2013

RISK REPORT

spar Nord

0. CONTENTS

1. 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 requirements 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 is 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 Group's leasing activities, information about the continuing activities will be included in selected areas. This report for the Spar Nord Group is available at www.sparnord.com/riskreports. In addition, the Annual Report of Spar Nord discloses information about the Group's risks and risk management.

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.

2. 2013 IN OVERVIEW

After a weak 2012 in macroeconomic terms, the year under review turned out to be a year that saw the Danish economy slowly getting back on track after the five turbulent years following the financial crisis. Indeed, 2013 began on a weak note, about as 2012 had ended, but during Q2 and Q3 the economy slowly picked up momentum. In particular, growth in private cyclically sensitive investments boded well for the economy, indicating that uncertainty was waning and optimism gradually returning to the Danish business community. Danish businesses' more positive outlook also had an impact on the labour market, with unemployment shrinking from 6.1% to 5.7% during 2013.

However, despite mounting consumer confidence during the last three quarters of 2013, signs of growth in consumer spending were few during the year as a whole. Consumer spending has remained virtually static every year since the financial crisis struck Denmark in autumn 2008, and a healthier and more self-sustainable upswing in the Danish economy requires a rise in consumer spending.

Thus, 2013 became the year when the global financial crisis and the European debt crisis slowly lost their grips on the Danish economy. This gradual return to recovery is expected to gather speed in 2014, as our largest export markets appear to be breaking free from the crisis. This also gives reason to hope that exports will pull the industry out of the crisis, thus boosting investments and employment and, ultimately, opening the possibility for an increase in Danish consumer spending that can kick-start a turnaround in the Danish economy.

2.1 POSITIVE REPORT FROM THE DANISH FINANCIAL SUPERVISORY AUTHORITY

With respect to the relatively low impairment losses during the entire crisis, throughout 2012 and early 2013, analysts, investors and the press began paying regard to the fact that among the largest banks in Denmark, Spar Nord had gone without a major, ordinary inspection from the Danish Financial Supervisory Authority for the longest period of time.

For this very reason, Spar Nord was highly gratified to be selected by the Danish Financial Supervisory Authority for an inspection in the second quarter of the year. Spar Nord was equally gratified in August to receive a report from the Authority stating that after a thorough inspection of the Bank's loans and advances, it found its level of impairment losses sufficient and had no comments on the Bank's solvency need ratio. Indeed, the market responded highly positively, as witnessed by analysts' favourable comments, an increased trading volume and a significant share price upside during the year

2.2 STRONG CAPITAL STRUCTURE

2013 was the year before the year when the new common European capital adequacy rules, CRD IV/CRR enter into force, and on the threshold to this new regime Spar Nord has a strong capital structure

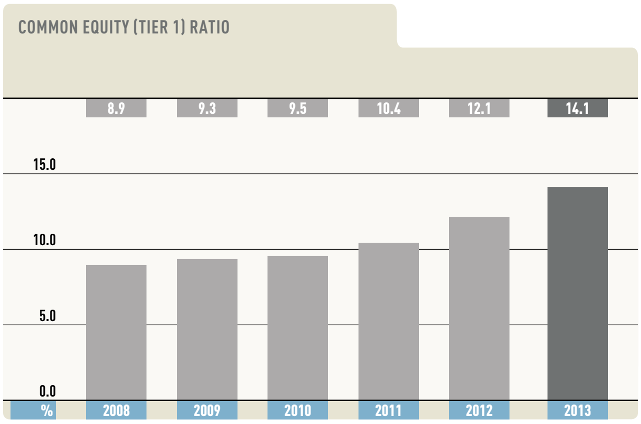
Thus, at end-2013 Spar Nord had a Common Equity (Tier 1) ratio of 14.1%, and a solvency ratio of 19.4%, which corresponds to a solid excess coverage relative to the Bank's capital targets of having a Common Equity (Tier 1) ratio of minimum 12% and a solvency ratio of minimum 15%.

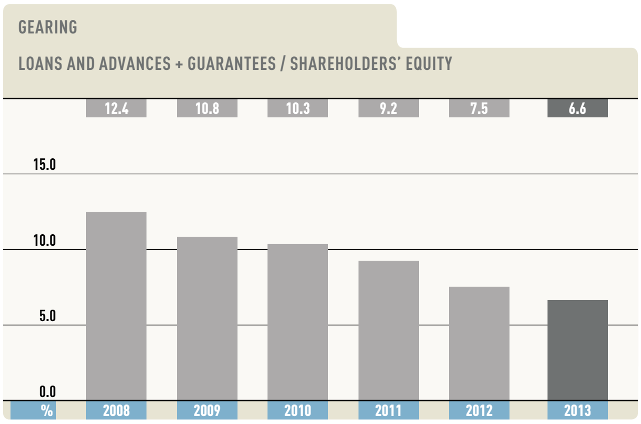
At the end of the year, the solvency need ratio (the ICAAP result) was calculated at 10.0%, which corresponds to Spar Nord having an excess capital coverage of 9.4 percentage points, or DKK 4.0 billion.

During 2013, the capital structure was strengthened by increased consolidation and a decline in loans, advances and guarantees. The solvency ratio was favourably impacted by the issuance of new supplementary loan capital in the amount of DKK 700 million in December. The issuance should be viewed in the context of the scheduled repayment in May 2014 of DKK 1,265 million, representing governmental hybrid core capital. The consequence of redeeming the governmental hybrid core capital will be a reduction of the solvency ratio and the core capital ratio, incl. hybrid capital, of around three percentage points. The Common Equity (Tier 1) ratio will not be affected by the redemption.

Since the onset of the financial crisis in 2008, Spar Nord's Common Equity (Tier 1) ratio has been boosted by more than 5 percentage points, corresponding to an increase of 60%. Throughout the entire period, Spar Nord has used the standard method for calculating the Bank's capital ratios, and the strengthening of the capital structure is thus exclusively ascribable to the basic constituents, i.e. increased capital and/or reduction of the Bank's assets.

Since end-2008, the Bank's shareholders' equity has increased 62%, and during the same period the Bank's loans, advances and guarantees dropped 14%. This major degearing is the underlying reason for the substantial strengthening of the Bank's capital structure.





2. 2013 IN OVERVIEW

2.3 COMFORTABLE LIQUIDITY

At end-2013, Spar Nord had a very strong liquidity structure. Inclusive of issued bonds taken over in connection with the merger with Sparbank, the Bank has repaid senior loans and issued bonds for a total of DKK 6.2 billion in 2013. Compared with 2012, the Bank's long-term funding with a total term to maturity of more than 12 months increased by 7 percentage points, and at end-2013 amounted to 82% of the Bank's total funding structure. Customers' deposits account for 70% of the Bank's funding.

Moody's has announced that it has withdrawn its rating of Spar Nord, and, accordingly, the Bank is no longer rated by Moody's as from the beginning of February 2014.

2.4 FUTURE LEGISLATION

The new common European capital adequacy rules, CRD IV/CRR, entered into force on 1 January 2014, and as other financial institutions Spar Nord will be impacted by this legislation. As a result of its strong capital and liquidity situation, Spar Nord can already now live up to the fully phased-in rules and regulations. Calculations have shown that the Common Equity (Tier 1) ratio, amounting to 14.1% at end-2013, will be reduced by about 1.6 percentage points if calculated using the fully implemented CRR rules.

Calculations in the liquidity area also showed that at end-2013, the Bank can report an LCR ratio of 115%.

3. 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 of loss 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:** Market risk is an umbrella heading for the risk of loss caused by fluctuations in exchange rates, share prices or prices of financial instruments.

- **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 liquidity shortage.

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

3.1 RISK PROFILE

The risks assumed by Spar Nord and its proclivity for assuming risks with respect to the individual risk types are rooted in the Group'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 that the Bank's vision, mission and strategy are coherent, and that at all times the Bank has a risk profile that bears an appropriate relation to its capital base.

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

3.2 DELEGATION 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 level of management. 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 overarching 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 Directors, one of whom is a member with special expertise in auditing and accounting matters, as required by statute, and who is also impartial.

The Group's Internal Audit Department submits reports to both the Board of Directors and the Executive Board and answers to the Board of Directors. 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 subject to review by the Board of Directors once a year based on the recommendations of the audit committee.

The Board of Directors has set up a nomination and remuneration committee with three Directors, of whom one has been elected by the employees in compliance with legislation. The nomination and remuneration committee is charged with undertaking the preparatory work concerning the Board of Directors' evaluation and nomination process and the processing of issues regarding remuneration and risks in this connection.

At end-2013, Spar Nord set up a risk committee composed of three members of the Board of Directors. The risk committee meets at least three times a year.

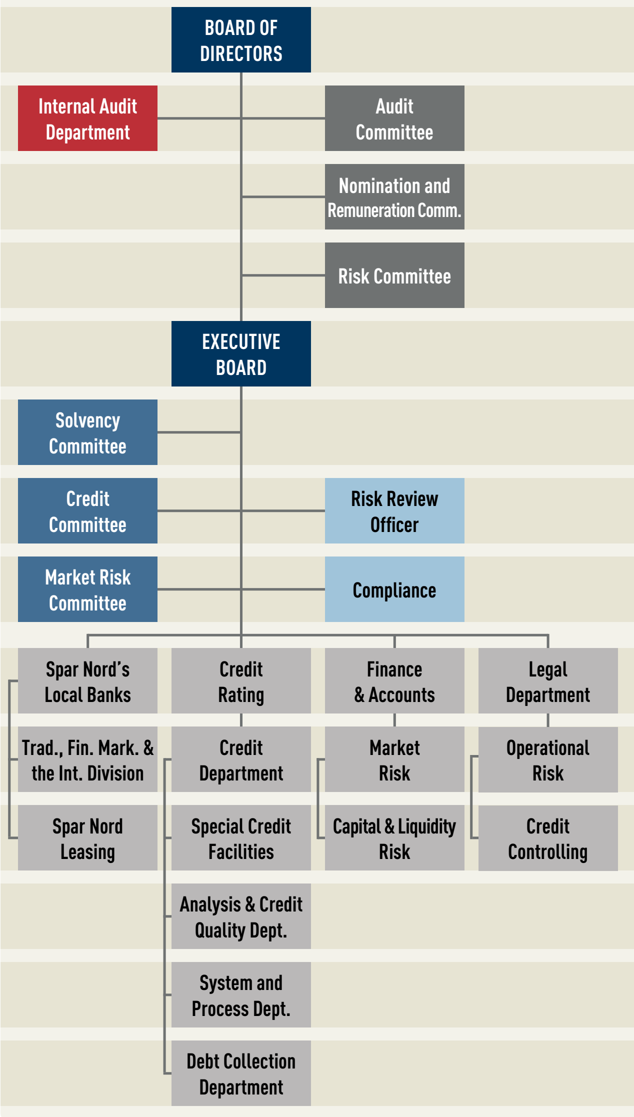
3. RISK MANAGEMENT

The risk committee plays an advisory role in determining Spar Nord's risk appetite and regularly assesses the Bank's risk profile. In addition, the risk committee plays an advisory role in connection with the review and assessment of the appropriateness and efficiency of Spar Nord's policies, instructions and systems.

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.

RISK MANAGEMENT ORGANIZATION



3.2.1 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.

3.2.2 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.

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

3.2.4 THE 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 types and organizational units. The Risk Review Officer is accountable to the Executive Board and reports to the Board of Directors. The activities of the Risk Review Officer are rooted in the annual plan adopted by the Board of Directors.

3.2.5 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. This function, which answers to the Executive Board, submits 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.

3.3 DAY-TO-DAY RISK MANAGEMENT

3.3.1 CREDIT RISK
Customer advisers, in consultation with local managers, handle day-to-day management of the Bank's credit risks. The decentralized credit authorization limit is maximized at DKK 10 million and is linked to qualifications and needs. Exposures that exceed the decentralized credit authorization limits are passed on for processing at Credit Rating 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 systematic credit quality control of the Bank's entire exposure portfolio.

Rating systems have 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 rating groups 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 based on a three-tier instruction hierarchy consisting of the Board of Directors, the Credit Committee and the Senior Executive Vice President of Trading, Financial Markets & the International Division, with the facility authorization rights adopted to the individual tier. The follow-up on lines will be performed by Finance & Accounts, which ensures functional separation. All lines are subject to review at least once a year based, among other things, on the financial statements or rating of the financial counterparty.

3.3.2 MARKET RISK
Spar Nord's Board of Directors lays down the overall policies, frameworks and principles, and 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 established a three-tier instruction hierarchy. The first-tier 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 responsible officers of Trading, Financial Markets & the International Division are granted the limits within which they may enter into commitments.

3.3.3 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 cash resources coupled with stress tests are used for short-term liquidity requirements. Long-term liquidity is managed by focusing on strategic liquidity and using stress tests.

3.3.4 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. Risk assessments are to be prepared regarding individual projects, focusing on 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.

3.3.5 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.

3.3.6 REPORTING
Substantial resources are deployed to ensure appropriate risk reporting on an ongoing basis, including follow-up on legislative and managerial risk frameworks. Reporting to the Bank's Management and relevant stakeholders is performed according to fixed guidelines.

The Board of Directors receives continual reports covering all important risk areas.

3. RISK MANAGEMENT

ANNUAL REPORTING/APPROVAL

The Executive Board's risk review
An overall risk review of the Bank's risk-prone activities across risk areas and organizational units. The risk review must be the basis for and support the Board of Director's overall management of the company, including in connection with the Board of Director's definition of the Bank's risk appetite, approval of policies and guidelines and in connection with the Bank's organization and use of IT systems.

Risk policies
Review of the Bank's risk policies in the individual risk areas (credit risk, market risk, etc.) and an assessment of the need for making adjustments.

Solvency need (the ICAAP result)
Assessment of the Group's risk profile and calculation of the adequate capital base. Extended version of the report prepared quarterly, including a process review and assessment of parameters used.

Operational risk
Review of the Group's operational risks and measures to counter such risks.

Asset review
Detailed review and analysis of the Bank's assets, including a specific review of individual exposures and an analysis and assessment of future trends for important lines of business or asset areas.

Statement from Compliance
Statement regarding the activities of the Compliance function and the Bank's general compliance.

Budget
Business and strategic risks are highlighted in connection with the preparation of the Bank's budget.

Reporting from the Risk Review Officer
Follow-up on the Bank's risk appetite, and annual plan for the Risk Review Officer (semi-annual).

QUARTERLY REPORTING/APPROVAL

Solvency need (the ICAAP result)
Assessment of the risk profile and calculation of the adequate capital base. The report contains conclusions reached in the Bank's stress test and an assessment of the capital needs in respect of the individual risks.

Credit quality report
Detailed analysis of trends in exposures, impairment and losses, including portfolio analyses broken down by rating categories, volume, geography, etc. Follow-up on all unauthorized overdrafts above DKK 1 million (monthly).

Credit-weak exposures
Report on all credit-weak exposures larger than DKK 25 million, reviewed individually.

Large exposures
Overview of exposures amounting to 10% or more of the Bank's capital base and the sum of such exposures, and the percentage that this sum represents of the capital base.

Market risk
Review and analysis of the Bank's current interest, equity and foreign-exchange risks, including the historical trend in utilization of the framework and instructions fixed by the Board of Directors (monthly).

Liquidity risk
Review and analysis of the Bank's short- and long-term liquidity risks, including the Bank's liquidity stress test and trends in the historical utilization of the framework and instructions laid down by legislation and by the Board of Directors (monthly).

Capital
In-depth analysis of the Bank's capital situation, including developments in risk-weighted items and the capital base.

IT risk
Review and follow-up on the Bank's IT security and stability on the Bank's IT systems, including follow-up on outsourced development projects.

Reporting from Compliance
Review of the most significant compliance controls and status on ongoing tasks.

Forecast
The forecast is updated regularly with a view to ensuring ongoing follow-up on the business risks and projections for profits, balance sheet, liquidity and capital matters.

4. CAPITAL MANAGEMENT AND SOLVENCY NEED (THE ICAAP RESULT)

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.

4.1 CAPITAL POLICY

Spar Nord has adopted a number of policies and instructions intended to ensure that the Group will at all times have adequate capital 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.

4.2 MANAGEMENT, MONITORING AND REPORTING

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.

Spar Nord's objective is to have a Common Equity (Tier 1) ratio of at least 12% and a solvency ratio of at least 15%. In addition, the Bank strives to have a solvency ratio that is at least 3 percentage points higher than the Bank's solvency need ratio.

4.3 DEVELOPMENTS IN 2013

At end-2013, Spar Nord had a Common Equity (Tier 1) ratio of 14.1%, a core capital (Tier 1) ratio, including hybrid core capital, of 17.4%, a solvency ratio of 19.4% and a solvency need ratio (the ICAAP result) of 10.0%.

CAPITAL RATIOS

%	2013	2012
Common Equity (Tier 1) ratio	14.1	12.1
Core capital (Tier 1) ratio, incl. hybrid capital	17.4	15.1
Solvency ratio	19.4	15.5
Solvency need ratio (the ICAAP result)	10.0	10.0

Figure 4.1

4.4 CAPITAL BASE

The capital base is determined based on a detailed set of rules. The capital comprises core capital and subordinated loan capital by way of hybrid core capital and supplementary loan capital. The Common Equity (Tier 1) largely corresponds to the shareholders' equity for accounting purposes, with reductions being made, however, for goodwill and other intangible assets, etc. The Group's subordinated debt 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 bankrupt. Developments in the capital base are determined by profits for the year, the raising 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	2013	2012
Share capital	1,255.3	1,255.3
Other reserves	507.4	503.1
Retained earnings	4,681.2	4,125.3
- Proposed dividend	-125.5	0.0
- Intangible assets	-213.9	-200.0
- Goodwill in associates	-37.0	-37.0
- Deferred tax assets *)	-22.4	-27.6
- Treasury shares acquired by customers via loan financing	-4.0	-6.4
Common Equity (Tier 1) after primary deductions	**6,041.1**	**5,612.7**
- Deduction for equity inv. in ass.	-379.7	-376.9
- Deduction for equity inv. >10%	-32.4	-32.2
- Deduction for the sum of equity investments <10%	-1.1	-43.6
Difference in valuation and change in value of liabilities and hedging instruments	-4.7	0.0
- Hybrid core capital **)	549.0	549.0
- Hybrid core capital ***)	1,264.7	1,263.9
Core capital (Tier 1), incl. hybrid core capital, after deductions	**7,436.9**	**6,972.9**
- Supplementary capital	1,150.4	553.8
- Revaluation reserves	88.8	91.6
- Deduction for equity inv. in ass.	-379.7	-376.9
- Deduction for equity inv. >10%	-32.4	-32.2
- Deduction for the sum of equity investments <10%	-1.1	-43.6
Capital base after deductions	**8,262.9**	**7,165.6**

**) Concerns a separate loss spec. rel. to a subsidiary; see note 37 in the Annual Report.*
***) Comprised by the transitional scheme in section 45 of the Danish Executive Order on Statement of Capital Base*
****) Issued pursuant to the Danish Act on State-Funded Capital Injections.*

Figure 4.2

4.4.1 CAPITAL BASE TRENDS IN 2013

The capital base increased by DKK 1,097.3 million in 2013. This rise is due primarily to changes in the supplementary loan capital and the recognition of profits for the year of DKK 536.1 million.

In contrast to 2012, the distribution of dividends corresponding to DKK 125.5 million has been proposed. Thus, the value of the capital base will be reduced by this amount.

During Q1, a subordinated loan of DKK 200.0 million was redeemed. Due to the timing of the redemption of this loan, only DKK 100.0 million was included as at 31 December 2012, thus, the reduction only represents this amount.

4. CAPITAL MANAGEMENT AND SOLVENCY NEED (THE ICAAP RESULT)

New subordinated loan capital in the amount of DKK 700.0 million was raised in December, which means that the capital base has been strengthened by a total of DKK 600.0 million via the floating of supplementary loan capital.

4.5 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 (the ICAAP result).

A variety of factors impact risk-weighted items, including the distribution of credit exposures 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 4.3, the bulk of the combined capital requirement (78%) is attributable to credit risk.

In total, in 2013 there was a decline in risk-weighted items of DKK 3,610.7 million compared with 2012.

In 2013, the risk-weighted assets for credit risk shrank by DKK 3,849.0 million, corresponding to a DKK 307.9 million reduction of the capital requirement. The DKK 1,879.7 million reduction in risk-weighted assets is attributable to the liquidation of leasing activities.

RISK CATEGORY

DKK m	Capital requirement*) 2013	Capital requirement*) 2012	Risk-weighted items 2013	Risk-weighted items 2012
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	0.4	2.7	4.6	33.2
- Institutions	89.8	95.8	1,122.8	1,197.0
- Trade and industry	1,131.9	1,215.5	14,148.5	15,193.1
- Retail customers	1,136.8	1,257.2	14,209.8	15,714.9
- Exp. secured by mortg. on real prop.	104.7	115.6	1,308.1	1,445.5
- Exp. past due or overdrawn	13.9	40.9	173.8	511.6
- Exp. with short-term rating	0.0	0.0	0.0	0.0
- Collective inv. schemes	0.0	0.0	0.1	0.5
- Other exposures	95.8	120.4	1,197.9	1,505.1
Counterparty risk	94.7	127.8	1,183.9	1,597.6
Total credit risk	**2,668.0**	**2,975.9**	**33,349.5**	**37,198.5**
Market risk				
- Debt instruments	248.1	239.4	3,102.1	2,992.3
- Shares, etc.	32.8	14.7	410.8	183.2
- Foreign-exchange risk	22.1	7.5	276.0	94.3
- Commodity risk	0.1	0.0	0.8	0.0
Market risk, total	**303.1**	**261.6**	**3,789.7**	**3,269.8**
Operational risk, total	**444.6**	**467.1**	**5,557.5**	**5,839.1**
Capital requirement, total	**3,415.7**	**3,704.6**	**42,696.7**	**46,307.4**

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

Figure 4.3

In 2013, the risk-weighted items for market risk increased by DKK 519.9 million, corresponding to a DKK 41.5 million increase in the capital requirement. This rise is due to an increase in foreign-exchange risks, shares in collective investment schemes and specific risks

In 2013, the risk-weighted items for operational risk dropped by DKK 281.6 million to a total of DKK 5,557.5 million.

The figure below shows the changes in the risk-weighted assets from 2012 to 2013.

RISK-WEIGHTED ITEMS

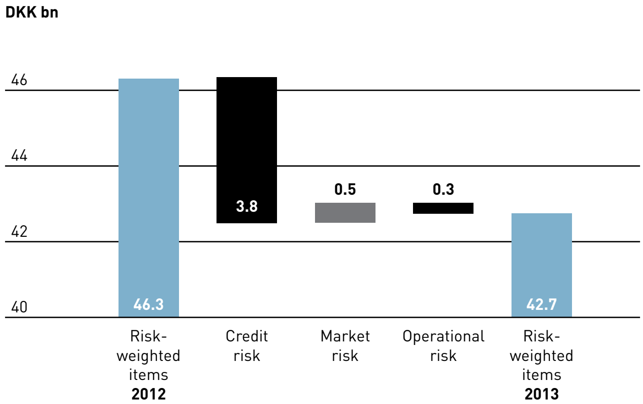


Figure 4.4

4.6 SOLVENCY NEED RATIO (THE ICAAP RESULT)

The Bank uses the so-called 8+ model that the Danish Financial Supervisory Authority stipulates in its guidelines. The 8+ method is based on the statutory minimum solvency requirement of 8% of the risk-weighted items (Pillar 1) plus adds-on for risks and matters not fully reflected in the calculation of risk-weighted items. In other words, ordinary risks are assumed to be covered by the 8% requirement, and, consequently a position has to be taken on the extent to which an institution has additional risks that necessitate an add-on to the solvency need ratio (the ICAAP result) (Pillar 2).

In the guidelines issued by the Danish Financial Supervisory Authority, benchmarks have been introduced within a number risk areas determining when the Authority basically finds that Pillar 1 is insufficient, and that an add-on to the solvency need ratio (the ICAAP result) is needed. To the extent possible, methods have also been introduced for calculating the amount of the add-on within the individual risk areas.

Based on the guidelines issued by the Danish Financial Supervisory Authority, the Board of Directors determines the Bank's adequate capital base and solvency need upon the recommendation of the Solvency Committee.

4. CAPITAL MANAGEMENT AND SOLVENCY NEED (THE ICAAP RESULT)

The Bank's calculation method follows the guidelines issued by the Danish Financial Supervisory Authority and is based on an assessment of the Bank's risks within the following seven key areas, of which the first six are directly addressed in the guidelines:

1. **Earnings**
2. **Lending growth**
3. **Credit risks**
   - Credit risk attaching to large customers having financial difficulties
   - Concentration risk: Individual customers
   - Concentration risks: Lines of business
   - Concentration, collateral
   - Concentration, geography
   - Concentration, retail/business
   - Other credit risks
4. **Market risks**
   - Interest-rate risk
   - Equity risk
   - Foreign-exchange risk
5. **Liquidity risks**
6. **Operational risks**
7. **Other risks**
   - The Bank's business profile
   - Capital procurement
   - Strategic risks
   - Reputation risks
   - Properties
   - Other

The impact of the individual areas on the capital need has been calculated directly using the methods designated by the Danish Financial Supervisory Authority in its guidelines, and by making supplementary calculations. Management has made an estimate in a few risk areas.

In the Bank's opinion, the risk factors included in the model cover all the risk areas required by legislation to be taken into consideration by the Bank's Management in determining the solvency need and the risks that Management finds the Bank has assumed.

The adequate capital base at end-2013 has been calculated at DKK 4.3 billion, equal to a reduction of DKK 0.4 billion compared with the calculation at end-2012.

The Group's risk-weighted items dropped from DKK 46.3 billion at end-2012 to DKK 42.7 billion at end-2013, but the solvency need ratio remains unchanged at 10.0%.

THE SOLVENCY NEED BROKEN DOWN BY RISK AREA

	2013				2012			
DKK / %	Group Adequate capital base	Group Solvency need	Parent Company Adequate capital base	Parent Company Solvency need	Group, Adequate capital base	Group Solvency need	Parent Company, Adequate capital base	Parent Company Solvency need
Credit risk	3,235.0	7.6	3,316.0	7.7	3,469.7	7.5	3,520.0	7.6
Market risk	586.6	1.4	591.4	1.4	544.8	1.2	544.8	1.2
Operational risk	444.6	1.0	398.1	0.9	467.1	1.0	424.1	0.9
Other risks	0.0	0.0	0.0	0.0	150.0	0.3	150.0	0.3
Supplement, if required by law	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**4,266.2**	**10.0**	**4,305.5**	**10.0**	**4,630.4**	**10.0**	**4,638.9**	**10.0**

Figure 4.7

4.7 EXCESS COVERAGE RELATIVE TO STATUTORY REQUIREMENT AND CAPITAL TARGETS

At end-2013, the Group's solvency ratio stood at 19.4%, corresponding to an excess coverage of 9.4 percentage points relative to the solvency need ratio (the ICAAP result).

Thus, the excess coverage rose from 5.5 percentage points at end-2012 to 9.4 percentage points at end-2013.

EXCESS COVERAGE RELATIVE TO STATUTORY REQUIREMENT

	The Group 2013	Parent Company 2013	The Group 2012	Parent Company 2012
Capital base after deductions (DKK m)	8,262.9	8,232.4	7,165.6	6,979.0
Adequate capital base (DKK m)	4,266.2	4,305.5	4,630.4	4,638.9
Excess coverage (DKK m)	3,996.7	3,926.9	2,535.2	2,340.1
Solvency ratio (%)	19.4	19.1	15.5	15.0
Solvency need ratio (%)	10.0	10.0	10.0	10.0
Excess coverage (percentage points)	9.4	9.1	5.5	5.0

Figure 4.6

The capital target is for the solvency ratio to be at least be 3.0 percentage points above the solvency need ratio (the ICAAP result). Given the excess coverage of 9.4 percentage points at end-2013, the Bank's excess coverage is thus comfortably above the target.

In monetary terms, the Bank had an excess coverage in terms of solvency of DKK 4.0 billion at end-2013, see the figure below.

SOLVENCY NEED (THE ICAAP RESULT) AND CAPITAL BUFFER

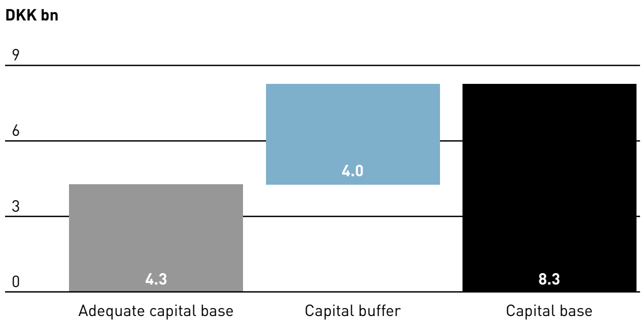


Figure 4.7

5. LIQUIDITY RISK

The Bank is generally exposed to liquidity risks when lending, investment and funding activities result in a cash flow mismatch. Liquidity risk means that the Bank cannot meet its payment obligations at the same time as meeting the statutory liquidity requirements. Moreover, a liquidity risk exists if the lack of financing/funding prevents the Bank from adhering to the adopted business model, or if the Bank's costs for procurement of liquidity rise disproportionately.

5.1 LIQUIDITY POLICY

The policy determines the Bank's overall risk profile for liquidity risks and financing structure, as well as the overall organizational delegation of responsibilities in the liquidity area with a view to profitably supporting the Bank's business model.

The aim of the Bank's liquidity policy is to ensure that the Bank has a liquidity risk that at all times bears a natural relation to its overall risk profile.

In addition, the liquidity policy is intended to ensure that the Bank continuously handles and manages its liquidity on the basis of appropriate and updated procedures, is capable of meeting its payment obligations as and when due, complying with applicable legislation and supporting future activities and growth.

5.2 MANAGEMENT, MONITORING AND REPORTING

On the basis of the policies, objectives and contingency plans set up by the Board of Directors, the Executive Board has defined operational frameworks for Trading, Financial Markets & the International Division, which is responsible for managing the Group's short-term liquidity, and for the Finance & Accounts Department, which is responsible for managing the Group's long-term funding.

Spar Nord calculates the Bank's strategic liquidity as deposits excl. repo transactions, senior loans, issued bonds, subordinated debt and shareholders' equity less loans and advances, excl. reverse transactions.
Subordinated debt, senior loans and issued bonds due within 12 months are not included in the calculation of strategic liquidity.

The Group aims to have excess liquidity coverage pursuant to the statutory requirement of minimum 50%, corresponding to the threshold value applied in the Danish Financial Supervisory Authority's Diamond Test Model, and a funding structure that stays within the threshold value for Funding Ratio in the Diamond Test Model.

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

5.3 DEVELOPMENTS IN 2013

The Bank's liquidity situation improved markedly throughout 2013. Inclusive of issued bonds taken over in connection with the merger with Sparbank, the Bank repaid senior loans and issued bonds for a total of DKK 6.2 billion in 2013. Compared with 2012, the Bank's long-term funding increased by 7 percentage points, at end-2013 amounting to 82% of the Bank's total funding.

Moreover, senior funding has been repaid simultaneously with the Bank having strengthened its liquidity ratio. Thus, the Bank's strategic liquidity increased by DKK 2.5 billion compared with 2012. At end-2013, strategic liquidity was calculated at DKK 17.3 billion. Correspondingly, the Bank's excess liquidity coverage according to the minimum requirement stated in section 152 in the Danish Financial Business Act increased by 20% percentage points compared with 2012. At end-2013, the excess liquidity coverage was calculated at 231%.

Liquidity management at Spar Nord

	Short-term liquidity management		Liquidity stress test	Management of funding sources and needs	Long-term liquidity management
Objective	Ensuring that in the short operational term, the Bank will be capable of meeting its obligations at all times. Ensuring compliance with appropriate liquidity requirements, see section 152 of the Danish Financial Business Act.	Ensuring that in the short term (30 days),the Bank has appropriate high-quality liquid assets to withstand a tough stress scenario. Ensuring compliance with the Liquidity Coverage Ratio (LCR), see CRR.	Ensuring that the Bank becomes aware in due time of future liquidity and refinancing risks. Stress test are prepared for a 12-month term.	Ensuring that the Bank has a diversified and balanced funding structure. Ensuring that the Bank maintains control of future funding needs, broken down on funding sources.	Ensuring that the Bank has hedged any long-term mismatch between deposits and lending. Ensuring compliance with the Funding Ratio set up by the Danish Financial Supervisory Authority *) and NSFR **).
Management tool	Decentralized instruction target	Decentralized instruction target	Central instruction target	Central instruction target	Central instruction target
Monitoring/control	Markets	Markets	Funding	Funding	Funding
Recipient	Executive Board/ Board of Directors	Executive Board/ Board of Directors	Executive Board/ Board of Directors	Executive Board/ Board of Directors	Executive Board/ Board of Directors
Model	GAP analysis	GAP analysis	GAP analysis/ Projection	GAP analysis/ Projection	GAP analysis
Ratios/model for follow-up	Cash resources 5 weeks-rule	Liquidity Coverage Ratio 30 day-rule	Liquidity stress test	Liquidity projection	Strategic liquidity

) See its Diamond Test Model* *) The Net Stable Funding Requirements, see CRR*

Figure 5.1

5. LIQUIDITY RISK

5.4 SHORT-TERM LIQUIDITY

For several years, Spar Nord has been employing a fixed model to manage short-term liquidity. 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 the Bank's liquidity is to remain positive according to the model. In recent years, this target has been fixed at five weeks.

Finally, the Board of Directors has introduced a target to the effect that the Group's available cash resources (excl. pools) must amount to at least DKK 10.0 billion, which, when converted, corresponds to 50% excess coverage relative to the statutory minimum requirement laid down in section 152 of the Danish Financial Business Act.

5.5 CASH RESOURCES

Spar Nord's management of short-term liquidity is intended to ensure adequate, free liquidity in order that the Bank can at all times live up to the minimum excess liquidity coverage pursuant to section 152 of the Danish Financial Business Act and observe the 50% threshold value determined in the Danish Financial Supervisory Authority's Diamond Test Model. Free liquidity is defined as uncollateralized highly liquid investment securities, deposits on demand with credit institutions, certificates of deposit, and cash balances. To this should be added binding credit commitments from other credit institutions.

The excess liquidity coverage pursuant to the minimum requirement laid down in section 152 of the Danish Financial Business Act amounted to DKK 16.3 billion at end-2013 versus DKK 16.2 billion at 31 December 2012. If the excess coverage is converted to a percentage ratio, this corresponds to an excess coverage of 231% in 2013, whereas it amounted to 211% in 2011.

LIQUIDITY RELATIVE TO STATUTORY LIQUIDITY REQUIREMENT (SECTION 152)

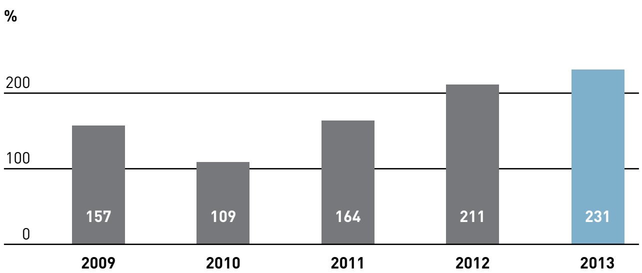


Figure 5.2

5.6 STRESS TESTS

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.

In addition, the Bank performs a stress test corresponding to Moody's "12-month scenario with no access to funding". This scenario operates on the assumption that the Bank has no access to capital markets during the period of calculation, for which reason senior loans, issued bonds and subordinated debt cannot be refinanced on maturity. On the other hand, the stable deposits base remains an accessible financing source, while only a moderate reduction in the Bank's assets is assumed.

As appears from the figure below, the Group has positive liquidity for the full 12-month period.

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

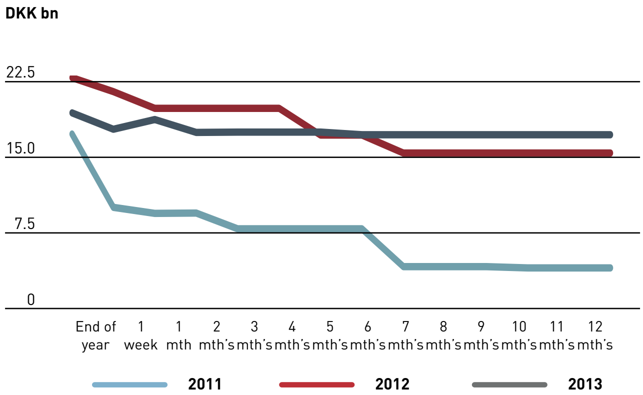


Figure 5.3

In addition to Spar Nord's own stress tests 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 central bank).

5.7 STRATEGIC LIQUIDITY

Spar Nord's strategic liquidity is used to measure the Bank's long-term liquidity position.

At end-2013, the Bank had strategic liquidity of DKK 17.3 billion. This corresponds to an increase of DKK 2.5 billion compared to end-2012, when strategic liquidity was calculated at DKK 14.8 billion.

The primary background to the increase is a reduction of bank lending as well as leasing activities, together reduced by DKK 3 billion compared with 2012.

DEVELOPMENT IN STRATEGIC LIQUIDITY

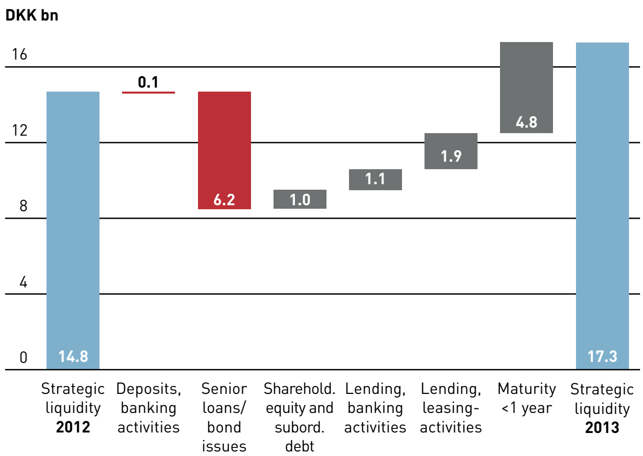


Figure 5.4

STRATEGIC LIQUIDITY

DKK bn

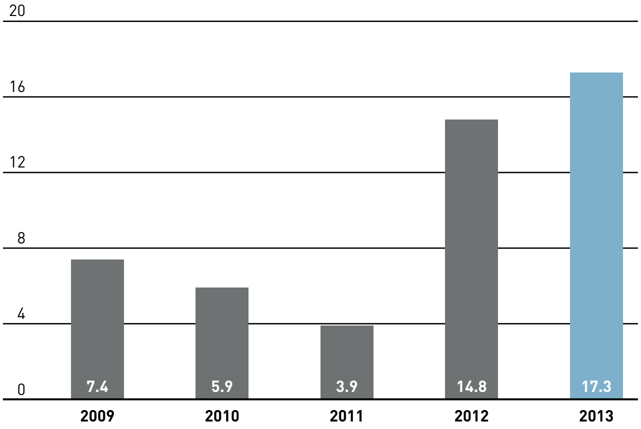


Figure 5.5

5.8 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)
- Issued bonds and senior loans
- Subordinated debt and shareholders' equity

Customers' deposits still constitute the Bank's largest funding source, amounting to 70.0% of the Bank's total funding at end-2013, which is 5.8 percentage points higher than at end-2012. At end-2013, the sum total of the Bank's subordinated debt and shareholders' equity aggregated DKK 9.5 billion, equal to 15.9%, representing an increase of 2.8 percentage points relative to end-2012. In total, the Bank's long-term funding (funding with a term to maturity of more than one year) amounts to 81.6%, which is 6.8 percentage points up on end-2012.

FUNDING

DKK m / %	2013	2012	2011	2013	2012	2011
Cent.banks and credit inst.	1,625.9	2,273.9	4,965.2	2.7	3.5	8.5
Repos and repurchases w/ centr.banks and credit inst.	3,397.7	2,945.0	5,010.8	5.7	4.5	8.6
Senior loans <1 yr	0.0	300.0	1,636.8	0.0	0.5	2.8
Issued bonds <1 yr	278.5	5,789.9	3,731.1	0.5	8.9	6.4
Deposits <1 yr	5,699.8	5,108.6	6,057.1	9.5	7.8	10.4
Deposits >1 yr	36,130.7	36,813.1	25,030.5	60.5	56.4	43.1
Senior loans >1 yr	3,079.2	3,191.9	478.1	5.2	4.9	0.8
Issued bonds > 1 yr	23.1	303.4	4,290.2	0.0	0.4	7.4
Subord. debt	3,002.4	2,561.5	2,316.8	5.0	3.9	4.0
Shareholders' equity	6,532.7	5,975.3	4,627.3	10.9	9.2	8.0
Total	**59,770.0**	**65,262.6**	**58,143.9**	**100.0**	**100.0**	**100.0**

Figure 5.6

At end-2013, the Bank had senior funding for a total of DKK 3.4 billion, of which DKK 3.0 billion represents Danmarks Nationalbank's LTRO facility with securities provided as collateral.

FUNDING STRUCTURE

DKK bn

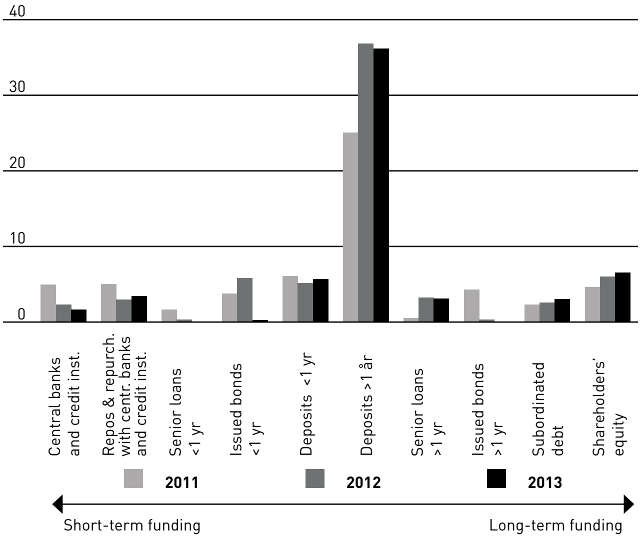


Figure 5.7

MATURITY STRUCTURE FOR SENIOR FUNDING

DKK bn

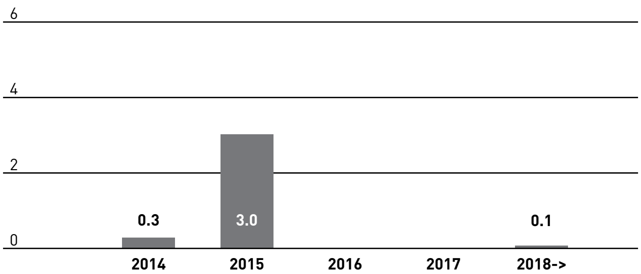


Figure 5.8

5.9 CONTINGENCY LIQUIDITY PLAN

Spar Nord has prepared an emergency liquidity plan pursuant to the Danish Executive Order on Management of and Control with Financial Institutions. This plan contains a catalogue of possible courses of action to strengthen the Bank's liquidity in a critical situation. 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.

5.10 SPAR NORD'S RATING

Spar Nord was rated by Moody's in the period from 2007 to 2014. In May 2012, the Bank terminated its cooperation with Moody's. The Bank based its decision mainly on its comfortable liquidity situation, which frees the Bank from having to issue bonds on the international capital market.

Moody's has announced that it has withdrawn its rating of Spar Nord, and, accordingly, the Bank is no longer rated by Moody's as from the beginning of February 2014.

The Bank's historical ratings appear from the table below.

OFFICIAL RATING

	2013	2012	2011	2010	2009
Long-term debt	Ba1	Baa3	Baa2	A2	A2
Short-term debt	NP	P-3	P-2	P-1	P-1
Financial strength	D+	C-	C-	C-	C-

Figure 5.9

6. CRD IV AND CRR

6.1 THE IMPORTANCE OF FUTURE RULES ON CAPITAL AND LIQUIDITY REQUIREMENTS

The CRD IV/CRR package is the cornerstone of the European regulation of credit institutions and investment firms and supersedes primarily the existing directives regarding the pursuit of business as a credit institution or investment firm (Directives 48 and 49/2006) and the national implementation thereof by the Member States.

CRD IV and CRR are the European implementation of the Basel III rules and, in addition to implementing Basel III, the objective is to create a uniform pan-European basis for carrying on business as a credit institution or investment firm and competition between such companies. This is achieved by extensively replacing the directive provisions and national implementations thereof with a regulation that is directly applicable in the Member States.

The rules contain an array of changes to the definition of and requirements for the size and quality of the capital of credit institutions, requirements for capital buffers and counterparty risks, limitations for leveraged loans and the introduction of new liquidity rules. Finally, the rules contain elements relating to corporate governance and a tightening of requirements as to the sanction options available to the Danish Financial Supervisory Authority when dealing with non-compliant institutions.

The new European capital adequacy rules, CRD IV and CRR, entered into force as at 1 January 2014. The rules contain comprehensive transitional and phase-in provisions regarding the capital and liquidity requirements so that they are gradually phased in during the period from 2014 to 2019.

6.2 CAPITAL REQUIREMENTS

CRR lays down a number of detailed requirements as to more capital and a sounder capital structure, which will make credit institutions better able to absorb losses without becoming insolvent. The more stringent requirements as to the quality and scope of Common Equity (Tier 1) are a focal element of the regulation. The regulation formulates a number of objective criteria that the individual capital instruments must meet in order to qualify for inclusion in the individual categories of capital requirements (Common Equity (Tier 1), hybrid core capital and supplementary loan capital). For one thing, the existing requirements as to special hybrid capital are tightened up severely under CRR.

The CRR regulation means a sharp tightening of the minimum capital requirement for financial institutions. The minimum capital requirement for Common Equity (Tier 1) will be gradually lifted from the existing 2% of risk-weighted assets to 4.5% in 2015. At the same time, the requirement will be tightened for core capital, which consists of Common Equity (Tier 1) and other capital types without maturity dates, which are subordinated to the claims of all the Bank's creditors. In future, the core capital must amount to at least 6% of risk-weighted assets, compared with the existing requirement of 4%, while the requirement as to a combined capital ratio remains unchanged at 8%.

On the basis of the regulation, Spar Nord estimates that the Group's Common Equity (Tier 1) in per cent of risk-weighted items, amounting to 14.1% at 31 December 2013, will be reduced by about 1.6 percentage points when calculated using the fully implemented CRR rules. The impact on the Common Equity (Tier 1) ratio in 2014 is a reduction of about 0.5 percentage point. The expected change will primarily be attributable to:

- new capital add-ons for counterparty risks
- new definition of default for institutions using the standard method for credit risks
- easing of capital requirements for credit risks for small and medium-sized companies
- the use of ECAI ratings as the basis for calculating risk-weighted items
- exposures associated with particularly large risks
- the Common Equity (Tier 1) to be used as the future basis for calculating deductions.

6.3 CAPITAL BUFFERS

In addition to the above-mentioned tightened requirements as to the Group's Common Equity (Tier 1), there will be new requirements as to:

- A permanent capital conservation buffer of 2.5% of risk-weighted assets.
- A contra-cyclical capital buffer of up to 2.5% of risk-weighted assets (may be increased in exceptional cases). This buffer is to be determined by the Danish Financial Supervisory Authority if certain parameters indicate that there is an inexpedient tendency towards high growth in lending.
- A window is opened for the Danish Financial Supervisory Authority to set up additional capital requirements by way of a systemic risk buffer.

A common feature of all buffers is that only the Common Equity (Tier 1) may be used for meeting the capital requirement.

If a financial institution fails to meet the capital requirement as to buffers, the financial institution will be restricted from the option of making dividend payments and other distributions.

In Denmark, the authorities will introduce the national SIFI requirements in accordance with the new rules regarding the systemic buffer. The rules are expected to enter into force as of 31 March 2014.

Based on the Danish criteria for SIFI, the assessment is that Spar Nord will not be identified as a SIFI.

6. CRD IV AND CRR

6.4 DEFINITION OF INSTRUMENTS THAT MAY BE INCLUDED IN THE CAPITAL BASE

A chief objective of the legislation is to strengthen the quality of the instruments (over and above the shareholder's equity) that may be included in the capital base. Thus, CRR contains stricter criteria for including instruments in the core capital (Tier 1) and the supplementary loan capital. In relation to the definition of core capital (Tier 1) and supplementary loan 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. Pursuant to CRR, instruments that no longer meet the requirements as to inclusion in the core capital or supplementary loan capital, should be phased out. In addition, instruments for which there is an incentive for redemption must be phased out as and when they expire. Existing government-provided capital contributions, including governmental hybrid core capital, may be included in the capital base until the end of 2017.

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

The Bank's supplementary loan capital has been established subject to terms and conditions that live up to the requirements for inclusion in the capital base under CRR.

6.5 LEVERAGE RATIO

CRR introduces rules on calculating the so-called leverage ratio. 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 CRR, the impact of the leverage ratio determined will be monitored with a view to making it a binding Pillar 1 criterion. Spar Nord estimates that its leverage ratio at end-2013 was 7.0% adjusted for CRR requirements when the rules and regulations have been fully phased in.

The table below gives details on the Bank's leverage ratio according to CRR, calculated as of December 2012 and December 2013:

THE BANK'S LEVERAGE RATIO UNDER CRR

DKK m / %	2013	2012
Exposure value, assets	81,382.0	87,162.7
Regulatory adjustment	730.8	793.6
Adjusted exposure value, assets	80,651.2	86,369.1
Core capital (Tier 1), fully phased-in	5,682.7	5,208.4
Leverage ratio, %	**7.0**	**6.0**

Figure 6.1

6.6 LIQUIDITY

Substantial efforts remain to be made regarding the preparation of final definitions, including technical and implementation standards, that the EBA is to prepare for final approval by the European Commission some time during 2014.

The treatment of specially covered bonds, which includes Danish mortgage-credit bonds, has been an important clarification issue throughout the entire drafting process of Basel III, CRD IV and now CRR, both as concerns liquidity class and haircut.

In Spar Nord's calculations of LCR, it has been assumed that essentially Danish specially covered bonds may be included as particularly high-liquid assets among the best assets with a general haircut of 15%.

At end-2013, Spar Nord calculated LCR at 115%.

It should be stressed that there is still uncertainty regarding the legislative issues relating to the calculation of the LCR ratio, and, accordingly, also Spar Nord's calculations.

7. CREDIT RISK

Credit risk is the risk of loss as a result of borrowers or other counterparties defaulting on their payment obligations, including the risks attaching to customers having financial difficulties, risks relating to large exposures, 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 transfers payments before it has attained full assurance that the counterparty has met all its obligations. Counterparty risk is the risk of loss as a result of a customer's default of OTC derivatives and securities financing instruments.

7.1 CREDIT POLICY

Spar Nord's overall credit risk is managed 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 customer's 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 lines of business 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, reductions are made for the so-called 'particularly secure claims', which are defined in the Danish Financial Supervisory Authority's Executive Order on Large Exposures. 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.

The sum of large exposures calculated pursuant to the calculation methodology used in the Danish Financial Supervisory Authority's Diamond Test Model amounts to 26.3%.

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

7.2 MANAGEMENT, MONITORING AND REPORTING

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

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

Credit Rating may authorize facilities up to DKK 20 million for existing customers and DKK 10 million for new customers. The Credit Committee may authorize all facilities up to DKK 60 million, and up to DKK 30 million for new facilities. All facilities exceeding DKK 60 million and all new facilities exceeding DKK 30 million are subject to approval by the Board of Directors.

Overall monitoring of the Group's credit risk exposure is managed by the Credit Quality Department. 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 Department 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.

7. CREDIT RISK

Every month a statistically-based rating of both retail and business customers is performed. Rating systems have 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 rating groups 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.

Customers are classified according to risk as an element in the Group's credit application processing. Business customers are categorized into 11 rating groups. Two rating groups are reserved for loan default customers, defined as exposures that are subject to writedowns, impairment or for which interest accruals have been suspended. The other borrowing customers are classified into groups 1 to 9 based on various rating models. These models are used to measure the probability that the customer will default within the next 12 months.

The model applied to business customers employs four components: An accounting component used to risk-classify the customer based on his most recent financial statements. A behavioural component that classifies the customer based on his account behaviour and credit authorization history. A component based on a business profile, with the classification of the customer being based on a qualitative assessment of significant key areas, such as management, market, etc. The fourth component is a cyclical element that is used to adjust the classification based on cyclical trends.

For retail customers, the model is exclusively based on a behavioural component and a cyclical component.

New retail customers are risk-classified according to an application scoring model that is based on classical credit key ratios, such as assets, pay, disposable income, etc. This model is based on a combination of a statistical and an expert model. After six months, customers are subjected to a behavioural scoring scrutiny, and the results obtained using the two models are co-weighted in the transitional period until the twelfth month, after which the rating is based on the behavioural component exclusively.

New business customers are classified based on the accounting component, the business profile and the cyclical component until the sixth month, at which time the behavioural component is also applied.

Moreover, Spar Nord applies a qualitative risk classification, credit watchlists, in which the Spar Nord adviser flags any credit facility showing signs of default risk. For retail customers, these signs of default risk may for instance be divorce, unemployment, etc., and for business customers they could be marketing difficulties, the loss of key employees or suppliers, etc.

If a customer is flagged in the credit-watchlist and is not in default, the customer will be downgraded by one rating group; it should be noted that a customer flagged in the credit-watchlist does not qualify for rating in the best rating groups (one and two).

Public-sector customers and financial customers are not risk-classified.

7.3 DEVELOPMENTS IN 2013

Throughout 2013, Spar Nord experienced a satisfactory development in the credit quality of its lending portfolio by way of an improvement of the average credit quality for business customers and an unchanged credit quality for the retail customer portfolio.

The merged portfolios from Sparbank have now been fully integrated into Spar Nord's credit models and are now rated as the Bank's other customers. Generally, as expected the portfolios taken over from Sparbank turned out to have a credit quality that is close to the portfolios that Spar Nord had already.

Prior to the merger, an in-depth due diligence review was conducted, and the results disclosed a reasonable quality level. There have been slightly smaller impacts on the operating result from the Sparbank portfolios than those realized on Spar Nord's existing portfolios.

The breakdown of the Group's loans and advances by industries developed satisfactorily in 2013 with an unchanged retail customer share, a slight decline in the share of business customers and an increase in the share of public-sector customers. The proportional exposure to the agricultural and property sectors shrank, while there was growth in the financing and insurance segments on account of an increase in the volume of reverse loans.

The geographical breakdown of customers' loans and advances remained unchanged at end-2013 compared to the beginning of the year, see figure 7.7.

BREAKDOWN BY SECTOR - THE GROUP

Line of business DKK m / %	Loans, advances and guar. 2013	Impairm. account/ discount 2013	Breakdown of exposure 2013	Breakdown of exposure 2012	Impairm. account/ discount 2013
Public authorities	2,094.6	0.0	4.6	3.7	0.0
Agriculture, hunting and forestry	3,914.8	464.8	8.7	10.0	22.1
Fisheries	166.5	2.5	0.4	0.4	0.1
Industry and raw materials extraction	1,790.6	71.4	4.0	4.2	3.3
Energy supply	1,857.7	7.9	4.1	4.0	0.4
Building and construction	1,753.0	123.5	3.9	4.3	6.0
Trade	3,539.8	106.2	7.8	8.0	5.0
Transport, hotels and restaurants	1,828.6	76.6	4.1	4.7	3.7
Information and communication	138.9	1.4	0.3	0.4	0.1
Financing and insurance	3,467.4	135.3	7.7	4.9	6.4
Real estate	5,019.2	441.1	11.1	11.9	20.9
Other business areas	3,206.1	202.3	7.1	7.0	9.5
Business customers, total	**28,777.2**	**1,633.0**	**63.8**	**63.5**	**77.5**
Retail customers, total	**16,357.7**	**473.8**	**36.2**	**36.5**	**22.5**
Total	**45,134.9**	**2,106.8**	**100.0**	**100.0**	**100.0**

Figure 7.1

7.4 CREDIT EXPOSURE

The Group's total credit exposure consists of lending activities and trading activities, such as the portfolio of bonds and trading in financial instruments.

The table below shows the Group's total credit exposure (carrying amount) as at 31 December 2013 and 2012:

7. CREDIT RISK

THE GROUP'S CREDIT EXPOSURE (CARRYING AMOUNT), INCL. DISCOUNT ON EXPOSURES TAKEN OVER, PROVISIONS AND FAIR-VALUE ADJUSTMENTS

DKK m	2013	2012
Repo loans	1,785.6	115.5
Loans and advances at amortized cost	35,862.5	38,942.4
Loans and advances	**37,648.1**	**39,057.9**
Contingent liabilities	5,380.0	5,767.1
Credit exposure to loans, advances and guarantees, net	**43,028.1**	**44,825.0**
Impairment of loans, advances and guarantees	1,595.5	1,330.0
Discount on exposures taken over	511.3	1,411.7
Credit exposure to loans, advances and guarantees, gross	**45,134.9**	**47,566.7**
Demand deposits with central banks	326.5	2,341.2
Repo loans to credit institutions and central banks	1,865.0	1,730.5
Receivables from credit institutions and central banks	1,347.4	2,246.6
Demand deposits and receivables from credit inst. and central banks	**3,538.9**	**6,318.3**
Credit exposure (carrying amount) on lending activities	**46,567.0**	**51,143.3**
Positive market values	1,393.9	2,067.6
Credit exposure, assets in the trading portfolio	18,968.8	20,410.1
Credit exposure, other financial investment assets	1,057.1	1,041.6
Equity investments in associates	997.3	992.8
Credit exposure (carrying amount)	**68,984.1**	**75,655.4**

Figure 7.2

The Bank's impairment account, DKK 1,595.5 million, and the discount on the exposures taken over in connection with the merger (DKK 511.3 million) are amounts that reflect a reduction of the carrying amount of the Bank's exposures relative to their contractual nominal amount. Even though these value adjustments are handled differently in the presentation of the Bank's assets in the financial statements, they have the same impact on the assessment of the risk attaching to the exposure in the ongoing credit processing routines.

IMPAIRMENT ACCOUNT AND DISCOUNT ON LOANS, ADVANCES AND GUARANTEES

	Impairment account		Discount on exposures taken over		Impairment balance/ discount	
DKK m	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
The Group	1,595.5	1,330.0	511.3	1,411.7	2,106.8	2,741.7
Continuing activities	1,474.7	1,171.1	491.4	1,353.6	1,966.1	2,524.7

Figure 7.3

7.5 LOANS, ADVANCES AND GUARANTEES

The Group's total loans, advances and guarantees before offsetting of impairment losses and the discount on exposures taken over amounted to DKK 45.1 billion at end-2013 compared with DKK 47.6 billion at end-2012. Retail customers account for 36.2% of total loans, advances and guarantees, with business customers accounting for 63.8%.

Loans, advances and guarantees relating to continuing activities (excl. leasing activities) amounted to DKK 42.9 billion at end-2013 compared to DKK 43.3 billion at end-2012. In total, 38.1% of loans, advances and guarantees in the continuing activities are attributable to retail customers and 61.9% to business customers.

Customers are categorized 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 leasing activities. The table below shows the breakdown of the Group's credit exposure shown by the four categories.

THE GROUP'S EXPOSURE BY CATEGORY

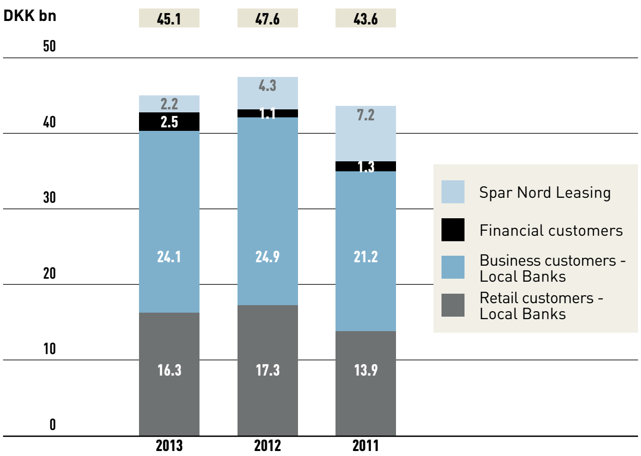


Figure 7.4

The Group's total loans, advances and guarantees amounted to DKK 45.1 billion at 31 December 2013, which corresponds to a fall of DKK 2.4 billion, equal to 5.1%, from 31 December 2012.

The credit exposure to retail customers at Spar Nord's Local Banks dropped by DKK 1.0 billion in 2013, equal to 5.6%.

The credit exposure to business customers at Spar Nord's Local Banks dropped by DKK 0.8 billion, equal to 3.3%.

The credit exposure to financial customers rose DKK 1.4 billion, primarily as a result of repo loans.

The lending portfolio at Spar Nord Leasing declined by DKK 2.0 billion, equal to 47.7% - a development that was expected as a result of the decision to phase out Spar Nord Leasing. In connection with the merger with Sparbank, a leasing loan portfolio of DKK 0.4 billion was taken over.

7. CREDIT RISK

7.5.1 BREAKDOWN BY INDUSTRY

The table below shows a breakdown by sector of loans, advances and guarantees relating to continuing activities, including the Sparbank phase-out portfolio "special credits".

BREAKDOWN BY SECTOR - CONTINUING ACTIVITIES

Line of business %	Loans, advances and guarantees Spar Nord Bank 2013	2012	Sector breakdown 2012
Public authorities	4.9	4.0	2.5
Agriculture, hunting and forestry	7.7	8.4	4.1*
Fisheries	0.4	0.4	-
Industry and raw materials extraction	3.4	3.5	5.5
Energy supply	4.2	4.2	1.9
Building and construction	3.5	3.4	1.9
Trade	7.8	8.0	4.7
Transport, hotels and restaurants	3.3	3.2	3.3
Information and communication	0.2	0.4	0.7
Financing and insurance	8.0	5.0	25.3
Real estate	11.6	13.0	11.1
Other business areas	6.9	6.5	5.9
Business customers, total	**61.9**	**60.0**	**66.9**
Retail customers, total	**38.1**	**40.0**	**33.1**
Total	**100.0**	**100.0**	**100.0**

*) *Incl. fisheries* *Figure 7.5*

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 & insurance. Finally, Spar Nord has a larger-than-average exposure to the agricultural sector.

The Bank recorded at drop in the agricultural and real property percentages, while there was an increase in the category, Financing & insurance, which is ascribable to a relatively large portfolio of reverse loans at end-2013.

The difference between the Spar Nord Group and the continuing activities is that the credit exposure relative to leasing activities in the amount of DKK 2.2 billion is not included. The total breakdown by sector is impacted by relatively large reductions under transport, agriculture and building & construction, which are the major lines of business in Spar Nord Leasing's portfolio.

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

DKK m	Number 2013	Number 2012	Share in % 2013	Share in % 2012
0 - 0.1	51,067	54,037	1.6	1.7
0.1 - 0.5	32,093	30,349	12.4	11.8
0.5 - 1.0	9,566	9,198	10.7	10.5
1.0 - 5.0	5,617	5,845	19.7	21.1
5.0 - 10.0	719	756	9.1	9.4
10.0 - 20.0	323	338	8.2	8.6
20.0 - 50.0	206	205	12.1	11.3
50.0 - 100.0	57	59	7.7	7.5
100.0 -	44	48	18.5	18.1
Total	**99,692**	**100,835**	**100.0**	**100.0**

*) *Excl. reverse transactions and SparXpres* *Figure 7.6*

A breakdown by facility size shows that the Group's portfolio of loans, advances and guarantees is well-diversified, as 53.5% is attributable to facilities of less than DKK 10 million, and as the Group only has 44 loan facility exposures of more than DKK 100 million.

LOANS, ADVANCES AND GUARANTEES BROKEN DOWN BY REGION - END-2013

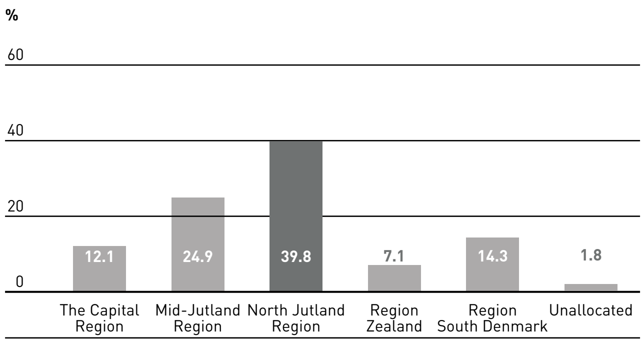


Figure 7.7

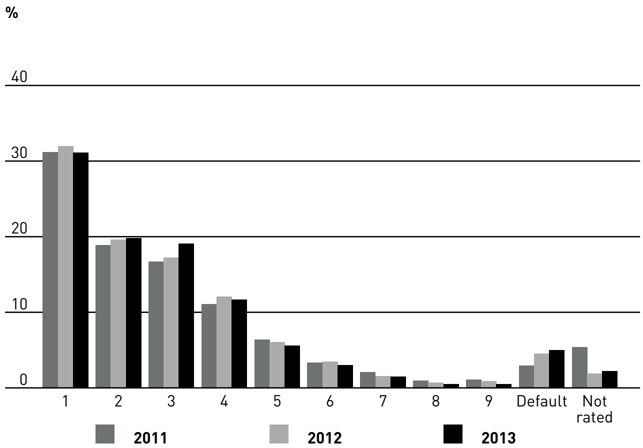
The total credit exposure of the Group is well-diversified in geographical terms, with about 39.8% in the North Jutland Region, which is the Bank's historical core area, while the balance is distributed over the rest of the country. As a consequence of the merger between Spar Nord and Sparbank, the Mid Jutland Region has grown to a share of 24.9%.

7.5.2 RETAIL CUSTOMERS AT SPAR NORD'S LOCAL BANKS

The credit exposure to retail customers at Spar Nord's Local Banks amounts to DKK 16.3 billion, of which DKK 0.4 million relates to SparXpress. The figure below shows retail customers forming part of local banks' exposures, broken down by rating groups.

The total credit exposure to retail customers amounts to 36.1% of total credit exposure. As the figure shows, the risk level remained largely unchanged over the past three years.

RETAIL CUSTOMERS' FACILITIES BY RATING GROUP *)



*) *From 2013 incl. customers taken over from Sparbank* *Figure 7.8*

AVERAGE RATING GROUP

	2011	2012	2013
Average rating group	3.0	3.0	3.0

Figure 7.9

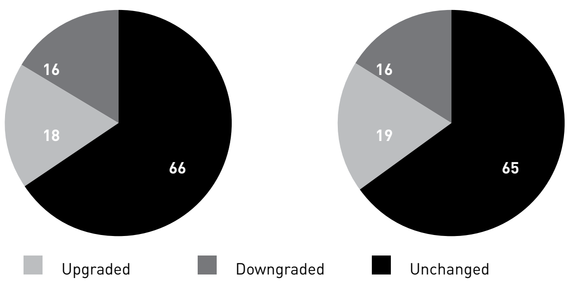
7. CREDIT RISK

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 there was a marginally positive development in retail customers' migration from end-2012 to end-2013. The total average credit quality was unchanged at end-2013 compared with end-2012.

The customers from Sparbank are not included in the migration, as the bank did not have a rating on these customers at the beginning of the year.

The average credit quality was unchanged despite the increase in the number of loan default customers.

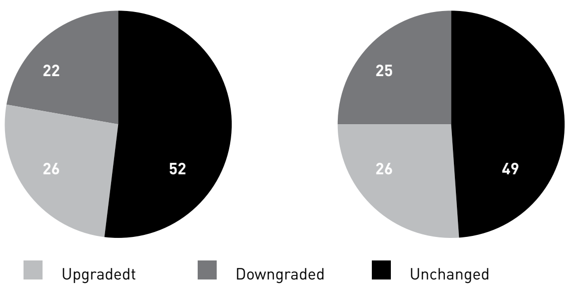
MIGRATION - NUMBER RETAIL CUSTOMERS 2012-2013 | **MIGRATION - NUMBER RETAIL CUSTOMERS 2011-2012 *)**



*) Excl. customers taken over from Sparbank

Figure 7.10

MIGRATION - EXPOSURES RETAIL CUSTOMERS 2012-2013 | **MIGRATION - EXPOSURES RETAIL CUSTOMERS 2011-2012 *)**



*) Excl. customers taken over from Sparbank

Figure 7.11

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

RETAIL CUSTOMERS - DEVELOPMENT IN UNAUTHORIZED OVERDRAFTS / EXP. PAST DUE

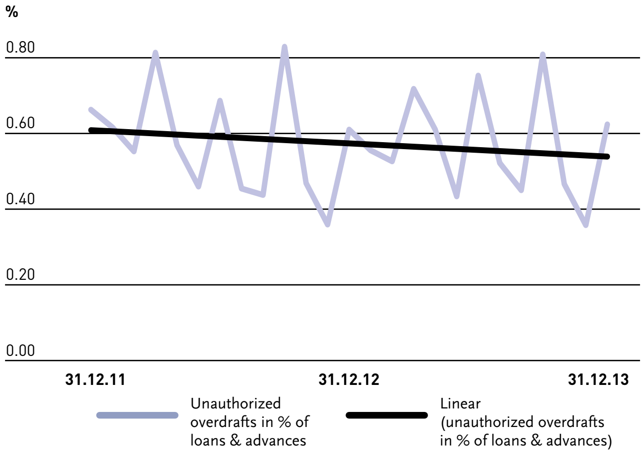


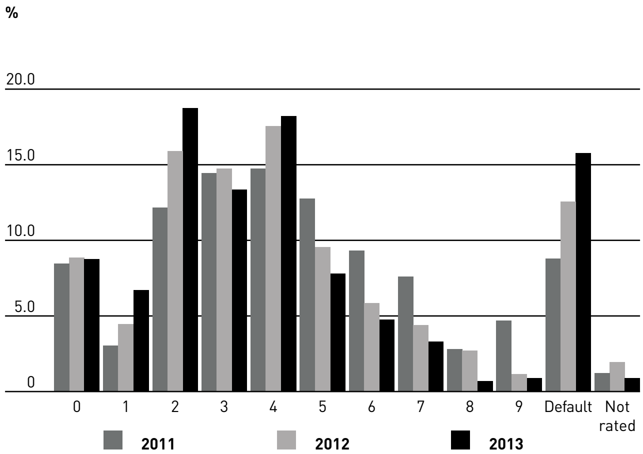
Figure 7.12

7.5.3 BUSINESS CUSTOMERS AT SPAR NORD'S LOCAL BANKS

Loans, advances and guarantees to business customers at Spar Nord's Local Banks amount to DKK 24.1 billion, equivalent to 53.4% of the Group's total loans, advances and guarantees.

The figure below shows a breakdown of business customers according to rating groups.

BUSINESS CUSTOMERS' FACILITIES BY RATING GROUP *)



*) From 2013 incl. customers taken over from Sparbank.

Figure 7.13

AVERAGE RATING GROUP

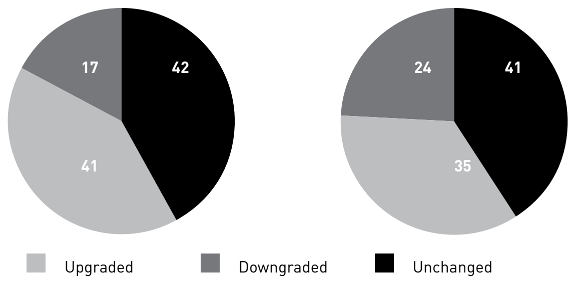
	2011	2012	2013
Average rating group	5.1	4.9	4.8

Figure 7.14

The average credit quality of business customers showed a positive development in the average rating from 4.9 to 4.8.

The figure below shows the share of business customers that 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 are shown. It appears from the figure that customer migration was more positive in 2013 than was the case in 2012. That the average credit quality in 2013 does not show greater improvement than is actually the case is due to the increase in the share of defaults in 2013.

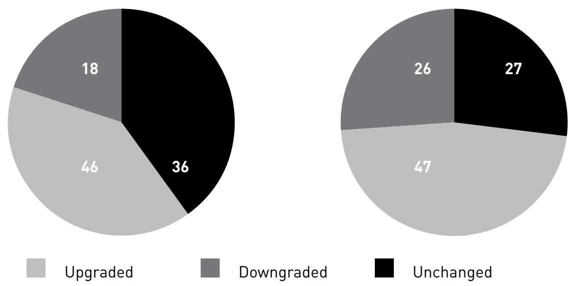
MIGRATION - NUMBER BUSINESS CUSTOMERS 2012-2013 / **MIGRATION - NUMBER BUSINESS CUSTOMERS 2011-2012 *)**



*) Excl. customers taken over from Sparbank

Figure 7.15

MIGRATION - EXPOSURES BUSINESS CUSTOMERS 2012-2013 / **MIGRATION - EXPOSURES BUSINESS CUSTOMERS 2011-2012 *)**



*) Excl. customers taken over from Sparbank

Figure 7.16

BUSINESS CUSTOMERS - DEVELOPMENT IN UNAUTHORIZED OVERDRAFTS / EXP. PAST DUE

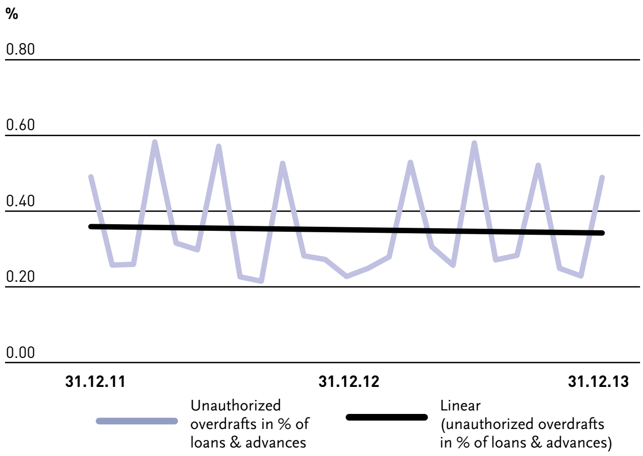


Figure 7.17

Over the past two years, business customers' unauthorized overdrafts have remained stable at a low level, averaging about 0.35% of lending to business customers at the local banks. This development is considered satisfactory in light of economic trends.

7.5.4 MORTGAGE CREDIT LOANS ARRANGED

For retail customers, Spar Nord arranges mortgage credit loans from Totalkredit. At end-2013, a total of DKK 51.0 billion in mortgage credit loans had been arranged through Totalkredit.

DLR Kredit is the preferred business partner when it comes to business customers. At the end of the year, mortgage credit loans for an amount of DKK 8.6 billion had been arranged through DLR Kredit. As concerns both agreements, in the event of losses on the loans arranged, a setoff will be made against the commission received by the Bank for arranging mortgage credit loans, or, in the alternative, that direct collateral is provided, as for example for part of the lending to business customers granted through DLR Kredit.

The figure below shows a breakdown of the rating of total mortgage credit loans arranged based on the Bank's risk rating of customers. The figure shows that high-quality customers are primarily the ones who have their mortgage credit loans arranged through Spar Nord.

MORTGAGE CREDIT - DLR AND TOTALKREDIT, AND BANK EXPOSURES

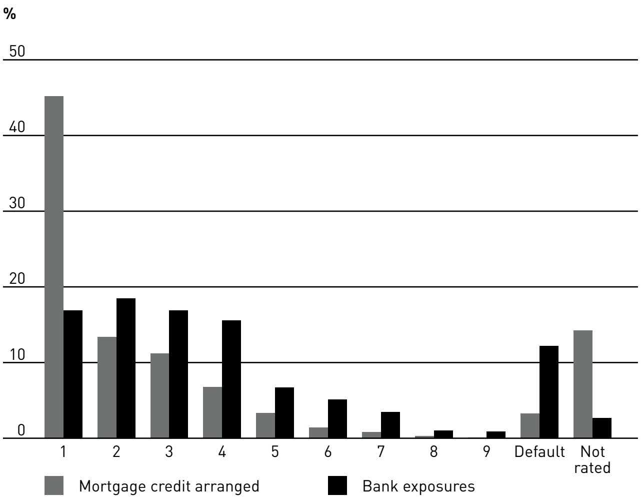


Figure 7.18

7.5.5 FINANCIAL CUSTOMERS

The Bank's credit exposure to financial customers was DKK 2.5 billion at 31 December 2013, equivalent to 5.5% of the Group's total loans, advances and guarantees. Exposure covers primarily reverse transactions and foreign-currency loans to customers at other banks that require the provision of a guarantee from them, and central customers.

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

THE GROUP'S CREDIT EXPOSURE TO FINANCIAL CUSTOMERS

DKK m	2013	2012
Reverse lending	1,785.6	115.5
Customers of other financial institutions	60.6	277.4
The Bank's own exposuress and central customers, etc	626.9	692.0
Financial customers, total	**2,473.1**	**1,084.9**

Figure 7.19

7.5.6 LEASING ACTIVITIES

Total lending at Spar Nord Leasing and the leasing activities taken over from Sparbank amounted to DKK 2.2 billion, equal to 4.9% 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 remaining leasing activities in both Denmark and Sweden as and when the underlying agreements expired. It is expected that the majority of these assets will be phased out by end-2015.

LEASE CONTRACTS

Line of business	Loans, advances and guarantees		Impairm. acc./ discount	
%	2013	2012	2013	2012
Public authorities	0.2	0.2	0.0	0.0
Agriculture, hunting and forestry	27.1	25.7	13.0	9.0
Fisheries	0.1	0.0	0.2	0.1
Industry and raw materials extraction	15.4	14.7	13.2	17.0
Energy supply	1.5	1.7	1.6	3.3
Building and construction	12.1	13.0	6.5	9.4
Trade	7.8	7.6	16.5	17.3
Transport, hotels and restaurants	18.5	20.3	16.8	17.5
Information and communication	1.5	1.4	0.0	2.7
Financing and insurance	2.5	2.0	0.9	0.6
Real estate	1.2	1.7	0.3	3.0
Other business areas	11.6	11.6	27.5	19.3
Business customers, total	**99.5**	**99.9**	**96.5**	**99.2**
Retail customers, total	**0.5**	**0.1**	**3.5**	**0.8**
Total	**100.0**	**100.0**	**100.0**	**100.0**

Figure 7.20

In the context of risks it is important to note that lease contracts are always backed by security in the assets, either through ownership or charges.

The figure below gives information about the portfolio of repossessed equipment pertaining to the Group's leasing activities.

REPOSSESSED EQUIPMENT

DKK m	2013	2012
Repossessed equipment, total	18.2	76.2

Figure 7.21

As the table shows, Spar Nord Leasing succeeded in substantially reducing the volume of repossessed leasing equipment also in 2013.

7.6 CREDIT QUALITY

The figure below shows the continuing bank's breakdown of customers according to the credit quality categories of the Danish Financial Supervisory Authority. Categories 2a and 3 comprise good customers, while categories 1, 2c and 2b comprise heightened-risk customers or customers having financial difficulties.

CREDIT QUALITY
2013

Line of business %	Credit quality categories 1	2c	2b	2a/3	Exposure
Public authorities	0.0	0.0	0.0	4.9	4.9
Agriculture, hunting and forestry	2.8	0.1	1.6	3.2	7.7
Fisheries	0.1	0.0	0.2	0.1	0.4
Industry and raw materials extraction	0.5	0.1	0.6	2.2	3.4
Energy supply	0.3	0.0	0.1	3.8	4.2
Building and construction	1.0	0.1	0.6	1.8	3.5
Trade	0.6	0.0	0.9	6.3	7.8
Transport, hotels and restaurants	0.6	0.0	0.4	2.3	3.3
Information and communication	0.0	0.0	0.0	0.2	0.2
Financing and insurance	0.7	0.0	0.3	7.0	8.0
Real estate	3.9	0.2	1.6	5.9	11.6
Other business areas	1.1	0.0	1.0	4.8	6.9
Business customers, total	**11.6**	**0.5**	**7.3**	**42.5**	**61.9**
Retail customers, total	**2.2**	**0.2**	**4.2**	**31.5**	**38.1**
Total	**13.8**	**0.7**	**11.5**	**74.0**	**100.0**

Figure 7.22

7.7 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 are by far the most important collateral type provided to the Group. Mortgages on real property consist mainly of mortgages on private housing.

GEOGRAPHICAL BREAKDOWN OF MORTGAGES - END-2013

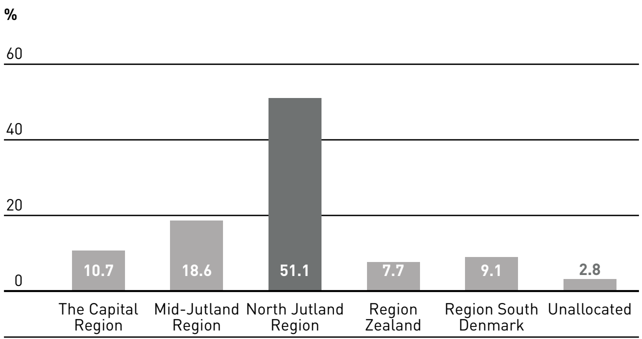


Figure 7.23

The Group monitors the value of the collateral 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.

MORTGAGES BROKEN DOWN BY PROPERTY TYPE

2013	%	DKK m
Private housing	58.6	9,377.2
Summer cottages	5.4	870.9
Offices and businesses	12.2	1,955.6
Agriculture	17.0	2,713.4
Other	**6.8**	**1,080.9**
	100.0	**15,998.0**

THE GROUP'S UNSECURED SHARE OF CREDIT EXPOSURE

Unsecured shares in %	2013	2012
<10	25.0	25.6
10-50	15.3	16.5
50-75	13.6	16.7
>75	46.1	41.2
Average unsecured share of credit exposure	**54.4**	**52.9**

Figure 7.24

The property value under mortgages broken down by property type is calculated at DKK 16.0 billion while DKK 10.4 billion is recorded as security on the properties in the figure below because the former 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.

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

Line of business	2013 DKK m	%	2012 DKK m	%
Public authorities	2,091.5	99.9	1,745.0	99.6
Agriculture, hunting and forestry	1,272.1	32.5	1,307.1	27.5
Fisheries	94.6	56.8	97.1	53.9
Industry and raw materials extraction	1,191.7	66.6	1,103.2	54.7
Energy supply	1,074.4	57.8	984.8	51.8
Building and construction	956.6	54.6	1,073.8	52.5
Trade	2,621.9	74.1	2,784.5	72.8
Transport, hotels and restaurants	664.7	36.3	822.5	36.8
Information and communication	113.8	81.9	142.9	70.9
Financing and insurance	899.2	25.9	1,809.8	77.8
Real estate	2,981.3	59.4	3,176.3	55.9
Other business areas	2,226.0	69.4	1,915.8	57.9
Business customers, total	**16,187.8**	**56.3**	**16,962.8**	**56.1**
Retail customers, total	**8,373.8**	**51.2**	**8,183.7**	**47.2**
Total	**24,561.6**	**54.4**	**25,146.5**	**52.9**

Figure 7.25

THE GROUP'S CREDIT RISK MITIGATION BY VIRTUE OF COLLATERAL

Type of collateral DKK m	2013	2012
Properties	10,366.6	10,158.0
Custody accounts /securities	2,998.8	1,144.0
Guarantees /sureties	303.9	576.2
Vehicles	1,357.8	1,197.2
Cash	833.6	661.7
Other collateral	582.9	1,932.9
Other collateral, total	**16,443.6**	**15,670.0**
Spec. secured trans. (mortgage-credit inst. guarantees)	2,305.2	3,119.5
Total collateral accepted, excl. Spar Nord Leasing	**18,748.8**	**18,789.5**
Collateral accepted, Spar Nord Leasing	1,824.5	3,630.7
Total	**20,573.3**	**22,420.2**

Figure 7.26

7.8 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 credit-flagged exposures are re-evaluated individually. Credit-flagged lending exposures of less than DKK 250,000 are automatically reviewed using an algorithm based on the customer's financial key figures and the Bank's rating systems. 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.

Impairment losses are calculated individually as concerns all customers suffering from financial imbalances (objective indication of impairment (OII)) 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.

IMPAIRED CLAIMS

2013 DKK m	Exposures	Individually value-adjusted
Insolvent liquidation	225.7	122.9
Debt collection and suspension of payments	219.2	98.9
Other financial difficulties	3,948.1	1,827.2
Imp. account and discount on exposures taken over	**4,393.0**	**2,049.0**
Groups of impairment losses in the Spar Nord Group		57.8
Imp. account and discount on exposures taken over		**2,106.8**

2012 DKK m	Exposures	Individually value-adjusted
Insolvent liquidation	183.4	140.4
Debt collection and suspension of payments	1,329.9	804.6
Other financial difficulties	3,995.1	1,669.1
Imp. account and discount on exposures taken over	**5,508.4**	**2.614.1**
Groups of impairment losses in the Spar Nord Group		97.4
Portfolio-calculated discount in Sparbank		30.2
Imp. account and discount on exposures taken over		**2,741.6**

Figure 7.27

In 2013, the Group recorded a decline in critic exposure to customers with individual impairment of DKK 1,115.4 million. This reduction affected primarily exposures for which interest accrual has been suspended. Exposures for which interest accrual has been suspended declined DKK 513.7 million in 2013.

The total impairment account/discount dropped DKK 634.9 million in 2013, and the fall is attributable exclusively to the diminishing of the discount account, which fell DKK 900.4 million in 2013.

The major part of the fall relates to the accounts on which interest accrual has been suspended, and as concerns impaired claims the reduction is due to the exposures being recognized as losses. The total impairment losses amounted to DKK 1,192.4 million in 2013.

At end-2013, the impaired claims represented 9.7% of the total credit exposure compared with 11.6% in 2012.

DIFFERENCE BETWEEN IMPAIRMENT FOR ACCOUNTING PURPOSES AND TOTAL IMPAIRMENT IN THE RISK REPORT

The Group - 2013 Line of business - DKK m	Impairment account/discount	Discount on exposures taken over	Impairment account
Public authorities	0.0	0.0	0.0
Agriculture, hunting and forestry	464.8	8.1	456.7
Fisheries	2.5	0.0	2.5
Industry and raw materials extraction	71.4	15.3	56.1
Energy supply	7.9	0.0	7.9
Building and construction	123.5	36.1	87.4
Trade	106.2	6.9	99.3
Transport, hotels and restaurants	76.6	16.3	60.3
Information and communication	1.4	0.0	1.4
Financing and insurance	135.3	59.2	76.1
Real estate	441.1	174.7	266.4
Other business areas	202.3	82.5	119.8
Business customers, total	**1,633.0**	**399.1**	**1,233.9**
Retail customers, total	**473.8**	**112.2**	**361.6**
Total	**2,106.8**	**511.3**	**1,595.5**

The Group - 2012 Line of business - DKK m	Impairment account/discount	Discount on exposures taken over	Impairment account
Public authorities	0.0	0.0	0.0
Agriculture, hunting and forestry	401.2	26.8	374.4
Fisheries	1.0	0.0	1.0
Industry and raw materials extraction	89.9	44.4	45.5
Energy supply	35.7	23.1	12.6
Building and construction	137.8	73.2	64.6
Trade	162.2	40.4	121.8
Transport, hotels and restaurants	171.0	109.2	61.8
Information and communication	18.6	7.8	10.8
Financing and insurance	234.2	178.4	55.8
Real estate	434.8	254.2	180.6
Other business areas	357.1	269.5	87.6
Business customers, total	**2,043.5**	**1,027.0**	**1,016.5**
Retail customers, total	**698.2**	**384.7**	**313.5**
Total	**2,741.7**	**1,411.7**	**1,330.0**

Figure 7.28

Group impairment losses are recognized when objective indications show that expected future losses exceed the loss anticipated when the loan was granted. Accordingly, in addition to objective indications for a group, group impairment losses are basically recognized when customers are transferred to groups with a higher credit risk exposure. Group impairment losses of DKK 57.8 million break down into losses of DKK 31.7 million on retail customers and DKK 26.1 million on business customers.

The Group's rating systems constitute the primary source of the breakdown into groups and the recognition of OII by 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 commitments 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 430.4 million in 2013, equal to 1,0% of total loans, advances and guarantees.

The profit impact attributable to continuing activities amounted to DKK 409.2 million, equal to an impairment ratio of 1.0%.

The recognized impairment losses relating to continuing activities break down as follows: retail customers accounted for DKK 75.8 million, and business customers for DKK 333.4 million. Major contributions among business customers come particularly from the agricultural and property sectors.

At end-2013, the impairment account and discount on exposures taken over represented 4.7% of the Group's total loans, advances and guarantees compared with 5.8% at end-2012. In relation to total credits arranged, i.e. both bank lending and arranged mortgage credit loans of DKK 104.4 billion in total, this represents an impairment ratio of 0.4%.

THE GROUP'S LOSSES AND IMPAIRMENT ON LOANS, ADVANCES AND GUARANTEES

DKK m	2013	2012
Losses, incl. losses covered by provisions/impairment and impairment losses taken over	1,189.7	587.0
Covered by provisions/impairment and impairment losses taken over	-907.0	-318.8
Losses not covered by provisions/impairment	**282.7**	**268.2**
New provisions/impairment, excl. sector-wide solutions	812.7	651.6
Reversal of provisions/impairment	-229.5	-145.6
Interest on impaired loans and advances taken to income	-92.9	-88.9
Provisions/impairment, net	**490.3**	**417.1**
Recoveries of loans written off as uncollectible	**-59.8**	**-29.8**
Losses and provisions/impairment for the year	**713.2**	**655.5**
Other losses	2.7	11.7
Losses and provisions/impairment for the year, total	**715.9**	**667.2**
Recognized in the income statement under:		
Impairment of loans, advances and receivables, etc.	694.7	599.0
Profit/loss on discontinuing activities	21.2	68.2
Total amount recognized in the income statement	**715.9**	**667.2**
- of which Profit/loss on discontinuing activities	21.2	68.2
Impact on the income statement, excl. sector-targeted solutions	**694.7**	**599.0**
- of which Erhvervsinvest Nord A/S	0.0	0.1
Impact on income statement - Continuing activities, excl. Erhvervsinvest Nord A/S	**694.7**	**598.9**
Adjustment of discount on exposures taken over from Sparbank	285.5	5.3
Impact on income statement – incl. adjustment of discount on commitments taken over from Sparbank	**409.2**	**593.6**

Figure 7.29

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

DKK m	2013	2012
Loans, advances and guarantees, gross, year-end	**45,134.9**	**47,566.7**
Losses and impairment for the year		
- Impairment of loans, advances and receivables	409.2	593.6
- Impairment recognized under profit/loss on disc. activities	21.2	68.2
Losses and impairment for the year, total	**430.4**	**661.8**
- in % of loans, advances and guarantees	1.0	1.4
Impairment account and discount on exp. taken over	**2,106.8**	**2,741.7**
- in proportion to loans, advances and guarantees	4.7	5.8
Contractual non-accrual loans, year-end	**672.3**	**1,186.0**
- in % of loans, advances and guarantees	1.5	2.5
Impairment account and discount on exposures taken over in % of non-accrual loans	**313.4**	**231.2**

Figure 7.30

THE GROUP'S MOVEMENTS IN LOSSES AND INDIVIDUAL IMPAIRMENT

2013

DKK m	Exposure Past due and impaired	Impairment account/discount *)	Recognized losses
Public authorities	0.0	0.0	0.0
Agriculture, hunting and forestry	987.2	462.0	82.4
Fisheries	5.5	2.2	0.0
Industry and raw materials extraction	182.2	68.5	38.7
Energy supply	14.6	6.6	0.0
Building and construction	395.7	122.1	50.1
Trade	207.5	97.9	67.2
Transport, hotels and restaurants	257.2	73.9	127.7
Information and communication	2.3	1.4	6.1
Financing and insurance	208.1	134.3	118.8
Real estate	1,085.8	438.8	146.8
Other business areas	392.2	199.2	229.9
Business customers, total	**3,738.3**	**1,606.9**	**867.7**
Retail customers	**654.7**	**442.1**	**324.7**
Total	**4,393.0**	**2,049.0**	**1,192.4**

2012

DKK m	Exposure Past due and impaired	Impairment account/discount *)	Recognized losses
Public authorities	0.0	0.0	0.0
Agriculture, hunting and forestry	1,071.7	399.0	99.5
Fisheries	11.1	0.9	0.0
Industry and raw materials extraction	240.0	86.3	42.8
Energy supply	149.4	33.1	1.7
Building and construction	375.1	133.9	43.2
Trade	265.4	152.2	52.4
Transport, hotels and restaurants	338.3	164.6	28.4
Information and communication	27.4	18.3	0.9
Financing and insurance	293.5	232.2	30.1
Real estate	1,111.9	433.5	87.2
Other business areas	639.5	342.0	94.6
Business customers, total	**4,523.3**	**1,996.0**	**480.8**
Retail customers	**985.1**	**618.1**	**117.9**
Total	**5,508.4**	**2,614.1**	**598.7**

*) *The Group's total value adjustments should be suppl. by groups of impairment losses and discount in the amount of DKK 57.8 million (2012: DKK 127.6 million).*

Figure 7.31

These two lines of business have been chosen because in recent years they have been a significant source of impairment losses, both at Spar Nord and in the banking sector in general.

7.8.1 AGRICULTURE

The Bank's agricultural loans amount to DKK 3.3 billion, equal to 7.7% of the continuing activities. In 2013, Spar Nord's lending to customers in the agricultural sector dropped DKK 358 million.

The Group's total lending to customers in the agricultural sector amounted to 8.7% at end-2013 compared with 10.0% at end-2012.

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SHARE OF CREDIT EXPOSURE TO AGRICULTURE, HUNTING AND FORESTRY

%	2013	2012
Spar Nord Bank	7.3	7.7
Spar Nord Leasing	1.4	2.3
The Group, total	**8.7**	**10.0**
Continuing activities	**7.7**	**8.4**

Figure 7.32

The figure below shows developments in credit quality among agricultural sector customers at Spar Nord's Local Banks in the period from 2011 to 2013.

AGRICULTURAL EXPOSURE BY RATING GROUP CONTINUING ACTIVITIES

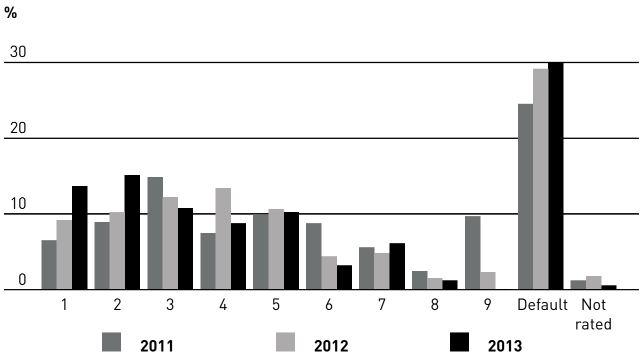

Figure 7.33

AVERAGE RISK LEVEL AGRICULTURE

	2011	2012	2013
Average rating group	6.2	5.5	5.7

Figure 7.34

As appears from the figure, there was a slight increase in the average risk level attaching to lending to the agricultural sector after a decline in the risk level in 2012. The impact on the operating profit from agricultural customers in 2013 ended at DKK 118.7 million compared with DKK 183.6 million in 2012.

Total impairment on the Bank's agricultural exposures amounted to DKK 438.4 million at end-2013, equal to 13.2% of the total exposures. During 2013, an amount of DKK 69.8 million was recognized as losses.

Spar Nord operates on the principle that when farmers cannot live up to the predetermined breakeven prices for milk and pork, respectively, 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 4% 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.

Despite the fact that the difficulties of the agricultural sector have been and continue to be significant and that impairment and the consequent losses have increased, the Group's portfolio of agricultural exposures is assessed overall to be slightly better at end-2013 than at the beginning of the year. The number of defaulting customers has increased substantially, but many customers have also been shifted to better rating groups. The portfolio continues to have a satisfactory spread on production sectors.

AGRICULTURAL EXPOSURE BY PRODUCTION LINE CONTINUING ACTIVITIES *)

	2013 DKK m	2013 %	2012 DKK m	2012 %
Cattle producers	1,130.8	34.1	1,143.3	35.4
Pig producers	945.8	28.6	1,017.7	31.5
Plant cultivation	320.1	9.7	320.5	9.9
Other production lines	912.9	27.6	751.7	23.2
Total	**3,309.6**	**100.0**	**3,233.2**	**100.0**

**) 2012 excl. Sparbank*

Figure 7.35

7.8.2 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 application processing for 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-2013, the Group had a total exposure to customers in the real property sector of DKK 5.0 billion. The exposure represents 11.1% of total loans, advances and guarantees. At end-2013, total impairment and the discount for the sector amounted to DKK 441.1 million against a beginning-of-year comprehensive impairment balance of DKK 434.8 million.

7.9 CREDIT 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.

The Bank's Management allocates lines for credit risk exposure to financial counterparties, based on the particular counterparty's risk profile, rating, size and solvency. The risks and lines of financial instruments are monitored on a day-to-day basis.

A major source of financial credit risk is the Bank's accounts with credit institutions and central banks. The bulk of credit risk relates to central banks with a triple A rating or Danish banks with which the Bank's Trading, Financial Markets & the International Division has a customer relationship.

RECEIVABLES FROM CREDIT INSTITUTIONS BY PRODUCT TYPE

DKK m	2013	2012	Percentage breakdown 2013	Percentage breakdown 2012
Certificates of deposit	0.0	0.0	0.0	0.0
Reverse transactions	1,865.0	1,730.5	50.5	36.7
Deposits and unlisted bonds	257.1	550.9	7.0	11.7
Subordinated loans	5.5	18.1	0.1	0.4
Current accounts	112.3	186.0	3.0	3.9
CSA accounts, etc.	913.6	1,391.0	24.7	29.4
Commercial foreign business	32.5	26.0	0.9	0.6
Market value, derivatives	482.3	740.0	13.1	15.7
Undisclosed	26.4	74.6	0.7	1.6
Receivables from credit institutions	**3,694.7**	**4,717.1**	**100.0**	**100.0**

Figure 7.36

87.8% of Spar Nord's receivables from credit institutions concerns banks with an A rating or higher. Of the total DKK 3.7 billion receivables from credit institutions, 50.5% is attributable to institutions with an AAA rating, 12.5% to institutions with an AA rating, and 24.8 to institutions with an A rating. Balances with unrated credit institutions are attributable primarily to associated Danish financial institutions.

RECEIVABLES FROM CREDIT INSTITUTIONS BY RATING

DKK m	2013	2012	Percentage breakdown 2013	Percentage breakdown 2012
AAA	1,865.0	1,734.6	50.5	36.8
AA	461.2	772.1	12.5	16.4
A	918.2	1,549.6	24.8	32.9
BBB	102.2	165.7	2.8	3.5
BB	0.0	0.8	0.0	0.0
B	18.8	20.3	0.5	0.4
CCC	0.0	0.0	0.0	0.0
CC	0.0	0.0	0.0	0.0
C	0.0	0.0	0.0	0.0
Unrated	318.4	452.2	8.6	9.6
Unallocated	10.9	21.8	0.3	0.4
Receivables from credit institutions	**3,694.7**	**4,717.1**	**100.0**	**100.0**

Figure 7.37

7.10 COUNTERPARTY RISK

Counterparty risk is the risk of loss because a financial counterparty or an institutional customer 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 determined according to the market-value approach. The counterparty risk, in terms of solvency, has been calculated as a gross amount of DKK 2,117.1 million at 31 December 2013. The positive market value for accounting purposes amounted to DKK 1,393.9 million. The difference between the value for accounting purposes and the solvency value is attributable to the add-on of potential future credit exposure and accrued interest, which are both 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 additionally has a controller department that conducts random sampling to check compliance as concerns authorization of lines, routines and business procedures.

To mitigate counterparty risk, Spar Nord makes framework, netting and collateral agreements to the extent possible.

7.10.1 COUNTERPARTY RISK AGAINST CUSTOMERS

Customers' trading in financial instruments forms part of the authorization of credit for the individual customer. When agreements are concluded regarding financial contracts, such contracts will be monitored on an ongoing basis by the Bank's monitoring system. The credit responsibility for such transactions is decentralized in accordance with the credit authorization powers of the respective customer advisers. Such transactions are made at central level, and part of the follow-up/monitoring also takes place at central level. The utilization of the authorized financial lines is monitored on a day-to-day basis.

7.10.2 COUNTERPARTY RISK AGAINST FINANCIAL AND INSTITUTIONAL CUSTOMERS

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

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 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 and institutional customers, 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 or DKK.

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 2012 to 2013.

DEVELOPMENT IN NUMBER OF AUTHORIZED LINES

	End-2013	End-2012
No. of authorized lines to credit institutions, total	123	128
Of which, to local Danish financial institutions	41	46
Lines to institutional customers	8	8

Figure 7.38

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

7.11 THE GROUP'S TOTAL 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 calculation of the Group's credit risk in relation to the solvency ratio shows an exposure of DKK 74.0 billion. This calculation corresponds to the Group's credit risk, which is treated according to the standardized approach.

In general, exposures were reduced by DKK 5,413.0 million in 2013, equal to a 6.8% drop. Measured in terms of average figures there was an increase of DKK 2,053.2 million, equal to 2.8%, as a result of the merger with Sparbank in Q4 2012.

TOTAL CREDIT EXPOSURE

DKK m	Year-end 2013	Year-end 2012	Average 2013*)	Average 2012*)
Central governments/central banks	6.2	1,791.2	588.6	868.5
Regional/local authorities	4,446.9	4,579.2	4,381.4	4,750.3
Public entities	85.0	159.1	104.4	179.3
Credit institutions	10,246.2	10,637.9	10,738.3	10,838.6
Trade and industry	21,659.0	21,324.6	21,150.2	19,493.3
Retail customers	31,987.1	34,187.5	32,450.3	31,415.9
Exp. secured by mortg. on real prop.	3,742.4	4,142.3	3,852.2	3,358.0
Exp. past due/overdrawn	142.3	386.3	238.4	490.1
Short-term exposure to institutions and businesses, etc.	0.0	0.0	0.0	0.0
Collective investment schemes	1.0	7.5	1.2	15.6
Miscellaneous exposures	1,657.3	2,170.8	1,833.4	1,875.6
Grand total	**73,973.4**	**79,386.4**	**75,338.4**	**73,285.2**

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

Figure 7.39

7. CREDIT RISK

TOTAL CREDIT EXPOSURE BY INDUSTRY

2013 — 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	4,418.0	1.3	0.0	0.0	4.4	0.0	0.2	0.0	0.0	62.1	4,486.0
Agriculture, hunting and forestry	0.0	0.0	0.0	0.0	2,024.3	2,112.6	230.6	37.4	0.0	0.0	0.0	4,404.9
Fisheries	0.0	0.0	0.0	0.0	124.5	59.4	1.7	0.1	0.0	0.0	0.0	185.7
Industry and raw materials extraction	0.0	0.0	0.0	0.0	1,567.8	961.8	23.7	9.4	0.0	0.0	0.0	2,562.7
Energy supply	0.0	28.2	83.7	0.0	1,946.5	192.0	13.8	0.0	0.0	0.0	0.0	2,264.2
Building and construction	0.0	0.0	0.0	0.0	1,050.8	1,212.3	185.1	5.1	0.0	0.0	0.0	2,453.3
Trade	0.0	0.0	0.0	0.0	2,734.7	2,148.0	96.6	12.9	0.0	0.0	0.0	4,992.2
Transport, hotels and restaurants	0.0	0.0	0.0	0.0	1,263.3	724.8	53.1	9.5	0.0	0.0	0.0	2,050.7
Information and communication	0.0	0.0	0.0	0.0	331.3	156.6	1.4	0.0	0.0	0.0	0.0	489.3
Financing and insurance	6.2	0.0	0.0	9,507.1	4,129.9	563.3	203.8	1.6	0.0	1.0	978.2	15,391.1
Real estate	0.0	0.0	0.0	0.0	3,896.5	1,581.1	499.7	6.0	0.0	0.0	279.3	6,262.6
Other business areas	0.0	0.1	0.0	723.8	1,421.6	2,099.3	166.5	8.7	0.0	0.0	337.7	4,757.7
Business customers, total	**6.2**	**4,446.3**	**85.0**	**10,230.9**	**20,491.2**	**11,815.6**	**1,476.0**	**90.9**	**0.0**	**1.0**	**1,657.3**	**50,300.4**
Retail customers	**0.0**	**0.6**	**0.0**	**15.3**	**1,167.8**	**20,171.5**	**2,266.4**	**51.4**	**0.0**	**0.0**	**0.0**	**23,673.0**
Grand total	**6.2**	**4,446.9**	**85.0**	**10,246.2**	**21,659.0**	**31,987.1**	**3,742.4**	**142.3**	**0.0**	**1.0**	**1,657.3**	**73,973.4**

2012 — 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	4,571.4	0.0	0.0	0.0	6.7	0.0	2.3	0.0	0.0	17.8	4,598.2
Agriculture, hunting and forestry	0.0	0.0	0.0	0.0	2,379.9	2,572.6	329.1	96.8	0.0	0.0	0.0	5,378.4
Fisheries	0.0	0.0	0.0	0.0	137.8	80.9	1.7	1.0	0.0	0.0	0.0	221.4
Industry and raw materials extraction	0.0	0.0	0.0	0.0	1,599.3	1,068.2	34.7	7.8	0.0	0.0	0.0	2,710.0
Energy supply	0.0	7.0	159.1	0.0	1,726.4	215.8	12.4	8.2	0.0	0.0	0.0	2,128.9
Building and construction	0.0	0.0	0.0	0.0	862.7	1,386.2	214.8	34.6	0.0	0.0	0.0	2,498.3
Trade	0.0	0.0	0.0	0.0	3,077.0	2,154.1	109.5	28.3	0.0	0.0	0.0	5,368.9
Transport, hotels and restaurants	0.0	0.0	0.0	0.0	1,362.0	1,129.9	48.8	53.7	0.0	0.0	304.3	2,898.7
Information and communication	0.0	0.0	0.0	0.0	305.5	181.8	2.3	2.0	0.0	0.0	0.0	491.6
Financing and insurance	1,791.2	0.0	0.0	10,623.6	1,863.4	637.5	196.2	9.3	0.0	7.5	1,404.9	16,533.6
Real estate	0.0	0.0	0.0	0.0	4,479.1	1,816.7	650.0	15.6	0.0	0.0	125.8	7,087.2
Other business areas	0.0	0.0	0.0	6.8	2,157.8	2,329.7	198.1	45.1	0.0	0.0	318.0	5,055.5
Business customers, total	**1,791.2**	**4,578.4**	**159.1**	**10,630.4**	**19,950.9**	**13,580.1**	**1,797.6**	**304.7**	**0.0**	**7.5**	**2,170.8**	**54,970.7**
Retail customers	**0.0**	**0.8**	**0.0**	**7.5**	**1,373.7**	**20,607.4**	**2,344.7**	**81.6**	**0.0**	**0.0**	**0.0**	**24,415.7**
Grand total	**1,791.2**	**4,579.2**	**159.1**	**10,637.9**	**21,324.6**	**34,187.5**	**4,142.3**	**386.3**	**0.0**	**7.5**	**2,170.8**	**79,386.4**

Figure 7.40

TERM TO MATURITY BY EXPOSURE CATEGORY

	2013						2012					
DKK m	**On demand**	**0 - 3 mths**	**3 mths - 1 year**	**1 year - 5 years**	**Over 5 years**	**Grand total**	On demand	0 - 3 mths	3 mths - 1 year	1 year - 5 years	Over 5 years	**Grand total**
Central gov./central banks	6.2	0.0	0.0	0.0	0.0	6.2	1,791.2	0.0	0.0	0.0	0.0	1,791.2
Regional/local authorities	0.0	314.5	3,785.2	304.8	42.4	4,446.9	0.0	302.5	2.3	4,214.7	59.7	4,579.2
Public entities	0.0	0.1	49.0	28.3	7.7	85.0	0.0	110.1	0.0	49.0	0.0	159.1
Institutions	114.8	8,281.5	251.3	573.3	1,025.3	10,246.2	1,863.2	6,068.6	585.5	610.6	1,510.0	10,637.9
Businesses, etc.	1,399.1	6,284.4	7,521.6	2,553.3	3,900.6	21,659.0	1,152.9	5,235.6	7,640.8	3,327.0	3,968.3	21,324.6
Retail customers	874.0	7,069.5	6,148.8	9,012.0	8,882.8	31,987.1	1,135.0	8,086.8	6,235.7	9,157.0	9,573.0	34,187.5
Exposures secured by mortgages on real property	155.8	549.1	597.7	763.0	1,676.8	3,742.4	241.4	645.0	767.8	737.7	1,750.4	4,142.3
Exposures past due / overdrawn	18.4	10.1	20.2	65.5	28.0	142.3	40.4	33.1	54.8	199.3	58.7	386.3
Short-term exposures to institutions and businesses, etc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Collective investment schemes	0.0	0.0	1.0	0.0	0.0	1.0	0.0	0.1	7.4	0.0	0.0	7.5
Other assets	347.0	3.9	374.0	271.9	660.5	1,657.3	550.1		326.3	602.0	692.4	2,170.8
Grand total	**2,915.3**	**22,513.1**	**18,748.8**	**13,572.1**	**16,224.1**	**73,973.4**	**6,774.2**	**20,481.8**	**15,620.6**	**18,897.3**	**17,612.5**	**79,386.4**

Figure 7.41

7. CREDIT RISK

The Group's credit exposure is predominantly limited to Denmark. In 2013, debtors based in Denmark accounted for more than 95% of the Group's credit exposure, for which reason details regarding the geographical breakdown are not considered important.

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	**2013**		**2012**	
DKK m	**Exp. covered by guarantee**	**Other financial collateral**	**Exp. covered by guarantee**	**Other financial collateral**
Central gov./central banks	0.0	0.0	0.0	0.0
Regional/local authorities	0.0	0.0	0.0	0.0
Public entities	0.0	0.0	0.0	0.0
Credit institutions	18.8	5,119.6	0.0	4,563.1
Businesses, etc.	206.9	2,751.0	460.7	853.9
Retail customers	169.2	823.6	328.2	843.3
Exp. secured by mortg. on real prop.	0.0	0.0	1.3	0.0
Exp. past due / overdrawn	2.7	7.9	1.1	10.3
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
	397.6	**8,702.1**	**791.3**	**6,270.6**

Figure 7.42

8. MARKET RISK

Market risk is an umbrella heading for the risk of loss caused by fluctuations in exchange rates, share prices or prices for financial instruments. Market risks can be broken down into:

- Interest-rate risk
- Foreign-exchange risk
- Equity risk
- Commodity risk
- Option risk
- Risks related to own properties

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

8.1 MARKET RISK POLICY

As discussed in the section "Risk management", 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 methods 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 responsible officers of Trading, Financial Markets & the International Division are granted the limits within which they may enter into commitments.

8.2 MANAGEMENT, MONITORING AND REPORTING

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

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

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 for all units subject to instructions, and any failure to comply with instructions is reported upstream in the hierarchy.

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8.3 DEVELOPMENTS IN 2013

In 2013, the net bond portfolio declined by DKK 1,213.3 million, and shares in the trading portfolio dropped by DKK 2.4 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) increased by DKK 20.0 million in 2013 to a total exposure of DKK 2,054.4 million.

The interest-rate risk has changed from DKK -75.7 million at end-2012 to DKK -20.8 million at end-2013, which is due to the fact that both the negative interest-rate risk outside the trading portfolio has been reduced and that the positive interest-rate risk attaching to the trading portfolio has risen. The interest-rate risk in Spar Nord at end-2013 is broken down by an interest-rate risk in the trading portfolio of DKK 70.8 million and an interest-rate risk outside the trading portfolio of DKK -91.6 million.

Moreover, the foreign-exchange risk at end-2013 rose compared to end 2012.

8.4 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, as well as 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.

8.4.1 DEVELOPMENTS IN 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.

8. MARKET RISK

DEVELOPMENT IN THE GROUP'S NET INTEREST-RATE RISK

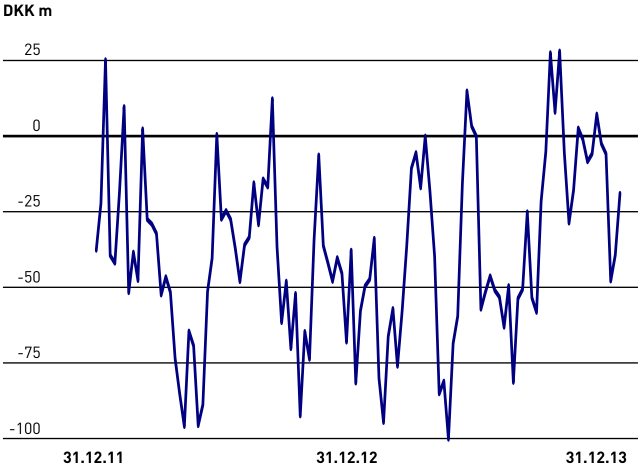

Figure 8.1

In general terms, the net interest-rate risk was negative throughout most of 2013, which means that Spar Nord has been exposed to rising interest rates in the market. The negative interest-rate risk is due primarily to the Bank's positions outside the trading portfolio.

The figure below shows the impact of the Group's interest-rate risk on the shareholders' equity in % when the yield curves are displaced upwards in parallel by 1 percentage point. A negative interest-rate risk will have a positive impact on shareholders' equity.

IMPACT OF THE INTEREST-RATE RISK ON SHAREHOLDERS' EQUITY

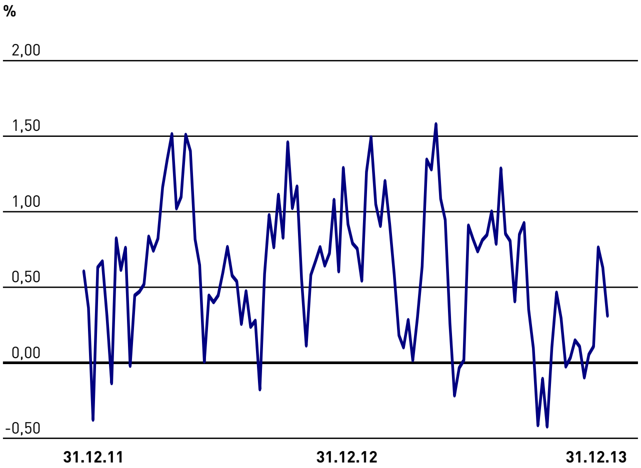

Figure 8.2

In addition, Spar Nord also calculates the interest-rate risk relative to duration and currency. This shows the 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 intervals, given an increase in the interest rate of 1 percentage point.

INTEREST-RATE RISK BY TERM TO MATURITY AND CURRENCY

2013 Currency, DKK m	Less than 3 mths	3 mths - 1 year	1 year - 3 years	3 years - 7 years	Over 7 years	Total
DKK	13.6	-25.8	-25.5	8.3	23.4	-6.0
EUR	3.6	-9.8	-6.5	-5.0	5.9	-11.8
USD	1.3	0.5	0.4	-3.8	0.0	-1.6
GBP	0.0	-0.1	0.0	0.0	0.0	-0.1
NOK	-0.1	0.3	-0.1	0.0	0.0	0.1
CHF	-1.2	-0.6	-0.8	0.2	0.0	-2.4
JPY	0.0	-0.4	-0.3	0.0	0.0	-0.7
SEK	1.3	0.1	-0.1	0.4	0.0	1.7
Other	0.0	0.0	0.0	0.0	0.0	0.0
Total	**18.5**	**-35.8**	**-32.9**	**0.1**	**29.3**	**-20.8**

2012 Currency, DKK m	Less than 3 mths	3 mths - 1 year	1 year - 3 years	3 years - 7 years	Over 7 years	Total
DKK	5.8	-6.2	-75.6	-2.3	15.6	-62.7
EUR	4.1	-1.9	-11.6	-5.2	2.6	-12.0
USD	1.0	-0.1	-0.3	0.3	0.0	0.9
GBP	0.0	0.0	0.0	0.0	0.0	0.0
NOK	0.0	-0.1	0.0	0.0	0.0	-0.1
CHF	-1.5	-0.2	0.0	-0.3	0.0	-2.0
JPY	0.0	0.0	0.1	0.0	0.0	0.1
SEK	1.5	0.0	-1.0	-0.2	0.0	0.3
Other	-0.2	0.0	0.0	0.0	0.0	-0.2
Total	**10.7**	**-8.5**	**-88.4**	**-7.7**	**18.2**	**-75.7**

Figure 8.3

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

8.4.2 INTEREST-RATE RISK IN THE TRADING PORTFOLIO

The interest-rate risk attaching to positions in the trading portfolio derives primarily from bonds, swaps and futures.

INTEREST-RATE RISK IN THE TRADING PORTFOLIO

2013 Currency, DKK m	Less than 3 mths	3 mths - 1 year	1 year - 3 years	3 years - 7 years	Over 7 years	Total
DKK	20.7	19.9	8.3	17.0	21.0	86.9
EUR	4.1	-9.8	-6.6	-5.1	5.9	-11.5
USD	0.6	0.5	0.4	-3.8	0.0	-2.3
Other	-0.9	-0.7	-1.3	0.6	0.0	-2.3
Total	**24.5**	**9.9**	**0.8**	**8.7**	**26.9**	**70.8**

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	4.5	3.7	32.8	10.6	12.7	64.3
EUR	6.3	-1.2	-10.2	-7.2	0.1	-12.2
USD	0.2	-0.1	-0.3	0.3	0.0	0.1
Other	3.1	-0.3	-0.9	-0.5	0.0	1.4
Total	**14.1**	**2.1**	**21.4**	**3.2**	**12.8**	**53.6**

Figure 8.4

As appears from figure 8.4, the interest-rate risk attaching to the trading portfolio amounted to DKK 70.8 million at end-2013, up DKK 17.2 million on end-2012. The increase occurred primarily in DKK.

8.4.3 INTEREST-RATE RISK OUTSIDE THE TRADING PORTFOLIO

The interest-rate risk attaching to positions outside the trading portfolio derives primarily from fixed-interest deposits and loans in ordinary banking transactions and interest-rate risk related to the Bank's funding

INTEREST-RATE RISK OUTSIDE THE TRADING PORTFOLIO

2013 Currency, DKK m	Less than 3 mths	3 mths - 1 year	1 year - 3 years	3 years - 7 years	Over 7 years	Total
DKK	-7.1	-45.7	-33.8	-8.7	2.4	-92.9
EUR	-0.5	0.0	0.1	0.1	0.0	-0.3
Other	1.6	0.0	0.0	0.0	0.0	1.6
Total	**-6.0**	**-45.7**	**-33.7**	**-8.6**	**2.4**	**-91.6**

2012 Currency, DKK m	Less than 3 mths	3 mths - 1 year	1 year - 3 years	3 years - 7 years	Over 7 years	Total
DKK	1.3	-9.9	-108.4	-12.9	2.9	-128.5
EUR	-2.2	-0.7	-1.4	2.0	2.5	1.8
Other	-2.5	0.0	0.0	0.0	0.0	-2.6
Total	**-3.4**	**-10.6**	**-109.8**	**-10.9**	**5.4**	**-129.3**

Figure 8.5

The table shows the net interest-rate risk outside the trading portfolio, given an increase in the interest rate of 1 percentage point broken down by term to maturity and currency. Since end-2012, the interest-rate risk has changed from DKK -129.3 million to DKK -91.6 million at end-2013. The primary cause for the change is a reduction in the average term to maturity of fixed-interest deposits.

8.4.4 BOND PORTFOLIO

Spar Nord's bond portfolio is composed of 78.7% of mortgage-credit bonds, 19.0% of bonds from financial issuers and 2.3% from other issuers.

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

BOND PORTFOLIO BY ISSUER TYPE *)

DKK m	2013	2012	Percentage breakdown 2013	Percentage breakdown 2012
Mortgage-credit bonds	12,813.8	14,747.6	78.7	84.3
Financial issuers	3,089.2	2,698.4	19.0	15.5
Other issuers	180.9	113.2	1.1	0.6
Government bonds	200.5	-61.5	1.2	-0.4
Bonds	**16,284.4**	**17,497.7**	**100.0**	**100.0**

**) The bond portfolio plus spot and forward transactions (purchase + sale)* *Figure 8.6*

The corresponding breakdown of the Bank's bond portfolio by rating is shown below.

BOND PORTFOLIO BY RATING *)

DKK m	2013	2012	Percentage breakdown 2013	Percentage breakdown 2012
AAA	12,665.1	14,422.2	77.8	82.4
AA	211.6	211.3	1.3	1.2
A	1,761.8	1,728.4	10.8	9.9
BBB	1,590.2	1,110.9	9.7	6.4
BB	12.2	2.8	0.1	0.0
B	12.7	9.5	0.1	0.1
CCC	0.8	0.2	0.0	0.0
CC	1.7	5.5	0.0	0.0
Unrated	28.3	6.9	0.2	0.0
Bonds	**16,284.4**	**17,497.7**	**100.0**	**100.0**

**) The bond portfolio plus spot and forward transactions (purchase + sale)* *Figure 8.7*

The Bank has used a small portion of its mortgage credit bonds to redeem senior debt in 2013. At the same time, the Bank's sound liquidity situation has made it possible to buy more bonds from financial issuers, even though the Bank is not entitled to include such bonds in its liquidity reserves in 2014 according to CRD IV/CRR. Despite these changes, more than 75% of the Bank's bond portfolio is still rated AA or higher.

BREAKDOWN OF BONDS 2013

DKK m	Origin/ underlying	Rating category	Amount	%
Mortgage-credit bonds	Denmark	AAA-AA	12,054.5	74.0
		BBB	319.3	2.0
		Unrated	4.4	0.0
	Sweden		435.6	2.7
			12,813.8	**78.7**
Financial issuers	Denmark	AAA-A	1,666.1	10.3
		BBB	1,226.6	7.5
	Sweden	AA-A	52.4	0.3
	Norway	AAA-A	14.3	0.1
	Finland	AA-A	48.4	0.3
	Netherlands	AA	37.3	0.2
	UK	A	43.0	0.3
	Other	AAA-AA	1.1	0.0
			3,089.2	**19.0**
Other issuers	Scandi Notes V Senior	AAA	70.1	0.4
	Scandi Notes IV Senior	CC	1.7	0.0
	Denmark	BBB - Unrated	44.5	0.3
	Other	AAA - Unrated	64.6	0.4
			180.9	**1.1**
Government bonds	Denmark	AAA-AA	132.5	0.8
	Europe	AAA	68.0	0.4
			200.5	**1.2**
Grand total			**16,284.4**	**100.0**
Own bonds	Denmark	B - Unrated	**1.5**	

Figure 8.8a

8. MARKET RISK

BREAKDOWN OF BONDS 2012

DKK m	Origin/ underlying	Rating category	Amount	%
Mortgage-credit bonds	Denmark	AAA-A	14,513.0	83.0
		BBB	231.8	1.3
		Unrated	2.8	0.0
			14,747.6	**84.3**
Financial issuers	Denmark	AAA-A	1,404.8	8.1
		BBB	872.7	5.0
	Sweden	AAA-A	242.2	1.4
	Norway	AAA-A	10.9	0.1
	Finland	AA-A	41.1	0.2
	France	AA	57.2	0.3
	UK	A	69.3	0.4
	Other	A-BBB	0.2	0.0
			2,698.4	**15.5**
Other issuers	Scandi Notes V Senior	AAA	84.8	0.5
	Scandi Notes IV Senior	B	9.4	0.0
	Other Scandi Notes	CC - Unrated	5.5	0.0
	Denmark	BBB - Unrated	12.4	0.1
	Other	AA-C	1.1	0.0
			113.2	**0.6**
Government bonds	Denmark	AAA-AA	-172.4	-1.0
	Europe	AAA	110.9	0.6
			-61.5	**-0.4**
Grand total			**17,497.7**	**100.0**
Own bonds	Denmark	BBB-BB	**7.7**	

Figure 8.8b

8.5 FOREIGN-EXCHANGE RISK

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

Spar Nord calculates the foreign-exchange risk in three 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. Thirdly, foreign-exchange indicator 2 denotes that if the Bank does not change foreign-exchange positions the next ten days, there is 1% probability that the Group will incur a loss that exceeds the value of the indicator.

The table below shows foreign-exchange indicator 1, foreign-exchange indicator 1 compared with the core capital (Tier 1), foreign-exchange indicator 2 compared with the core capital (Tier 1), and the foreign-exchange risk broken down on the individual currencies.

FOREIGN-EXCHANGE RISK

	End-2013	End-2012
Foreign-exchange indicator 1 in DKK m	276.0	94.3
Foreign-exchange indicator 1 in % of core capital (Tier 1) incl. hybrid capital, after deductions	3.7	1.4
Foreign-exchange indicator 2 in % of core capital (Tier 1) incl. hybrid capital, after deductions	0.0	0.0
Foreign-exchange risk broken down by currency in DKK m		
EUR	-1.6	-0.1
SEK	-2.2	-1.8
USD	-2.2	-0.1
CHF	-0.0	-0.2
Other currencies	-2.5	-0.1
Foreign-exchange risk, total	**-8.5**	**-2.3**

Figure 8.9

As appears from figure 8.9, the foreign-exchange risk was DKK 6.2 million larger than at end-2012 and ended at DKK -8.5 million at end-2013. For most of the currencies, the foreign-exchange risk has risen since end-2012.

8.6 EQUITY RISK

The equity 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 calculation of equity positions is broken down by positions in the trading portfolio and outside the trading portfolio.

8.6.1 SHARES IN THE TRADING PORTFOLIO

The shares and equities in the trading portfolio have been acquired with a view to trading.

It appears from the figure below that the shares held in the trading portfolio dropped from DKK 160.8 million at end-2012 to DKK 158.4 million at end-2013.

EQUITY RISK IN THE TRADING PORTFOLIO

DKK m	End-2013	End-2012
Listed shares in the trading portfolio	140.1	119.5
Unlisted shares in the trading portfolio	18.3	41.3
Total shares in the trading portfolio	**158.4**	**160.8**

Figure 8.10

8.6.2 SHARES 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 in associates and shares in strategic partners.

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

Shares in strategic partners in the financial sector are shares in companies whose purpose is to support financial institutions' transactions in the fields of mortgage credit, payment services, unit trusts, etc. 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.

EQUITY RISK OUTSIDE THE TRADING PORTFOLIO

DKK m	End-2013	End-2012
Shares in credit and financing institutions	709.6	684.2
Shares in unit trust man. companies	82.1	90.5
Shares in pension institutions	19.2	20.1
Shares in payment services business	182.7	182.7
Other shares	63.5	64.1
Shares in strategic partners, total	**1,057.1**	**1,041.6**
Realized gains	2.0	0.0
Unrealized gains	25.2	5.8
Total associates	**997.3**	**992.8**
Shares outside the trading portfolio, total	**2,054.4**	**2,034.4**

Figure 8.11

The holding of shares outside the trading portfolio rose from DKK 20.0 million to DKK 2,054.4 million at end-2013.

8.7 COMMODITY RISK

Spar Nord only accepts commodity risks on its own books to a very limited extent. 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.

8.8 OPTIONSRISIKO

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.

8.9 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 *)

	Impact on equity		Impact on operating profit	
	End-2013 %	End-2012 %	End-2013 DKK m	End-2012 DKK m
Interest increase of 1 percentage point	-0.8	-0.7	-53.1	-40.2
Interest decrease of 1 percentage point	0.8	0.7	53.1	40.2
Share price decrease of 10%	-0.2	-0.2	-11,9	-12.1
Exchange-rate fluctuation of 2% in unfavourable direction	-0.1	0.0	-6.4	-1.7

**) The sensitivity information shows the impact of isolated changes in interest rates and prices of shares in the trading portfolio, while the impact of changes in exchange rates is shown for positions both in and outside the trading portfolio.*

Figure 8.12

It appears from the table that the shareholders' equity will decrease 0.8% if the interest rate rises by 1 percentage point. In addition, it can be seen that a 10% drop in share prices will result in a 0.2% loss of 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 has been assumed that the portfolios remain unchanged.

8.10 SPAR NORD'S OWN PROPERTIES

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

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

The fair value of the individual property is reassessed at least once a year based on the current letting market and the interest level. An external valuation is obtained from a real estate agent to support the calculation of fair value, including the rental rates and rates of return used. In 2013, positive value adjustments totalling DKK 1.4 million were made on corporate properties, such adjustments being recognized directly in shareholders' equity under other comprehensive income. Impairment losses totalling DKK 10.2 million 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 rates of return on the Bank's properties.

YIELD/RETURN

	2013		2012	
	No. of properties	Year-end value	No. of properties	Year-end value
5.75-7%	11	222.1	15	291.9
7-8%	18	288.8	23	301.8
8-9%	18	139.8	21	155.6
9-14.5%	11	28.7	12	31.0
Grand total	**58**	**679.4**	**71**	**780.3**

Figure 8.13

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

All other things being equal, an increase of the required rate of return of 0.5 percentage point will reduce the fair value by DKK 43.8 million (2012: DKK 50.9 million).

9. OPERATIONAL RISK

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.

All activities in the organization are subject to operational risks.

9.1 OPERATIONAL RISK POLICY

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.

9.2 MANAGEMENT, MONITORING AND REPORTING

Operational risk is managed across the Group through a comprehensive system of 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.

Throughout the Group, events that result in a loss of more than DKK 5,000 are recorded and categorized, and identified risks are recorded on an ongoing basis, followed up by reporting to the Risk Review Officer, the Executive Board and the Board of Directors.

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

9.3 COMPLIANCE

Operational risks include compliance risks, which means the risk that the Bank is not being operated according to legal and statutory requirements, standards in the market and good 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 Department regularly reviews critical business procedures with a view to assessing risks and making recommendations to limit individual risks.

The Compliance function is managed by a Head of Compliance (a law graduate), who answers to the Executive Board and submits reports to the Board of Directors. This function is manned by representatives from a cross-section of the Bank's business areas. An overall policy and annual programme for the function's activity have been approved by the Board of Directors.

9.4 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 being exposed to fraud.

9.5 IT SECURITY

Information and information systems are important 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 on IT security.

Spar Nord bases its activity in the area of IT security 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, which will be 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 continued operation at a satisfactory level, in the case of extraordinary events.

9.6 CAPITAL NEEDS

The capital needed to cover Spar Nord's operational risks is calculated using the basic indicator approach. In 2013, the operational risk amounted to 13.0% of total risk-weighted assets, ending at DKK 5,557.5 million at the reporting date, which results in a capital need of DKK 444.6 million.

The Risk Report has been prepared in a Danish and an English version. In case of discrepancy between the Danish-language original text and the English-language translation, the Danish text shall prevail.

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