer has general responsibility for compliance with the Group's risk policies and monitoring and reporting risks across risk categories and organizational units. The Risk Review Officer reports to the Executive Board.

Compliance

The Group's Compliance function is charged with overseeing the Bank's compliance with financial legislation, banking sector standards and the Group's internal guidelines in all areas. The Executive Board oversees this function, which reports to the Board of Directors and is manned by staff members responsible for compliance and representatives of a cross-section of the Group's business areas who are engaged in decentralized compliance tasks. The activities of the Compliance function are rooted in the annual plan adopted by the Board of Directors.

DAY-TO-DAY RISK MANAGEMENT

Credit risk

Customer advisers, in consultation with local managers, handle day-to-day management of the Bank's credit risks. The decentralized credit authorization limits range between DKK 2 and DKK 10 million and are linked to qualifications and needs. Exposures that exceed the decentralized credit authorization limits are passed on for processing at the Credit Rating Department or the Credit Committee, and all DKK 60+ million exposures and new exposures of DKK 30+ million need to be authorized by the Board of Directors.

High-level 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 Bank's entire exposure portfolio.

Credit scoring has been introduced in all the Group's departments, and this tool is 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.

Risk and settlement lines to financial counterparties are authorized by the Credit Committee. Exposures that exceed the authority of the Credit Committee are authorized by the Board of Directors. The credit organization is in charge of overall monitoring of lines, and all lines are assessed at least once a year, and in doing so the point of departure will be the financial statements of the financial counterparty.

Market risk

Spar Nord's Board of Directors lays down the overall policies, frameworks and principles, and the Middle Office function of the Finance & Accounts Department is responsible for monitoring and checking that the Group's market risk does not exceed the boundaries of the instruction limits.

For its management of market risks, the Bank has put a three-tier instruction hierarchy in place. The first level, the Board of Directors, defines the Group's market risk framework. At the second tier-level, the Executive Board delegates limits to the other entities of the Group, with the Trading, Financial Markets & the International Division being the distinctly largest entity. At the third and last tier, the executives of Trading, Financial Markets & the International Division are granted the limits within which they may operate.

Liquidity risk

Liquidity management is divided into short-term and long-term liquidity management. Management of short-term liquidity is placed with Trading, Financial Markets & the International Division, while management of long-term liquidity is the responsibility of the Finance & Accounts Department.

Managing the Group's general liquidity is subject to a number of control mechanisms. A fixed goal for the day-to-day liquidity buffer coupled with a stress test is used for determining short-term liquidity requirements. Long-term liquidity is managed by focusing on strategic liquidity and using stress tests.

Operational risk

Operational risks are managed via business procedures and other policy manuals, IT systems and control measures. Responsibility for risk management in this connection lies with the responsible units. In connection with projects, a risk assessment report must be prepared, specifying risks, potential consequences and initiatives to limit such risks. Spar Nord's security policy, including IT security policy, is reviewed annually and approved by the Board of Directors. The Compliance Department regularly reviews critical business procedures with a view to assessing risks and making recommendations to limit individual risks.

Contingency plans

The Group has contingency plans for dealing with critical areas like capital and liquidity. In addition, the Group has contingency plans for dealing with situations involving long-term IT outage.

CAPITAL MANAGEMENT AND SOLVENCY NEED

Capital goal

Spar Nord is licensed to carry on banking and consequently subject to a specific capital requirement based on the Danish capital adequacy rules, which govern both the Parent Company and the Group.

Spar Nord's capital management system is intended to manage the Group's total capital relative to the risk profile policy pursued by the Group. The Group's capital targets are intended to ensure that it will at all times live up to the capital adequacy rules that require a minimum capital ratio of 8% of the calculated risks in the so-called Pillar I defined in Basel II, plus any additional capital requirements intended to cover all relevant risks, including risks not sufficiently covered under Pillar I. This includes for instance business risks and special credit risks.

The Group has adopted a number of policies and instructions intended to ensure that the Group will at all times have adequate capital and liquidity available to comply with statutory requirements and to support future activities and growth. Part of the objective of instructions and the goal-setting process is to enable the Bank to withstand cyclical downturns, unexpectedly heavy credit losses and major adverse changes in the value of its market-risk-related positions.

In 2011, the Bank's objective was to have a Common Equity (Tier 1) ratio of 8%, and increased this objective to 9% at the beginning of 2012. The objective for the core capital (Tier 1) ratio, incl. hybrid capital, is 12%. In addition, the Bank strives to have a solvency ratio that is at least three percentage points higher than the Bank's solvency need ratio.

At end-2011, Spar Nord had a core capital (Tier 1) ratio, excl. hybrid core capital, of 10.4%, a core capital (Tier 1) ratio, incl. hybrid core capital, of 13.3% and a solvency ratio of 14.0%.

SOLVENCY RATIO AND CORE CAPITAL (TIER 1) RATIO

%	**2011**	2010
Common Equity (Tier 1) ratio (%)	10.4	9.5
Core capital (Tier 1) ratio, incl. hybrid (%)	13.3	13.2
Solvency ratio (%)	14.0	13.4

Figure 2.1

Capital base

A calculation of the capital base is based on a detailed catalogue of rules. Accordingly, the capital comprises core capital (Tier 1) and subordinated capital by way of hybrid core capital and supplementary capital. The core capital (Tier 1) largely corresponds to the shareholders' equity for accounting purposes, with due allowance being made, however, for goodwill and other intangible assets, etc. The Group's subordinated capital may be included in the capital base, subject to certain assumptions and limitations.

The capital base is characterized by the fact that the claims of depositors are subordinated to ordinary creditors in the event that the Bank goes under. Developments in the capital base are determined by profits for the year, the floating and redemption of subordinated debt and dividend and repurchase policies. The capital base forms part of the basis for calculating the solvency ratio.

STATEMENT OF CAPITAL BASE

DKK m	**2011**	2010
Share capital	570.7	570.7
Other reserves	450.7	440.1
Retained earnings	3,543.5	3,299.0
- Proposed dividend	0.0	0.0
- Intangible assets	-131.4	-157.5
- Goodwill in associates	-34.9	-37.1
Common Equity (Tier 1) after primary deductions	**4,398.6**	**4,115.2**
- Deduction for equity investments in associates	-361.1	0.0
- Deduction for equity investments >10%	-27.0	-23.8
- Deduction for the sum of equity investments <10%	0.0	-43.4
- Hybrid core capital *)	347,9	367.5
- Hybrid core capital **)	1.263.2	1.302,0
Core capital (Tier 1), incl. hybrid core capital, after deductions	**5,621.6**	**5,717.5**
- Supplementary capital	608.3	807.5
- Revaluation reserves	62.4	64.6
- Deduction for equity investments in associates	-361.1	-702.0
- Deduction for equity investments >10%	-27.0	-23.8
- Deduction for the sum of equity investments <10%	0.0	-43.4
Capital base after deductions	**5,904.2**	**5,820.4**

*) *Comprised by the transitional scheme in section 42 of the Danish Executive Order on Statement of Capital Base*

**) *Issued pursuant to the Danish Act on State-Funded Capital Injections.*

Figure 2.2

The entry into force of the executive order on the statement of the capital base at 1 July 2011 marked the introduction of significant changes to the rules regarding deductibility.

Previously, equity investments in associates were to be set off in full against the capital base. In accordance with the new executive order, this principle was changed so that 50% of the equity investments must be set off against the core capital (Tier 1) and 50% against the capital base. The introduction of the tighter rules regarding deductibility caused a reduction in the core capital (Tier 1) ratio, incl. hybrid capital, of about 0.9 percentage point.

Risk-weighted items

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 (Tier 1) ratio, solvency ratio and the solvency need ratio.

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

The Group calculates risk-weighted items for credit risk and market risk 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.

As appears from figure 2.3, the bulk of the combined capital requirement (81.9%) is attributable to credit risk.

RISK CATEGORY	Capital requirement*		Risk-weighted items	
DKK m	**2011**	2010	**2011**	2010
Credit risk				
- Central gov. or central banks	0.0	0.0	0.0	0.0
- Regional or local authorities	0.0	0.0	0.0	0.0
- Public entities	1.7	0.0	20.7	2.1
- Institutions	78.0	76.7	974.8	958.5
- Trade and industry	1,153.0	1,170.9	14,412.8	14,635.9
- Retail customers	1,175.4	1,209.3	14,692.8	15,116.6
- Exp. secured by mortg. on real prop.	92.2	101.8	1,153.1	1,272.8
- Exp. past due or overdrawn	52.9	105.2	661.6	1,314.4
- Exp. with short-term rating	0.0	0.0	0.0	0.0
- Collective inv. schemes	0.0	0.0	0.2	0.0
- Other exposure	95.5	99.3	1,193.1	1,241.3
Counterparty risk	114.8	110.9	1,435.2	1,386.2
Total credit risk	**2,763.5**	**2,874.1**	**34,544.3**	**35,927.8**
Market risk				
- Debt instruments	226.0	207.5	2,824.2	2,593.9
- Shares, etc.	27.1	33.5	338.9	419.1
- Foreign-exchange risk	31.2	13.1	390.4	163.2
- Commodity risk	0.0	0.0	0.0	0.0
Market risk, total	**284.3**	**254.1**	**3,553.5**	**3,176.2**
Operational risk, total	**327.2**	**344.1**	**4,090.0**	**4,301.5**
Capital requirement, total	**3,375.0**	**3,472.3**	**42,187.8**	**43,405.5**

**) The capital requirement is calculated as 8% of risk-weighted*

Figure 2.3

Risk-weighted items for credit risk

At end-2011 risk-weighted items for credit risks had declined by DKK 1,384 million compared with 2010.

One factor affecting this reduction is the fall in guarantees of DKK 1,300 million after a period with anomalies in the processing of land registration applications.

At the same time, in 2011 there was a 53% reduction in the exposure to customers with 90-days-past-due records.

Spar Nord Leasing also contributes significantly to the reduction of credit risk. Since 30 September 2011, the sale of Easyfleet, coupled with the wind-down of the leasing portfolio of Spar Nord Leasing, has resulted in a reduction of the risk-weighted items of DKK 771 million.

During 2011, there was a minor shift in the credit exposure, broken down by exposure categories, including a 9% reduction in the share of exposure secured by mortgages on real property.

Despite the phase-out of Spar Nord Leasing, there was a positive development in the balance-sheet items relating to the Group's retail customers, up DKK 128 million from DKK 18,609 million to DKK 18,737 million.

Risk-weighted items for market risk

In 2011, the risk-weighted items for market risk increased by DKK 377 million, corresponding to a DKK 30 million increase in the capital requirement. The primary reason for this growth is the increased general risk combined with a surge in foreign-exchange positions denominated in EUR.

Risk-weighted items for operational risks

The Bank's operational risk has been calculated using the basic indicator approach. In 2011, the risk-weighted items for operational risk were reduced by DKK 212 million. This reduction is due primarily to the offsetting of realized and extraordinary income outside the trading portfolio.

RISK-WEIGHTED ITEMS

DKK m

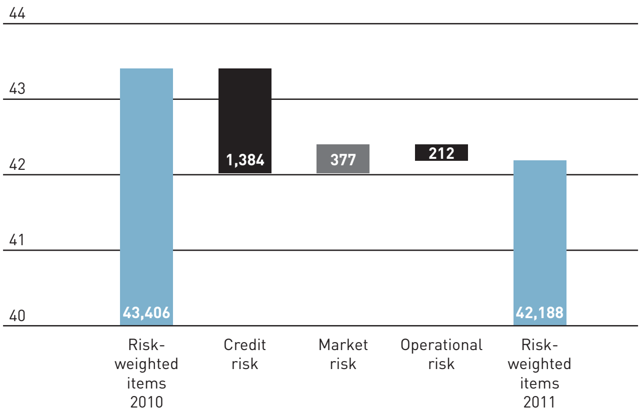


Figure 2.4

Solvency need ratio

Using the Danish Financial Supervisory Authority's "Guidelines on adequate base capital and individual solvency needs for financial institutions", the Board of Directors and the Executive Board determine the adequate capital base of the Bank and its solvency need ratio pursuant to section 124 of the Danish Financial Business Act.

Once a year, the Board of Directors reviews and approves the calculation methodology for the Bank's adequate capital base and solvency need, including the risk areas and stress levels to be used in calculating the solvency need ratio. In addition, the solvency need is subject to a quarterly review and approval procedure by the Board of Directors.

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 need, including a proposal for choice of stress variables, stress levels and risk areas to be included in calculating the solvency need ratio.

Process and methodology for calculating the solvency need ratio

Since the beginning of 2008, the Bank's calculation of the solvency need ratio has been based on an adaptation of a calculation methodology prepared by the Association of Local Banks in Denmark. The calculation 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. Credit losses
3. Interest increase
4. Equity market price declines
5. Foreign-exchange losses
6. Losses due to counterparty risks

The objective of stress testing is to subject the Bank's income statement to a number of adverse events, thus determining what losses the Bank should at least be capable of covering via its core capital (Tier 1). Thus the solvency need 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 materializes.

As from end-2011, the Bank has decided to use 99% fractile values for each stress factor against the 97.5% fractile values used in the past, calculated on the basis of historical data spanning the past 26 years.

Value for the most important stress variables:

	%
Decline in core income	17.0
Impairment of loans and advances	3.7
Interest increase	2.0
Equity market price declines	49.0

Level 2

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

Level 3

An assessment is made as to whether the Bank's business and risk areas in general warrant additional supplements to the calculated solvency need ratio at level 1. These are the four risk areas:

1. Credit risks: Customers with financial difficulties and concentration risks: Individual exposures, sector concentration, concentration of collateral, geographical orand business concentration.

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 in connection with procuring funding, liquidity risks and other risks.

The impact of these areas on the solvency need ratio is determined directly via supplementary calculations. Management has made an estimate in a few risks 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 solvency need ratio and the risks that the Management finds the Bank has assumed.

Breakdown of the combined solvency need on risk areas

The total solvency need 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 exposures, 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, 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 needed 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 solvency need.

The necessary core capital has been calculated at DKK 3,721 million at both Group and Parent Company level. This corresponds to a solvency need ratio of 8.8% at Group level, and 8.7% at Parent Company level.

Of the total capital requirement, DKK 2,886 million, or 78%, is attributable to credit risks, while market risks account for 20% of the total capital need.

The capital need in connection with other risks has been calculated at DKK 93 million (net), as the capital need for covering these risks is reduced by the recognized positive results before impairment of loans, etc.

THE SOLVENCY NEED BROKEN DOWN BY RISK AREA

	2011			2010		
DKK m / %	**Adequate capital base**	**Group, solvency need**	**Parent Company, solvency need**	Adequate capital base	Group, solvency need	Parent Company, solvency need
Credit risk	2,886	6.8	6.8	2,669	6.2	6.1
Market risk	742	1.8	1.7	710	1.6	1.6
Operational risk	369	0.9	0.9	398	0.9	0.9
Other risks	-276	-0.7	-0.6	-72	-0.2	-0.2
Supplement, if required by law	0	0.0	0.0	0	0.0	0.0
Total	**3,721**	**8.8**	**8.7**	**3.705**	**8.5**	**8.4**

Figure 2.5

Excess coverage relative to statutory requirement

At end-2011, the Group's solvency ratio stood at 14.0%, corresponding to a capital excess coverage of 58.7% relative to the solvency need ratio.

EXCESS COVERAGE RELATIVE TO STATUTORY REQUIREMENT

	The Group 2011	**Parent Company 2011**	The Group 2010	Parent Company 2010
Capital base after deductions (DKK m)	5,904.2	5,904.2	5,820.4	5,849.7
Adequate capital base (DKK m)	3,721.0	3,721.0	3,705.0	3,705.0
Excess coverage (DKK m)	2,183.2	2,183.2	2,115.4	2,144.7
Solvency ratio (%)	14.0	13.8	13.4	13.2
Solvency need ratio (%)	8.5	8.4	8.5	8.4
Excess coverage in %	58.7	58.7	57.1	57.9

Figure 2.6

SOLVENCY NEED RATIO AND CAPITAL BUFFER

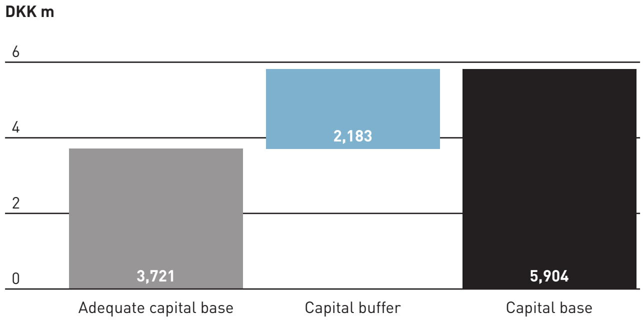


Figure 2.7

BASEL III - CRD IV

THE IMPORTANCE OF FUTURE RULES AND THEIR IMPACT ON THE GROUP'S CAPITAL REQUIREMENTS AND LIQUIDITY RESOURCES

The Basel Committee has adopted guidelines that entail stricter capital and liquidity requirements for financial institutions ("Basel III").

On 20 July 2011, the EU Commission announced its *"Proposal for a regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms"* and *"Proposal for a directive of the European Parliament and of the Council on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and amending Directive 2002/87/EC of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate".* These proposals are collectively called "CRD IV" below. The rules laid down in CRD IV will apply in Denmark as from 2013, and this section therefore focuses mainly on how the Bank complies with the CRD IV requirements.

Core capital (Tier 1) adjusted for CRD IV

With a view to complying with the Danish solvency requirements, the Bank will divide the capital into two main categories: core capital (Tier 1) and supplementary capital. The core capital (Tier 1) comprises Common Equity (Tier 1), consisting mainly of share capital and reserves (excl. revaluation reserves), and hybrid core capital adjusted for statutory deductions.

CRD IV means a sharp tightening of the minimum capital requirements for financial institutions. The minimum capital requirements for Common Equity (Tier 1) will gradually be lifted from the existing 2% of risk-weighted assets to 7% in 2019. The 7% requirement will include a statutory buffer of 2.5% that will restrict a financial institution's potential for distributing dividends and other allotment of funds if it fails to meet the requirement. The CRD IV guidelines tighten up the definition of the capital that may be included as core capital and mean stricter rules for calculating risk-weighted items. On the basis of the proposals, the Bank estimates that Common Equity (Tier 1) in per cent of risk-weighted items, amounting to 10.4% at 31 December 2011, will be reduced by about 1.4 percentage points when calculated using the fully implemented CRD IV rules.

The anticipated reduction will primarily be attributable to new capital charges on counterparty risk and the fact that the calculation base for calculating deductions is moved from the capital base to the Common Equity (Tier 1) after deductions.

In addition, CRD IV includes a national countercyclical buffer add-on of up to 2.5% of risk-weighted assets. This buffer add-on will only be applied if the ratio of credit-to-GDP deviates positively from its long-term trend, and only if the national authorities believe that the growth in lending could constitute an economic risk to society. Under CRD IV, only Common Equity (Tier 1) may be used to provide the countercyclical buffer.

Definition of instruments that may be included in the capital base under CRD IV

A chief objective of CRD IV is to strengthen the quality of the instruments (over and above the shareholder's equity) that may be included in the capital base. Thus, CRD IV contains stricter criteria for including instruments in the core capital (Tier 1) and the supplementary capital. In relation to the definition of core capital (Tier 1) and supplementary capital, the only instruments that may be included are those that financial institutions have no incentive to redeem, such as instruments with interest escalation clauses. Under CRD IV, instruments that no longer comply with the requirements regarding inclusion in the core capital (Tier 1) or supplementary capital must be phased out over a ten-year period from 1 January 2013. In addition, instruments with an inherent redemption incentive must be phased out as and when they expire. Existing public capital contributions, including governmental hybrid loans, may be included in the capital base until 1 January 2018.

There are moderate incentives for redeeming the Bank's existing hybrid core capital, for which reason the transitional rules are expected to apply to these instruments.

Leverage ratio

CRD IV introduces rules on calculating the so-called leverage ratio. As opposed to the applicable rules for calculating risk-weighted items, the leverage ratio disregards the fact that various activities affecting a financial institution's balance sheets have diverse degrees of risk. Basel III contains a requirement to the effect that the core capital (Tier 1) must represent at least 3% of the total exposure. According to CRD IV, the impact of the leverage ratio determined by the rules would be monitored with a view to make it a binding Pillar 1 criterion in 2018. The Bank estimates that its leverage ratio at end-2011 was 6.8% adjusted for CRD IV requirements.

The table below gives details on the Bank's leverage ratio according to CRD IV, calculated as of December 2010 and December 2011:

THE BANK'S LEVERAGE RATIO UNDER CRD IV

DKK m / %	2011	2010
Exposure value, assets	51,760.8	48,714.0
Intangible assets	-166.3	-194.6
Adjusted exposure value, assets	51,594.5	48,519.4
Guarantees and other obligating agreements	4,358.6	5,719.2
Loan offers and revocable credit commitments	4,688.0	6,516.2
Total adjusted exposure	60,641.1	60,754.8
Core capital (Tier 1), CRD IV fully phased-in	3,920.0	3,600.7
Leverage ratio - %	**6.5**	**5.9**

Figure 3.1

Liquidity

The final wording of the liquidity requirements for financial institutions at EU level has yet to be clarified. If the liquidity requirements introduced in Denmark are based on Basel III, the proposed restrictions on including specially covered bonds in the Bank's liquidity buffer will require that the Bank make substantial changes to its financing structure and the composition of the liquidity buffer.

According to Basel III, specially covered bonds, including mortgage-credit bonds and other so-called level 2 assets, may only amount to a maximum of 40% of the liquidity buffer of a financial institution's Liquidity Coverage Ratio, whereas government bonds and other so-called level 1 assets must amount to at least 60%. The proposed requirement is fundamentally different from the structure of the Danish bond market, where mortgage-credit bonds amount to about 80% of the Danish bond market.

According to CRD IV it will be possible to include specially covered bonds as level 1 assets if such bonds can pass the liquidity test. EBA will announce draft technical standards by 1 January 2013.

Given the existing uncertainty regarding which assets that qualify as level 1 assets and level 2 assets under CRD IV, it is assessed that the Group will meet the Liquidity Coverage Ratio after making minor adjustments.

CREDIT RISK

Credit risk is 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. Credit risks also include settlement and counterparty risks. Settlement risk is the risk arising when payments are settled, for instance payments for currency transactions and trading in financial instruments, including derivatives. The risk arises when the Group forwards payments before it has attained full assurance that the counterparty has met all his obligations. Counterparty risk is the risk of loss as a result of a customer's default of OTC derivatives and securities financing instruments.

Credit policy

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

It is the Group's policy that all credit must be granted on the basis of insight into the customers' financial position and that creditworthiness - the customer's ability and will 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 profile.

As a basic rule, the Group does not grant loans and credit facilities based on collateral alone. Thus, the customer should show the will and have the ability to repay loans without the Group 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, of which the unsecured share of credit exposure may not exceed DKK 150 million in respect of any facility.

Exposures to financial institutions under supervision are not comprised by this restriction.

In determining the amount of exposure, due provision is made for the so-called "particularly secure claims", which are stated in the Danish Financial Supervisory Authority's Executive Order on Large Exposures. Thus, the statutory limitations apply to trading partners in the financial sector with an external credit rating at investment grade level, and a DKK 600 million cap has been fixed internally for other trading partners in the financial sector.

At 31 December 2011, the sum total of large exposures calculated according to the Danish Executive Order on Large Exposures amounted to 13.4%. Pursuant to the calculation methodology used in the Danish Financial Supervisory Authority's Diamond Test Model, the sum amounts to 0.0%.

In addition, the Group has introduced some trade and industry limitations. One of them is a long-term objective specifying that agricultural facilities may not exceed 10% of the Group's loans, advances and guarantees, and that property facilities must amount to a lower share of the Group's loans, advances and guarantees than the average for Danish financial institutions. Finally, Spar Nord also strives to maintain the share of retail customers at a level that is higher than the sector average and which amounts to more than 30% of the Group's total loans, advances and guarantees.

Finally, in its credit policy the Bank has decided that it wants insight into any exposures that its customers may have to other financial institutions.

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 requirements 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 of Credit Rating and an Executive Board member) or the Board of Directors.

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 Board of Directors.

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 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.

The Group 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 are 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

Customers are classified according to risk as an element in the Group's processing of credit applications. Retail customers are categorized into seven risk categories using 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 9 risk categories. A PD business model is used that categorizes customers based on their default probability within the next 12 months. As from 2010, the model has become statistically based, and from spring 2011 it has been expanded with a 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.

A separate credit-watchlisted group comprises facilities showing any signs of default risk in the Bank's judgement. For retail customers, these signs of default risk may for instance be unemployment, divorce and capital loss, and for business customers it could for instance be unexpected losses, marketing difficulties on important markets and loss of key employees.

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.

Credit exposure

The Group's total credit exposure comprises lending and trading activities, such as trading in bonds and other financial instruments

The table below shows the Group's total credit exposure (carrying amount) as at 31 December 2011 and 2010:

THE GROUP'S CREDIT EXPOSURE (CARRYING AMOUNT)

DKK m	2011	2010
Repo loans	393.3	1,516.6
Loans and advances at amortized cost	38,308.9	38,435.5
Loans and advances	38,702.1	39,952.1
Contingent liabilities	3,837.7	5,137.5
Credit exposure to loans advances and guarantees, net	42,539.8	45,089.6
Impairment of loans, advances and guarantees	1,142.8	1,026.9
Credit exposure to loans, advances and guarantees, gross	43,682.6	46,116.5
Demand deposits with central banks	641.0	578.1
Repo loans to credit institutions and central banks	818.9	811.8
Receivables from credit institutions and central banks	1,609.4	1,416.0
Demand deposits and receivables from credit inst. and central banks	3,069.3	2,805.9
Credit exposure (carrying amount) on lending activities	45,609.1	47,895.5
Positive market values	1,837.5	1,670.5
Credit exposure, assets in the trading portfolio	16,543.8	13,869.0
Credit exposure, other financial investment assets	917.8	890.0
Pools - contracts where the customer bears the full risk	6,327.1	5,678.5
Pools - contracts where the Bank bears the full risk	0.0	0.0
Credit exposure (carrying amount)	71,235.3	70,003.5

Figure 4.1

Loans, advances and guarantees

The Group's total loans, advances and guarantees before offsetting of impairment amounted to DKK 43.7 billion at end-2011 compared with DKK 46.1 billion at end-2010. Retail customers account for 32.2% of total loans, advances and guarantees, with business customers accounting for 67.8%.

Loans, advances and guarantees relating to continuing activities (excl. leasing activities) amounted to DKK 36.4 billion at end-2011 compared to DKK 38.3 billion at end-2010. Of this amount, retail customers account for 38.6%, and business customers for 61.4%.

Customers are divided into four groups as part of the ongoing risk monitoring: Retail customers at Spar Nord's Local Banks, business customers at Spar Nord's Local Banks, financial customers and customers at Spar Nord Leasing.

The table below shows the breakdown of the Group's credit exposure shown by the four categories.

THE GROUP'S EXPOSURE BY CATEGORY

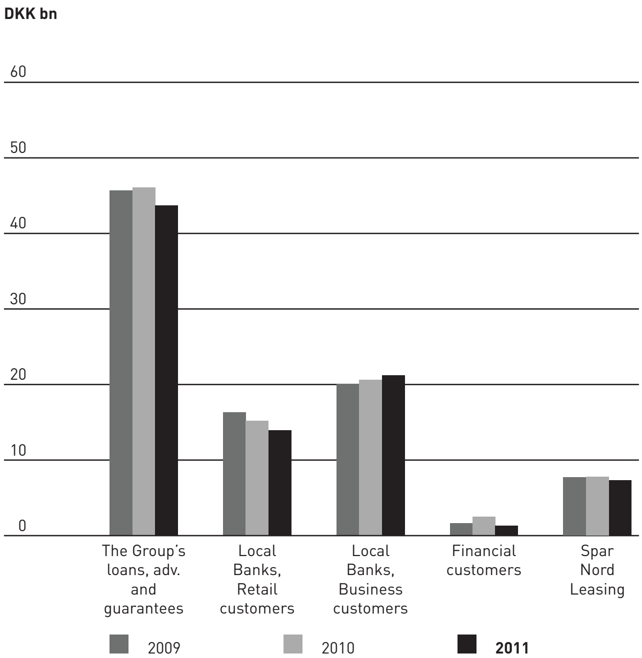


Figure 4.2

The Group's total loans, advances and guarantees amounted to DKK 43.7 billion at 31 December 2011, which corresponds to a fall of DKK 2.4 billion, equal to 5.2%, from 31 December 2010.

Despite a net influx of 6,400 retail customers, lending at Spar Nord's Local Banks to this customer category was at the same level as at the close of 2010. At the same time, guarantees to retail customers declined by DKK 1.3 billion, equal to 38.3%, as a result of fewer pending land registration applications.

The credit exposure to business customers grew by DKK 0.6 billion, or 3%, as a result of a net influx of 700 customers.

The credit exposure to financial customers dropped by DKK 1.2 billion as a result of a drop in repo lending.

The lending portfolio at Spar Nord Leasing declined by DKK 0.6 billion, equal to 7.7% - a development that was expected as a result of the decision to phase out Spar Nord Leasing.

Breakdown by sector

The table below shows a breakdown by industry of the Group's loans, advances and guarantees.

BREAKDOWN BY SECTOR - THE GROUP

Line of business %	Loans, advances and guarantees 2011	Loans, advances and guarantees 2010	Sector break-down 2010	Indiv. impairm. Spar Nord 2011
Public authorities	4.0	2.3	2.2	0.0
Agriculture, hunting and forestry	12.0	11.9	4.0*	28.7
Fisheries	0.4	0.3	-	0.2
Industry and raw materials extraction	3.7	3.8	6.6	5.7
Energy supply	3.9	3.0	1.5	0.6
Building and construction	5.0	4.9	2.5	4.3
Trade	8.6	8.4	4.9	8.4
Transport, hotels and restaurants	6.4	6.6	3.5	4.6
Information and communication	0.4	0.2	0.8	0.5
Financing and insurance	5.5	7.9	24.9	5.9
Real estate	11.3	10.7	11.9	9.8
Other business areas	6.6	6.7	6.1	10.9
Business customers, total	**67.8**	**66.7**	**68.9**	**79.6**
Retail customers, total	**32.2**	**33.3**	**31.1**	**20.4**
Total	**100.0**	**100.0**	**100.0**	**100.0**

**) Incl. fisheries*

Figure 4.3

The table below shows a breakdown by industry of loans, advances and guarantees relating to continuing activities.

BREAKDOWN BY SECTOR - CONTINUING ACTIVITIES

Line of business %	Loans, advances and guarantees 2011	Loans, advances and guarantees 2010	Sector break-down 2010	Indiv. impairm. Spar Nord 2011
Public authorities	4.8	2.7	2.2	0.0
Agriculture, hunting and forestry	9.2	9.5	4.0*	31.4
Fisheries	0.5	0.4	-	0.3
Industry and raw materials extraction	2.5	2.5	6.6	4.0
Energy supply	4.4	3.3	1.5	0.5
Building and construction	2.8	3.0	2.5	3.7
Trade	8.7	8.5	4.9	7.2
Transport, hotels and restaurants	3.0	2.5	3.5	2.2
Information and communication	0.4	0.2	0.8	0.2
Financing and insurance	6.3	9.2	24.9	6.6
Real estate	13.2	12.5	11.9	11.1
Other business areas	5.6	5.6	6.1	9.4
Business customers, total	**61.4**	**59.9**	**68.9**	**76.6**
Retail customers, total	**38.6**	**40.1**	**31.1**	**23.4**
Total	**100.0**	**100.0**	**100.0**	**100.0**

**) Incl. fisheries*

Figure 4.4

Compared with the average for Danish financial institutions, 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 exposure to the category, "Financing and insurance". Finally, Spar Nord has a larger-than-average exposure to the agricultural sector.

The difference between the Spar Nord Group and the continuing activities is that the credit exposure relative to Spar Nord Leasing disappears. This means that DKK 7.3 billion will disappear from the total exposure at end-2011 with respect to the continuing activities. The total breakdown by sector is impacted by relatively large reductions under transport, agriculture and building & construction, which are the major industries in Spar Nord Leasing's portfolio.

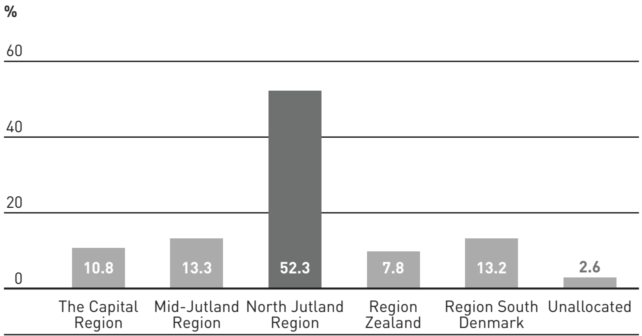
THE GROUP'S LOANS, ADVANCES AND GUARANTEES BROKEN DOWN BY SIZE OF FACILITY *)

DKK m	Number 2011	Number 2010	Share in % 2011	Share in % 2010
0 - 0.1	41,900	40,677	1.0	1.3
0.1 - 0.5	29,864	28,694	11.9	11.2
0.5 - 1.0	9,234	8,584	10.9	9.2
1.0 - 5.0	6,679	7,298	25.6	27.2
5.0 - 10.0	803	925	10.2	11.6
10.0 - 20.0	370	394	9.3	10.1
20.0 - 50.0	194	213	11.1	11.8
50.0 - 100.0	51	60	6.1	6.8
100.0 -	39	35	13.9	10.8
Total	**89,134**	**86,880**	**100.0**	**100.0**

*) *Excl. reverse transactions* *Figure 4.5*

A breakdown by facility size shows that the Group's portfolio of loans, advances and guarantees is well-diversified, as 59.6% is attributable to facilities of less than DKK 10 million, and as the Group only has 39 loan facility exposures of more than DKK 100 million.

THE GROUP'S LOANS, ADVANCES AND GUARANTEES BROKEN DOWN BY REGION *)



*) *Excl. reverse transactions* *Figure 4.6*

The total credit exposure of the Local Banks is well diversified in geographical terms with about 52.3% in the North Jutland Region, which is the Bank's historical core area, while the balance is evenly distributed over the rest of the country.

Retail customers at Spar Nord's Local Banks

The Bank's credit exposure to retail customers at Spar Nord's Local Banks amounts to DKK 13.9 billion, equivalent to 31.9% of the Group's total loans, advances and guarantees.

RETAIL CUSTOMERS' FACILITIES BY RISK CATEGORY

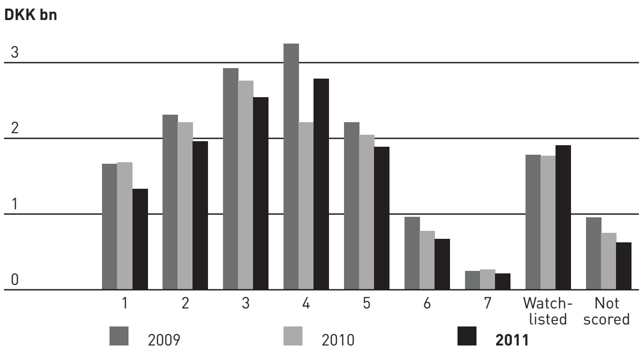


Figure 4.7

The table above shows a breakdown of retail customers at the Local Banks by the risk categories described above.

In the past five or six years, during which regular back tests were performed, our model has proved its worth as a satisfactory 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).

The figures 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 appears from the figures that from end-2010 to end-2011 there was a marginal adverse change in the average credit quality of retail customers, as the weighted average rating rose from 4.0 to 4.1.

The adverse trend primarily stems from growth in the credit-watchlisted group - a growth that is attributable to the moderately rising unemployment. A lower average propensity to take up loans among the best rating groups has also contributed to this trend.

MIGRATION - NUMBER RETAIL CUSTOMERS 2010-2011 | **MIGRATION - NUMBER RETAIL CUSTOMERS 2009-2010**

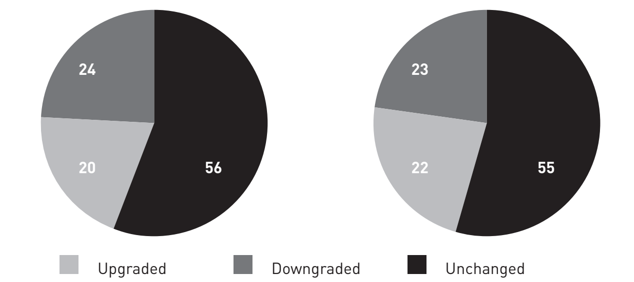


Figure 4.8

MIGRATION - EXPOSURES RETAIL CUSTOMERS 2010-2011 | **MIGRATION - EXPOSURES RETAIL CUSTOMERS 2009-2010**

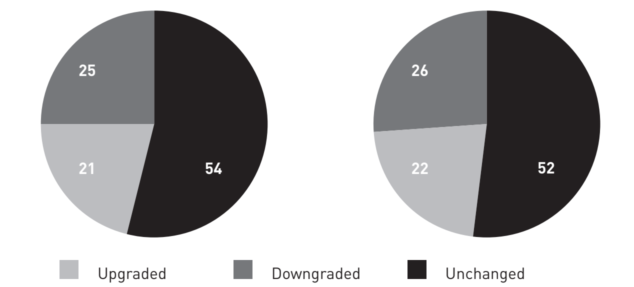


Figure 4.9

RETAIL CUSTOMERS – DEVELOPMENT IN UNAUTHORIZED OVERDRAFTS

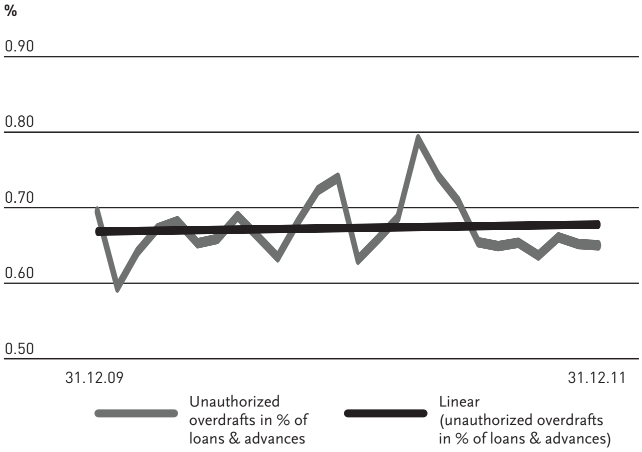


Figure 4.10

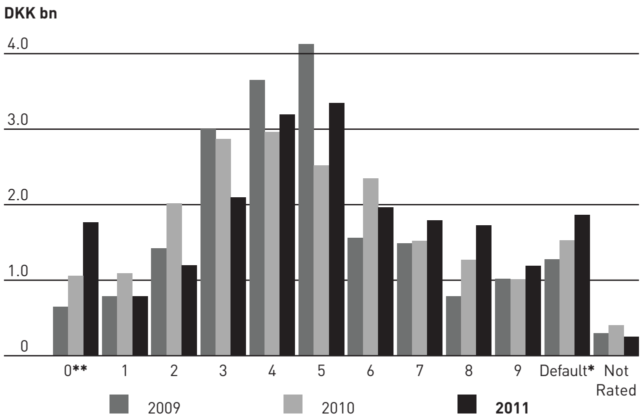
Throughout the entire period, development in retail customers' unauthorized overdrafts remained at a stable low level.

Business customers at Spar Nord Local Banks

Loans, advances and guarantees to business customers at Spar Nord's Local Banks amount to DKK 21.2 billion, equivalent to 48.5% of the Group's total loans, advances and guarantees.

Fig. 4.11 shows a breakdown of business customers according to risk categories.

BUSINESS CUSTOMERS BROKEN DOWN BY RISK CATEGORY



* Facilities with public-sector customers

** Facilities with individual impairment/depreciation

Figure 4.11

The figure below shows 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.

MIGRATION - NUMBER BUSINESS CUSTOMERS 2010-2011 | **MIGRATION - NUMBER BUSINESS CUSTOMERS 2009-2010**

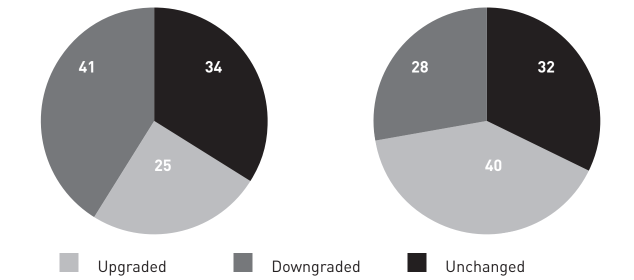


Figure 4.12

MIGRATION - EXPOSURES BUSINESS CUSTOMERS 2010-2011 | **MIGRATION - EXPOSURES BUSINESS CUSTOMERS 2009-2010**

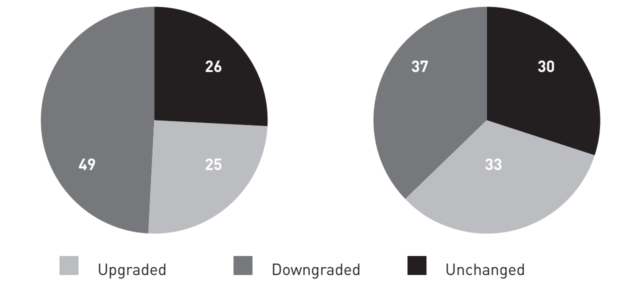


Figure 4.13

The average credit quality of business customers also showed slightly negative development in the average rating from 4.9 to 5.2.

BUSINESS CUSTOMERS - DEVELOPMENT IN UNAUTHORIZED OVERDRAFTS

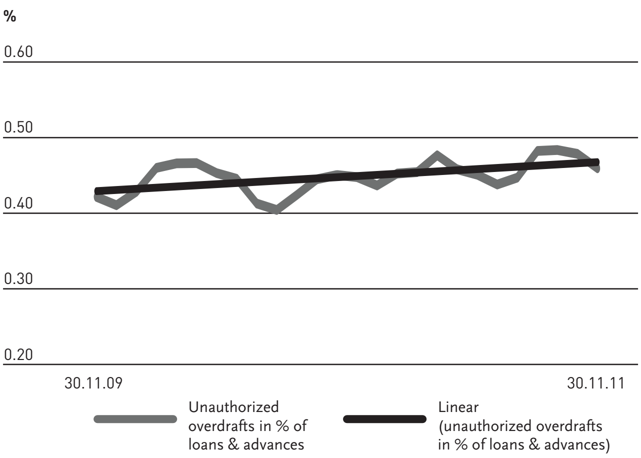


Figure 4.14

Over the past two years, despite a slight increase, business customers' unauthorized overdrafts have remained at a low level of about 0.45% of lending to business customers at the Local Banks. This development is considered highly satisfactory in light of economic trends.

Financial customers

The Bank's credit exposure to financial customers was DKK 1.3 billion at 31 December 2011, equivalent to 3.0% of the Group's total loans, advances and guarantees. Exposure covers primarily reverse transactions and foreign-currency loans to customers at other banks backed by a guarantee provided by the relevant bank.

The table below shows the Group's credit exposure to financial customers.

THE GROUP'S CREDIT EXPOSURE TO FINANCIAL CUSTOMERS

DKK m	2011	2010
Reverse lending	393.2	1,516.6
Customers of other financial institutions	462.9	541.9
The Bank's own commitments and central customers, etc.	452.3	433.4
Financial customers, total	**1,308.4**	**2,491.9**

Figure 4.15

Customers at Spar Nord Leasing

Total lending at Spar Nord Leasing amounted to DKK 7.3 billion, equal to 16.6% of the Group's total loans, advances, guarantees and impairment losses.

As of 1 October 2011, the forward-looking leasing activities in Denmark were transferred to the Jyske Bank Group. The decision was made to phase out the Group's leasing activities in both Denmark and Sweden as and when the underlying agreements expired. It is expected that the majority of these assets will have been phased out by end-2015.

The table below shows lending at Spar Nord Leasing broken down by lines of business.

SPAR NORD LEASING

Line of business %	Loans, advances and guarantees 2011	Loans, advances and guarantees 2010	Individual impairment 2011
Public authorities	0.2	0.2	0.0
Agriculture, hunting and forestry	25.7	23.2	9.9
Fisheries	0.0	0.0	0.0
Industry and raw materials extraction	10.2	9.8	17.6
Energy supply	1.4	1.9	1.6
Building and construction	16.1	14.7	8.5
Trade	7.8	7.8	16.7
Transport, hotels and restaurants	24.0	26.3	21.1
Information and communication	0.4	0.4	2.1
Financing and insurance	1.4	1.5	1.0
Real estate	1.5	1.9	0.9
Other business areas	11.2	12.2	20.6
Business customers, total	**99.9**	**99.9**	**100.0**
Retail customers, total	**0.1**	**0.1**	**0.0**
Total	**100.0**	**100.0**	**100.0**

Figure 4.16

In the context of risks it is important to note that Spar Nord Leasing has security in the assets, either through ownership or charges.

The figure below gives information about Spar Nord Leasing's portfolio of repossessed equipment.

REPOSSESSED EQUIPMENT

DKK m	2011	2010
Repossessed equipment	85.7	79.6

Figure 4.17

As a result of a targeted effort, Spar Nord Leasing succeeded in retaining repossessed leasing equipment at a relatively low level in the face of the challenging cyclical trends.

Credit quality

The figure below shows the Bank's breakdown of customers into credit quality categories as laid down by the Danish Financial Supervisory Authority. Categories 2a and 3 show good customers, while categories 1, 2a and 2b comprise heightened-risk customers or customers having financial difficulties.

CREDIT QUALITY

Line of business %	Credit quality categories 1	2c	2b	2a/3	Exposure 2011
Public authorities	0.0	0.0	0.0	4.0	4.0
Agriculture, hunting, forestry and fisheries	1.9	0.8	1.1	4.5	8.3
Industry and raw materials extraction	0.2	0.1	0.5	1.3	2.1
Energy supply	0.0	0.0	0.0	3.7	3.7
Building and construction	0.1	0.5	0.4	1.4	2.4
Trade	0.3	0.3	0.9	5.9	7.4
Transport, hotels and restaurants	0.2	0.0	0.4	1.8	2.4
Information and communication	0.0	0.0	0.0	0.3	0.3
Financing and insurance	0.2	0.1	0.2	20.0	20.5
Real estate	0.7	0.8	1.3	8.4	11.2
Other business areas	0.3	0.1	0.4	4.0	4.8
Business customers, total	**3.9**	**2.7**	**5.2**	**55.3**	**67.1**
Retail customers, total	**0.9**	**0.7**	**2.8**	**28.5**	**32.9**
Total	**4.8**	**3.4**	**8.0**	**83.8**	**100.0**

Funding to Finans Nord is included in the category, "Financing and insurance".

Figure 4.18

Collateral

An important element in the Group's management of credit risks is to reduce the risk attaching to individual exposures by accepting collateral, such as mortgages and charges over physical assets, securities and guarantees, etc., to the extent that such collateral is available. Mortgages and charges on real property, securities and vehicles make up the most common type of collateral. Mortgages on property make up by far the most important collateral type provided to the Group. Mortgages on real property consist mainly of mortgages on private housing.

MORTGAGES WITH POSITIVE EQUITY

	2011 DKK bn	2011 Share in %	2010 DKK bn	2010 Share in %
Private housing	8.2	65.1	6.8	61.3
Summer cottages	0.8	6.4	0.7	6.3
Agriculture	1.1	8.7	1.0	9.0
Offices and businesses	2.4	19.0	2.0	18.0
Other	0.1	0.8	0.6	5.4
Total	**12.6**	**100.0**	**11.1**	**100.0**

Figure 4.19

GEOGRAPHICAL BREAKDOWN OF MORTGAGES - END-2011

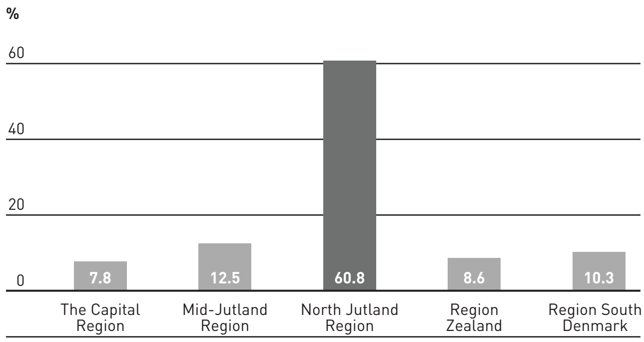


Figure 4.20

THE GROUP'S CREDIT RISK MITIGATION BY VIRTUE OF COLLATERAL

Type of collateral DKK m	2011	2010
Properties	8,373.2	8,338.2
Custody account / securities	2,021.0	3,828.6
Guarantee / surety	652.2	799.2
Vehicles	860.6	723.2
Cash	653.4	739.4
Other collateral	399.2	1,093.8
Other collateral, total	**12,959.6**	**15,522.4**
Spec. secured trans. (mortgage-credit inst. guarantees)	2,552.2	3,734.8
Total collateral accepted, excl. Spar Nord Leasing	**15,511.8**	**19,257.2**
Collateral accepted, Spar Nord Leasing	6,646.8	6,892.8
Total	**22,158.6**	**26,150.0**

Figure 4.23

The Group monitors the value of the collateral furnished on an ongoing basis. If the risk attaching to a counterparty increases, the collateral is subjected to a 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 GROUP'S UNSECURED SHARE OF CREDIT EXPOSURE

Unsecured share in %	2011	2010
<10	32.7	37.1
10-50	17.0	19.3
50-75	12.3	12.1
>75	38.0	31.5
Average unsecured share of credit exposure	**49.3**	**43.3**

Figure 4.21

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

	2011		2010	
Line of business	**DKK m**	**%**	DKK m	%
Public authorities	1,735.4	99.5	1,035.4	99.1
Agriculture, hunting and forestry	1,898.9	36.3	1,881.2	34.4
Fisheries	83.6	47.1	83.2	48.6
Industry and raw materials extraction	790.6	48.4	876.3	50.4
Energy supply	747.7	43.6	477.8	34.2
Building and construction	763.5	34.9	757.4	33.2
Trade	2,626.8	70.1	2,554.2	66.1
Transport, hotels and restaurants	776.7	27.6	710.9	23.4
Information and communication	148.0	81.0	41.9	50.0
Financing and insurance	1,382.6	58.1	1,425.8	39.1
Real estate	2,784.1	56.5	2,528.9	51.3
Other business areas	1,525.5	53.2	1,578.7	51.2
Business customers, total	**15,263.4**	**51.6**	**13,951.7**	**45.4**
Retail customers, total	**6,260.6**	**44.5**	**6,014.8**	**39.1**
Total	**21,524.0**	**49.3**	**19,966.5**	**43.3**

Figure 4.22

The property value under mortgages broken down by property type is calculated at DKK 12.6 billion while only DKK 8.4 billion is recorded as security on the properties (see the figure above) because the above-mentioned amount represents the amount mortgaged to the Bank and recorded as collateral, while the latter amount is the share actually used for calculating collateral regarding a specific 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

Based on the provisions of IAS 39, the Group has defined a wide array of risk events that are considered objective indications of impairment. Some risk events are automatically recorded in the Group's systems, while others are registered manually by customer advisers and credit staff members.

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.

For all customers suffering from financial imbalances (objective indication of impairment (OII)) it is assessed whether any proposed action might redress the balance. If this is not the case impairment losses are calculated for the individual customer. The expected cash flow is calculated, comprising conservatively assessed values and realizable costs for any assets that might have to be sold to cover the outstanding debt.

Groups of impairment losses are recognized when objective indications show that expected future losses exceed the loss expected upon loan establishment. This means that, in addition to objective indications for a group, impairment on a group basis is basically triggered 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 43.0 million, and business customers for DKK 47.6 million.

Credit scoring constitutes the primary source of the Group's 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 the loan facility exposures that have been written down for impairment is not recognized as income.

The impact on the consolidated income statement from impairment amounted to an expense of DKK 473.6 million in 2011, equal to 1.1% of total loans, advances and guarantees. Of this amount, impairment of the continuing activities amounted to DKK 404.4 million (exclusive Erhvervsinvest Nord). At the beginning of 2011, loan impairment was expected to impact the consolidated income statement by about 1.0% of total loans, advances and guarantees.

The recognized impairment provisions break down as follows: retail customers accounted for DKK 65.6 million, and business customers for DKK 408.0 million. Major contributions among business customers come particularly from the agriculture and property sectors.

The total impairment allowance account amounted to 2.6% at end-2011 of the Group's total loans, advances and guarantees compared with 2.2% at end-2010.

THE GROUP'S LOSSES AND IMPAIRMENT

DKK m	2011	2010
Losses, incl. losses covered by provisions/impairment	452.7	482.4
Covered by provisions/impairment	-250.4	-277.8
Losses not covered by provisions/impairment	**202.3**	**204.6**
Losses on sector-wide solutions, incl. coverage by prov./imp.	0.0	224.0
Covered by provisions/impairment	0.0	-130.4
Losses on sector-wide solutions, not covered by prov./imp.	**0.0**	**93.6**
New provisions/impairment, excl. sector-wide solutions	489.5	484.2
New provisions for sector-wide solutions	0.0	0.0
Reversal of provisions/impairment	-123.2	-148.5
Interest on impaired loans and advances taken to income	-63.9	-56.1
Provisions/impairment, net	**302.4**	**279.6**
Recoveries of loans written off as uncollectible	**-35.9**	**-30.6**
Losses and provisions/impairment for the year	**468.8**	**547.2**
Other losses	4.8	3.0
Losses and provisions/impairment for the year, total	**473.6**	**550.2**
Recognized in the income statement under:		
Impairment of loans, advances and receivables, etc.	402.9	452.9
Profit/loss on discontinuing activities	70.7	97.3
Total amount recognized in the income statement	**473.6**	**550.2**
- of which sector-wide solutions	0.0	93.6
- of which Profit/loss on discontinuing activities	70.7	97.3
Impact on operating profit - Continuing activities	**402.9**	**359.3**
- of which Erhvervsinvest Nord A/S	-1.5	3.0
Impact on operating profit - Continuing activities, excl. Erhvervsinvest Nord	**404.4**	**356.3**

Figure 4.24

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

DKK m	2011	2010
Loans, advances and guarantees, gross, year-end	**43,682.6**	**46,116.5**
Losses and impairment for the year		
- Impairment of loans, advances and receivables	402.9	452.9
- Impairment recognized under profit/loss on disc. activities	70.7	97.3
Losses and impairment for the year, total	**473.6**	**550.2**
- in % of loans, advances and guarantees	1.1	1.2
Impairment balance	**1,142.8**	**1,026.9**
- in proportion to loans, advances and guarantees	2.6	2.2
Non-accrual loans, year-end	**122.3**	**105.4**
- in % of loans, advances and guarantees	0.3	0.2
Impairment balance in % of non-accrual loans	**934.4**	**974.3**

Figure 4.25

THE GROUP'S LOSSES AND INDIVIDUAL IMPAIRMENT 2011

DKK m	Past due and impaired	Value adjustments and impairment losses *)	Recognized losses
Public authorities	0.0	0.0	0.0
Agriculture, hunting and forestry	886.3	302.0	52.0
Fisheries	17.3	2.4	7.0
Industry and raw materials extraction	136.6	60.3	16.6
Energy supply	23.7	6.4	0.0
Building and construction	103.1	45.1	16.9
Trade	189.8	88.7	68.8
Transport, hotels and restaurants	185.3	48.2	39.9
Information and communication	8.6	5.0	0.2
Financing and insurance	94.9	61.7	54.8
Real estate	296.1	102.7	66.0
Other business areas	208.4	114.5	55.7
Business customers, total	**2,150.1**	**837.0**	**377.9**
Retail customers	**374.8**	**215.2**	**74.8**
Total	**2,524.9**	**1,052.2**	**452.7**

THE GROUP'S LOSSES AND INDIVIDUAL IMPAIRMENT 2010

DKK m	Past due and impaired	Value adjustments and impairment losses *)	Recognized losses
Public authorities	0.0	0.0	0.0
Agriculture, hunting and forestry	595.3	219.3	38.2
Fisheries	13.5	6.1	0.0
Industry and raw materials extraction	101.0	48.3	79.0
Energy supply	5.9	1.0	0.1
Building and construction	126.6	50.1	18.3
Trade	279.3	123.6	72.7
Transport, hotels and restaurants	226.9	71.4	58.5
Information and communication	8.1	3.9	0.9
Financing and insurance	84.3	55.5	31.5
Real estate	233.8	87.9	52.8
Other business areas	144.5	72.3	33.4
Business customers, total	**1,819.2**	**739.4**	**385.4**
Retail customers	**319.2**	**196.1**	**97.0**
Total	**2,138.4**	**935.5**	**482.4**

*) *The Group's total value adjustments and impairment losses should be supplemented with groups of impairment losses in the amount of DKK 91 million (2010: DKK 91 million).*

Figure 4.26

The Group's credit exposure is predominantly limited to Denmark. In 2011, the Swedish company SN Finans Nord AB reported favourable growth, which contributed to 6% of the Group's credit exposure being to customers outside Denmark. The figure below shows that 96.7% of the amounts recognized as losses were recognized in Denmark.

IMPAIRMENT LOSSES BROKEN DOWN BY GEOGRAPHY 2011

DKK m	Past due and impaired	Value adjustments and impairment losses *)	Recognized losses
Denmark	2,318.6	972.5	437.9
Sweden	86.9	18.6	12.4
Rest of Europe	114.0	60.2	2.3
Rest of the world	5.4	0.9	0.1
Total	**2,524.9**	**1,052.2**	**452.7**

IMPAIRMENT LOSSES BROKEN DOWN BY GEOGRAPHY 2010

DKK m	Past due and impaired	Value adjustments and impairment losses *)	Recognized losses
Denmark	2,010.1	897.4	462.9
Sweden	45.4	13.7	7.6
Rest of Europe	77.3	23.4	11.2
Rest of the world	5.6	1.0	0.7
Total	**2,138.4**	**935.5**	**482.4**

*) *The Group's total value adjustments and impairment losses should be supplemented with groups of impairment losses in the amount of DKK 91 million (2010: DKK 91 million).*

Figur 4.27

In this report we focus specifically on two industries, viz. the agricultural and the real property sectors. The two lines of business have been chosen because in recent years they have been a significant source of impairment provisions, both at Spar Nord and in the banking sector in general.

Agriculture

The Bank's agricultural loans amount to DKK 3.4 billion, equal to 9.2% of the Bank's total loans, advances and guarantees (continuing activities). Compared with end-2010 figures, this corresponds to a decline of DKK 285 million.

SHARE OF CREDIT EXPOSURE TO THE AGRICULTURAL SECTOR

%	2011	2010
Spar Nord Bank A/S	7.7	7.9
Spar Nord Leasing	4.3	4.0
The Group, total	**12.0**	**11.9**
Continuing activities	**9.2**	**9.5**

Figure 4.28

The figure below shows developments in credit quality among agricultural sector customers at Spar Nord's Local Banks in the period from 2009 to 2011.

AGRICULTURAL EXPOSURE BY RISK CATEGORY CONTINUING ACTIVITIES

DKK bn

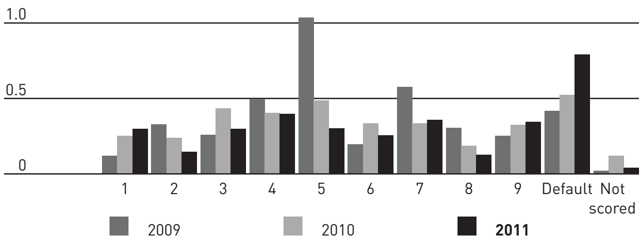


Figure 4.29

As appears from the figure, there was a decline in the credit quality of the agricultural portfolio in the period from 2009 to 2011. The growth in the share of agricultural customers who defaulted was thus high, and the impact on the income statement of impairment losses increased from DKK 99 million in 2010 to DKK 133 million in 2011.

At end-2011, total impairment on agricultural exposures amounted to DKK 289 million.

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. No matter which financing has actually been chosen for a specific facility, the calculation of the breakeven prices is based on a financing rate of 5% interest for each farmer on the entire interest-bearing debt.

If a particular farming property that meets these requirements cannot present a realistic budget, impairment calculation procedures will be implemented. For a number of years, the Bank has used the valuation principles that the Danish Financial Supervisory Authority describes in its circular letter to financial institutions sent in December 2011.

Despite the fact that the difficulties of the agricultural sector have been and continue to be significant and that impairment losses have increased as a result, the Group's portfolio of agricultural facilities is assessed to be sound overall and spread satisfactorily on production lines.

AGRICULTURAL EXPOSURE BY PRODUCTION LINE CONTINUING ACTIVITIES

	2011 DKK m	2011 %	2010 DKK m	2010 %
Cattle producers	1,177.6	35.0	1,289.6	35.3
Pig producers	1,052.7	31.2	1,047.8	28.7
Plant cultivation and other prod. lines	1,137.5	33.8	1,315.6	36.0
Total	**3,367.8**	**100.0**	**3,653.0**	**100.0**

Figure 4.30

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.

In its credit processing of property facilities, the Bank attaches great importance to a satisfactory cash flow, and the Bank is not prepared to participate in syndication programmes as a means of reducing risks in this area.

At end-2011, the Group had a total exposure to customers in the real property sector of DKK 4.9 billion. The exposure represents 11.3% of total loans, advances and guarantees. At end-2011, the impairment for the sector as a whole stood at DKK 102.7 million against a beginning-of-year comprehensive impairment balance of DKK 87.9 million. For 2011, total losses on customers in the sector amounted to about DKK 66 million.

The Bank has no property exposures exceeding DKK 300 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 monitored constantly.

Overall, Management's assessment is that Spar Nord's credit exposure to financial counterparties remains at a moderate level. Thus, 98.1% of Spar Nord Bank's financial credit risk is attributable to counterparties having a rating of A or better.

FINANCIAL CREDIT RISK

DKK m	2011	2010	Percentage breakdown 2011
AAA	7,219.0	9,085.7	42.5
AA	7,067.6	4,433.7	41.7
A	2,366.7	1,393.9	13.9
BBB	8.8	3.0	0.1
BB	4.3	123.5	0.0
B	29.9	0.0	0.2
CCC	0.4	0.2	0.0
CC	2.1	12.0	0.0
C	0.0	0.0	0.0
Un rated	245.5	292.8	1.4
Unallocated	28.6	17.4	0.2
Total financial credit risk	**16,972.9**	**15,362.2**	**100.0**

Figure 4.31

Bond portfolio

The Group's bond portfolio is the most significant source of financial credit risk. Spar Nord's bond portfolio is composed of 88.8% mortgage-credit bonds, 10.1% bonds from financial issuers and 1.1% from other issuers.

The figure below shows the Group's bond portfolio broken down by issuer type.

BOND PORTFOLIO BY ISSUER TYPE *)

DKK m	2011	2010	Percentage breakdown 2011
Mortgage-credit bonds	12,320.2	10,833.2	88.8
Financial issuers	1,400.0	1,504.0	10.1
Credit bonds	125.4	238.1	0.9
Government bonds	20.8	-133.8	0.2
Bonds	**13,866.4**	**12,441.5**	**100.0**

**) The bond portfolio plus spot and forward transactions (purchase + sale)* *Figure 4.32*

The figure below shows the Group's bond portfolio broken down by rating.

BOND PORTFOLIO BY RATING *)

DKK m	2011	2010	Percentage breakdown 2011
AAA	6,268.6	8,097.2	45.2
AA	6,071.2	3,221.1	43.8
A	1,490.2	983.7	10.8
BBB	3.9	2.0	0.0
BB	4.3	123.2	0.0
B	14.9	0.0	0.1
CCC	0.4	0.0	0.0
CC	2.1	12.0	0.0
C	0.0	0.0	0.0
Unrated	10.8	2.3	0.1
Unallocated	0.0	0.0	0.0
Bonds	**13,866.4**	**12,441.5**	**100.0**

**) The bond portfolio plus spot and forward transactions (purchase + sale)* *Figure 4.33*

BREAKDOWN OF BONDS 2011

DKK m	Origin/ underlying	Rating category	Amount	%
Mortgage-credit bonds	Denmark	AAA-A	11,858.8	85.5
		Unrated	7.6	0.1
	Sweden	AAA	453.8	3.3
			12,320.2	**88.8**
Financial issuers	Denmark	AAA-A	930.8	6.7
	Sweden	AAA-A	174.3	1.3
	Norway	AA-BB	119.1	0.9
	Germany	A	96.4	0.7
	Nederland	AA	51.1	0.4
	UK	A	27.9	0.2
	Other	A-CC	0.3	0.0
			1,400.0	**10.1**
Other issuers	Scandi Notes V Senior	AA	99.4	0.7
	Scandi Notes IV Senior	BB	14.3	0.1
	Other Scandi Notes	CC - Unrated	2.0	0.0
	Denmark	AAA - Unrated	8.7	0.1
	Other	BBB-CCC	1.0	0.0
			125.4	**0.9**
Government bonds	Denmark	AAA	-16.4	-0.1
	Europe	AAA	37.2	0.3
			20.8	**0.2**
Grand total			**13,866.4**	**100.0**
Own bonds	Denmark	BBB	**8.9**	

Figure 4.34 a

BREAKDOWN OF BONDS 2010

DKK m	Origin/ underlying	Rating category	Amount	%
Mortgage-credit bonds	Denmark	AAA-A	10,624.6	85.4
		Unrated	2.4	0.0
	Sweden	AAA	206.2	1.7
			10,833.2	**87.1**
Financial issuers	Denmark	AAA-A	931.8	7.5
		BBB	0.7	0.0
	Sweden	AAA-A	272.2	2.2
	Norway	AA-A	122.6	1.0
	UK	AAA-AA	102.0	0.8
	Nederland	AAA-AA	74.7	0.6
	Luxembg,	A	0.0	0.0
			1,504.0	**12.1**
Other issuers	Scandi Notes V Senior	AAA	99.3	0.8
	Scandi Notes IV Senior	BB	123.2	1.0
	Scandi Notes IV Mezzanin	CC	12.0	0.1
	Scandi Notes II Senior	CC	0.0	0.0
	Other Danish issuances	BBB - Unrated	1.6	0.0
	Finland	AA	2.4	0.0
	Other foreign issuances	Unrated	-0.4	0.0
			238.1	**1.9**
Government bonds	Denmark	AAA	-136.1	-1.1
	Europe	AAA	2.3	0.0
			-133.8	**-1.1**
Grand total			**12,441.5**	**100.0**
Own Bonds	Denmark	AAA	500.1	
	Denmark	B	0.3	

Figure 4.34 b

Balances with credit institutions and central banks

The other major source of financial credit risk is the Bank's accounts with 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 Group's Trading, Financial Markets & the International Division has a customer relationship.

RECEIVEABLES FROM CREDIT INSTITUTIONS BY PRODUCT TYPE

DKK m	2011	2010	Percentage breakdown 2011
Certificates of deposit	0.0	0.0	0.0
Reverse transactions	818.9	811.8	26.4
Unlisted CDOs	40.4	56.3	1.3
Deposits and unlisted bonds	196.9	222.0	6.3
Subordinated loans	10.0	10.0	0.3
Current accounts	287.7	366.7	9.3
CSA accounts, etc.	895.7	570.4	28.8
Market value, derivatives	678.1	692.9	21.8
Undisclosed	178.7	190.6	5.8
Receivables from credit institutions	**3,106.4**	**2,920.7**	**100.0**

Figure 4.35

RECEIVEABLES FROM CREDIT INSTITUTIONS BY RATING

DKK m	2011	2010	Percentage breakdown 2011
AAA	950.4	988.5	30.6
AA	996.4	1.212.6	32.1
A	876.4	410.2	28.2
BBB	4.9	1.0	0.2
BB	0.0	0.3	0.0
B	15.0	0.2	0.5
CCC	0.0	0.0	0.0
CC	0.0	0.0	0.0
C	0.0	0.0	0.0
Unrated	234.7	290.5	7.6
Unallocated	28.6	17.4	0.9
Receivables from credit institutions	**3,106.4**	**2,920.7**	**100.0**

Figure 4.36

90.8% of Spar Nord's receivables from credit institutions concerns banks with an A rating or higher. Of the total DKK 3.1 billion balance with credit institutions, 30.6% is attributable to institutions with an AAA rating, 32.0% to institutions with an AA rating, and 28.2% to institutions with an A rating. Balances with unrated credit institutions are attributable primarily to Danish financial institutions that perform their clearing through Spar Nord Bank.

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.

In terms of solvency, the counterparty risk has been calculated based on the market-value approach. The counterparty risk, in terms of solvency, has been calculated as a gross amount of DKK 2,587 million at 31 December 2011. The positive market value for accounting purposes amounted to DKK 1,838 million. The difference between the value for accounting purposes and the solvency value is attributable to the add-on of potential future credit exposure that is included in the solvency calculation.

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.

The Group'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.

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.

Spar Nord Bank enters into framework, netting and collateral agreements as a buffer against the counterparty risk.

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 international rating bureaus, such as Moody's, Standard & Poors or Fitch.

The Group 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.

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, appropriate collateral must be furnished, in most cases by way of cash deposits.

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 the Group 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 2010 to 2011:

DEVELOPMENT IN NUMBER OF AUTHORIZED LINES

	End-2011	End-2010
Number of authorized lines, total	129	147
Of which, to local Danish financial institutions	53	57

Figure 4.37

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 credit exposure in relation to solvency ratio

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 in relation to the solvency ratio shows an exposure of DKK 72.4 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 2.0 billion in 2011, equal to a 2.6% drop. Measured in average figures, this amounts to a reduction of DKK 1.8 billion, equal to 2.3%.

TOTAL CREDIT EXPOSURE

DKK m	**31.12.11**	31.12.10	**Ave. 2011***	Ave. 2010*
Central governments/central banks	161.1	217.0	524.2	477.8
Regional/local authorities	4,608.0	5,707.9	5,350.4	5,497.2
Public entities	164.9	86.6	156.1	100.0
Credit institutions	10,610.7	6,737.5	10,369.5	7,802.5
Trade and industry	20,028.1	22,903.3	21,454.2	22,077.3
Retail customers	31,115.4	32,703.3	31,254.9	33,397.8
Exp. secured by mortg. on real prop.	3,302.1	3,626.1	3,362.9	4,135.8
Exp. past due/overdrawn	496.1	1,048.1	720.9	1,271.6
Short-term exp. to businesses, etc.	0.0	0.0	0.0	433.5
Collective investment schemes	21.4	0.0	5.4	1.2
Miscellaneous assets	1,892.2	1,901.2	2,091.9	2,019.1
Grand total	**72,400.0**	**74,932.0**	**75,290.4**	**77,213.7**

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

Figure 4.38

TOTAL CREDIT EXPOSURE BY INDUSTRY

2011 — Exposure category

Line of business - DKK m	Central gov./central banks	Regional or local authorities	Public entities	Institutions	Business enterpr. 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	0.0	4,548.1	0.0	0.0	1.3	9.7	0.0	0.8	0.0	0.0	15.9	4,575.8
Agriculture, hunting and forestry	0.0	0.0	0.0	0.0	2,505.0	3,047.6	280.5	101.8	0.0	0.0	0.0	5,934.9
Fisheries	0.0	0.0	0.0	0.0	118.0	73.9	3.7	0.0	0.0	0.0	0.0	195.6
Industry and raw materials extraction	0.0	0.0	0.0	0.0	1,095.2	981.9	35.4	37.4	0.0	0.0	0.0	2,149.9
Energy supply	0.0	7.0	165.0	0.0	1,579.6	204.3	4.1	8.5	0.0	0.0	0.0	1,968.5
Building and construction	0.0	0.0	0.0	0.0	644.4	1,726.4	171.6	61.2	0.0	0.0	0.0	2,603.6
Trade	0.0	0.0	0.0	0.0	2,907.9	1,938.1	85.1	48.7	0.0	0.0	0.0	4,979.8
Transport, hotels and restaurants	0.0	50.0	0.0	0.0	1,132.0	1,840.5	27.1	70.2	0.0	0.0	494.1	3,613.9
Information and communication	0.0	0.0	0.0	0.0	274.9	142.8	2.1	0.6	0.0	0.0	0.0	420.4
Financing and insurance	161.1	0.0	0.0	10,603.1	2,257.2	616.4	54.9	7.2	0.0	21.4	1,241.1	14,962.4
Real estate	0.0	0.0	0.0	0.0	4,546.4	1,493.7	394.7	24.8	0.0	0.0	32.3	6,491.9
Other business areas	0.0	1.1	0.0	1.2	1,510.0	2,343.4	135.9	62.5	0.0	0.0	108.7	4,162.8
Business customers, total	**161.1**	**4,606.2**	**165.0**	**10,604.3**	**18,571.9**	**14,418.7**	**1,195.1**	**423.7**	**0.0**	**21.4**	**1,892.1**	**52,059.5**
Retail customers	**0.0**	**1.8**	**0.0**	**6.4**	**1,456.3**	**16,696.6**	**2,107.0**	**72.4**	**0.0**	**0.0**	**0.0**	**20,340.5**
Grand total	**161.1**	**4,608.0**	**165.0**	**10,610.7**	**20,028.2**	**31,115.3**	**3,302.1**	**496.1**	**0.0**	**21.4**	**1,892.1**	**72,400.0**

TOTAL CREDIT EXPOSURE BY INDUSTRY

2010 — Exposure category

Line of business - DKK m	Central gov./central banks	Regional or local authorities	Public entities	Institutions	Business enterpr. 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	0.00	5,644.80	0.00	0.00	0.00	4.90	0.00	0.00	0.00	0.00	8.90	5,658.6
Agriculture, hunting and forestry	0.0	0.0	0.0	0.0	2,696.9	2,975.1	403.1	127.8	0.0	0.0	0.0	6,202.9
Fisheries	0.0	0.0	0.0	0.0	125.1	84.0	4.7	2.1	0.0	0.0	0.0	215.9
Industry and raw materials extraction	0.0	0.0	0.0	0.0	1,327.2	1,086.0	35.1	12.1	0.0	0.0	0.0	2,460.4
Energy supply	0.0	10.0	82.5	0.0	1,406.8	196.0	5.9	12.3	0.0	0.0	0.0	1,713.5
Building and construction	0.0	0.0	0.0	0.0	700.3	1,686.8	202.2	76.1	0.0	0.0	0.0	2,665.4
Trade	0.0	0.0	0.0	0.0	3,375.9	1,966.1	133.1	56.2	0.0	0.0	0.0	5,531.3
Transport, hotels and restaurants	0.0	50.3	0.0	0.0	1,260.1	1,880.1	45.7	105.8	0.0	0.0	526.9	3,868.9
Information and communication	0.0	0.0	0.0	0.0	275.9	189.9	12.8	0.9	0.0	0.0	0.0	479.5
Financing and insurance	0.0	0.0	4.1	6,715.6	4,136.4	1,011.1	100.8	75.1	0.0	0.0	1,251.0	13,294.1
Real estate	0.0	0.0	0.0	0.0	4,681.6	1,616.8	284.2	291.1	0.0	0.0	0.0	6,873.7
Other business areas	217.0	2.1	0.0	5.0	1,733.1	3,037.3	161.2	144.3	0.0	0.0	115.4	5,415.4
Business customers, total	**217.0**	**5,707.2**	**86.6**	**6,720.6**	**21,719.3**	**15,734.1**	**1,388.8**	**903.8**	**0.0**	**0.0**	**1,902.2**	**54,379.6**
Retail customers	**0.0**	**0.7**	**0.0**	**16.9**	**1,184.0**	**16,969.2**	**2,237.3**	**144.3**	**0.0**	**0.0**	**0.0**	**20,552.4**
Grand total	**217.0**	**5,708.0**	**87.0**	**6,738.0**	**22,903.0**	**32,703.0**	**3,626.0**	**1,048.0**	**0.0**	**0.0**	**1,902.0**	**74,932.0**

Figure 4.39

The Group's credit exposure is predominantly limited to Denmark. Thus, in 2011, debtors based in Denmark accounted for more than 94% of the Group's credit exposure, for which reason a geographical breakdown is shown in the figure below.

EXPOSURE CATEGORIES BROKEN DOWN BY COUNTRY

	2011					2010				
DKK m	**Denmark**	**Sweden**	**Rest of Europe**	**Rest of the world**	**Grand total**	Denmark	Sweden	Rest of Europe	Rest of the world	Grand total
Central gov./central banks	161.1	0.0	0.0	0.0	**161.1**	0.0	0.0	0.0	0.0	217.0
Regional/local authorities	4,608.0	0.0	0.0	0.0	**4,608.0**	5,707.8	0.0	0.1	0.0	5,707.9
Public entities	165.0	0.0	0.0	0.0	**165.0**	86.6	0.0	0.0	0.0	86.6
Institutions	9,211.5	1,297.0	41.0	61.2	**10,610.7**	5,208.9	96.0	1,283.0	149.6	6,737.5
Businesses, etc.	19,504.8	364.8	154.5	4.1	**20,028.2**	22,392.2	145.3	352.8	13.0	22,903.3
Retail customers	28,884.3	125.2	2,040.8	65.0	**31,115.3**	30,874.3	1,632.1	145.6	51.3	32,703.3
Exposures secured by mortgages on real property	3,265.8	22.3	1.5	12.5	**3,302.1**	3,576.4	7.4	31.2	11.1	3,626.1
Exposures in default or overdrawn	388.6	11.6	95.9	0.0	**496.1**	919.5	98.0	30.5	0.1	1,048.1
Short-term exposures to institutions and businesses, etc.	21.4	0.0	0.0	0.0	**21.4**	0.0	0.0	0.0	0.0	0.0
Collective investment schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	1,892.1	0.0	0.0	0.0	**1,892.1**	1,902.2	0.0	0.0	0.0	1,902.2
Grand total	**68,102.6**	**1,820.9**	**2,333.7**	**142.8**	**72,400.0**	70,884.9	1,978.8	1,843.2	225.1	74,932.0

Figure 4.40

The figure below shows a breakdown by term to maturity of the Group's credit exposures.

BREAKDOWN OF TERM TO MATURITY BY EXPOSURE CATEGORY

DKK m	2011 On demand	2011 0 - 3 mths	2011 3 mths - 1 year	2011 1 year - 5 years	2011 Over 5 years	2011 Grand total	2010 On demand	2010 0 - 3 mths	2010 3 mths - 1 year	2010 1 year - 5 years	2010 Over 5 years	2010 Grand total
Central gov./central banks	161.1	0.0	0.0	0.0	0.0	**161.1**	176.0	41.0	0.0	0.0	0.0	217.0
Regional/local authorities	0.0	400.3	3,256.7	898	53	**4,608.0**	0.8	404.7	1,760.7	3,514.4	27.3	5,707.9
Public entities	88.9	27.1	49	0.0	0.0	**165.0**	0.0	0.1	37.0	49.5	0.0	86.6
Institutions	1.262	6,479.2	266.5	1,298.6	1,304.4	**10,610.7**	502.6	2,463.9	337.0	1,217.0	2,217.0	6737.5
Businesses, etc.	1.155	4,932.2	8,068.1	2,682.8	3,190.1	**20,028.2**	3,247.4	6,878.9	6,196.1	3,520.8	3,060.1	22,903.3
Retail customers	915.2	6,269.8	5,865.4	9,371.1	8,693.8	**31,115.3**	2,289.5	6,018.4	6,570.3	9,329.0	8,496.1	32,703.3
Exposures secured by mortgages on real property	185.2	355.1	815.4	667.2	1,279.2	**3,302.1**	492.1	571.2	545.2	641.9	1,375.7	3,626.1
Exposures past due / overdrawn	28.3	76.7	41.2	281.8	68.1	**496.1**	138.0	356.1	94.6	374.4	85.0	1,048.1
Short-term exposures to institutions and businesses, etc.	0.0	2.8	18.6	0.0	0.0	**21.4**	0.0	0.0	0.0	0.0	0.0	0.0
Collective investment schemes	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	461.1	5.3	110.5	809.7	505.5	**1,892.1**	402.3	7.7	87.0	925.0	480.2	1,902.2
Grand total	**4,256.8**	**18,548.5**	**18,491.4**	**16,009.2**	**15,094.1**	**72,400.0**	7,248.7	16,742.0	15,627.9	19,572.0	15,741.4	74,932.0

Figure 4.41

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 RISK MITIGATION BY VIRTUE OF COLLATERAL

DKK m	2011 Exp. covered by guarantee	2011 Other financial collateral	2010 Exp. covered by guarantee	2010 Other financial collateral
Central gov./central banks	0.0	0.0	0.0	40.3
Regional/local authorities	0.0	0.0	0.0	0.0
Public entities	0.0	0.0	0.0	0.0
Credit institutions	0.0	5.781.1	0.0	1.545.2
Businesses, etc.	477.0	1.173.9	391.1	3.047.8
Retail customers	427.2	820.2	479.0	892.8
Exp. secured by mortgage on real prop.	0.0	0.0	0.0	0.0
Exp. past due / overdrawn	2.7	13.9	3.5	28.9
Short-term exp. to inst. and busin., etc.	0.0	0.0	0.0	0.0
Collective investment schemes	0.0	0.0	0.0	0.0
Exp. in other items, etc.	0.0	0.0	0.0	0.0
	906.9	**7.789.2**	**973.6**	**5.555.0**

Figure 4.42

MARKET RISK

Generally, market risk is defined as the risk of losses on the Group's assets and liabilities because of movements in the financial markets. Market risks can be broken down into:

- Interest-rate risk
- Equity market risk
- Foreign-exchange risk
- Commodity risk
- Option risk
- 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 trading and position-taking include relatively simple products. The most frequently traded products are interest-based. The Bank also deals and takes positions in listed shares and foreign-exchange instruments, whereas trading in commodities is very limited.

Market risk policy and platform

As discussed in the section on risk management in this report, Spar Nord's Board of Directors 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 methodologies to be used in calculating the various risk targets. The Board of Directors 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-level, the Board of Directors 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 entities of the Group, with the Trading, Financial Markets & the International Division being the distinctly largest entity. 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 Board of Directors
- 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 any failure to comply with instructions is reported upstream in the hierarchy.

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

Developments in market risk

Measured in risk-weighted assets, the Group's market risk increased by 11.9% during 2011.

In 2011, the bond portfolio dropped by DKK 391 million, while shares in the trading portfolio went down by DKK 109 million. The Group's portfolio of shares outside the trading portfolio (primarily shares in associates and shares in strategic trading partners in the financial sector) dropped by DKK 47 million in 2011 to a total exposure of DKK 1,583 million.

The interest-rate risk changed from DKK 3.8 million at end-2010 to DKK -28.6 million at end-2011, which was due primarily to a higher adverse interest-rate risk in EUR. With a few exceptions, Spar Nord experienced a negative interest-rate risk throughout 2011. It should be noted that interest-rate risk outside the trading portfolio stood at DKK -53.4 million, which is primarily due to fixed-interest deposits.

In addition, the foreign-exchange risk rose as a result of a lager number of currency positions, primarily denominated in EUR and SEK.

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.

The Group'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 situation 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

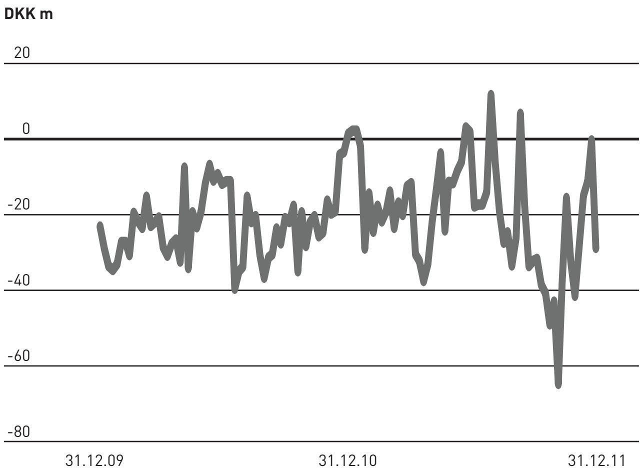


Figure 5.1

In general terms, the net interest-rate risk was negative throughout most of 2011, which means that Spar Nord has been exposed to rising interest rates in the market. The negative interest-rate risk is primarily due to the Bank's fixed-interest deposits causing a negative interest-rate risk.

The figure below shows the Group's interest-rate risk in % of the shareholders' equity.

INTEREST-RATE RISK IN % OF SHAREHOLDERS' EQUITY

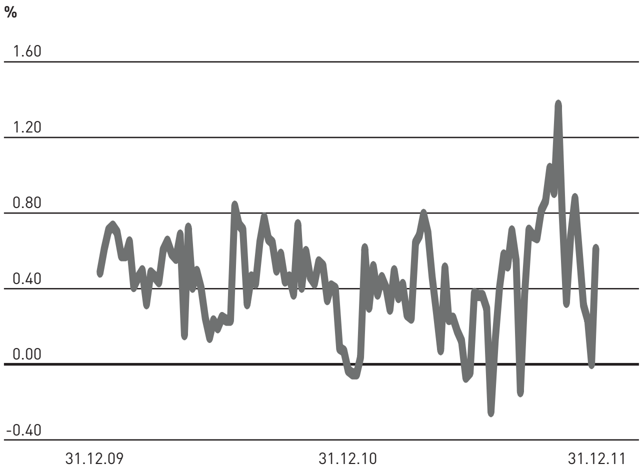


Figure 5.2

As appears from fig. 5.2, if the yield curves are displaced parallel to each other upwards by one percentage point, a negative interest-rate risk would impact the shareholders' equity positively. In 2011, the interest-rate risk would have impacted the shareholders' equity positively by just under 1.5% as a maximum and negatively by -0.3% if interest rates were to increase by one percentage point.

In addition, Spar Nord also calculates the interest-rate risk relative to duration and currency. 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

2011 **Currency, DKK m**	Less than 3 mths	3 mths - 1 year	1 year - 3 years	3 years - 7 years	Over 7 years	**Total**
DKK	1.7	3.4	-23.7	17.1	16.2	**14.7**
EUR	1.9	-5.0	-19.4	-22.0	-0.9	**-45.4**
USD	0.3	0.0	0.1	-0.2	0.0	**0.2**
GBP	0.0	0.0	0.0	0.0	0.0	**0.0**
NOK	0.0	0.0	0.0	0.0	0.0	**0.0**
CHF	-0.6	-0.2	-0.3	-0.3	0.1	**-1.3**
JPY	-0.1	-0.2	0.0	0.0	0.0	**-0.3**
SEK	2.7	0.2	0.3	0.0	0.0	**3.2**
Other	-0.1	0.3	0.1	0.0	0.0	**0.3**
Total	**5.8**	**-1.5**	**-42.9**	**-5.4**	**15.4**	**-28.6**

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	**24.2**
EUR	4.1	-5.0	8.2	-27.4	-1.8	**-21.9**
USD	-1.3	-1.5	0.0	0.4	0.0	**-2.4**
GBP	0.0	0.0	0.0	0.0	0.0	**0.0**
NOK	0.0	-0.1	-0.1	0.1	0.0	**-0.1**
CHF	0.1	3.5	-0.4	-0.4	0.4	**3.2**
JPY	0.3	0.0	0.0	0.0	0.0	**0.3**
SEK	-0.5	0.0	0.1	0.4	0.0	**0.0**
Other	0.1	0.1	0.2	0.1	0.0	**0.5**
Total	**13.5**	**1.2**	**-35.9**	**8.7**	**16.3**	**3.8**

Figure 5.3

As appears from the table, the Group is primarily exposed to interest-rate risk in DKK and EUR

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 and interest-rate risk relating to specially hedged positions (fair-value hedge accounting).

INTEREST-RATE RISK OUTSIDE THE TRADING PORTFOLIO

Currency, DKK m	**End-2011**	End-2010
DKK	-53.4	-22.7
Net interest-rate risk	-53.4	-22.7

Figure 5.4

The table shows the net interest-rate risk outside the trading portfolio, given an increase in the interest rate of 1 percentage point. Since end-2010, the interest-rate risk has changed from DKK -22.7 million to DKK -53.4 million. The primary reason for this change is an increase in 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 calculation of the Delta-adjusted position.

The Group 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 (Tier 1) after deductions.

The table below shows foreign-exchange indicator 1, foreign-exchange indicator 1 in relation to the core capital (Tier 1) and the foreign-exchange risk broken down on the individual currencies.

FOREIGN-EXCHANGE RISK

	End-2011	End-2010
Foreign-exchange indicator 1 in DKK m	390.4	163.2
Foreign-exchange indicator 1 in % of core capital (incl. hybrid capital) after deductions	6.9	2.9
Foreign-exchange risk broken down by currency in DKK m		
EUR	-1.1	-0.4
SEK	-2.4	0.0
USD	-0.2	-1.4
CHF	-1.0	-1.1
JPY	0.0	-0.4
Other currencies	-0.6	-0.4
Foreign-exchange risk, total	**-5.3**	**-3.7**

Figure 5.5

As appears from Figure 5.5, the foreign-exchange risk was DKK 1.6 million larger than at end-2010 and ended at DKK -5.3 million at end-2011. The foreign-exchange risk in EUR and SEK increased, while the risk in USD declined.

Equity market risk

The equity market risk is the risk of loss due to fluctuating equity prices. Equity positions are calculated as 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 shares and equities 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.

SHARES IN THE TRADING PORTFOLIO

DKK m	**End-2011**	End-2010
Listed shares in the trading portfolio	82.0	169.8
Unlisted shares in the trading portfolio	40.6	61.9
Total shares in the trading portfolio	**122.6**	**231.7**

Figure 5.6

Shares and 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 shares and equities in associates and equity investments in strategic partners.

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

Equity investments 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 and equities 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. 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 warrants 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-2011**	**End-2010**
Shares in credit and financing institutions	458.4	439.5
Shares in unit trust man. companies	53.3	48.0
Shares in pension institutions	16.1	18.5
Shares in data supplier	174.8	171.9
Shares in payment services business	161.4	161.4
Other shares	53.8	50.7
Shares in strategic partners, total	**917.8**	**890.0**
Realized gains	0.6	0.0
Unrealized gains	14.4	43.6
Total associates	**765.1**	**745.8**
Shares outside the trading portfolio, total	**1,682.9**	**1,635.8**

Figure 5.7

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 derivates 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

The figure below shows how the consolidated income statement will be impacted if the interest rate increases, if share prices drop and if all exchange rates move adversely.

SENSITIVITY ANALYSIS *)

	Shareholders' equity		Impact on the income statement	
	End-2011 %	End-2010 %	**End-2011 DKK m**	End-2010 DKK m
Interest increase of 1 percentage point	**0.5**	-0.1	**21.5**	-2.8
Interest decrease of 1 percentage point	**-0.5**	0.1	**-21.5**	2.8
Share price decrease of 10 %	**-0.2**	-0.4	**-9.2**	-17.4
Exchange-rate fluctuation of 2% in unfavourable direction	**-0.1**	-0.1	**-4.0**	-2.8

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

Figure 5.8

It appears from the table that the shareholders' equity will increase 0.5% 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 loss of 0.2% in the shareholders' equity. Lastly, it can be seen that the shareholders' equity will be reduced by 0.1% if foreign-exchange rates shift adversely by 2%. It is assumed that the portfolios 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 revalued at least once a year based on the current letting market and the interest level. An external valuation has been obtained from a real estate agent to support the calculation of fair value, including the rental rates and rates of return used. In 2011, changes in value totalling DKK -2.6 million were made in respect of corporate properties. This amount has been recognized in other comprehensive income directly in shareholders' equity. Impairment provisions for a total of DKK 9.7 million were made, which have been 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.

The figure below shows the Bank's properties broken down by return rates.

YIELD/RETURN

	2011		2010	
	No. of properties	**Value Year-end**	No. of properties	Value Year-end
6-7 %	10	140.9	17	134.7
7-8 %	26	321.2	29	342.4
8-9%	15	40.4	19	37.1
9 %	3	2.6	0	0.0
Grand total	**54**	**505.1**	**65**	**514.2**

Figure 5.9

The most important assumptions when calculating the fair value of investment and corporate properties are the required rate of return and rent level.

Everything else being equal, an increase of the required rate of return of 0.5 percentage point will reduce the fair value by DKK 28.6 million (2010: DKK 28.9 million).

LIQUIDITY RISK

Liquidity risk is the risk that the Group's funding 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.

Liquidity management and monitoring
On the basis of the agreed policies, outline of objectives and contingency plans, the Executive Board has listed specific operational frameworks and limits for the Finance & Accounts Department, responsible for managing the Group's long-term strategic funding, and for Trading, Financial Markets & the International Division, responsible for managing day-to-day cash funds.

The Group's objective is for deposits, excl. repo transactions, senior loans, issued bonds, subordinated debt and shareholders' equity to exceed lending, excl. reverse transactions. Subordinated debt, senior loans and issued bonds due within 12 months are not included in this calculation.

The Group also aims to have excess liquidity coverage pursuant to the statutory requirement of not less than 50% and a funding structure that meets the threshold value for stable funding in the Danish Financial Supervisory Authority's Diamond Test Model.

Finally, a number of minimum requirements regarding short-term liquidity have been set up, including requirements about maturity in simulated emergencies involving a total absence of money market funding.

The Middle Office function of the Finance & Accounts Department is responsible for calculating, monitoring and checking that the Bank's liquidity risk does not exceed the bounds of the instruction limits. It regularly reports to the Board of Directors, the Executive Board, the Danish Financial Supervisory Authority and Danmarks Nationalbank.

Short-term liquidity
For many years, Spar Nord has been using a specific model for managing the Bank's short-term liquidity, which is based on the model prepared by the Danish Financial Authority.

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 Board of Directors determines the time window in which Spar Nord's liquidity is to remain positive according to the model. In recent years, this target has been fixed at five weeks.

Strategic liquidity
As described above, the Group's long-term, strategic liquidity goal is for deposits excl. repo transactions, senior loans, issued bonds, subordinated debt and shareholders' equity to exceed lending, excl. reverse transactions. Subordinated debt, senior loans and issued bonds due within 12 months are not included in this calculation.

Finally, the Board of Directors has introduced a target for the Group's available cash resources to amount to at least DKK 9.5 billion, corresponding to a comfortable excess coverage relative to the statutory requirement.

At end-2011, the Group had an excess coverage relative to its strategic liquidity target of DKK 3.9 billion.

The primary reason for this reduction is that subordinated debt, senior loans and issued bonds totalling DKK 6.0 billion have a term to maturity of less than 12 months and were therefore eliminated in the model. At end-2010, this figure was DKK 2.3 billion. During the same period, DKK 2.4 billion was raised by way of senior loans and new bond issues, while own bonds totalling DKK 0.5 billion were sold. During the period under review, bonds and senior loans for a total of DKK 2.1 billion were redeemed. Viewed in isolation, the development in customers' deposits and loans contributed to a strengthening of DKK 0.8 billion, as lending has dropped by DKK 0.1 billion, while deposits grew by DKK 0.7 billion.

STRATEGIC LIQUIDITY

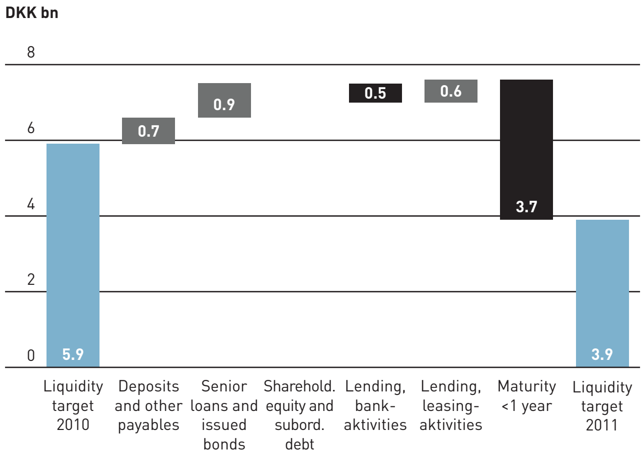


Figure 6.1

STRATEGIC LIQUIDITY

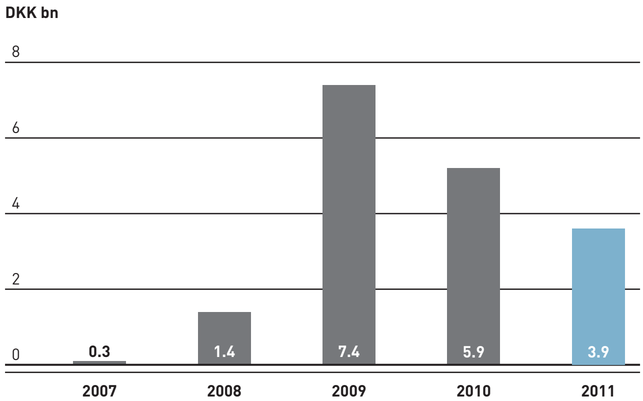


Figure 6.2

Funding and maturity structure

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

- Customer deposits
- Loans or repo transactions from other credit institutions and Danmarks Nationalbank (the central bank)
- Bonds issued
- Subordinated debt and shareholders' equity

Spar Nord Bank's total funding amounted to DKK 58.1 billion at end-2011, up DKK 5.0 billion on end-2010.

Customers' deposits constitute the largest funding source, amounting to 54% at end-2011 of the Bank's total funding, which is 4 percentage points lower than at end-2010. Senior loans and issued bonds having a term to maturity of more than 12 months amounted to 8% at end-2011 of total funding, which is 6 percentage points lower than at end-2010. During 2011, senior loans and bonds totalling DKK 2.1 billion matured, while new senior loans and bonds aggregating DKK 2.4 billion were issued. To this should be added sales of own bonds for a total of DKK 0.5 billion.

The sum total of the Bank's subordinated debt and shareholders' equity amounted to DKK 6.9 billion at end-2010, which is unchanged compared with end-2010. In relation to the Bank's total funding, subordinated debt and the shareholders' equity amounted to 12%.

As of 1 October 2011, the Group's forward-looking leasing activities in Denmark were transferred to the Jyske Bank Group. The decision was made to phase out the Group's leasing activities in both Denmark and Sweden as and when the underlying agreements are redeemed. It is expected that the majority of these assets will be phased out at end-2015.

The liquidation will result in an ongoing improvement of the Group's liquidity resources. The assets are expected to be reduced to about 45% at end-2012, about 70% at end-2013, and about 90% at end-2014.

FUNDING

DKK m / %	2011	2010	2009	2011	2010	2009
Cent.banks and credit inst.	4,965.2	4,577.1	3,656.6	8.6	8.6	6.7
Repos and repurchase w/ cent.banks and credit inst.	5,010.8	1,163.3	1,697.0	8.6	2.2	3.1
Senior loans <1 year	1,636.8	82.7	2,408.0	2.8	0.2	4.4
Issued bonds <1 year	3,731.1	1,992.4	794.7	6.4	3.7	1.4
Deposits, business cust.	12,049.7	13,088.6	13,854.7	20.7	24.6	25.4
Deposits, retail cust.	19,037.9	18,115.1	18,076.0	32.7	34.1	33.2
Senior loans >1 year	478.1	1,490.9	1,565.7	0.8	2.8	2.9
Issued bonds > 1 year	4,290.2	5,813.8	5,650.5	7.4	10.9	10.4
Subord. debt	2,316.8	2,477.0	2,681.1	4.0	4.7	4.9
Shareholders' equity	4,627.3	4,374.4	4,142.7	8.0	8.2	7.6
Total	**58,143.9**	**53,175.3**	**54,527.0**	**100.0**	**100.0**	**100.0**

Figure 6.3

FUNDING STRUCTURE

DKK bn

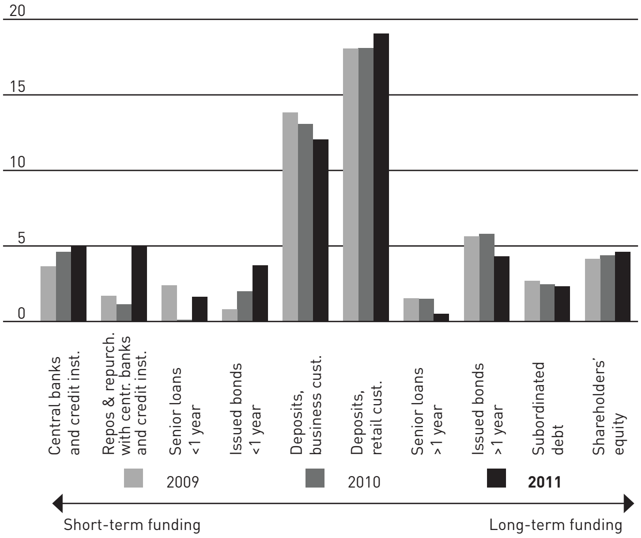


Figure 6.4

The Group made two unguaranteed issuances under the EMTN programme in 2011, the total value being DKK 1.7 billion.

MATURITY STRUCTURE FOR SENIOR FUNDING

DKK m

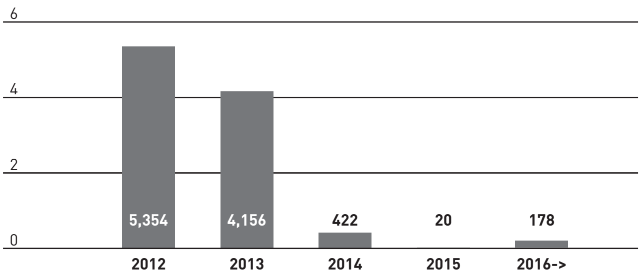


Figure 6.5

Stress test methodology and scenarios

In addition to the Bank's liquidity management models, the Bank prepares internal stress tests. The stress tests span a 12-month period and are calculated using three permanently defined scenarios: A business-specific, a market-specific and a mixed scenario.

Being rated by Moody's is subject to the requirement that a stress test of 12 months' liquidity generally shows 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 deposits base will remain an accessible funding source. The analysis also assumes a moderate reduction only in the Bank's assets.

As appears from the figure below, the Group has no problems meeting Moody's requirement for positive liquidity during the 12-month period.

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

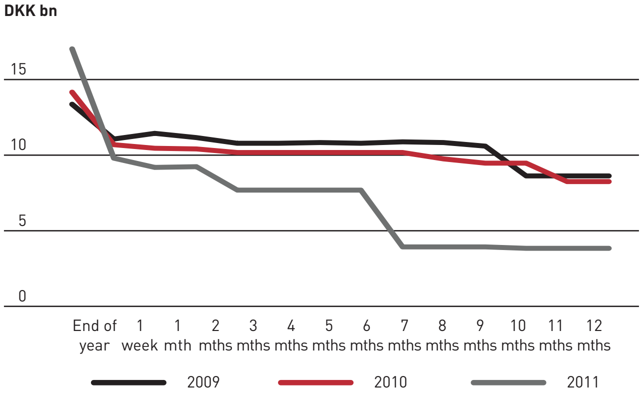


Figure 6.6

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's objective for liquidity management is that the Group must always have adequate free liquidity to ensure that the Group lives up to the liquidity requirement pursuant to section 152 of the Danish Financial Business Act, and that the Group has an excess liquidity of more than 50%. Free liquidity is defined as uncollateralized listed securities, deposits on demand with credit institutions, certificates of deposit, or cash balances.

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

At 31 December 2011, the excess liquidity coverage pursuant to section 152 of the Danish Financial Business Act amounted to DKK 10.9 billion versus DKK 7.3 billion at 31 December 2010. If the excess coverage is converted to a percentage ratio, this corresponds to an excess coverage of 164% in 2011, whereas it amounted to 109% in 2010.

As from end-2011, pooled assets are included in the calculation based on a decision made by the Financial Business Council.

EXCESS COVERAGE RELATIVE TO STATUTORY LIQUIDITY REQUIREMENT (SECTION 152)

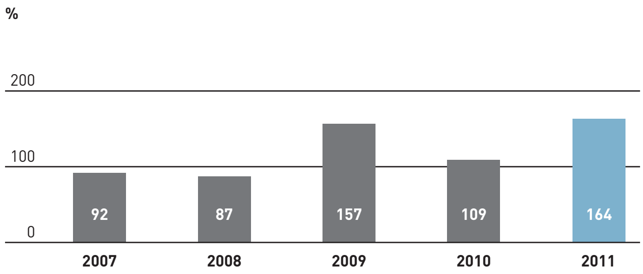


Figure 6.7

Contingency liquidity plan

Spar Nord has prepared a contingency 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 contingency liquidity plan enters into force if the Group can only meet the predetermined liquidity instructions with difficulty and with resulting sharply increased funding costs.

Rating

Spar Nord has been rated by Moody's since August 2007.

The Group's current ratings and historical developments:

MOODY'S FINANCIAL STRENGTH RATINGS

Official rating	2011	2010	2009	2008	2007
Long-term debt	Baa2	A2	A2	A1	A1
Short-term debt	P-2	P-1	P-1	P-1	P-1
Financial strength	C-	C-	C-	C	C

Figure 6.8

OPERATIONAL RISK

Risk identification and assessment

Operational risk is understood as the risk of loss that results from inefficient or deficient internal procedures, from human or systemic errors or from external events, including legal risks.

Legal risks are understood as the risk that an incomplete or incorrect legal assessment affects the Group adversely.

All activities in the organization are subject to operational risks.

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

Responsibility for dealing with risks lies with the unit responsible for the relevant business activities, the risk owners.

Spar Nord's Board of Directors has introduced a policy for operational risk, the aim of which is to provide an overview of the Group's operational risks, minimize the number of errors and thus reduce the Group's losses incurred from operational errors.

Throughout the Group, events that result in a loss are recorded and categorized, and identified risks are recorded on an ongoing basis, followed up by reporting to the Risk Review Officer and the Executive Board.

The Legal Department is charged with handling operational risks, a responsibility that includes the role as risk facilitator.

Compliance

Operational risks include compliance risks, thus implying the risk that the Bank is not being operated according to legal and statutory requirements, standards in the market and business ethics.

Spar Nord has an independent compliance function charged with assisting Management in ensuring that the Group complies with applicable legislation, market standards and internal rules and procedures. This serves to identify and reduce the risk that sanctions are imposed on the Bank, that its reputation is compromised, or that the Bank or its customers suffer significant financial losses.

The Compliance function, managed by a Head of Compliance (a law graduate), is accountable to the Executive Board and reports to the Board of Directors. This function is manned by representatives from a broad cross-section of the Bank's business areas. An annual programme for the function's activities has been approved by the Board of Directors.

Fraud

In view of the regular reporting provided to the Bank's Board of Directors and Executive Board, it is Management's opinion that the Bank has a satisfactory level of measures to counter the risk of exposure to fraud.

IT security

Information and information systems are vital to Spar Nord, and IT security is therefore decisive for the Bank's credibility and continued existence. An IT security function has been established, and Spar Nord's Executive Board and Board of Directors regularly check up on IT security.

Spar Nord bases its activity in the IT security area on regulatory requirements as well as considerations regarding day-to-day operations. All IT installations running at Spar Nord and its service providers must operate according to documented running schedules and guidelines. Operation must be safe and stable, a requirement ensured through the highest possible degree of automation and continual capacity adjustments. For service providers, this must be ensured by means of written agreements. The Bank's IT security work includes the preparation of emergency plans and recovery procedures aimed to ensure that operation continues at a satisfactory level in the case of extraordinary events.

Capital requirement

The capital needed to cover Spar Nord's operational risks is calculated using the basic indicator approach. In 2011, the operational risk amounted to 9.7% of total risk-weighted assets in the amount of DKK 42,187.8 million, equal to DKK 4,090.0 million.

APPENDIX:
INDIVIDUAL SOLVENCY REQUIREMENT AT END-MARCH 2012

The Bank's calculation methods and model for calculating the individual solvency requirement are unchanged compared with the past:

Breakdown of overall solvency requirement by risk area

The total solvency requirement 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 exposures, concentration risks and risks attaching to granted, unutilized credit lines.

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

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

Other risks: 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 solvency requirement.

The necessary capital base at end-March 2012 has been calculated at DKK 3.6 billion, and is thus DKK 0.1 billion lower than in the statement at end-December 2011. This decline is attributable to several minor changes in the individual elements in the statement. The Group recorded a drop in risk-weighted items of DKK 1.5 billion from end-2011 to end-March 2012, for which reason the solvency need calculated in percent was unchanged at 8.8% at end-March 2012 compared with end-2011.

Of the total capital need, DKK 2,830 million, or 76%, is attributable to credit risks, while market risks and operational risks account for 20% and 10%, respectively, of the total capital need.

The capital need in connection with other risks has been calculated at DKK -339 million (net), as the capital need for covering these risks is reduced by the recognized positive results before impairment of loans, etc.

SOLVENCY REQUIREMENTS BY RISK AREA, END-MARCH 2012

Risk area	Adequate capital base DKK m	The Group Solvency requirement %	Parent Company Solvency requirement %
Credit risks	2,830	7.0	6.9
Market risks	742	1.8	1.8
Operational risks	369	0.9	0.9
Other risks	-339	-0.8	-0.8
Supplement, if required by law	0	0.0	0.0
Total	**3,602**	**8.8**	**8.8**

Excess coverage relative to statutory requirement and internal targets

At end-March 2012 the Groups solvency ratio stood at 15.5%, corresponding to an excess coverage of 76% relative to the individual solvency requirement.

EXCESS COVERAGE RELATIVE TO THE STATUTORY REQUIREMENT, END-MARCH 2012

	The Group	Parent Company
Core capital after deductions, DKK m	6,327	6,327
Adequate capital base, DKK m	3,602	3,602
Excess coverage, DKK m	2,725	2,725
Solvency ratio, %	15.5	15.5
Individual solvency requirement, %	8.8	8.8
Excess coverage, %	76	76

The internal capital goals are that the Common Equity (Tier 1) ratio (the core capital ratio, excl. hybrid capital), must be at least 9%, and that the core capital ratio, incl. hybrid capital, must be at least 12%. In addition, the Bank's objective is to have a solvency ratio that is at least 3 percentage points higher than the solvency need ratio. At end-March 2012, the solvency ratio was thus 6.7 percentage points higher than the solvency need ratio.

APPENDIX:
INDIVIDUAL SOLVENCY REQUIREMENT AT END-JUNE 2012

The Bank's calculation methods and model for calculating the individual solvency requirement are unchanged compared with the past:

Breakdown of overall solvency requirement by risk area

The total solvency requirement 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 exposures, concentration risks and risks attaching to granted, unutilized credit lines.

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

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

Other risks: 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 solvency requirement.

At end-June 2012, the necessary capital base stood at DKK 3.6 billion, and is thus unchanged relative to the calculation at end-March 2012. There have been some underlying minor shifts in capital requirements to cover the various risks, which outbalanced each other on an overall basis. The Group recorded a slight decline of DKK 0.4 billion in risk-weighted items from end-March 2012 to end-June 2012. The solvency need calculated in per cent stood at an unchanged 8.8% at end-June 2012 compared with end-March 2012.

Of the total capital need, DKK 2,756 million, or 78%, is attributable to credit risks, while market risks and operational risks account for 22% and 10%, respectively, of the total capital need.

The capital need in connection with other risks has been calculated at DKK -345 million (net), as the capital need for covering these risks is reduced by the recognized positive results before impairment of loans, etc.

SOLVENCY REQUIREMENTS BY RISK AREA, END-JUNE 2012

Risk area	Adequate capital base DKK m	The Group Solvency requirement %	Parent Company Solvency requirement %
Credit risks	2,756	6.8	6.9
Market risks	770	1.9	1.9
Operational risks	369	0.9	0.9
Other risks	-345	-0.9	-0.9
Supplement, if required by law	0	0.0	0.0
Total	**3,550**	**8.8**	**8.8**

Excess coverage relative to statutory requirement and internal targets

The solvency ratio at Group level stood at 15.7% at end-June 2012. The excess capital coverage amounted to 78% relative to the necessary capital base.

EXCESS COVERAGE RELATIVE TO THE STATUTORY REQUIREMENT, END-JUNE 2012

	The Group	Parent Company
Core capital after deductions, DKK m	6,329	6,329
Adequate capital base, DKK m	3,550	3,550
Excess coverage, DKK m	2,779	2,779
Solvency ratio, %	15.7	15.8
Individual solvency requirement, %	8.8	8.8
Excess coverage, %	78	78

The internal capital goals are that the Common Equity (Tier 1) ratio (the core capital ratio, excl. hybrid capital), must be at least 9%, and that the core capital ratio, incl. hybrid capital, must be at least 12%. In addition, the Bank's objective is to have a solvency ratio that is at least 3 percentage points higher than the solvency need ratio. At end-June 2012, the solvency ratio was thus 6.9 percentage points higher than the solvency need ratio.

APPENDIX:
SOLVENCY NEED AT END-SEPTEMBER 2012

The Bank's calculation methods and model for calculating the solvency need ratio are unchanged compared with the past:

Breakdown of combined solvency need ratio by risk area

The combined solvency need ratio 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 exposures, concentration risks and risks attaching to granted, unutilized credit lines.

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

Operational risks: 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 required 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 solvency need ratio.

At end-September 2012, the necessary capital base stood at DKK 3.6 billion, and is thus unchanged relative to the statement at end-June 2012. There have been some underlying minor shifts in the capital need to cover the various risks, which outbalanced each other on an overall basis. The Group recorded a decline of DKK 2.2 billion in risk-weighted items from end-June 2012 to end-September 2012. The solvency need calculated in per cent stood at 9.3% at end-September 2012 compared with 8.8% at end-June 2012.

Of the total capital need, DKK 2,790 million, or 78%, is attributable to credit risks, while market risks and operational risks account for 22% and 10%, respectively, of the total capital need.

The capital need in connection with other risks has been calculated at DKK -374 million (net), as the capital need for covering these risks is reduced by the recognized positive results before impairment of loans, etc.

SOLVENCY NEED BY RISK AREA, END-SEPTEMBER 2012

Risk area	Necessary capital base DKK m	The Group Solvency need %	Parent Company Solvency need %
Credit risks	2,790	7.3	7.4
Market risks	770	2.0	2.0
Operational risks	369	1.0	1.0
Other risks	-374	-1.0	-1.0
Supplement, if required by law	0	0.0	0.0
Total	**3,555**	**9.3**	**9.4**

Excess coverage relative to statutory requirement and internal targets

The solvency ratio at Group level stood at 16.8% at end-September 2012. The excess capital coverage amounted to 80% relative to the necessary capital base.

EXCESS COVERAGE RELATIVE TO THE STATUTORY REQUIREMENT, END-SEPTEMBER 2012

	The Group	Parent Company
Core capital after deductions, DKK m	6,409	6,394
Adequate capital base, DKK m	3,555	3,555
Excess coverage, DKK m	2,854	2,839
Solvency ratio, %	16.8	16.9
Solvency need ratio, %	9.3	9.4
Excess coverage, %	80	80

The internal capital goals are that the Common Equity (Tier 1) ratio (the core capital ratio, excl. hybrid capital), must be at least 12%, and that the solvency ratio must be at least 15%. In addition, the Bank's objective is to have a solvency ratio that is at least 3 percentage points higher than the solvency need ratio. At end-September 2012, the solvency ratio was 16.8% and is thus 7.5 percentage points higher than the solvency need ratio.

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