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## Spar Nord Annual Report: DKK 989 million net profit and 12.0% return on equity

Spar Nord has released its financial statements for 2017. Highlights of the financial statements include:

- DKK 989 million net profit, corresponding to 12.0% return on equity.
- Core earnings before impairment of DKK 1,213 million – in line with the guidance provided.
- Low interest rates and fierce competition resulted in a 5% drop in net interest income to DKK 1,546 million. The lending margin was 42 basis point lower at end-2017 than at end-2016.
- Bank and leasing loans rose DKK 2.2 billion, or 6%, on decent growth in all business areas, both for retail and business customers.
- Net fee income rose 6% to DKK 1,116 million driven by growth in mortgage loans arranged and higher income from insurance mediation, daily banking and payment services.
- Market value adjustments and dividends amounted to DKK 404 million, which was 7% lower than in 2016, but a highly satisfactory level given the market conditions.
- Costs and expenses totalled DKK 1,936 million, an increase of 2%, or DKK 40 million, on 2016. The increase was partly the result of a 2% increase in payroll costs and an 8% increase in operating expenses due to strategic IT projects, refurbishment of branches and higher marketing costs.
- Loan impairment charges were a net income of DKK 38 million, reflecting a very strong credit quality among Spar Nord's retail and business customers. By comparison, loan impairment charges were an expense of DKK 242 million in 2016.
- Solid capital position with a common equity tier 1 ratio of 14.4% and an own funds ratio of 18.2%. For 2017, Spar Nord proposes a dividend of DKK 3.50 per share, equal to a dividend payout ratio of 43%.

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SPAR NORD

# ANNUAL REPORT

2017





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# Spar Nord at a glance



**394,000**  
Customers



**1,538**  
Employees



**50**  
Branches



**32%**  
Market share, North Jutland



**4%**  
National market share



**DKK 37.3 billion**  
Loans and advances



**DKK 48.7 billion**  
Deposits

## CUSTOMERS

Spar Nord is focused on providing comprehensive counselling to retail customers and small and medium-sized businesses. The Bank serves a total of 359,000 retail customers and 35,000 business customers.

## EMPLOYEES

Spar Nord has 1,538 employees, 1,040 of whom work at the local banks, 75 at Trading, Financial Markets & the International Division, and 423 in the central functions.

## SHAREHOLDERS

Spar Nord is owned by 107,000 shareholders – 76% of whom are from Denmark and 24 % from other countries. Of these, private investors represent 32%, and foundations, institutional investors and other major shareholders represent 68%.

## BRANCHES

The Spar Nord chain is composed of 50 local banks (branches), organised into 31 bank regions. Almost all major towns and cities in Denmark have a Spar Nord branch.

## BUSINESS VOLUME

Spar Nord's total business volume amounted to DKK 241.4 billion. Bank and leasing loans amounted to DKK 37.3 billion, and mortgage loans arranged through the Bank amounted to DKK 77.2 billion. Total deposits stood at DKK 48.7 billion, and customers have DKK 15.4 billion in pooled schemes and DKK 50.9 billion in custody accounts.

## MARKET SHARE

Spar Nord is a market leader in North Jutland, with a market share (number of retail and business customers relative to the total population) of around 32%. The Bank's national market share ranges at around 4%.

Spar Nord was founded in Aalborg in 1824, and North Jutland remains the Bank's home turf. Since 2001, Spar Nord has established itself as a nationwide chain of local banks. The vision is to become Denmark's most personal bank.

During the years since the growth strategy was initiated, Spar Nord has acquired and established 51 branches outside North Jutland, while 66 branches were closed or merged.

At end-2017, 27 of the Bank's 50 branches, 60.0% of total credit arranged and 55% of the total business volume were located outside North Jutland.

#### VISION AND STRATEGY

Developments in the banking market and the challenges they entail would seem to imply a need for fundamental changes to the way in which you run a bank.

At Spar Nord, our fundamental view is that our greatest strength, also in an increasingly digital world, remains the ability to be a personal and attentive bank: No matter what tomorrow brings, people will always desire a bank that is close to its customers in every sense of the word, and a bank that knows and understands their needs and wants.

Therefore, Spar Nord's vision – the landmark which all staff members should steer for – is to become **Denmark's most personal bank**.

As part of its efforts to bring the vision within reach, Spar Nord launched a new strategy a little over a year ago. The new strategy builds on the current trends in the banking market, with digitalisation dominating the picture. Banks seem to be handling the digitalisation trend in very different ways. Some are striving to become fully digitised, while others are sticking to traditional banking models.

Spar Nord believes that in future many customers will still wish to speak personally with an adviser about their financial affairs. At the same time, however, having strong digital offerings in the future will be paramount. Accordingly, the ambition behind Spar Nord's strategy is to become **The Personal Bank in a Digital World**.

The personalised aspect means that Spar Nord intends to retain its local presence and the attentive advice we provide. The digital aspect means that we must be better at utilising digital options whenever it makes sense for our customers. In particular, we can utilise digitalisation as a means to personalise our services even more, for example using data to learn even more about our customers, and using digital solutions to make the personal encounter even more attentive.

|  |   |  |  |                                 |
|--|---|--|--|---------------------------------|
| <br>VISION              | Denmark's most personal bank.   |  |  |                                 |
| <br>TRENDS              | #1 Digitalisation   | #2 More demanding customers  | #3 Weak growth and low interest rates  | #4 Stricter rules and standards |
| <br>STRATEGIC DIRECTION | The Personal Bank in a Digital World  |  |  |                                 |
| <br>MUST WIN BATTLES    | <b>#1 PREMIER PERSONAL ADVICE AND SERVICE</b> <ul style="list-style-type: none"> <li>• The good customer meeting</li> <li>• The good banking experience</li> <li>• Better grip on customer relations</li> </ul> | <b>#2 LOCAL OWNERSHIP AND STRONG CENTRAL SUPPORT</b> <ul style="list-style-type: none"> <li>• Customer service of the future</li> <li>• Improved wealth management concept</li> <li>• New business customer concept</li> </ul> | <b>#3 DIGITALISATION THE SPAR NORD WAY</b> <ul style="list-style-type: none"> <li>• More efficient processes</li> <li>• New digital solutions</li> <li>• New agile development organisation</li> </ul> |                                 |

# Letter to our shareholders

Let us start our report on 2017 by looking at the bottomline and by saying how pleased we are with the net profit of DKK 989 million and a return on equity of 12.0%, which made 2017 yet another satisfactory financial year for Spar Nord.

However, the strong results were achieved against the backdrop of a number of events and trends that make the story of 2017 and not least the story of 2018, a slightly more nuanced one. The fact is that the overall conditions for our classic banking business proved as challenging in 2017 as we had expected. It was a year in which negative interest rates and fierce competition put interest margins under a lot of pressure but where our bottomline was safeguarded by strong fee income, healthy value adjustments and not least the reversal of loan impairment charges.

Furthermore, we are encouraged by the fact that we achieved lending growth of 6%, which would indicate that we continue to win market share.

## FIRST YEAR WITH THE NEW STRATEGY

At Spar Nord, 2017 was also Year 1 of the new strategy we launched towards the end of 2016. Termed The Personal Bank in a Digital World, our strategy incorporates a focus on the way we meet our customers. The reason is that, in a time of digital change, there is still a big potential for a bank like ours to consolidate its market position through competent personal advice and outstanding customer service.

One specific result of this is that we have restructured the way in which we plan and conduct our customer meetings. In addition, all employees of our organisation have received training in personalised service, and we have so far refurbished 22 of our 50 branches, which now support the advice and service experience we wish to provide to our retail and business customers.

Our new strategy also encompasses a number of new digital initiatives, both in-house and together with our partners at the data-processing centre and under the Totalkredit umbrella. We worked hard to implement these initiatives in 2017, and we hope they will produce gains from 2018 onwards in the shape of an improved customer experience and more efficient processes.

Finally, as an important part of our new strategy, we have worked on a number of digital and innovative offerings, some in collaboration with businesses in the fintech industry.



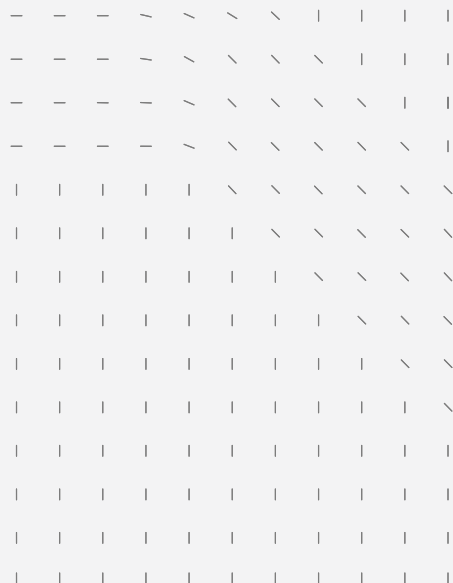
*Kjeld Johannesen, Chairman of the Board of Directors*

## A MORE DIFFICULT YEAR FOR OUR SHAREHOLDERS

While we believe that we have launched many good initiatives, and while our results are generally satisfactory, we have to acknowledge that 2017 was not such a good year for Spar Nord's shareholders. Following very strong share price performance from 2012 to 2016, when our shares returned a total of 185%, or 37% per year on average, the price of Spar Nord shares fell from 81 at end-2016 to 72 at end-2017. This means that the combined return including dividends was minus 5%. Obviously, we are not satisfied with the performance of our share, although this is a matter outside our control.

## MREL REQUIREMENTS AND SIFI STATUS

The most important reason why Spar Nord's shares struggled in 2017 was probably the fact that the Bank was met with a large number of regulatory measures that have had an impact on our dividend policy, among other factors.





Lasse Nyby, Chief Executive Officer

The Danish FSA announced in connection with the implementation of the new resolution rules for Danish banks that Spar Nord will be subject to the same capital requirements (the so-called MREL requirements) as the systemically important banks. This means that, once the rules have been phased in, our total capital base must be equal to twice our calculated capital requirement. This represents a challenge to a bank like Spar Nord which calculates its risk-weighted assets using the standard approach.

Our reaction to the news about MREL requirements was that if Spar Nord were to be deemed a SIFI in a resolution context, it should be considered whether the Bank should not also be treated as a SIFI in a "going concern" context. In this regard, we were pleased to learn that the political parties behind the so-called Bank Package 6 in December 2017 issued a statement from which it appeared that Spar Nord will be assigned SIFI status in Denmark.

### IRB ON THE CARDS

As a logical consequence of the amended framework conditions, at the beginning of 2018 we launched a project that over a 3–4 year period aims to implement so-called internal ratings-based models (IRB) for calculating the total risk exposure amount in our retail and business customer activities. This will definitely be a complex project, but once it is completed we would expect a substantial positive effect for Spar Nord and not least for our shareholders.

### OUTLOOK FOR 2018

The extensive work of becoming an IRB bank will of course – in combination with the initiatives we have described in our strategy plan – characterise the year which is already well underway.

Overall, 2018 is set to be marked by some of the same trends that we experienced in 2017: On the one hand, interest rate margins will remain under pressure. On the other hand, favourable economic conditions and our high-quality loans will make a positive contribution to our performance. Adding to this our expectation that we will continue to grow our market share, we expect a year in which Spar Nord's roughly 1,500 employees will once more be able to generate decent results for our shareholders.

Kjeld Johannesen  
Chairman

Lasse Nyby  
CEO



# Performance indicators and financial ratios – Group

## CORE EARNINGS – YEAR

### PERFORMANCE INDICATORS

| INCOME STATEMENT<br>DKK m   | 2017          | 2016          | Change<br>in % | 2015          | 2014          | 2013          |
|---|---------------|---------------|----------------|---------------|---------------|---------------|
| Net interest income *)  | 1,546         | 1,621         | -4.6           | 1,727         | 1,800         | 1,849         |
| Net income from fees, charges and commissions   | 1,116         | 1,053         | 6.0            | 1,030         | 863           | 723           |
| Market value adjustments and dividends  | 404           | 434           | -6.8           | 507           | 380           | 201           |
| Other operating income*)  | 51            | 30            | 71.2           | 38            | 50            | 99            |
| Income from investments in associates and group enterprises                                     | 32            | 30            | 8.9            | 28            | 110           | 66            |
| <b>Core income</b>  | <b>3,150</b>  | <b>3,167</b>  | <b>-0.5</b>    | <b>3,331</b>  | <b>3,202</b>  | <b>2,938</b>  |
| Salaries  | 1,165         | 1,142         | 2.1            | 1,098         | 1,053         | 1,026         |
| Operating expenses  | 710           | 660           | 7.6            | 679           | 798           | 618           |
| Depreciation, amortisation and impairment   | 61            | 94            | -35.7          | 66            | 72            | 98            |
| <b>Costs and expenses</b>   | <b>1,936</b>  | <b>1,896</b>  | <b>2.1</b>     | <b>1,843</b>  | <b>1,922</b>  | <b>1,741</b>  |
| <b>Core earnings before impairment</b>  | <b>1,213</b>  | <b>1,270</b>  | <b>-4.5</b>    | <b>1,488</b>  | <b>1,280</b>  | <b>1,197</b>  |
| Loan impairment charges etc. *)   | -38           | 242           | -115.6         | 316           | 493           | 405           |
| <b>Core earnings</b>  | <b>1,251</b>  | <b>1,028</b>  | <b>21.7</b>    | <b>1,172</b>  | <b>786</b>    | <b>792</b>    |
| Earnings from investment portfolios   | -             | -             | -              | -             | 21            | 44            |
| Contributions to Sector-Wide Solutions  | -             | -             | -              | -99           | -102          | -120          |
| Special merger-related items  | -             | -             | -              | -             | -             | -46           |
| <b>Profit/loss before tax</b>   | <b>1,251</b>  | <b>1,028</b>  | <b>21.7</b>    | <b>1,074</b>  | <b>705</b>    | <b>670</b>    |
| Tax   | 262           | 190           | 37.9           | 177           | 91            | 133           |
| <b>Profit/loss</b>  | <b>989</b>    | <b>838</b>    | <b>18.0</b>    | <b>897</b>    | <b>614</b>    | <b>536</b>    |
| Of which, share attributable to interest expenses to holders of additional tier 1 (AT1) capital | 49            | 26            | 87.1           | 14            | -             | -             |
| <b>BALANCE SHEET<br/>DKK m</b>  |               |               |                |               |               |               |
| Total assets  | 80,367        | 78,473        | 2.4            | 76,357        | 78,825        | 74,605        |
| <b>Loans and advances</b>   | <b>46,747</b> | <b>41,346</b> | <b>13.1</b>    | <b>38,039</b> | <b>35,948</b> | <b>37,648</b> |
| Lending, banking and leasing activities   | 37,272        | 35,092        | 6.2            | 33,884        | 35,484        | 35,862        |
| Lending, reverse repo transactions  | 9,475         | 6,253         | 51.5           | 4,155         | 464           | 1,786         |
| <b>Deposits</b>   | <b>64,266</b> | <b>61,006</b> | <b>5.3</b>     | <b>58,116</b> | <b>53,090</b> | <b>50,883</b> |
| Deposits, banking activities  | 48,668        | 46,464        | 4.7            | 44,366        | 42,236        | 41,831        |
| Deposits, repo transactions   | 175           | 0             | -              | 370           | 0             | 0             |
| Deposits in pooled schemes  | 15,423        | 14,541        | 6.1            | 13,380        | 10,854        | 9,052         |
| Subordinated debt   | 1,144         | 1,093         | 4.7            | 1,089         | 1,708         | 3,002         |
| Holders of additional tier 1 (AT1) capital instruments  | 861           | 862           | -0.1           | 412           | -             | -             |
| Equity  | 8,114         | 7,765         | 4.5            | 7,475         | 7,033         | 6,533         |
| Contingent liabilities  | 11,961        | 12,334        | -3.0           | 9,585         | 10,240        | 5,380         |
| Total risk exposure amount  | 49,546        | 47,486        | 4.3            | 46,500        | 49,005        | 42,697        |
| Tier 1 capital  | 7,924         | 7,428         | 6.7            | 6,946         | 6,516         | 7,437         |
| Impairment account and discount on commitments taken over **)                                   | 1,616         | 1,994         | -19.0          | 1,998         | 2,149         | 2,117         |
| Contractual non-performing loans  | 341           | 443           | -23.1          | 514           | 523           | 672           |
| Business volume   | 241,393       | 230,114       | 4.9            | 218,457       | 202,103       | 198,146       |

\*) As compared to the financial part of the Annual Report, the format of core earnings includes a reclassification of the following items: Net interest income, Other operating income and Impairment of loans, advances and receivables, etc. The reclassification relates to the share of the discount, recognised as income, on exposures taken over; see note 3.

\*\*) Spar Nord's impairment account amounts to DKK 1,616 million (2016: DKK 1,891 million) (note 51) and the discount on commitments taken over amounts to DKK 0 million (2016: DKK 103 million).

As from 1 January 2015, earnings from investment portfolios are presented as part of the Bank's core earnings, as the remaining portfolio of securities – previously presented separately – has been reduced substantially.

The definition and breakdown of contributions to sector-wide solutions, etc., which have been recognised separately, appear from note 3.



|  | 2017 | 2016  | 2015  | 2014  | 2013  | FINANCIAL RATIOS |
|--|------|-------|-------|-------|-------|------------------|
| <b>OWN FUNDS</b>   |      |       |       |       |       |                  |
| Own funds ratio  | 18.2 | 17.7  | 17.0  | 15.0  | 19.4  |                  |
| Tier 1 capital ratio   | 16.0 | 15.6  | 14.9  | 13.3  | 17.4  |                  |
| Common equity tier 1 capital ratio                                       | 14.4 | 14.0  | 14.4  | 13.0  | 14.1  |                  |
| <b>EARNINGS</b>  |      |       |       |       |       |                  |
| Return on equity before tax excl. additional tier 1 (AT1) capital *)     | %    | 15.1  | 13.2  | 14.6  | 10.4  | 10.7             |
| Return on equity after tax excl. additional tier 1 (AT1) capital *)      | %    | 12.0  | 10.7  | 12.2  | 9.0   | 8.6              |
| Cost share of core income  | DKK  | 0.61  | 0.60  | 0.55  | 0.60  | 0.59             |
| Cost share of core income<br>– incl. loan impairment charges, etc.       | DKK  | 0.60  | 0.68  | 0.65  | 0.75  | 0.73             |
| Return on assets   | %    | 1.2   | 1.1   | 1.2   | 0.8   | 0.7              |
| <b>MARKET RISK AND LIQUIDITY</b>   |      |       |       |       |       |                  |
| Interest rate risk   | %    | 0.7   | 1.2   | 1.8   | 0.6   | –0.3             |
| Foreign exchange position  | %    | 3.3   | 3.2   | 3.4   | 2.6   | 3.7              |
| Foreign exchange risk  | %    | 0.1   | 0.1   | 0.1   | 0.0   | 0.0              |
| Liquidity Cover Ratio (LCR)  | %    | 187   | 171   | 145   | –     | –                |
| <b>CREDIT RISK</b>   |      |       |       |       |       |                  |
| Loans and advances plus impairment account and discount as % of deposits |      | 75.2  | 70.9  | 68.8  | 71.7  | 78.1             |
| Loans and advances rel. to equity  |      | 5.8   | 5.3   | 5.1   | 5.1   | 5.8              |
| Increase in loans and advances for the year                              | %    | 6.2   | 3.6   | –4.5  | –1.1  | –7.9             |
| Sum of large exposures   | %    | 17.2  | 14.5  | 16.1  | 0.0   | 26.2             |
| Impairment ratio   |      | –0.1  | 0.4   | 0.6   | 1.0   | 0.9              |
| <b>EMPLOYEES AND BRANCHES</b>  |      |       |       |       |       |                  |
| Number of employees (full-time equivalents, end of period)               |      | 1,538 | 1,540 | 1,538 | 1,507 | 1,512            |
| Number of branches   |      | 50    | 58    | 70    | 71    | 76               |
| <b>SPAR NORD SHARE</b>   |      |       |       |       |       |                  |
| <b>DKK PER SHARE OF DKK 10</b>   |      |       |       |       |       |                  |
| Share price, end of period   |      | 72    | 81    | 61    | 58    | 49               |
| Net asset value (NAV), *)  |      | 66    | 63    | 60    | 56    | 52               |
| Profit/loss for the year *)  |      | 7.7   | 6.6   | 7.1   | 4.9   | 4.3              |
| Dividend   | DKK  | 3.5   | 5.0   | 3.0   | 1.6   | 1.0              |
| Extraordinary dividend   | DKK  | –     | –     | 2.0   | –     | –                |
| Return   | %    | –5    | 38    | 11    | 20    | 88               |
| Price/earnings *)  |      | 9     | 12    | 9     | 12    | 11               |

\*) Financial ratios have been calculated as if the additional tier 1 (AT1) capital were treated as a liability for accounting purposes, which means that the calculation of the financial ratios has been based on the shareholders' share of profit and equity.  
The shareholders' share of profit and equity appears from Capital position.

The Danish FSA's layout and ratio system is shown in note 57.

Ratio definitions appear from note 58.

# Performance indicators and financial ratios – Group

## CORE EARNINGS – QUARTERLY

### PERFORMANCE INDICATORS

| INCOME STATEMENT<br>DKKkm   | 2017<br>Q4 | 2017<br>Q3 | 2017<br>Q2 | 2017<br>Q1 | 2016<br>Q4 |
|---|------------|------------|------------|------------|------------|
| Net interest income *)  | 373        | 388        | 393        | 392        | 395        |
| Net income from fees, charges and commissions   | 279        | 264        | 279        | 294        | 275        |
| Market value adjustments and dividends  | 102        | 18         | 121        | 164        | 104        |
| Other operating income  | 15         | 12         | 14         | 11         | 1          |
| Income from investments in associates and group enterprises                                     | 5          | 7          | 7          | 13         | 7          |
| <b>Core income</b>  | <b>773</b> | <b>688</b> | <b>814</b> | <b>874</b> | <b>783</b> |
| Salaries  | 316        | 247        | 318        | 285        | 307        |
| Operating expenses  | 195        | 168        | 171        | 176        | 193        |
| Depreciation, amortisation and impairment   | 14         | 18         | 14         | 14         | 43         |
| <b>Costs and expenses</b>   | <b>525</b> | <b>433</b> | <b>502</b> | <b>475</b> | <b>543</b> |
| <b>Core earnings before impairment</b>  | <b>248</b> | <b>254</b> | <b>312</b> | <b>399</b> | <b>240</b> |
| Loan impairment charges etc. *)   | 13         | -42        | -10        | 1          | 55         |
| <b>Profit/loss before tax</b>   | <b>235</b> | <b>297</b> | <b>322</b> | <b>398</b> | <b>185</b> |
| Tax   | 44         | 73         | 64         | 81         | 37         |
| <b>Profit/loss</b>  | <b>190</b> | <b>224</b> | <b>258</b> | <b>317</b> | <b>148</b> |
| Of which, share attributable to interest expenses to holders of additional tier 1 (AT1) capital | 12         | 12         | 12         | 12         | 8          |

### BALANCE SHEET DKKkm

|   |               |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|
| Total assets  | 80.367        | 80.372        | 79.595        | 78.329        | 78.473        |
| <b>Loans and advances</b>                                 | <b>46.747</b> | <b>45.471</b> | <b>42.407</b> | <b>41.189</b> | <b>41.346</b> |
| Lending, banking and leasing activities                   | 37.272        | 36.630        | 36.351        | 35.761        | 35.092        |
| Lending, reverse repo transactions                        | 9.475         | 8.841         | 6.056         | 5.428         | 6.253         |
| <b>Deposits</b>   | <b>64.266</b> | <b>63.296</b> | <b>62.782</b> | <b>60.455</b> | <b>61.006</b> |
| Deposits, banking activities                              | 48.668        | 48.092        | 47.610        | 45.581        | 46.464        |
| Deposits, repo transactions                               | 175           | 0             | 156           | 0             | 0             |
| Deposits in pooled schemes                                | 15.423        | 15.204        | 15.016        | 14.874        | 14.541        |
| Subordinated debt   | 1.144         | 1.086         | 1.089         | 1.090         | 1.093         |
| Holders of additional tier 1 (AT1) capital instruments    | 861           | 872           | 863           | 877           | 862           |
| Equity  | 8.114         | 7.920         | 7.702         | 8.071         | 7.765         |
| Contingent liabilities                                    | 11.961        | 11.742        | 12.304        | 11.935        | 12.334        |
| Total risk exposure amount                                | 49.546        | 49.243        | 49.672        | 47.741        | 47.486        |
| Tier 1 capital **)  | 7.924         | 7.777         | 7.369         | 7.374         | 7.428         |
| Impairment account and discount on commitments taken over | 1.616         | 1.708         | 1.901         | 1.992         | 1.994         |
| Contractual non-performing loans                          | 341           | 388           | 401           | 401           | 443           |
| Business volume   | 241.393       | 238.807       | 236.185       | 232.335       | 230.114       |

\*) As compared to the financial part of the Annual Report, the format of core earnings includes a reclassification of the following items: Net interest income and Loan impairment, etc. The reclassification relates to the share of the discount, recognised as income, on exposures taken over; see note 3.

\*\*) Tier 1 capital for the first and second quarters of 2017 is exclusive of recognition of profit/loss for the period.

|  |     | 2017<br>Q4 | 2017<br>Q3 | 2017<br>Q2 | 2017<br>Q1 | 2016<br>Q4 | FINANCIAL RATIOS |
|--|-----|------------|------------|------------|------------|------------|------------------|
| <b>OWN FUNDS</b>   |     |            |            |            |            |            |                  |
| Own funds ratio *)   |     | 18.2       | 17.9       | 16.9       | 17.6       | 17.7       |                  |
| Tier 1 capital ratio *)  |     | 16.0       | 15.8       | 14.8       | 15.4       | 15.6       |                  |
| Common equity tier 1 capital ratio *)                                    |     | 14.4       | 14.2       | 13.2       | 13.8       | 14.0       |                  |
| <b>EARNINGS</b>  |     |            |            |            |            |            |                  |
| Return on equity before tax excl. additional tier 1 (AT1) capital **)    | %   | 2.8        | 3.6        | 4.0        | 4.9        | 2.3        |                  |
| Return on equity after tax excl. additional tier 1 (AT1) capital **)     | %   | 2.3        | 2.7        | 3.2        | 3.9        | 1.9        |                  |
| Cost share of core income  | DKK | 0.68       | 0.63       | 0.62       | 0.54       | 0.69       |                  |
| Cost share of core income – incl. loan impairment charges                | DKK | 0.70       | 0.57       | 0.60       | 0.54       | 0.76       |                  |
| Return on assets   | %   | 0.2        | 0.3        | 0.3        | 0.4        | 0.2        |                  |
| <b>MARKET RISK AND LIQUIDITY</b>   |     |            |            |            |            |            |                  |
| Interest rate risk   | %   | 0.7        | 1.3        | 0.2        | -0.2       | 1.2        |                  |
| Foreign exchange position  | %   | 3.3        | 5.2        | 3.9        | 3.3        | 3.2        |                  |
| Foreign exchange risk  | %   | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        |                  |
| Liquidity Cover Ratio (LCR)  | %   | 187        | 165        | 176        | 168        | 171        |                  |
| <b>CREDIT RISK</b>   |     |            |            |            |            |            |                  |
| Loans and advances plus impairment account and discount as % of deposits |     | 75.2       | 74.5       | 70.5       | 71.3       | 70.9       |                  |
| Loans and advances rel. to equity  |     | 5.8        | 5.7        | 5.5        | 5.1        | 5.3        |                  |
| Increase in loans and advances for the period                            | %   | 1.8        | 0.8        | 1.6        | 1.9        | 0.0        |                  |
| Sum of large exposures   | %   | 17.2       | 18.7       | 17.5       | 17.1       | 14.5       |                  |
| Impairment ratio   |     | 0.0        | -0.1       | 0.0        | 0.0        | 0.1        |                  |
| <b>EMPLOYEES AND BRANCHES</b>  |     |            |            |            |            |            |                  |
| Number of employees (full-time equivalents, end of period)               |     | 1,538      | 1,557      | 1,555      | 1,528      | 1,540      |                  |
| Number of branches   |     | 50         | 51         | 55         | 56         | 58         |                  |
| <b>SPAR NORD SHARE</b>   |     |            |            |            |            |            |                  |
| <b>DKK PER SHARE OF DKK 10</b>   |     |            |            |            |            |            |                  |
| Share price, end of period   |     | 72         | 78         | 85         | 77         | 81         |                  |
| Net asset value (NAV), **)   |     | 66         | 64         | 63         | 66         | 63         |                  |
| Profit/loss for the period **)   |     | 1.5        | 1.7        | 2.0        | 2.5        | 1.2        |                  |

\*) Own funds for the first and second quarters of 2017 is exclusive of recognition of profit/loss for the period.

\*\*) Financial ratios have been calculated as if the additional tier 1 (AT1) capital were treated as a liability.

# The year in review – the Group

In 2017, Spar Nord recorded a pre-tax profit of DKK 1,251 million (2016: DKK 1,028 million) and a profit after tax of DKK 989 million (2016: DKK 838 million.) The profit performance yields a post-tax return on equity of 12.0% (2016: 10.7%).

The profit reflects core earnings before impairment in the amount of DKK 1,213 million, which was 57 million, or 4%, lower than in 2016. The satisfactory bottomline result was thus especially attributable to loan impairment charges etc., which in 2017 were a net reversal of DKK 38 million against an expense of DKK 242 million in 2016.

## INCOME

Core income for the year amounted to DKK 3,150 million, which was on a level with 2016.

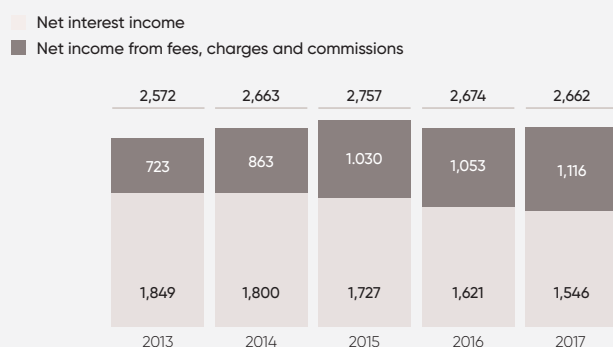
Net interest income amounted to DKK 1,546 million, corresponding to a decline of DKK 75 million, equal to 5%, compared with 2016. Adding to this income was a DKK 2.2 billion (6%) increase in bank and leasing lending, while a 51 basis point decline in the lending margin and a 42 basis point decline in the overall interest rate margin since 1 January year weighed on this item.

Of the total decline in interest income of DKK 136 million relative to 2016, DKK 34 million is attributable to the Bank's bond portfolio and DKK 24 million to non-recurring items.

Interest expenses on deposits were reduced by DKK 42 million relative to 2016, driven by a lower interest rate on deposits which was partly due to the expiry of high-rate deposits, partly to interest rate changes carried out.

Net fee income amounted to DKK 1,116 million, which was an increase of DKK 63 million, or 6%, on 2016. Net fee income thus accounted for 42% of total net interest and fee income in 2017 (2016: 39%).

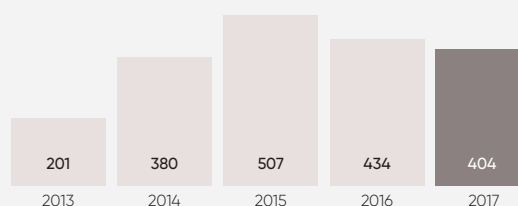
## NET INTEREST INCOME AND NET FEE INCOME (DKKM)



The increase was attributable especially to continued growth in income from mortgage loans arranged – driven by both volume growth and higher administration margins as of July 2016. In addition, there was a decent increase in net fee income relating to insurance, the “daily banking” area and payment services.

Net fee income from securities trading and asset management fell by a total of DKK 24 million relative to 2016, reflecting lower income from unit trusts, among other things as a consequence of MiFID II. The decline was only partly offset by rising market value adjustments.

## MARKET VALUE ADJUSTMENTS AND DIVIDENDS (DKKM)



Market value adjustments and dividends ended at DKK 404 million, which is DKK 30 million, or 7%, down on 2016.

The Bank's equity portfolio developed favourably with market value adjustments and dividends amounting DKK 188 million, against DKK 180 million in 2016. Specifically, the Bank's shareholdings in financial sector companies delivered market value adjustments and dividends of DKK 151 million, against DKK 153 million in 2016. This performance included gains on the Bank's shareholdings in PRAS (ownership interest in Nykredit), Bank-Invest and DLR Kredit. Detracting from performance was a DKK 54 million impairment charge relating to the BEC data centre in Q3.

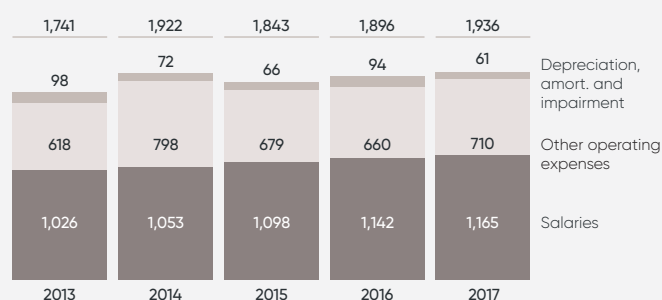
Market value adjustments of bonds and financial instruments amounted to DKK 180 million, against DKK 203 million last year, which is considered satisfactory given the market conditions.

The item other operating income amounted to DKK 51 million, against DKK 30 million in 2016, driven mainly by the fact that the negative and one-off events that occurred in 2016 were not repeated in 2017. Income from investments in associates and group enterprises amounted to DKK 32 million compared with DKK 30 million in 2016.

## COSTS AND EXPENSES

The Group's total costs and expenses amounted to DKK 1,936 million, which is DKK 40 million, or 2%, higher than in 2016.

### TOTAL COSTS (DKKM)



Wages and salaries accounted for DKK 1,165 million of total costs and expenses. Realised payroll costs were DKK 23 million, or 2%, higher than in 2016, which is ascribable to pay rises under collective agreements and increasing payroll taxes.

To this should be added one-off expenses of DKK 17 million related to staff reductions carried out in January 2018. A total of 75 positions have been discontinued. Of these, 25 of are open positions, 22 people have been laid off, and 28 positions will be discontinued through natural attrition and internal replacement of vacant positions during 2018.

Other operating expenses came to DKK 710 million, which is DKK 50 million, or 8%, higher than in 2016.

The increase was ascribable to factors such as costs related to strategic IT projects at BEC and in the Totalkredit alliance as well as higher marketing costs. The latter is a consequence of factors such as the new strategy launched at the beginning of 2017, which introduces new concepts and enhanced marketing initiatives to grow the Bank's market share.

Costs are generally affected by Spar Nord's implementation of its new strategy launched at the beginning of 2017, which is still at a stage of investment in measures, including in the IT area, that are intended to lead to the realisation of gains in the upcoming years. Investments have also been made in a refurbishment of the Bank's branches in accordance with the strategy The Personal Bank in a Digital World.

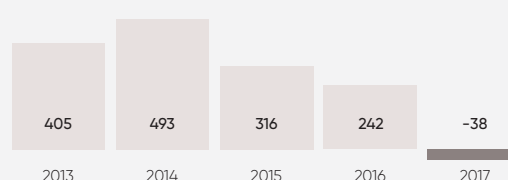
## CORE EARNINGS BEFORE IMPAIRMENT

Thus, the Group's core earnings before impairment amounted to DKK 1,213 million versus DKK 1,270 million in 2016. The core earnings realised in 2017 should be viewed against the original projection for core earnings before impairment to end "in the DKK 1.1-1.2 billion range" for the full year of 2017. In connection with the Q2 financial statements, the guidance was revised to "around 1,250 million", and based on developments in Q3, including the negative market value adjustment relating to BEC, it was revised to "around 1,200 million".

## LOAN IMPAIRMENT CHARGES

Loan impairment charges etc. was an income of DKK 38 million, which compares to an expense of DKK 242 million in 2016.

### IMPAIRMENTS (DKKM)



Individual impairment charges were an expense of DKK 2 million, while collective impairment charges rose by DKK 127 million in 2017. The collective impairment charges consist of a decline in rating-based and calculated collective impairment charges totalling DKK 12 million and Management estimates of DKK 67 million concerning retail customers and a total of DKK 73 concerning agricultural and business customers. Finally, DKK 167 was recovered on previously impaired receivables in 2017, which is DKK 51 million higher than in 2016.

## THE GROUP'S LOANS, ADVANCES AND GUARANTEES \*) BREAKDOWN BY INDUSTRY

| Industry %                            | Loans and guarantees |              | Impairment account |  |
|---------------------------------------|----------------------|--------------|--------------------|--|
|                                       | 31.12.16             | 31.12.17     | 31.12.17           |  |
| Agriculture, hunting and forestry     | 6.9                  | 6.1          | 32.3               |  |
| Fisheries                             | 0.2                  | 0.2          | 0.0                |  |
| Industry and raw materials extraction | 5.4                  | 5.3          | 4.1                |  |
| Utilities                             | 3.3                  | 3.1          | 1.1                |  |
| Construction and engineering          | 3.9                  | 4.8          | 4.0                |  |
| Trade                                 | 7.8                  | 7.2          | 3.1                |  |
| Transport, hotels and restaurants     | 3.4                  | 3.8          | 5.9                |  |
| Information and communication         | 0.4                  | 0.4          | 0.1                |  |
| Financing and insurance               | 5.8                  | 6.6          | 5.3                |  |
| Real property                         | 12.2                 | 11.2         | 12.5               |  |
| Other industries                      | 5.4                  | 5.8          | 5.5                |  |
| <b>Total business customers</b>       | <b>54.7</b>          | <b>54.5</b>  | <b>73.9</b>        |  |
| Public authorities                    | 0.1                  | 0.0          | 0.0                |  |
| Retail customers                      | 45.2                 | 45.5         | 26.1               |  |
| <b>Total</b>                          | <b>100.0</b>         | <b>100.0</b> | <b>100.0</b>       |  |

\*) Excl. reverse repo transactions

Broken down by customer segment and including the Management estimates, the total impact was DKK 75 million for retail customers (incl. DKK 32 million concerning SparXpres), an income of DKK 75 million for business customers ex. agriculture and an income of DKK 38 million for agriculture.

Apart from a strong credit quality in Spar Nord's loan portfolio, the highly positive trends in impairments reflect the continued improvement of macroeconomic conditions, including a lower inflow of impairment exposures and better performance of loans already flagged as having weak credit quality.

The latter was confirmed by the Danish FSA, which in connection with a major ordinary inspection of the Bank in spring 2017 concluded that Spar Nord's credit quality is better than that of group 2 institutions and ranks closer to the credit quality of the group 1 institutions.

Realised loan impairment charges, which were an income of DKK 38 million, should be viewed against expectations of lower impairments than in 2016. In connection with the Q2 financial statements, the guidance was revised to “substantially lower than in 2016”, and based on developments in Q3, “full-year impairment charges are expected to be around DKK 0”.

At 31 December 2017, Spar Nord estimated the impact of the new impairment rules that follow from IFRS 9 and how they will affect the Bank's loan impairment charges and provisions when they enter into force at the beginning of 2018. The estimate shows an effect to the tune of DKK 225–275 million, which when reduced by the tax impact will be recognised as a reduction in shareholders' equity at 1 January 2018, which will be phased in over the course of five years. The effect on shareholders' equity at 1 January 2018 is 2.2%–2.6%.

## PROFIT/LOSS

The profit before tax was DKK 1,251 million, against DKK 1,028 million in 2016. The Group's effective tax rate was 21%, bringing the net profit to DKK 989 million, up from DKK 838 million in 2016.

## Q4

The pre-tax profit for Q4 2017 came to DKK 235 million – which should be compared with DKK 297 million in Q3 2017 and DKK 85 million in Q4 of 2016.

Net interest income in the quarter was DKK 373 million, which was DKK 15 million less than in Q3. The decline was mainly driven by the lack of one-off items that characterised the other quarters of 2017.

Net fee income in the quarter was DKK 279 million, which was DKK 15 million less than in Q3. The increase was driven by higher income from securities trading and asset management.

Market value adjustments and dividends amounted to DKK 102 million, which was DKK 84 million more than in Q3. The increase was attributable to factors such as positive market value adjustments on the Bank's shareholding in PRAS based on the valuation of Nykredit that results from the investments made by an investment consortium in December 2017. Furthermore, Q3 saw a negative DKK 54 million adjustment of the Bank's ownership stake in BEC.

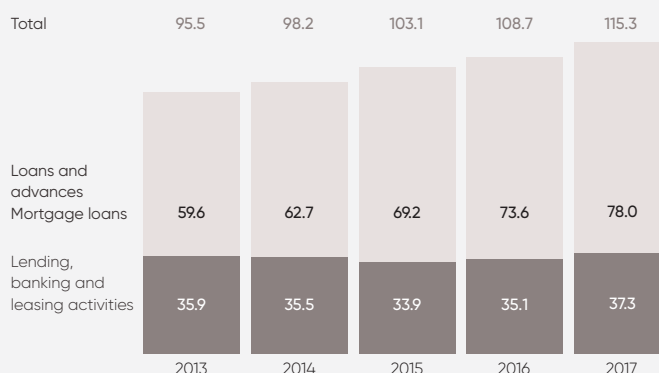
Costs and expenses in the quarter came to DKK 525 million, against DKK 433 million in Q3 and DKK 543 million in Q4 2016. The increase relative to Q3 was primarily driven by accrual of holiday pay, which causes a reduction in payroll costs in Q3. In addition, non-recurring costs regarding closed down positions of DKK 17 million were incurred in Q4.

Loan impairment charges amounted to DKK 13 million, against DKK -42 million in Q3. The increase was due to larger amounts being recovered on previously impaired receivables in Q3.

## BUSINESS VOLUME

The Group's total business volume (deposits, loans, advances and guarantees, mortgage credits arranged and customers' custodianship accounts) amounted to DKK 241.4 billion at 31 December 2017, which was DKK 11.3 billion, or 5%, higher than at end-2016.

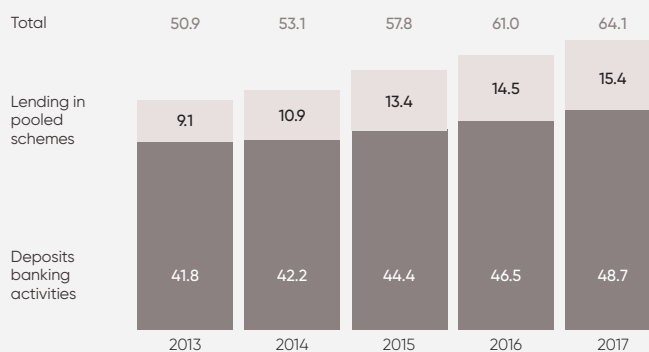
## TOTAL CREDITS ARRANGED (DKKBN)



Compared with end-2016, lending rose DKK 2.2 billion, or 6%, and of this increase DKK 0.7 billion was attributable to retail customers and DKK 1.5 billion to business customers. The de-facto increase in lending growth in continuing activities was DKK 2.5 billion, as there was a DKK 0.3 billion drop in the resolution portfolio which Spar Nord took over in connection with the merger with Sparbank.

In 2017, the volume of mortgage credit loans arranged rose DKK 3.6 billion, or 5%, to DKK 77.2 billion. In total, the volume of mortgage credit loans arranged from Totalkredit amounted to DKK 66.1 billion and from DLR Kredit DKK 11.1 billion.

## TOTAL DEPOSITS (DKKBN)



Deposits, banking activities increased during the year by DKK 2.2 billion, or 5%, to DKK 48.7 billion, while deposits in pooled schemes climbed DKK 0.9 billion, or 6%, to DKK 15.4 billion. Finally, customers' custodianship accounts increased by DKK 2.8 billion, or 6%, to DKK 50.9 billion.



## CAPITAL POSITION

On the capital side, Spar Nord pursues the goal of having a common equity tier 1 (CET1) ratio of 13.0% and an own funds ratio of 16.5%.

At 31 December 2017, the common equity tier 1 (CET1) ratio was 14.4%, while the own funds ratio was 18.2%. This should be viewed relative to the individual solvency need calculated by Spar Nord at 9.0% plus the 1.3% combined buffer requirement, as a result of which the total capital requirement is 10.3%. Thus, Spar Nord has an excess capital coverage of 7.9 percentage points, equal to DKK 3.9 billion.

In Q4, Spar Nord has issued new tier 2 capital in the amount of DKK 470 million and repaid tier 2 capital for DKK 400 million.

## MREL REQUIREMENTS, SIFI ASSIGNMENT AND IRB PROJECT

In 2014, when the Danish FSA initially identified systemically important financial institutions ("SIFIs") in Denmark, Spar Nord did not meet the defined quantitative criteria for balance sheet total and market share. At that time, Spar Nord was the largest bank in Denmark not assigned SIFI status.

However, in summer 2017, the Danish FSA announced that Spar Nord in connection with the implementation of the new resolution rules for Danish banks (the so-called MREL requirements) will be subject to the same resolution rules as the SIFI institutions. This means that, once the rules have been phased in, Spar Nord must have a total capital base equal to twice its calculated capital requirement. This represents a challenge to a bank like Spar Nord which calculates its risk-weighted assets using the standard approach, and, other things being equal, it means that Spar Nord requires an additional DKK 4-5 billion in MREL capital to comply with the fully phased-in requirement.

In connection with the news from the Danish FSA that Spar Nord would have to comply with the same MREL requirements as SIFI banks, Spar Nord's management stated that, if Spar Nord were to be deemed a SIFI in a resolution context, it should be considered whether the bank should not also be treated as a SIFI in a "going concern" context.

In this regard, Spar Nord was pleased that the political parties behind the so-called Bank Package 6 (legislation on systemically important financial institutions) in December issued a statement from which it appeared that legislative amendments will be made in 2018 that reduce the threshold value for deposits to 3.0% of the sector's total deposit. As a result of the legislative changes, Spar Nord Bank will be assigned SIFI status. On the basis of the legislative changes, Spar Nord expects to be assigned SIFI status by the Danish FSA in early 2019, with a SIFI buffer requirement of 1.0%. Spar Nord would then have to meet the SIFI buffer requirement by the end of 2020 at the latest.

In connection with the formal assignment of SIFI status, Spar Nord expects to raise its capital adequacy targets. Thus, the target for the common equity tier 1 capital ratio is expected to be raised from 13.0% to 13.5%, and the own funds ratio target to be raised from 16.5% to 17.5%.

With respect to the new MREL requirements, Spar Nord expects, based on discussions with the Danish FSA, that they will be phased in consecutively at 25% per year during the period from early 2019 to early 2022.

## LIQUIDITY

Spar Nord has defined strategic liquidity as the difference between bank and leasing lending and the Group's long-term funding (bank deposits, senior loans, issued bonds, subordinated debt and equity). Subordinated debt, senior loans and issued bonds due within 12 months are not included in the Bank's strategic liquidity.

### STRATEGIC LIQUIDITY \*)

| (DKKbn)   | End of<br>year<br>2017 | End of<br>year<br>2016 | End of<br>year<br>2015 | End of<br>year<br>2014 | End of<br>year<br>2013 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| Deposits, banking activities                              | 48.7                   | 46.5                   | 44.4                   | 42.2                   | 41.8                   |
| Senior loans/bond issues                                  | 0.0                    | 0.0                    | 0.0                    | 0.1                    | 3.4                    |
| Equity and subordinated debt                              | 10.1                   | 9.7                    | 9.0                    | 8.8                    | 9.5                    |
| <b>Liquidity procurement</b>                              | <b>58.8</b>            | <b>56.2</b>            | <b>53.4</b>            | <b>51.1</b>            | <b>54.7</b>            |
| Lending, banking and leasing activities                   | 37.3                   | 35.1                   | 33.9                   | 35.5                   | 35.9                   |
| Maturity, senior issued bonds & subordinated debt <1 year | 0.7                    | 0.4                    | 0.0                    | 0.6                    | 1.5                    |
| <b>Strategic liquidity, total</b>                         | <b>20.8</b>            | <b>20.7</b>            | <b>19.5</b>            | <b>15.0</b>            | <b>17.3</b>            |

\*) See note 53

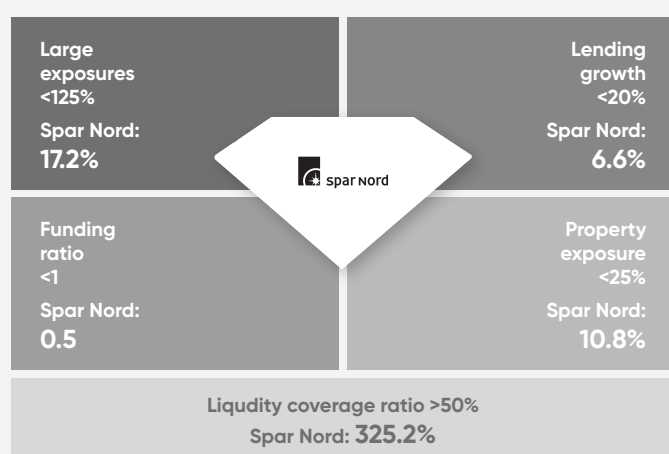
At the end of 2017, Spar Nord's strategic liquidity amounted to DKK 20.8 billion, up DKK 0.1 billion on end-2016. At end-2017, Spar Nord was thus still in a situation where the funding base consisted exclusively of ordinary customer deposits, equity and subordinated loan capital, while the Bank remains independent of funding from capital markets.

Spar Nord's LCR ratio at end-2017 was 187% (2016: 171%).

## THE SUPERVISORY AUTHORITY DIAMOND TEST MODEL

The Supervisory Authority Diamond Test Model lists a number of reference points stipulating what can basically be considered a financial institution with an increased risk profile. Violations of the principles contained in the Supervisory Authority Diamond Test Model are subject to supervisory reactions by the Danish FSA.

At 31 December 2017, Spar Nord was comfortably within all threshold values in the Supervisory Authority Diamond Test Model. Spar Nord reported the following values in respect of the defined reference points:



With reference to the calculation method for the reference point Large exposures specified by the Danish FSA, with the benchmark for the 20 largest exposures being fixed at 175% of the common equity tier 1 (CET1) capital, Spar Nord's 20 largest exposures amounted to 76.2% at 31 December 2017.

## OUTLOOK FOR 2018

Spar Nord expects 2018 to be a year characterised by positive economic growth, which will lead to growth in lending by Danish banks. Spar Nord expects that its planned strategic initiatives, which include a continued strengthening of the Bank's market position, will pave the way for lending growth on a level with that achieved in 2017. However, due to continued low market rates and fierce competition in the banking market, net interest income is expected to be slightly lower than in 2017 despite anticipated growth in volume.

In terms of fee income, 2018 is expected to be another satisfactory year for Spar Nord, as recent years' growth in market share and business volume is expected to lead to further growth in net fee income relative to 2017.

Market value adjustments are expected to be lower than in 2017. This applies especially to value adjustments in Markets on the Bank's bond portfolio. On the other hand, the Bank expects to realise decent market value adjustments and dividends on its holding of sector shares.

On the cost side, a number of large, strategic IT projects will lead to an increase in IT costs. Based on a slightly lower headcount and underlying pressure from pay rises under collective agreements and the ongoing IRB project etc., staff costs are expected to be slightly lower than in 2017. Overall, the Bank expects costs and expenses to remain unchanged.

On the basis of the above, Spar Nord expects a profit before impairment of ground DKK 1.1 billion.

Loan impairment charges are expected to be higher than in 2017, albeit still at a very low level.

On the basis of the above, Spar Nord expects to report a profit after tax for 2018 of around DKK 0.8 billion.

The above-mentioned expectations are subject to uncertainty, including in relation to macroeconomic developments.

# Strategy – status

## The Personal Bank in a Digital World

Spar Nord launched its strategy The Personal Bank in a Digital World at the beginning of 2017, making 2017 “Year 1” for the strategy and its underlying action plans.

Generally, we are pleased to see that we have made good progress with the focus areas defined by the strategy and that management retains the ambition that Spar Nord will meet the targets set for the period 2017–19.

With respect to the overall financial targets, the Bank achieved a return on equity after tax of 12.0% in 2017, while the target for the 2017–19 strategy period is 9–11%. The Cost/Income Ratio was 0.61, against the target of 0.60.

Relative to the efforts to lift the Bank's income and reduce costs, the first year of the new strategy brought improvements as well as challenges. On a positive note, Spar Nord managed to win market share, and across a number of different customer satisfaction surveys for the retail and business segments, the Bank holds a strong market position that offers potential for additional growth. Finally, it should be mentioned that the strategic initiatives in 2017 allowed the Bank to close down about 75 positions in January 2018.

On the slightly less positive side, a number of the most important IT projects (including the new mortgage credit platform in the Totalkredit alliance and a large CEM project at BEC) and a number of projects driven by new legislation and regulation are taking longer than scheduled in terms of generating the intended gains. Consequently, IT-related costs have been and remain higher than projected.

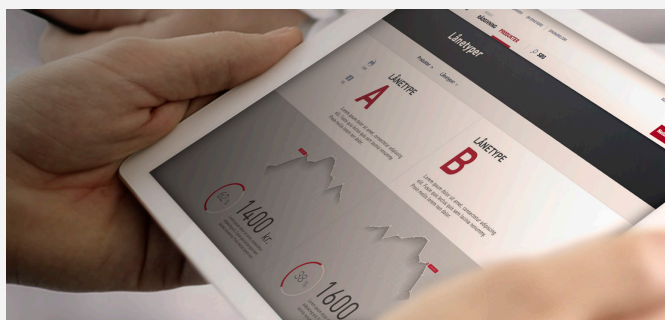




## MUST WIN BATTLE #1: PREMIER PERSONAL ADVICE AND SERVICE

The first Must Win Battle of our strategy is to make good personal service and competent personal advice the hallmark of Spar Nord in the banking market of the future. In a digital world where customers only rarely set foot in a bank, Spar Nord needs to make sure that they have a first-rate experience whenever they do. The principal Must Win Battle #1 activities and achievements in 2017 were:

### THE GOOD CUSTOMER MEETING



At the beginning of Q4 2017, we launched the concept The good customer meeting, which marks a new approach for Spar Nord to the entire process from customer segmentation and interaction policy over meeting preparation to meeting procedures and evaluation.

The new approach to preparing and holding customer meetings was given a warm reception by the advisers who will help implement the concept, and not least by the customers who have experienced our new initiative. The Net Promoter Score among customers who attended a meeting with Spar Nord in Q4 was thus 65.

In the context of *The good customer meeting*, we plan in 2018 to launch an improved concept for digital meetings, allowing customers who prefer this form of meeting to also experience our new concept.

### THE GOOD BANKING EXPERIENCE



The good banking experience is about the experience of our customers when in physical contact with the Bank. The two key elements of this project are the implementation of a new interior design concept across branches and continuous efforts to promote good customer service.

The refurbishment of the Bank's branches under the new concept was kicked off in 2017 with a total of 22 branches being upgraded. The work continues in 2018, and an additional 11-12 branches are expected to have been refurbished by the end of the year. The key activity in 2017 in a service context was a workshop with all the Bank's employees undergoing training in excellent personal customer service. Taking a look at the results of our efforts, it stands out that the customers who evaluated their experience with Spar Nord in H2 2017 assigned our advisory service a score of 9.4 out of 10 possible points and our physical environment (refurbished branches) a score of 9.3.

### BETTER GRIP ON CUSTOMER RELATIONS (CEM)

The Better grip on customer relations headline denotes our efforts to implement a new and up-to-date digital platform for Customer Engagement Management (CEM). In 2017, Spar Nord and the other banks in the BEC data centre alliance opted for the Salesforce solution, and targeted efforts are now being made to secure the first deliveries in mid-2018.

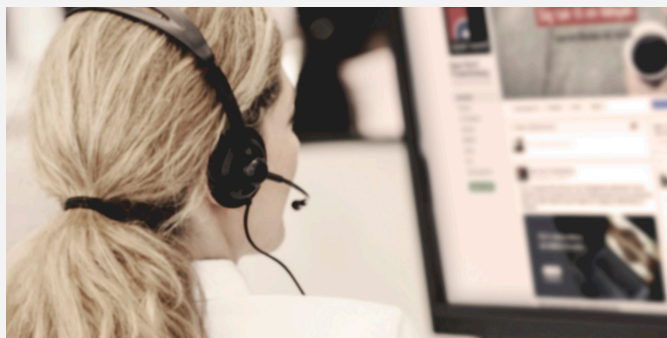
The goal is for the CEM substantial investment to pave the way for similarly substantial gains in the form of an improved customer experience, increased additional and cross sales and more efficient work processes in relation to customer service and customer advice.



### MUST WIN BATTLE #2 LOCAL OWNERSHIP AND STRONG CENTRAL SUPPORT

Must Win Battle #2 is about balancing decentralised decision-making powers and central support. The goal is to preserve the inherent strength of the decision-making authority of Spar Nord's local branches, while also providing stronger central support in the areas where this adds value for our customers. The principal Must Win Battle #2 activities and achievements in 2017 were:

### CUSTOMER SERVICE OF THE FUTURE



The Customer service of the future project is about rethinking how work is shared between the local banks and the central customer service function so as to ensure that both the customer service function and advisers create the maximum value for our customers. Specifically, we have significantly widened the service offering of our customer service function so as to be able to meet more of our customers' everyday needs right away.

From a customer perspective, the results of these efforts are highly satisfactory with customers scoring our customer service function (NPS) 65. Moreover, from a process perspective, the efforts have helped pave the way for the 75 job cuts implemented in January 2018.

In 2018, we plan to widen the accessibility of our customer service function on various channels (including a chat function etc.) and, not least, to implement the opportunities provided by the future CEM platform.

### IMPROVED ASSET MANAGEMENT CONCEPT

**PRIVATE BANKING**

**Reach your goals.  
Set new ones.  
Repeat.**

Most asset portfolios are owned by a strong individual, who has endless ambitions and whose recipe for success is hard work. Your Private Banker at Spar Nord is therefore always accessible, always prepared and always ready to accelerate your next project.

[SPARNORD.DK/PRIVATEBANKING](http://SPARNORD.DK/PRIVATEBANKING)

In the wealth area, we aim to build on the success of our regional wealth centres and strengthen our central support through the establishment of a new central Private Banking unit and the implementation of improved concepts for customers with investable funds of DKK 2.5 million or more. Despite intense pressure on our resources due to, among other things, MiFID II and the implementation of new IT systems, we have successfully delivered the planned conceptual upgrades. Measured in terms of customer inflow, the results are satisfactory.

### NEW BUSINESS CUSTOMER CONCEPT



In the corporate area, efforts have been made to improve central support by allocating resources to concept development and strengthening collaboration between small and large corporate divisions.

Our strategic efforts are generally progressing satisfactorily, and we are pleased to note that a significant proportion of corporate lending growth is attributable precisely to those efforts.





## MUST WIN BATTLE #3

### DIGITALISATION THE SPAR NORD WAY

Must Win Battle #3 is about leveraging the opportunities provided by digitalisation. Internally, the potential lies in automating our processes and work flows to obtain efficiency gains. Externally, our goal is to offer our customers new, relevant digital services.

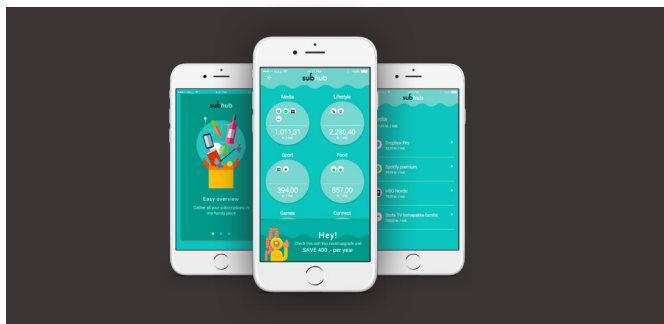
The principal Must Win Battle #3 activities and achievements in 2017 were:

#### MORE EFFICIENT PROCESSES

We will streamline our production flows and automate processes to the greatest extent possible – from the placing of an order to delivery of the product. These efforts are implemented internally within Spar Nord as well as within the BEC and Totalkredit alliances.

In 2017, we focused particularly on improving processes in the housing area, in the credit handling area and in relation to the on-boarding of new customers, using robotic technology and other measures to implement positive change for customers and employees alike.

#### NEW DIGITAL SOLUTIONS



Digital innovation is a key element of Spar Nord's strategy. In the period since we launched our strategy, major achievements have been made in the innovation field – including the introduction of our new SubHub service, which helps users keep track of their subscriptions, the investment in the digital piggybank

Ernit, the hosting of hackathons, the launch of the so-called incubator and our participation in various external fintech forums. Our efforts have been noted internally within the Bank as well as by the surrounding world. We have been nominated for and won several awards, including the Copenhagen Fintech Innovation Award and the Ivækst Award.

We gained a lot of useful experience during the first year. Based on this experience, we have reflected on what it takes to create a real business impact rather than “just” good publicity for the Bank. In an effort to mature our efforts, we have decided to focus specifically on the key components of our innovation strategy, i.e. collaboration and integration with third parties. The ideal of Open Banking, the term denoting banks' collaboration with everybody from major technology businesses to small start-ups, makes a number of demands on Spar Nord, not least in terms of technology, which we will endeavour to meet in 2018.

#### NEW AGILE DEVELOPMENT ORGANISATION

The New agile development organisation focus area is about transforming Spar Nord's business and IT development into a more agile and results-driven approach with a view to obtaining faster project implementation and time to market.

In 2017, our efforts were focused on establishing the organisation and implementing new methods. A number of new agile teams working according to the so-called scrum principles were established, and the initial experience is positive, although transforming the organisation has required substantial resources.



# Investor relations

The overall objective of Spar Nord's communication to investors and analysts is to ensure good and lasting relations. It is Spar Nord's ambition to maintain a high level of information and maximum accessibility, and the Bank constantly endeavours to make relevant and timely information available at all times. The Chief Executive Officer primarily manages Spar Nord Bank's communication in cooperation with the Senior Vice President, Communication & Business Development.

The Bank presents financial reports and other information via its IR website, [sparnord.com/ir](http://sparnord.com/ir), and also provides ongoing information to investors and analysts at frequent meetings, conferences and roadshows immediately after the publication of the Group's annual and interim reports. In total, about 50 meetings were held in 2017 with the participation of investors from Scandinavia, Great Britain and North America.

In 2017, analysts from five investment banks were covering the Spar Nord share (ABG Sundal Collier, Danske Bank, Handelsbanken, Nordea and SEB).

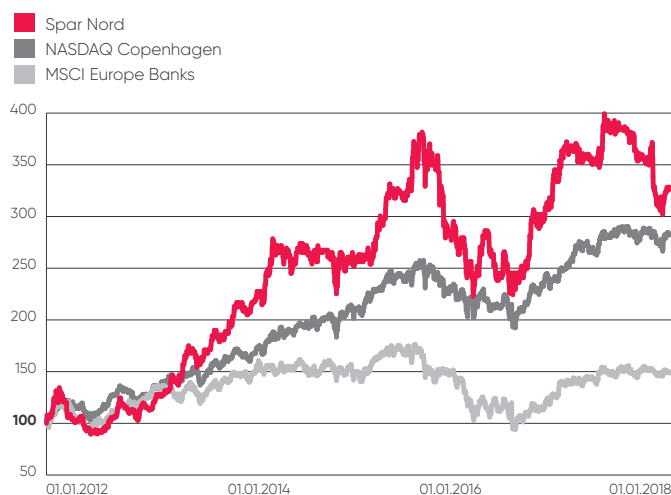
## The Spar Nord share

Spar Nord is listed on the Nordic exchange, NASDAQ Copenhagen and has since January 2017 been a component of the Large Cap segment. The share capital amounts to DKK 1,230,025,260, divided into shares of DKK 10 each.

The Spar Nord share fell 11% from a price of 81 at end-2016 to 72 at end-2017. At 31 December 2017, the market capitalisation was thus DKK 8.9 billion, against DKK 10.2 billion at end-2016.

## PRICE DEVELOPMENTS FOR THE SPAR NORD SHARE 2012-2017

Index-linked - Jan. 2012 = 100



## SPAR NORD SHARE

|  | 2017  | 2016   |
|--|-------|--------|
| Share capital (DKKm)                         | 1,230 | 1,255  |
| Market price, year-end                       | 72    | 81     |
| Market capitalisation (DKKm)                 | 8,856 | 10,168 |
| Earnings per share for the year (DKK) *)     | 7.7   | 6.6    |
| Dividend per share (DKK)                     | 3.5   | 5.0    |
| Net asset value per share (DKK)              | 66    | 63     |
| Market price/net asset value per share (DKK) | 1.1   | 1.3    |

\*) The financial ratio has been calculated as if the additional tier 1 (AT1) capital were treated as a liability for accounting purposes, which means that the calculation of the financial ratio has been based on the shareholders' share of profit and equity. The shareholders' share of profit and equity appears from Capital position.

Following very strong share price developments from 2012 to 2016, with a total return of 185%, or 37% per year on average, the price of the Spar Nord share fell from 81 at end-2016 to 72 at end-2017. This means that the combined return including dividends was -5%.

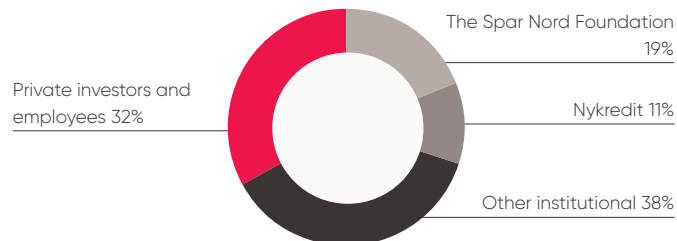
In 2017, the average daily trading volume amounted to about 138,000 shares compared with 167,000 in 2016.

## Breakdown of shareholders

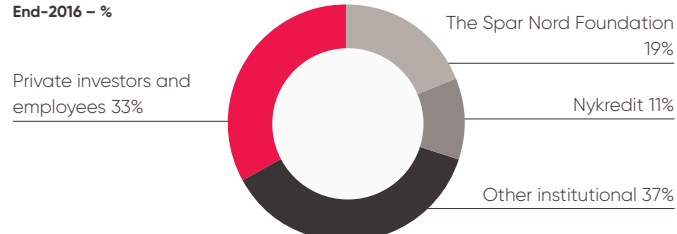
At end-2017, Spar Nord Bank had approximately 107,000 shareholders. About 68% of the share capital is held by foundations and institutional investors and other major shareholders, while 32% of the capital is held by shareholders who each own fewer than 20,000 shares. Geographically speaking, 76 % of the share capital is owned by Danish investors and 24 % by foreign investors.

## BREAKDOWN OF SHAREHOLDERS

End-2017 - %



End-2016 - %



#### DISTRIBUTION OF SHARES END-2017

| Distribution of shares                          | Number<br>registered<br>shareholders | Shareholders'<br>total<br>shareholdings<br>(number) |
|---|--------------------------------------|---|
| 1-99  | 47,251                               | 1,265,129   |
| 100-999   | 50,742                               | 16,820,278  |
| 1,000-9,999                                     | 8,239                                | 17,690,060  |
| 10,000-19,999                                   | 237                                  | 3,063,909   |
| >20,000   | 263                                  | 75,873,704  |
| Treasury shares                                 | 1                                    | 38,048  |
| Shares not registered in name<br>of shareholder | -                                    | 8,251,398   |
| <b>Total</b>                                    | <b>106,733</b>                       | <b>123,002,526</b>                                  |

#### FINANCIAL CALENDAR 2018

|            |                          |
|------------|--------------------------|
| 19 April   | Annual General Meeting   |
| 2 May      | Interim Report for Q1    |
| 16 August  | Interim Report for H1    |
| 7 November | Interim Report for Q1-Q3 |

The Bank has two shareholders who have announced that they each hold more than 5% of the share capital. The Spar Nord Foundation, Aalborg, is the largest shareholder, with a shareholding of 18.9%. Nykredit Realkredit A/S, Copenhagen, is the second largest shareholder, having a shareholding of 11.4%.

#### Dividend policy and expectations

Spar Nord pursues the goal of generating a competitive return for its shareholders – by way of share price performance and dividends. Thus, the Bank's policy is to distribute dividends to shareholders in years when profits permit.

Since mid-2017, Spar Nord has pursued the following dividend policy:

*Spar Nord pursues the goal of generating a competitive return for its shareholders – by way of share price performance and dividends. Spar Nord aims to distribute 40-50% of the net profit for the year as ordinary dividends with due consideration to meeting the Bank's capital targets. In case the Bank has extensive excess capital after the distribution of ordinary dividends, the Board of Directors will assess whether such capital can be returned to the shareholders in the form of extraordinary dividends or share buybacks.*

In view of the profits reported for 2017, the Board of Directors recommends to the shareholders at the Annual General Meeting that a cash dividend of DKK 3.5 per share be distributed, equal to a dividend yield of about 5% and a payout ratio of 43%.

# Risk and risk management

Risk assumption is pivotal to banking, and risk management is a key focus area across the Spar Nord organisation. The various risk types the Bank assumes and the initiatives taken to manage and monitor them, as well as the development of various risks are described in Spar Nord's Risk Report, which can be accessed at [www.sparnord.com/risk](http://www.sparnord.com/risk). This section gives a general outline of the risk area.

## Risk profile

Using Spar Nord's strategic objectives as its point of departure, the Board of Directors determines the Bank's risk profile, which describes the risk within the Bank's most important risk types that the Board of Directors is willing to undertake while meeting the objectives set forth in the strategy.

The objective is to ensure cohesion between Spar Nord's vision and strategy while ensuring that Spar Nord's risk profile is appropriate at all times, having regard to the Bank's capital and liquidity situation.

The Bank's risk appetite is incorporated in the ordinary risk reporting, which ensures monitoring of compliance with the Bank's risk profile.

As a supplement to the Bank's risk profile, specific risk policies have been put in place, defining the general guidelines for handling and managing the individual risks. These policies are reviewed and approved by the Board of Directors at least once a year.

## Risk management and control systems in connection with financial reporting

The Board of Directors and the Executive Board share overall responsibility for Spar Nord's risk management and control systems when the financial statements are prepared. The Board of Directors and the Executive Board are composed so as to ensure that the appropriate internal control and risk management expertise is present to warrant appropriate financial reporting.

The Board of Directors approves the overarching policies, procedures and control systems, and also prepares a detailed annual plan for the internal audit and compliance functions and for the Risk Review Officer. Policies, manuals and procedures within important areas in connection with the presentation of the financial statements are in place, including a business procedure for the presentation of the financial statements, a business procedure for the finance & accounts function and other central functions, and an IT security policy.

The Board of Directors makes an annual review of the organisation, its focus areas and resource allocation control systems to manage risk, and also annually assesses the risk of fraud in all business areas.

## Delegation of responsibility

Spar Nord has a two-tier management structure, in which the Board of Directors has drafted written guidelines for the Executive Board, specifying the areas of responsibility and scope of action for each management tier. The Board of Directors lays down general policies, while the Executive Board is responsible for the day-to-day management of Spar Nord. Spar Nord's management structure reflects statutory requirements for listed

## Most important risk categories

### CREDIT RISK

The risk of losses because counterparties fail to meet all or part of their payment obligations. Managed pursuant to the Bank's credit policy, which is geared to strike a balance between earnings and risks, and to ensure that the risk assumption is always quantified.

### MARKET RISK

Market risk is an umbrella heading for the risk of loss caused by fluctuations in exchange rates or prices for financial instruments. Market risks are essentially managed on the basis of an instruction hierarchy having three levels: the Board of Directors, the Executive Board and the business units.

### OPERATIONAL RISK

The risk of direct or indirect losses caused by deficient or erroneous internal procedures and processes, human errors, system errors or losses due to external events or incidents. Managed across the Group through a comprehensive system of business procedures and control measures.

### LIQUIDITY RISK

Liquidity risk is the risk that the Group's financing costs rise disproportionately, and that the Group is prevented from entering into new transactions because it lacks adequate cash funds. On the basis of the overarching policies and strategic goals for the Group's liquidity risks set by the Board of Directors, it has issued operational frameworks for the Executive Board. The Executive Board reports regularly to the Board of Directors on Spar Nord's risk exposure.

Danish companies and the provisions of the Danish Financial Business Act.

The Board of Directors is responsible for ensuring that Spar Nord has an appropriate organisation 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 enables the Board to monitor whether the overall risk policies and the defined limits are being complied with.

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

### Internal and external audit

Spar Nord'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.

Spar Nord's independent auditors are appointed 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.

Dismissal of the Bank's head of internal audit is subject to the prior approval of the Board of Directors.

### Risk committees

The Executive Board has set up a number of committees which in specific areas contribute to Spar Nord's risk management, preparing issues and themes for consideration by the Executive Board and Board of Directors.

The Credit Committee, which is composed of representatives of the Executive Board, Credit Rating and Corporate Banking, deals with credit facilities that exceed Credit Rating's authorisation limits or involve a matter of principle. The Committee meets several 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.

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 to review developments in Spar Nord'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 orientated Capital Market Committee, for example regarding any issues that may require specific discussion in terms of principles.

The Solvency Committee is composed of members of the Executive Board, Credit Rating and Finance & Accounts. The Committee meets every quarter and serves to formulate targets and principles for calculating adequate own funds and the individual solvency need. The Solvency Committee prepares a recommendation for the individual solvency need and passes it on to the Board of Directors for approval.

The IT Security Committee is composed of a member of the Executive Board, the head of the IT department, the IT security officer and selected heads of business areas. The Committee serves to advise on and deal with any issues that may arise in relation to the IT security policy, IT security rules and procedures and the IT contingency plan. The IT Security Committee holds quarterly meetings.

### Risk Management Function

The Risk Management Function is responsible for providing an overview of the Bank and its risk exposure to be able to assess whether such risk exposure is adequately addressed. The Risk Management Function's area of responsibility comprises the Bank's risk-prone activities across various risk areas and organisational units and risks deriving from outsourced functions. The Risk Management Function also serves as a secretariat to the Bank's Risk Committee and will assist the Risk Committee providing information about the Bank's risk exposure.

The Risk Review Officer reports directly to the Bank's Executive Board and Board of Directors. The Risk Management Function reports to the Board of Directors twice a year. The activities of the Risk Management Function are rooted in the annual plan adopted by the Board of Directors.

Dismissal of the Risk Review Officer is subject to the prior approval of the Board of Directors.

### Compliance Function

The Compliance Function is charged with assessing and controlling Spar Nord's compliance with applicable legislation, banking sector standards and Spar Nord's internal guidelines, advising on how to reduce compliance risk.

The Compliance Officer reports directly to the Bank's Executive Board and Board of Directors. The Compliance Function reports to the Executive Board on a quarterly basis and to the Board of Directors twice a year. The activities of the Compliance Function are rooted in the annual plan adopted by the Board of Directors.

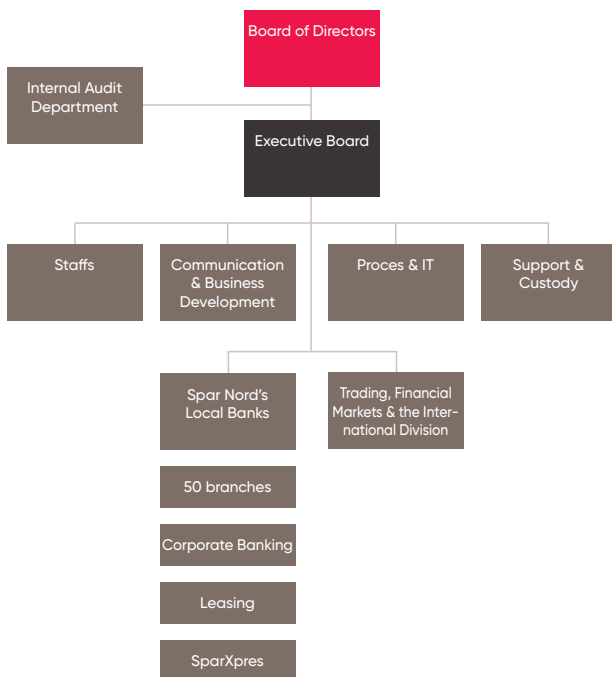
Dismissal of the Compliance Officer is subject to the prior approval of the Board of Directors.

# Organisation and corporate governance

Spar Nord's Board of Directors and Executive Board consider corporate governance to be a fundamental requirement for maintaining a good relationship with internal and external stakeholders and for meeting the Group's financial and non-financial objectives.

Consequently, Spar Nord's Management backs the efforts to promote corporate governance and has chosen to comply with the vast majority of the most recent recommendations from the Danish Corporate Governance Committee. The full wording of Spar Nord's position on the recommendations is available on the bank's website at [sparnord.com/governance](http://sparnord.com/governance).

## Organisation chart



## Board of Directors

Spar Nord's Board of Directors is composed of nine members, six of whom are elected by the shareholders and the remainder by the employees. The Bank's Executive Board is not part of the Board of Directors but takes part in all of its meetings.

New Directors are recruited through a formal, thorough and transparent process, based on a dialogue between the Board of Directors and the chairmen of the regional bank committees, and the nominees are presented at shareholder meetings prior to the general meeting.

The number of employee-elected Directors and the electoral procedure for employee elections comply with the provisions of the Danish Companies Act. The electoral term is four years.

The members of the Board of Directors are elected for a term of two years at a time, and the age limit for members is 70 years. The members of the Board of Directors serve staggered terms, meaning that three members are up for election every year. At least half of the Directors elected at the general meeting must be independent.

The Board of Directors finds it important that all members have the time and energy to actively participate in the Board's work. Those of the current Directors who hold senior executive positions or directorships in other companies all hold a number of posts that the Board of Directors finds compatible with the board duties for Spar Nord.

The Spar Nord Board of Directors convenes 11 ordinary meetings a year and holds a strategy seminar and four meetings with the chairmen of the regional bank committees. In 2017, the Board of Directors held a total of 19 physical meetings and telephone conferences.

The total Board member attendance rate was 98%. The attendance by each member of the Board of Directors is published on the Bank's website.

## Committees appointed by the Board of Directors

Spar Nord's Board of Directors has set up an Audit Committee charged with monitoring and controlling accounting and auditing matters and undertaking the preparatory work concerning the Board of Directors' processing of accounting and auditing issues. The Committee is composed of three members.

In addition, a Risk Committee has been set up, charged with responsibility for arranging the preparatory work leading up to the Board of Directors' decisions regarding the Group's risk management and related issues. The Committee is composed of three members.

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# Board of Directors



## Kjeld Johannesen

### Chairman of the Board of Directors

2016 – Chairman of the Board of Directors of Spar Nord Bank A/S  
2015 – Deputy Chairman of the Board of Directors of Spar Nord Bank A/S  
2014 – Member of the Board of Directors of Spar Nord Bank A/S  
1953 – Year of birth

Chairman of the Nomination and Remuneration Committee  
Member of the Risk Committee

### Managing Director

CLK 2016 Holding ApS  
Kjeld Johannesen Holding ApS

### Education

BCom (Marketing)

### Chairman of the board of directors

KPC Holding A/S  
Hamlet Protein A/S  
New Nutrition ApS  
New Nutrition Holding ApS

### Member of the board of directors

Aktieselskabet Schouw & Co

### Areas of expertise

Management  
Production and marketing  
Strategy  
Business development  
International business affairs  
Agriculture and foods

### Shares held in Spar Nord

60,000

Independent

Current term expires in 2018



## Per Nikolaj Bukh

### Deputy Chairman of the Board of Directors

2016 – Deputy Chairman of the Board of Directors of Spar Nord Bank A/S  
2007 – Member of the Board of Directors of Spar Nord Bank A/S  
1965 – Year of birth

Chairman of the Audit Committee  
Member of the Nomination and Remuneration Committee

### Professor

Aalborg University

### Managing Director

P. N. Bukh ApS

### Education

Msc Econ.  
PhD  
Board of Directors training from Bestyrelsesakademiet

### Member of the board of directors

Jurist- & Økonomforbundets Forlag A/S  
Jurist- & Økonomforbundets Forlagsfond

### Areas of expertise

Finance and risk management  
Financial markets  
Public enterprises  
Utilities

### Shares held in Spar Nord

27,200

Independent

Current term expires in 2019



## Kaj Christiansen

### Member of the Board of Directors

2012 – Member of the Board of Directors of Spar Nord Bank A/S  
1955 – Year of birth

Chairman of the Risk Committee

### Managing Director

Frederikshavn Maritime Erhvervspark A/S  
Dokøen A/S  
Kommanditaktieselskabet Østre Havn  
Østre Havn Aalborg ApS  
Danyard Holding ApS

### Education

State-Authorised Public Accountant

### Member of the board of directors

Frederikshavn Maritime Erhvervspark A/S  
Dokøen A/S  
The Spar Nord Foundation

### Areas of expertise

Real property  
Marketing  
Finance and risk management

### Shares held in Spar Nord

21,100

Independent

Current term expires in 2019



## Morten Bach Gaardboe

### Member of the Board of Directors

2016 – Member of the Board of Directors of Spar Nord Bank A/S  
1968 – Year of birth

### Managing Director

Altru ApS  
Ejendomsselskabet Hans Egedes vej 29 ApS  
FEG Invest ApS  
Gaardboe 2 Holding ApS

### Education

Financial services background

### Chairman of the board of directors

Svend Aage Nielsen A/S

### Member of the board of directors

P.T.O. Teknik A/S  
FEG Invest ApS  
Altru ApS  
Gefion Group A/S  
Rødovre Port Holding A/S  
Svend Aage Nielsen Autoriseret El-installatør A/S

### Areas of expertise

The SME segment

### Shares held in Spar Nord

3,620

Independent

Current term expires in 2018



## Laila Mortensen

### Member of the Board of Directors

2012 – Member of the Board of Directors of Spar Nord Bank A/S  
1965 – Year of birth

Member of the Risk Committee

### Managing Director

IndustriPension Holding A/S  
Industriens Pensionsforsikring A/S  
Industriens Pension Service A/S

### Education

Graduate in insurance science  
IMD business programme (PED)

### Chairman of the board of directors

IP Ejendomme 2013 P/S  
IP Infrastruktur P/S  
IP Komplementar ApS  
IP Infrastruktur Komplementar ApS  
IP Sankt Petri P/S  
IP Næstved Stråleterapi P/S  
IP Europahuset ApS

### Member of the board of directors

Kapitalforeningen Industriens Pension Portfolio, deputy chairman  
IP Alternative Investments Komplementar ApS  
IP Finans 1 ApS  
Forsikringsorganisationernes Fællessekretariat F.M.B.A  
Styrelsen for Danmarks Statistik Forsikring og Pension ApS

### Areas of expertise

Experience in financial business management  
Risk management, including operational risk IT and IT risk

### Shares held in Spar Nord

0

Independent

Current term expires in 2018



## Ole Skov

### Member of the Board of Directors

2000 – Employee-elected member of the Board of Directors of Spar Nord Bank A/S  
1959 – Year of birth

Member of the Audit Committee

Senior workplace representative, Spar Nord Bank A/S

### Education

Financial services background  
Financial post-graduate training  
Business diploma (accounts & financing)  
Board of Directors training for financial companies

### Chairman

The Financial Services Union "Spar Nord Kreds"

### Member of the board of directors

The Financial Services Union executive committee  
Foreningen AP Pension f.m.b.a.

### Areas of expertise

HR  
Business administration  
Financial markets

### Shares held in Spar Nord

7,533

Current term expires in 2020



## Jannie Skovsen

### Member of the Board of Directors

2008 – Employee-elected member of the Board of Directors of Spar Nord Bank A/S

1965 – Year of birth

Workplace representative, Spar Nord Bank A/S

### Education

Board of Directors training for financial companies  
Financial services background  
Financial post-graduate training

### Member of the board of directors

The Financial Services Union "Spar Nord Kreds" (deputy chairman)  
The Spar Nord Foundation

### Areas of expertise

HR  
Business administration

### Shares held in Spar Nord

7,770

Current term expires in 2020



## Gitte Holmgaard Sørensen

### Member of the Board of Directors

2012 – Employee-elected member of the Board of Directors of Spar Nord Bank A/S

1965 – Year of birth

Member of the Nomination and Remuneration Committee

Workplace representative, Spar Nord Bank A/S

### Education

Board of Directors training for financial companies  
Financial services background  
Financial post-graduate training  
Business diploma (financing)

### Chairman of the board of directors

The Personnel Foundation at Spar Nord

### Member of the board of directors

The Financial Services Union "Spar Nord Kreds"

### Areas of expertise

HR  
Business administration

### Shares held in Spar Nord

1,970

Current term expires in 2020



## John Sørensen

### Member of the Board of Directors

2015 – Member of the Board of Directors of Spar Nord Bank A/S

1957 – Year of birth

Member of the Audit Committee

### Managing Director

The Accounts Division of the Ministry of Defence

### Education

State-Authorised Public Accountant

### Areas of expertise

Accounting and auditing

### Shares held in Spar Nord

5,160

Independent

Current term expires in 2019

## Executive Board



## Lasse Nyby

**Chief Executive Officer**

2000 - Chief Executive Officer  
1995 - Joined the Executive Board  
1986 - Year of employment  
1960 - Year of birth

## Education

Financial services background  
BCom (Management Accounting)  
Executive education from Insead

**Chairman of the board of directors**

Aktieselskabet Skelagervej 15  
Landsdækkende Banker

**Member of the board of directors**

Member of the Board of Directors  
 AP Pension Livsforsikringsaktieselskab  
 AP Pensionsservice A/S  
 Foreningen AP Pension f.m.b.a.  
 FR I af 16. september 2015 A/S  
 Nykredit A/S  
 PRAS A/S, deputy chairman  
 Vækst-Invest Nordjylland A/S  
 FinansDanmark  
 Totalkredit A/S

### Shares held in Spar Nord

49,100



## John Lundsgaard

**Managing Director**

2000 - Joined the Executive Board  
1986 - Year of employment  
1964 - Year of birth

## Education

Financial services background  
MBA

**Chairman of the board of directors**

Factor Insurance Brokers A/S

**Member of the board of directors**

Aktieselskabet Skelagervej 15  
- deputy chairman  
Bokis A/S - deputy chairman  
Bankernes EDB Central a.m.b.a.  
Letpension Holding A/S  
Kunsten Museum of Modern Art, Aalborg

### Shares held in Spar Nord

71.926



**Lars Møller**

**Managing Director**

2000 - Joined the Executive Board  
1984 - Year of employment  
1957 - Year of birth

## Education

Financial services background  
Executive education from Insead

**Chairman of the board of directors**

BI Asset Management Fondsmægler-  
selskab A/S  
BI Holding A/S  
BI Management A/S

**Member of the board of directors**

DLR Kredit A/S, deputy chairman  
Aktieselskabet Skelagervej 15

### Shares held in Spar Nord

67.404

The image displays a 15x15 grid of 225 small, stylized line drawings of a person's head and shoulders. Each drawing represents a different head position, showing a smooth, continuous progression of head turns from left to right across the rows. The drawings are arranged in a regular grid pattern, with each row containing 15 drawings and each column containing 15 drawings. The progression is such that the head is turned most to the left in the first row and most to the right in the last row, with intermediate rows showing intermediate head positions. The drawings are simple line art, focusing on the outline of the head, neck, and shoulders, with no facial features or clothing details.



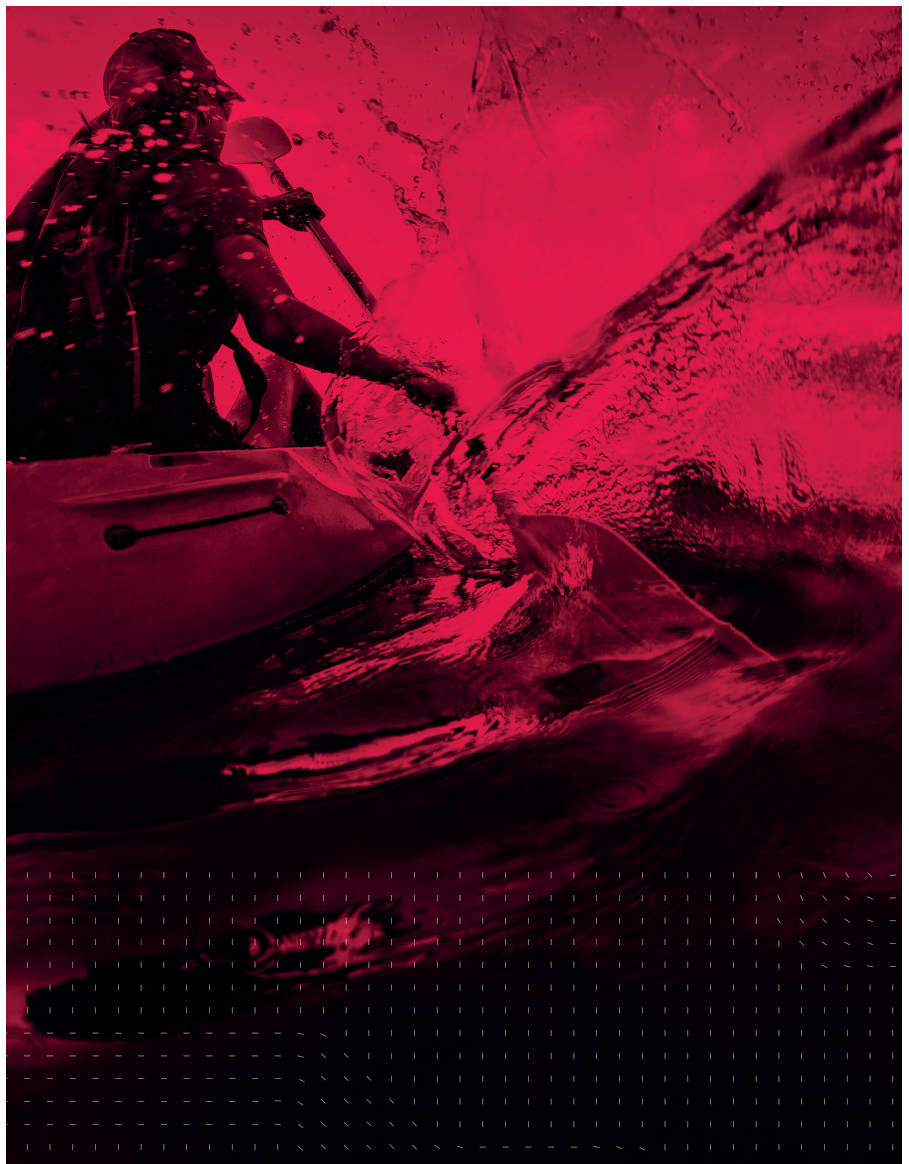
# Social responsibility

Corporate Social Responsibility, or CSR, is something we take seriously at Spar Nord and have done for many years. However, the Bank has traditionally translated this popular term into our own language and reality, because experience shows that this generates better defined and more focused action.

From the point of view of Spar Nord, CSR stands for conduct in the true sense of the word, and not abstract principles. Our basic approach is that Spar Nord's responsibility as a company and a financial institution is anchored in our close involvement with customers and the local community. Such responsibility and involvement are embedded as given components of the Bank's history and culture and on which the business depends.

Spar Nord supports the Danish Government's endeavours to put Corporate Social Responsibility at the top of the agenda, and we also support the intentions underlying international initiatives like the UN Global Compact and UN PRI.

A more detailed description of Spar Nord's policies, activities and results in this area is provided at our website [spar-nord.com/csr](http://spar-nord.com/csr).



## Management's statement on the Interim Report

The Board of Directors and Executive Board have today reviewed and adopted the 2017 Annual Report of Spar Nord Bank A/S.

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards as adopted by the EU, while the Parent Company's financial statements are presented in accordance with the Danish Financial Business Act. In addition, the consolidated financial statements have been prepared in accordance with additional Danish disclosure requirements for the annual reports of listed financial enterprises.

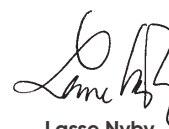
We consider the accounting policies applied to be appropriate, and in our opinion the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and cash flows for the 2017 financial year.

In addition, we also consider the Management's review to give a fair presentation of the development in the Group's and Parent Company's activities and financial affairs, the results for the year and the Group's and the Parent Company's financial position as a whole, as well as a description of the significant risks and elements of uncertainty that may affect the Group or Parent Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

**Aalborg, 8 February 2018**

### EXECUTIVE BOARD



**Lasse Nyby**

Chief Executive Officer



**John Lundsgaard**

Managing Director



**Lars Møller**

Managing Director

### BOARD OF DIRECTORS



**Kjeld Johannesen**

Chairman of the Board  
of Directors



**Per Nikolaj Bukh**

Deputy Chairman of the Board  
of Directors



**Kaj Christiansen**



**Morten Bach Guardboe**



**Laila Mortensen**



**Ole Skov**



**Jannie Skovsen**



**Gitte Holmgaard Sørensen**



**John Sørensen**

# Report by the Internal Audit Department

## Report on the consolidated and parent company financial statements

### Opinion

In our opinion, the consolidated financial statements and the financial statements of Spar Nord Bank A/S give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2017 in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed financial institutions in respect of the consolidated financial statements and in accordance with the Danish Financial Business Act in respect of the Parent Company's financial statements.

Furthermore, in our opinion, the Parent Company's risk management, compliance function, business procedures and internal controls in all critical audit areas have been organised and are working satisfactorily.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

### Basis for opinion

We have audited the consolidated financial statements and the financial statements of Spar Nord Bank A/S for the financial year 1 January – 31 December 2017. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed financial enterprises. The Parent Company's financial statements have been prepared in accordance with the Danish Financial Business Act.

We conducted our audit on the basis of the Danish Financial Supervisory Authority's executive order on auditing financial enterprises etc. as well as financial groups and in accordance with international auditing standards on planning and performing the audit work.

We assessed the company's risk management, compliance function, business procedures and internal controls in all critical audit areas.

We planned and performed our audit to obtain reasonable assurance as to whether the consolidated financial statements and the Parent Company's financial statements are free from material misstatement. We participated in auditing all critical audit areas.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Statement on the Management's review

Management is responsible for the management's review.

Our opinion on the consolidated financial statements and the Parent Company's company financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the Parent Company's financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the consolidated financial statements or the Parent Company's financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

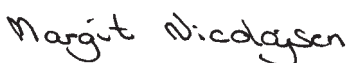
Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the management's review is in accordance with the consolidated financial statements and the Parent Company's financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatements of the Management's review.

**Aalborg, 8 February 2018**

**Spar Nord Bank A/S**

Internal Audit Department



**Margit Nicolajsen**

Head of Internal Audit Department

# Independent auditor's report

## To the shareholders of Spar Nord Bank A/S

### Opinion

We have audited the consolidated financial statements and the parent company financial statements of Spar Nord Bank A/S for the financial year 1 January – 31 December 2017, which comprise an income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group as well as the Company. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions, and the parent company financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2017 and of the results of the Group's and the Company's operations and cash flows for the financial year 1 January – 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions.

Further, in our opinion, the parent company financial statements give a true and fair view of the Company's financial position at 31 December 2017 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2017 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section of our report.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

### Appointment of auditor

We were initially appointed as auditor of the Spar Nord Group on 20 May 1996 and must therefore withdraw from the audit no later than after the presentation of the consolidated financial statements and the parent company financial statements for 2023. We have been reappointed annually by resolution of the general meeting up until the financial year 2017.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent company financial statements for the financial year 2017. These matters were addressed in the context of our audit of the consolidated financial statements and the parent company financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section, including in relation to the below key audit matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements and parent company financial statements as a whole.

### Impairment losses on loans

Audit-related risk assessment:

- A considerable part of the Bank's assets are loans to the Bank's customers, corresponding to 58% of total assets. Loans to the Bank's customers entail a risk of loss and the significant estimates that Management make when identifying impairment losses are deemed to make up key risks in our audit. At 31 December 2017, impairment losses totalled 3.3% of loans and receivables in the consolidated financial statements and the parent company financial statements.
- Impairment tests of loans entails estimates of matters that may be subject to a high degree of uncertainty. Management estimates imply an assessment of indication of impairment, the realisable value of collateral received as well as the customer's ability to pay in case of default. Loan exposures exceeding DKK 250,000 are subject to an individual assessment by Spar Bank Nord, whereas loan exposures below DKK 250,000 are subject to an automated assessment of creditworthiness-classified customers based on registered data and characteristics.



- Furthermore, determination of methods and parameters for stating collective impairment losses involves significant management estimates, including in particular management estimates and adjustments in relation to exposed sectors.
- We also refer to note 2 regarding material accounting estimates and judgements regarding impairment losses and notes 15 and 51 regarding impairment losses on loans and credit risks.

#### Audit procedures (audit performed):

- Our audit of impairment losses on loans, which is performed in cooperation with the Bank's internal auditor, included tests of the Bank's procedures for follow-up on loans and identification of indications of impairment.
- By way of analysis and sample testing as well as a review of the Bank's procedures, we tested whether impairment losses have been recognised in accordance with the Bank's accounting policies.
- The sample tests included among others the largest and most high-risk exposures.
- As for collective impairment losses, we tested the methods and assumptions used as well as the relating management estimates. In this connection, we tested the particular estimates made by Management in connection with impairment losses.
- Furthermore, we reviewed and tested whether note disclosures relating to loans, impairment losses and credit risks in our view meet the relevant accounting rules.

#### Statement on the Management's review

Management is responsible for the Management's review. Our opinion on the consolidated financial statements and the parent company financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent company financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the consolidated financial statements or the parent company financial statements, or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review meets the disclosure requirements in the Danish Financial Business Act.

Based on our procedures, we are of the opinion that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements in the Danish Financial Business Act. We did not identify any material misstatement of the Management's review.

#### Management's responsibilities for the consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed financial services companies and for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Business Act.

Management is also responsible for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and can be considered material if it would be reasonable to expect that these – either individually or combined – could influence the economic decisions taken by financial statement users on the basis of these consolidated financial statements and parent company financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including note disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant internal control weaknesses which we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Aalborg, 8 February 2018

**Ernst & Young**

Godkendt revisionspartnerselskab  
CVR-no. 30 70 02 28



Anne Tønsberg  
State Authorised Public Accountant  
MNE no. 32121

# **Consolidated financial statements and parent company financial statements**

|    |                                   |
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| 38 | Statement of comprehensive income |
| 39 | Balance sheet                     |
| 40 | Capital position                  |
| 44 | Cash flow statement               |
| 45 | Notes to the financial statements |

## Income statement

|                       |          | Spar Nord<br>Group<br>2017<br>DKKm  | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |              |
|-----------------------|----------|---|------------------------------------|--|--|--------------|
| NOTE                  | 4+9      | Interest income   | 1,680                              | 1,816  | 1,675  | 1,807        |
|                       | 5+9      | Interest expenses   | 103                                | 145  | 103  | 165          |
|                       |          | <b>Net interest income</b>  | <b>1,577</b>                       | <b>1,671</b>                                   | <b>1,572</b>                                   | <b>1,642</b> |
|                       | 6+9      | Dividends on shares, etc.   | 23                                 | 48   | 23   | 41           |
|                       | 7        | Fees, charges and commissions received  | 1,265                              | 1,175  | 1,265  | 1,175        |
|                       |          | Fees, charges and commissions paid  | 149                                | 122  | 149  | 122          |
|                       |          | <b>Net income from interest, fees, charges and commissions</b>                                      | <b>2,716</b>                       | <b>2,771</b>                                   | <b>2,711</b>                                   | <b>2,736</b> |
|                       | 8+9      | Market value adjustments  | 381                                | 386  | 379  | 340          |
|                       | 10       | Other operating income  | 51                                 | 30   | 42   | 31           |
|                       | 11+12    | Staff costs and administrative expenses   | 1,863                              | 1,789  | 1,869  | 1,795        |
|                       | 13       | Amortisation, depreciation and impairment of intangible assets and property, plant and equipment    | 61                                 | 94   | 59   | 93           |
|                       | 14       | Other operating expenses  | 13                                 | 13   | 13   | 13           |
|                       | 16       | Profit/loss on investments in associates and group enterprises (Group)                              | 32                                 | 30   | -  | -            |
|                       |          | <b>Profit/loss before loan impairment charges</b><br>(core earnings before impairment in the Group) | <b>1,244</b>                       | <b>1,320</b>                                   | <b>-</b>                                       | <b>-</b>     |
|                       | 15+32+51 | Loan impairment charges etc.  | -7                                 | 292  | -7   | 292          |
|                       | 16       | Profit/loss on investments in associates and group enterprises (Parent Company)                     | -                                  | -  | 51   | 105          |
|                       |          | <b>Profit/loss before tax</b>   | <b>1,251</b>                       | <b>1,028</b>                                   | <b>1,249</b>                                   | <b>1,019</b> |
|                       | 17       | Tax   | 262                                | 190  | 258  | 180          |
|                       |          | <b>Profit/loss for the year</b>   | <b>989</b>                         | <b>838</b>                                     | <b>991</b>                                     | <b>839</b>   |
| <b>APPROPRIATION:</b> |          |   |                                    |  |  |              |
|                       |          | The shareholders of the Parent Company Spar Nord Bank A/S   | 940                                | 812  | 942  | 813          |
|                       |          | Holders of additional tier 1 (AT1) capital instruments  | 49                                 | 26   | 49   | 26           |
|                       |          | <b>Profit/loss for the year</b>   | <b>989</b>                         | <b>838</b>                                     | <b>991</b>                                     | <b>839</b>   |
|                       |          | Dividend distribution DKK 3.50 per share (2016: DKK 5.00 per share)                                 |                                    |  | 431  | 628          |
|                       |          | Reserve for net revaluation according to the equity method  |                                    |  | 51   | 105          |
|                       |          | Retained earnings   |                                    |  | 461  | 81           |
|                       |          | <b>Total distribution</b>   |                                    |  | <b>942</b>                                     | <b>813</b>   |
| 44                    |          | <b>EARNINGS PER SHARE FOR THE YEAR</b>  |                                    |  |  |              |
|                       |          | Earnings per share for the year (DKK)   | 7.7                                | 6.6  |  |              |
|                       |          | Diluted earnings per share for the year (DKK)   | 7.7                                | 6.6  |  |              |

## Statement of comprehensive income

|   |              |            |              |            |
|---|--------------|------------|--------------|------------|
| <b>Profit/loss for the year</b>                                   | <b>989</b>   | <b>838</b> | <b>991</b>   | <b>839</b> |
| <b>Other comprehensive income</b>                                 |              |            |              |            |
| <b>Items that cannot be reclassified to the income statement:</b> |              |            |              |            |
| Net revaluation of domicile property                              | 11           | -5         | 9            | -6         |
| <b>Other comprehensive income after tax</b>                       | <b>11</b>    | <b>-5</b>  | <b>9</b>     | <b>-6</b>  |
| <b>Total comprehensive income</b>                                 | <b>1,000</b> | <b>833</b> | <b>1,000</b> | <b>833</b> |
| <i>Appropriation:</i>   |              |            |              |            |
| The shareholders of the Parent Company Spar Nord Bank A/S         | 951          | 807        | 951          | 807        |
| Holders of additional tier 1 (AT1) capital instruments            | 49           | 26         | 49           | 26         |
| <b>Total comprehensive income</b>                                 | <b>1,000</b> | <b>833</b> | <b>1,000</b> | <b>833</b> |

## Balance sheet

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|--|--|
|--|------------------------------------|------------------------------------|--|--|

NOTE

### ASSETS

|    |  |               |               |               |               |
|----|--|---------------|---------------|---------------|---------------|
|    | Cash balances and demand deposits with central banks           | 1,298         | 595           | 1,298         | 595           |
| 18 | Due from credit institutions and central banks                 | 1,437         | 2,179         | 1,435         | 2,183         |
|    | Lending, banking and leasing activities                        | 37,272        | 35,092        | 37,272        | 34,965        |
|    | Lending, reverse repo transactions                             | 9,475         | 6,253         | 9,475         | 6,253         |
| 19 | <b>Loans, advances and other receivables at amortised cost</b> | <b>46,747</b> | <b>41,346</b> | <b>46,747</b> | <b>41,219</b> |
| 20 | Bonds at fair value  | 10,838        | 14,936        | 10,838        | 14,936        |
| 21 | Shares, etc.   | 1,626         | 1,557         | 1,626         | 1,557         |
| 22 | Investments in associates                                      | 128           | 118           | 128           | 118           |
| 23 | Investments in group enterprises                               | -             | -             | 402           | 1,584         |
| 56 | Assets linked to pooled schemes                                | 15,423        | 14,541        | 15,423        | 14,541        |
| 24 | Intangible assets  | 184           | 194           | 184           | 194           |
|    | Investment properties  | 135           | 135           | 70            | 70            |
|    | Domicile property  | 487           | 519           | 384           | 417           |
| 25 | <b>Land and buildings, total</b>                               | <b>621</b>    | <b>654</b>    | <b>454</b>    | <b>487</b>    |
| 26 | Other property, plant and equipment                            | 119           | 91            | 119           | 91            |
|    | Current tax assets   | 45            | 18            | 50            | 20            |
| 27 | Temporary assets   | 21            | 34            | 21            | 34            |
| 28 | Other assets   | 1,763         | 2,086         | 1,756         | 2,074         |
|    | Prepayments and deferred income                                | 115           | 124           | 116           | 124           |
|    | <b>Total assets</b>  | <b>80,367</b> | <b>78,473</b> | <b>80,597</b> | <b>79,758</b> |

### EQUITY AND LIABILITIES

|       |  |               |               |               |               |
|-------|--|---------------|---------------|---------------|---------------|
|       | <b>PAYABLES</b>  |               |               |               |               |
| 29    | Due to credit institutions and central banks             | 1,964         | 2,430         | 1,934         | 2,399         |
| 30    | Deposits and other payables                              | 48,843        | 46,464        | 49,105        | 47,787        |
| 56    | Deposits in pooled schemes                               | 15,423        | 14,541        | 15,423        | 14,541        |
| 20+21 | Other non-derivative financial liabilities at fair value | 934           | 2,008         | 934           | 2,008         |
| 31    | Other liabilities  | 2,866         | 3,084         | 2,864         | 3,081         |
|       | Prepayments and deferred income                          | 19            | 24            | 19            | 18            |
|       | <b>Total payables</b>                                    | <b>70,049</b> | <b>68,551</b> | <b>70,278</b> | <b>69,835</b> |
|       | <b>PROVISIONS</b>  |               |               |               |               |
| 32+33 | Provisions for deferred tax                              | 136           | 109           | 137           | 109           |
| 32    | Provision for losses on guarantees                       | 41            | 67            | 41            | 67            |
| 32    | Other provisions   | 21            | 26            | 21            | 26            |
|       | <b>Total provisions</b>                                  | <b>199</b>    | <b>202</b>    | <b>199</b>    | <b>203</b>    |
|       | <b>SUBORDINATED DEBT</b>                                 |               |               |               |               |
| 34    | Subordinated debt  | 1,144         | 1,093         | 1,144         | 1,093         |
|       | <b>Total liabilities</b>                                 | <b>71,392</b> | <b>69,846</b> | <b>71,622</b> | <b>71,131</b> |
|       | <b>EQUITY</b>  |               |               |               |               |
|       | Share capital  | 1,230         | 1,255         | 1,230         | 1,255         |
|       | Revaluation reserves                                     | 94            | 91            | 90            | 89            |
|       | Statutory reserves                                       | 0             | 22            | 0             | 386           |
|       | Proposed dividend  | 431           | 628           | 431           | 628           |
|       | Retained earnings  | 6,359         | 5,768         | 6,364         | 5,407         |
|       | <b>Equity</b>  | <b>8,114</b>  | <b>7,765</b>  | <b>8,114</b>  | <b>7,765</b>  |
|       | Holders of additional tier 1 (AT1) capital instruments   | 861           | 862           | 861           | 862           |
|       | <b>Total equity</b>                                      | <b>8,975</b>  | <b>8,627</b>  | <b>8,975</b>  | <b>8,627</b>  |
|       | <b>Total equity and liabilities</b>                      | <b>80,367</b> | <b>78,473</b> | <b>80,597</b> | <b>79,758</b> |
|       | <b>OFF-BALANCE SHEET ITEMS</b>                           |               |               |               |               |
| 40    | Contingent assets  | 13            | 7             | 11            | 5             |
| 41    | Contingent liabilities                                   | 11,961        | 12,334        | 11,961        | 12,334        |
| 42    | Other binding commitments                                | 501           | 501           | 518           | 530           |

## Capital position

| The shareholders of the Parent Company Spar Nord Bank A/S                        |                       |                                     |                               |                              |                              |               |  |               |
|--|-----------------------|-------------------------------------|-------------------------------|------------------------------|------------------------------|---------------|--|---------------|
| STATEMENT OF CHANGES IN EQUITY   | Share capital<br>DKKm | Revalua-<br>tion<br>reserve<br>DKKm | Statutory<br>reserves<br>DKKm | Proposed<br>dividend<br>DKKm | Retained<br>earnings<br>DKKm | Total<br>DKKm | Addi-<br>tional<br>tier 1<br>capital<br>DKKm | Total<br>DKKm |
| <b>SPAR NORD GROUP</b>   |                       |                                     |                               |                              |                              |               |  |               |
| <b>Equity at 01.01.17</b>  | <b>1,255</b>          | <b>91</b>                           | <b>22</b>                     | <b>628</b>                   | <b>5,768</b>                 | <b>7,765</b>  | <b>862</b>                                   | <b>8,627</b>  |
| <i>Comprehensive income in 2017</i>  |                       |                                     |                               |                              |                              |               |  |               |
| Profit/loss for the year   | -                     | -                                   | 32                            | 431                          | 478                          | 940           | 49   | 989           |
| <i>Other comprehensive income</i>  |                       |                                     |                               |                              |                              |               |  |               |
| Net revaluation of properties  | -                     | 3                                   | -                             | -                            | 8                            | 11            | -  | 11            |
| <b>Other comprehensive income, total</b>   | <b>0</b>              | <b>3</b>                            | <b>0</b>                      | <b>0</b>                     | <b>8</b>                     | <b>11</b>     | <b>0</b>                                     | <b>11</b>     |
| <b>Total comprehensive income</b>  | <b>0</b>              | <b>3</b>                            | <b>32</b>                     | <b>431</b>                   | <b>485</b>                   | <b>951</b>    | <b>49</b>                                    | <b>1,000</b>  |
| <i>Transactions with owners</i>  |                       |                                     |                               |                              |                              |               |  |               |
| Interest paid on additional tier 1 (AT1) capital                                 | -                     | -                                   | -                             | -                            | -                            | -             | -49  | -49           |
| Dividends paid   | -                     | -                                   | -                             | -628                         | -                            | -628          | -  | -628          |
| Dividends received, treasury shares  | -                     | -                                   | -                             | -                            | 13                           | 13            | -  | 13            |
| Reduction of share capital   | -25                   | -                                   | -                             | -                            | 25                           | 0             | -  | 0             |
| Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital | -                     | -                                   | -                             | -                            | -454                         | -454          | -1   | -456          |
| Addition upon sale of treasury shares and additional tier 1 (AT1) capital        | -                     | -                                   | -                             | -                            | 457                          | 457           | -  | 457           |
| Revaluation reserves, associates   | -                     | -                                   | -23                           | -                            | 23                           | 0             | -  | 0             |
| Dividends received from associates recognised at net asset value                 | -                     | -                                   | -31                           | -                            | 31                           | 0             | -  | 0             |
| Tax  | -                     | -                                   | -                             | -                            | 11                           | 11            | -  | 11            |
| <b>Total transactions with owners</b>  | <b>-25</b>            | <b>0</b>                            | <b>-54</b>                    | <b>-628</b>                  | <b>105</b>                   | <b>-602</b>   | <b>-50</b>                                   | <b>-652</b>   |
| <b>Equity at 31.12.17</b>  | <b>1,230</b>          | <b>94</b>                           | <b>0</b>                      | <b>431</b>                   | <b>6,359</b>                 | <b>8,114</b>  | <b>861</b>                                   | <b>8,975</b>  |
| <b>Equity at 01.01.16</b>  | <b>1,255</b>          | <b>96</b>                           | <b>23</b>                     | <b>377</b>                   | <b>5,723</b>                 | <b>7,475</b>  | <b>412</b>                                   | <b>7,887</b>  |
| <i>Comprehensive income in 2016</i>  |                       |                                     |                               |                              |                              |               |  |               |
| Profit/loss for the year   | -                     | -                                   | 30                            | 628                          | 155                          | 812           | 26   | 838           |
| <i>Other comprehensive income</i>  |                       |                                     |                               |                              |                              |               |  |               |
| Net revaluation of properties  | -                     | -5                                  | -                             | -                            | -                            | -5            | -  | -5            |
| <b>Other comprehensive income, total</b>   | <b>0</b>              | <b>-5</b>                           | <b>0</b>                      | <b>0</b>                     | <b>0</b>                     | <b>-5</b>     | <b>0</b>                                     | <b>-5</b>     |
| <b>Total comprehensive income</b>  | <b>0</b>              | <b>-5</b>                           | <b>30</b>                     | <b>628</b>                   | <b>155</b>                   | <b>807</b>    | <b>26</b>                                    | <b>833</b>    |
| <i>Transactions with owners</i>  |                       |                                     |                               |                              |                              |               |  |               |
| Issue of additional tier 1 (AT1) capital, net transaction costs                  | -                     | -                                   | -                             | -                            | -3                           | -3            | 450  | 447           |
| Interest paid on additional tier 1 (AT1) capital                                 | -                     | -                                   | -                             | -                            | -                            | -             | -24  | -24           |
| Dividends paid   | -                     | -                                   | -                             | -377                         | -                            | -377          | -  | -377          |
| Dividends received, treasury shares  | -                     | -                                   | -                             | -                            | 2                            | 2             | -  | 2             |
| Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital | -                     | -                                   | -                             | -                            | -658                         | -658          | -2   | -660          |
| Addition upon sale of treasury shares and additional tier 1 (AT1) capital        | -                     | -                                   | -                             | -                            | 512                          | 512           | -  | 512           |
| Revaluation reserves, associates   | -                     | -                                   | 7                             | -                            | -7                           | 0             | -  | 0             |
| Dividends received from associates recognised at net asset value                 | -                     | -                                   | -38                           | -                            | 38                           | 0             | -  | 0             |
| Tax  | -                     | -                                   | -                             | -                            | 6                            | 6             | -  | 6             |
| <b>Total transactions with owners</b>  | <b>0</b>              | <b>0</b>                            | <b>-31</b>                    | <b>-377</b>                  | <b>-110</b>                  | <b>-517</b>   | <b>424</b>                                   | <b>-93</b>    |
| <b>Equity at 31.12.16</b>  | <b>1,255</b>          | <b>91</b>                           | <b>22</b>                     | <b>628</b>                   | <b>5,768</b>                 | <b>7,765</b>  | <b>862</b>                                   | <b>8,627</b>  |

## The shareholders of the Parent Company Spar Nord Bank A/S

## STATEMENT OF CHANGES IN EQUITY

## SPAR NORD PARENT COMPANY

|  | Share capital<br>DKKkm | Revalua-<br>tion<br>reserve<br>DKKkm | Statutory<br>reserves<br>DKKkm | Proposed<br>dividend<br>DKKkm | Retained<br>earnings<br>DKKkm | Total<br>DKKkm | Additional<br>tier 1<br>capital<br>DKKkm | Total<br>DKKkm |
|--|------------------------|--------------------------------------|--------------------------------|-------------------------------|-------------------------------|----------------|--|----------------|
| <b>Equity at 01.01.17</b>  | <b>1,255</b>           | <b>89</b>                            | <b>386</b>                     | <b>628</b>                    | <b>5,407</b>                  | <b>7,765</b>   | <b>862</b>                               | <b>8,627</b>   |
| <i>Comprehensive income in 2017</i>  |                        |                                      |                                |                               |                               |                |  |                |
| Profit/loss for the year   | -                      | -                                    | 51                             | 431                           | 461                           | 942            | 49                                       | 991            |
| <i>Other comprehensive income</i>  |                        |                                      |                                |                               |                               |                |  |                |
| Net revaluation of properties  | -                      | 1                                    | -                              | -                             | 8                             | 9              | -  | 9              |
| <b>Other comprehensive income, total</b>   | <b>0</b>               | <b>1</b>                             | <b>0</b>                       | <b>0</b>                      | <b>8</b>                      | <b>9</b>       | <b>0</b>                                 | <b>9</b>       |
| <b>Total comprehensive income</b>  | <b>0</b>               | <b>1</b>                             | <b>51</b>                      | <b>431</b>                    | <b>469</b>                    | <b>951</b>     | <b>49</b>                                | <b>1,000</b>   |
| <i>Transactions with owners</i>  |                        |                                      |                                |                               |                               |                |  |                |
| Interest paid on additional tier 1 (AT1) capital                                 | -                      | -                                    | -                              | -                             | -                             | -              | -49                                      | -49            |
| Dividends paid   | -                      | -                                    | -                              | -628                          | -                             | -628           | -  | -628           |
| Dividends received, treasury shares  | -                      | -                                    | -                              | -                             | 13                            | 13             | -  | 13             |
| Reduction of share capital   | -25                    | -                                    | -                              | -                             | 25                            | 0              | -  | 0              |
| Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital | -                      | -                                    | -                              | -                             | -454                          | -454           | -1                                       | -456           |
| Addition upon sale of treasury shares and additional tier 1 (AT1) capital        | -                      | -                                    | -                              | -                             | 457                           | 457            | -  | 457            |
| Revaluation reserves in in associates and group enterprises                      | -                      | -                                    | 794                            | -                             | -794                          | 0              | -  | 0              |
| Dividends received from group enterprises  | -                      | -                                    | -1,200                         | -                             | 1,200                         | 0              | -  | 0              |
| Dividends received from associates recognised at net asset value                 | -                      | -                                    | -31                            | -                             | 31                            | 0              | -  | 0              |
| Tax  | -                      | -                                    | -                              | -                             | 11                            | 11             | -  | 11             |
| <b>Total transactions with owners</b>  | <b>-25</b>             | <b>0</b>                             | <b>-437</b>                    | <b>-628</b>                   | <b>488</b>                    | <b>-602</b>    | <b>-50</b>                               | <b>-652</b>    |
| <b>Equity at 31.12.17</b>  | <b>1,230</b>           | <b>90</b>                            | <b>0</b>                       | <b>431</b>                    | <b>6,364</b>                  | <b>8,114</b>   | <b>861</b>                               | <b>8,975</b>   |
| <b>Equity at 01.01.16</b>  | <b>1,255</b>           | <b>94</b>                            | <b>312</b>                     | <b>377</b>                    | <b>5,436</b>                  | <b>7,475</b>   | <b>412</b>                               | <b>7,887</b>   |
| <i>Comprehensive income in 2016</i>  |                        |                                      |                                |                               |                               |                |  |                |
| Profit/loss for the year   | -                      | -                                    | 105                            | 628                           | 81                            | 813            | 26                                       | 839            |
| <i>Other comprehensive income</i>  |                        |                                      |                                |                               |                               |                |  |                |
| Net revaluation of properties  | -                      | -6                                   | -                              | -                             | -                             | -6             | -  | -6             |
| <b>Other comprehensive income, total</b>   | <b>0</b>               | <b>-6</b>                            | <b>0</b>                       | <b>0</b>                      | <b>0</b>                      | <b>-6</b>      | <b>0</b>                                 | <b>-6</b>      |
| <b>Total comprehensive income</b>  | <b>0</b>               | <b>-6</b>                            | <b>105</b>                     | <b>628</b>                    | <b>81</b>                     | <b>807</b>     | <b>26</b>                                | <b>833</b>     |
| <i>Transactions with owners</i>  |                        |                                      |                                |                               |                               |                |  |                |
| Issue of additional tier 1 (AT1) capital, net transaction costs                  | -                      | -                                    | -                              | -                             | -3                            | -3             | 450                                      | 447            |
| Interest paid on additional tier 1 (AT1) capital                                 | -                      | -                                    | -                              | -                             | -                             | -              | -24                                      | -24            |
| Dividends paid   | -                      | -                                    | -                              | -377                          | -                             | -377           | -  | -377           |
| Dividends received, treasury shares  | -                      | -                                    | -                              | -                             | 2                             | 2              | -  | 2              |
| Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital | -                      | -                                    | -                              | -                             | -658                          | -658           | -2                                       | -660           |
| Addition upon sale of treasury shares and additional tier 1 (AT1) capital        | -                      | -                                    | -                              | -                             | 512                           | 512            | -  | 512            |
| Revaluation reserves in in associates and group enterprises                      | -                      | -                                    | 7                              | -                             | -7                            | 0              | -  | 0              |
| Dividends received from associates recognised at net asset value                 | -                      | -                                    | -38                            | -                             | 38                            | 0              | -  | 0              |
| Tax  | -                      | -                                    | -                              | -                             | 6                             | 6              | -  | 6              |
| <b>Total transactions with owners</b>  | <b>0</b>               | <b>0</b>                             | <b>-31</b>                     | <b>-377</b>                   | <b>-110</b>                   | <b>-517</b>    | <b>424</b>                               | <b>-93</b>     |
| <b>Equity at 31.12.16</b>  | <b>1,255</b>           | <b>89</b>                            | <b>386</b>                     | <b>628</b>                    | <b>5,407</b>                  | <b>7,765</b>   | <b>862</b>                               | <b>8,627</b>   |



**ADDITIONAL TIER 1 (AT1) CAPITAL**

The additional tier 1 (AT1) capital issued by Spar Nord has a perpetual term, with voluntary payment of interest and repayments of principal, for which reason it is treated as equity for accounting purposes.

|  |      | Principal |               |          |           |            |            |            |            |
|--|------|-----------|---------------|----------|-----------|------------|------------|------------|------------|
| Currency   | Note | DKKm      | Interest rate | Received | Maturity  |            |            |            |            |
| DKK  | a    | 400       | 6.052 %       | 2015     | Perpetual | 411        | 413        | 411        | 413        |
| DKK  | b    | 450       | 5.500 %       | 2016     | Perpetual | 450        | 450        | 450        | 450        |
| <b>Additional tier 1 (AT1) capital issued under CRR, total</b> |      |           |               |          |           | <b>861</b> | <b>862</b> | <b>861</b> | <b>862</b> |

- a** Issued on 10.06.2015, with an option of early redemption as from 10.06.2020. The loan carries interest at a rate of 6.052% p.a. until 10.06.2020, after which date interest will be fixed at CIBOR6 + a 5.40% margin.
- b** Issued on 06.12.2016, with an option of early redemption as from 06.12.2021. The loan carries interest at a rate of 5.50% p.a. until 06.12.2021, after which date interest will be fixed at CIBOR6 + a +5.166% margin.

If Spar Nord's common equity tier 1 (CET1) ratio falls below 5 1/8%, the loans will be written down.  
The loans can be written up again based on the rules laid down in CRR.

**Additional tier 1 (AT1) capital, specification of cash flows**

| Cash flows, beginning of period          | 817        | 396        | 817        | 396        |
|--|------------|------------|------------|------------|
| Movements during the year:               |            |            |            |            |
| Issue of additional tier 1 (AT1) capital | -          | 450        | -          | 450        |
| Net transaction costs                    | -          | -3         | -          | -3         |
| Change in portfolio of own bonds         | -1         | -2         | -1         | -2         |
| Interest paid                            | -49        | -24        | -49        | -24        |
| <b>Total cash flows for the year</b>     | <b>-50</b> | <b>421</b> | <b>-50</b> | <b>421</b> |
| <b>Cash flows, end of period</b>         | <b>767</b> | <b>817</b> | <b>767</b> | <b>817</b> |

**DIFFERENCES IN ACCOUNTING POLICIES BETWEEN THE PARENT COMPANY'S FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS**

With the exception that subsidiaries are included in the consolidated financial statements and recognised at net asset value in the Parent Company's financial statements, the accounting policies are identical.

The difference between the equity and profit or loss in the Group and in the Parent Company is due to properties being classified as investment properties in subsidiaries and as domicile properties in the Group. The difference consists of net depreciation and impairment on such properties; see below:

|  | PROFIT/LOSS  |              | EQUITY       |              |
|--|--------------|--------------|--------------|--------------|
|  | 2017<br>DKKm | 2016<br>DKKm | 2017<br>DKKm | 2016<br>DKKm |
| Spar Nord Group  | 989          | 838          | 8,975        | 8,627        |
| Net depreciation and impairment, Group domicile properties | 2            | 1            | 0            | 0            |
| <b>Spar Nord Parent Company</b>                            | <b>991</b>   | <b>839</b>   | <b>8,975</b> | <b>8,627</b> |

| ISSUED SHARES                   | No. of shares      |                    | Nominal value (DKKm) |              |
|---------------------------------|--------------------|--------------------|----------------------|--------------|
|                                 | 2017               | 2016               | 2017                 | 2016         |
| 1 January                       | 125,529,918        | 125,529,918        | 1,255                | 1,255        |
| Share buyback programme         | 2,527,392          | -                  | 25                   | -            |
| <b>31 December – fully paid</b> | <b>123,002,526</b> | <b>125,529,918</b> | <b>1,230</b>         | <b>1,255</b> |

The share capital is divided into shares with a nominal value of DKK 10. No shares carry any special rights. No shares are subject to restrictions on transferability or voting rights.

Dividends of DKK 431 million have been proposed for 2017 (2016: DKK 628 million, of which DKK 13 million concerns shares acquired in connection with the share buyback programme in 2016). Dividends paid in 2017 amounted to DKK 628 million (2016: DKK 377 million).

The distribution of dividend to Spar Nord's shareholders has no tax consequences for Spar Nord.

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|--|--|
| <b>NUMBER OF SHARES IN CIRCULATION</b>             |                                    |                                    |  |  |
| Beginning of period                                | 122,938,583                        | 125,390,517                        | 122,938,583                                    | 125,390,517                                    |
| Share buyback programme                            | -                                  | 2,527,392                          | -  | 2,527,392                                      |
| Acquisition/sale of treasury shares, trading book  | 25,895                             | 75,458                             | 25,895   | 75,458   |
| <b>End of year</b>                                 | <b>122,964,478</b>                 | <b>122,938,583</b>                 | <b>122,964,478</b>                             | <b>122,938,583</b>                             |
| Shares issued, end of year                         | 123,002,526                        | 125,529,918                        | 123,002,526                                    | 125,529,918                                    |
| Share buyback programme                            | -                                  | 2,527,392                          | -  | 2,527,392                                      |
| Group's portfolio of treasury shares, trading book | 38,048                             | 63,943                             | 38,048   | 63,943   |
| <b>Outstanding shares in circulation</b>           | <b>122,964,478</b>                 | <b>122,938,583</b>                 | <b>122,964,478</b>                             | <b>122,938,583</b>                             |

**TREASURY SHARE PORTFOLIO**

|                             |        |           |        |           |
|-----------------------------|--------|-----------|--------|-----------|
| Number of shares            | 38,048 | 2,591,335 | 38,048 | 2,591,335 |
| Nominal value, DKKm         | 0      | 26        | 0      | 26        |
| Fair value, DKKm            | 3      | 210       | 3      | 210       |
| Percentage of share capital | 0,0    | 2,1       | 0,0    | 2,1       |

**TREASURY SHARE PORTFOLIO, FAIR VALUE, DKKM**

|                                |          |            |          |            |
|--------------------------------|----------|------------|----------|------------|
| Portfolio, beginning of year   | 210      | 9          | 210      | 9          |
| Share buyback programme        | -150     | 150        | -150     | 150        |
| Acquisition of treasury shares | 454      | 508        | 454      | 508        |
| Sale of treasury shares        | 457      | 512        | 457      | 512        |
| Market value adjustments       | -55      | 56         | -55      | 56         |
| <b>Portfolio, end of year</b>  | <b>3</b> | <b>210</b> | <b>3</b> | <b>210</b> |

**TREASURY SHARES DEPOSITED AS COLLATERAL**

|                             |           |           |           |           |
|-----------------------------|-----------|-----------|-----------|-----------|
| Number of shares            | 1,124,804 | 1,251,144 | 1,124,804 | 1,251,144 |
| Nominal value, DKKm         | 11        | 13        | 11        | 13        |
| Fair value, DKKm            | 81        | 101       | 81        | 101       |
| Percentage of share capital | 0,9       | 1,0       | 0,9       | 1,0       |

Treasury shares deposited as collateral comprise collateral provided by customers in the form of Spar Nord shares. The Bank uses treasury shares for trading with customers.

Until the next Annual General Meeting, the Board of Directors is authorised to let the Bank acquire treasury shares with a nominal value of up to 10% of the share capital based on the market price at the date of acquisition subject to a deviation of up to 10%.

On 4 September 2017, the share capital was reduced by DKK 25,273,920 through the cancellation of 2,527,392 shares of Spar Nord's treasury share portfolio. These shares were bought back under the share buyback programme for 2016.

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|--|--|
| <b>OWN FUNDS</b>   |                                    |                                    |  |  |
| Equity   | 8,975                              | 8,627                              | 8,975  | 8,627  |
| Additional tier 1 (AT1) capital included in equity                     | 861                                | 862                                | 861  | 862  |
| Proposed dividend, excl. share re. share buyback programme             | 431                                | 615                                | 431  | 615  |
| Intangible assets, incl. share recognised in investments in associates | 188                                | 196                                | 188  | 196  |
| Other primary deductions   | 41                                 | 48                                 | 41   | 48   |
| Deductions, equity investments   | 331                                | 240                                | 331  | 240  |
| <b>Common equity tier 1 (CET1) capital</b>                             | <b>7,123</b>                       | <b>6,665</b>                       | <b>7,123</b>                                   | <b>6,665</b>                                   |
| Additional tier 1 (AT1) capital *)                                     | 843                                | 843                                | 843  | 843  |
| Other deductions   | 41                                 | 80                                 | 41   | 80   |
| <b>Tier 1 capital</b>  | <b>7,924</b>                       | <b>7,428</b>                       | <b>7,924</b>                                   | <b>7,428</b>                                   |
| Subordinated debt, excl. additional tier 1 (AT1) capital *)            | 1,133                              | 1,080                              | 1,133  | 1,080  |
| Other deductions   | 41                                 | 80                                 | 41   | 80   |
| <b>Own funds</b>   | <b>9,016</b>                       | <b>8,427</b>                       | <b>9,016</b>                                   | <b>8,427</b>                                   |
| Weighted risk exposure amount, credit risk etc.                        | 40,658                             | 38,216                             | 40,886   | 39,494   |
| Weighted risk exposure amount, market risk                             | 3,196                              | 3,538                              | 3,196  | 3,538  |
| Weighted risk exposure amount, operational risk                        | 5,692                              | 5,732                              | 5,605  | 5,662  |
| <b>Total risk exposure amount</b>                                      | <b>49,546</b>                      | <b>47,486</b>                      | <b>49,687</b>                                  | <b>48,694</b>                                  |
| Common equity tier 1 capital ratio                                     | 14.4                               | 14.0                               | 14.3   | 13.7   |
| Tier 1 capital ratio   | 16.0                               | 15.6                               | 15.9   | 15.3   |
| Own funds ratio  | 18.2                               | 17.7                               | 18.1   | 17.3   |

\*) The maximum holding of own bonds etc. has been deducted.

NOTE

## Cash flow statement

|                             |  | Spar Nord<br>Group<br>2017<br>DKKkM | Spar Nord<br>Group<br>2016<br>DKKkM | Spar Nord<br>Parent<br>Company<br>2017<br>DKKkM | Spar Nord<br>Parent<br>Company<br>2016<br>DKKkM |
|-----------------------------|--|-------------------------------------|-------------------------------------|---|---|
| <b>OPERATING ACTIVITIES</b> |  |                                     |                                     |   |   |
|                             | Profit/loss before tax   | 1,251                               | 1,028                               | 1,249   | 1,019   |
| 25+27                       | Fair value changes, investment properties and temporary assets                                   | 0                                   | 11                                  | 0   | 1   |
| 13                          | Depreciation, amortisation and impairment of intangible assets and property, plant and equipment | 61                                  | 94                                  | 59  | 93  |
|                             | Gains and losses on the sale of intangible assets and property, plant and equipment              | -1                                  | 3                                   | -1  | 3   |
| 32+51                       | Adjustment of loan impairment charges etc.   | 275                                 | 54                                  | 275   | 54  |
| 32                          | Provisions   | -31                                 | 17                                  | -31   | 17  |
| 16                          | Profit/loss on investments in associates and group enterprises                                   | -32                                 | -30                                 | -51   | -105  |
|                             | Corporate income tax paid  | -251                                | -119                                | -249  | -120  |
|                             | <b>Operating activities, total</b>   | <b>1,273</b>                        | <b>1,060</b>                        | <b>1,253</b>                                    | <b>962</b>                                      |
| <b>WORKING CAPITAL</b>      |  |                                     |                                     |   |   |
| 18+29                       | Movement in credit institutions and central banks, net   | -456                                | -1,326                              | -456  | -1,322  |
| 19                          | Movement in loans, advances and other receivables at amortised cost                              | -5,677                              | -2,811                              | -5,804  | -2,811  |
| 20                          | Movement in bonds at fair value  | 4,099                               | 1,118                               | 4,099   | 1,118   |
| 21                          | Movement in equity portfolio   | -69                                 | 83                                  | -69   | 26  |
|                             | Movement in other assets and other liabilities, net  | -965                                | 241                                 | -964  | 249   |
| 30                          | Movement in deposits and other payables  | 2,379                               | 1,728                               | 1,318   | 1,875   |
|                             | <b>Working capital, total</b>  | <b>-689</b>                         | <b>-968</b>                         | <b>-1,875</b>                                   | <b>-867</b>                                     |
|                             | <b>Cash generated from operations, total</b>   | <b>583</b>                          | <b>92</b>                           | <b>-623</b>                                     | <b>95</b>                                       |
| <b>INVESTING ACTIVITIES</b> |  |                                     |                                     |   |   |
| 45                          | Acquisition of activities from FIH Erhvervsbank  | 0                                   | -550                                | 0   | -550  |
| 22+23                       | Acquisition of associates and group enterprises  | -14                                 | -26                                 | -14   | -26   |
| 22+23                       | Sale of associates and group enterprises   | 5                                   | 0                                   | 5   | 0   |
| 24                          | Acquisition of intangible assets   | -1                                  | -6                                  | -1  | -6  |
| 24                          | Sale of intangible assets  | 0                                   | 3                                   | 0   | 3   |
| 25+26+27                    | Acquisition of property, plant and equipment   | -94                                 | -73                                 | -94   | -72   |
| 25+26+27                    | Sale of property, plant and equipment  | 72                                  | 23                                  | 72  | 23  |
| 22+23                       | Dividends from associates and group enterprises  | 31                                  | 38                                  | 1,231   | 38  |
|                             | <b>Investing activities, total</b>   | <b>0</b>                            | <b>-591</b>                         | <b>1,200</b>                                    | <b>-590</b>                                     |
| <b>FINANCING ACTIVITIES</b> |  |                                     |                                     |   |   |
| 34                          | Subordinated debt  | 51                                  | 4                                   | 51  | 4   |
|                             | Additional Tier 1 (AT1) capital recognised in equity (see specification in Capital position)     | -50                                 | 421                                 | -50   | 421   |
|                             | Dividends paid, excluding dividends on treasury shares   | -615                                | -375                                | -615  | -375  |
|                             | Share buyback programme  | 0                                   | -150                                | 0   | -150  |
|                             | Acquisition of treasury shares   | -454                                | -508                                | -454  | -508  |
|                             | Sale of treasury shares  | 457                                 | 512                                 | 457   | 512   |
|                             | <b>Financing activities, total</b>   | <b>-612</b>                         | <b>-95</b>                          | <b>-612</b>                                     | <b>-95</b>                                      |
|                             | <b>Movements in cash and cash equivalents for the year</b>                                       | <b>-29</b>                          | <b>-594</b>                         | <b>-35</b>                                      | <b>-590</b>                                     |
|                             | Cash and cash equivalents, beginning of year   | 2,701                               | 3,295                               | 2,705   | 3,295   |
|                             | Movements in cash and cash equivalents for the year  | -29                                 | -594                                | -35   | -590  |
|                             | <b>Cash and cash equivalents, end of year</b>  | <b>2,672</b>                        | <b>2,701</b>                        | <b>2,670</b>                                    | <b>2,705</b>                                    |
|                             | Cash and cash equivalents, end of year   |                                     |                                     |   |   |
|                             | Cash, cash equivalents and demand deposits with central banks                                    | 1,298                               | 595                                 | 1,298   | 595   |
| 18                          | Due from credit institutions and central banks within less than 3 months                         | 1,374                               | 2,106                               | 1,372   | 2,110   |
|                             | <b>Total</b>   | <b>2,672</b>                        | <b>2,701</b>                        | <b>2,670</b>                                    | <b>2,705</b>                                    |

# Notes to the financial statements

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## NOTE

## 1 ACCOUNTING POLICIES

## BASIS OF PREPARATION OF THE ANNUAL REPORT

Spar Nord Bank A/S is a public limited company with its registered office in Denmark. The annual report for the year ended 31 December 2017 includes both the consolidated financial statements of Spar Nord and its subsidiary and separate financial statements of the Parent Company.

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The Parent Company's financial statements have been prepared in accordance with the provisions of the Danish Financial Business Act, including the Executive Order on financial reports presented by credit institutions and investment companies.

Moreover, the Annual Report is presented in accordance with additional Danish disclosure requirements for annual reports prepared by listed financial institutions; see the Danish Financial Business Act and the Danish Statutory Order on Adoption of IFRS for financial enterprises issued pursuant to the Danish Financial Business Act.

On 8 February 2018, the Board of Directors and Executive Board reviewed and adopted the 2017 Annual Report of Spar Nord. The Annual Report will be submitted for adoption by the shareholders at the Annual General Meeting on 19 April 2018.

## Recognition and measurement

Figures in the financial statements are presented in millions of Danish kroner, unless otherwise stated. Consequently, rounding differences may occur because grand totals are rounded and the underlying decimal places are not shown to the reader.

The policies regarding recognition and measurement in the Parent Company are compatible with IFRS. The difference between the profit or loss in the Group and in the Parent Company is due to properties being classified as investment properties in subsidiaries and as domicile properties in the Group. The difference consists of net depreciation and impairment on such properties.

The accounting policies, which are set out below, have been applied consistently for the financial year, also with regard to comparative figures, and are thus unchanged compared with last year.

More details are provided below regarding the implementation of new financial reporting standards. These new standards did not give rise to changes in recognition and measurement in 2017. For standards implemented prospectively, comparative figures are not restated.

### Implementation of new accounting standards

Effective 1 January 2017, The Spar Nord Group has implemented the IFRS standards and interpretations taking effect in the EU for 2017.

The implementation of the adopted amendments and new standards did not materially affect recognition and measurement in 2017, thus not impacting earnings per share, diluted earnings per share and equity.

## ACCOUNTING POLICIES

## Consolidated financial statements

The consolidated financial statements consolidate the Parent Company Spar Nord Bank A/S and the associate in which Spar Nord Bank A/S has control over financial and operating policy decisions.

Control is said to exist if the Group is exposed or has rights to variable returns from its involvement with the company and has the ability to affect those returns through the power over the company.

In the assessment of whether the Group has control, de facto control and potential voting rights that are real and of substance at the balance sheet date are taken into account.

Associates are businesses, other than group enterprises, in which the Group has holdings and significant but not controlling influence. Significant influence is generally achieved by directly or indirectly holding or controlling more than 20%, but less than 50% of the voting rights.

In determining whether the Group exercises control or has a significant influence, potential votes exercisable at the balance sheet date are taken into account.

The following group enterprise is fully consolidated:

- Aktieselskabet Skelagervej 15

The consolidated financial statements have been prepared consolidating the financial statements of Spar Nord Bank A/S and the subsidiary using the Group's accounting policies, eliminating intra-group income and expenses, shareholdings, intra-group balances as well as realised and unrealised gains and losses on intra-group transactions.

## Business combinations

## Acquisitions

The acquisition of parts of another company is recognised in the financial statements of Spar Nord from the date of acquisition. The date of acquisition is the date on which control of the acquired assets and liabilities actually passes to Spar Nord.

Comparative figures are not restated to reflect acquisitions, divestments or companies wound up.

The acquired identifiable assets, liabilities and contingent liabilities are measured at fair value at the date of acquisition. Identifiable intangible assets are recognised if they are separable or arise from a contractual right. The tax effect of revaluations is taken into account.

Positive differences between the acquisition cost and the fair value of acquired, identifiable assets and liabilities (goodwill) are recognised under intangible assets. Goodwill is not amortised, but is tested for impairment at least once a year.

The first impairment test is performed before the end of the acquisition year. Upon acquisition, goodwill is allocated to the cash-generating units, which subsequently forms the basis for the impairment test.

|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| — | — | — | ↘ | ↘ | ↘ | ↘ |
| — | — | — | ↘ | ↘ | ↘ | ↘ |
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|   |   |   |   |   | ↘ | ↘ |
|   |   |   |   |   |   | ↘ |
|   |   |   |   |   |   |   |
|   |   |   |   |   |   |   |

The purchase consideration consists of the fair value of the agreed consideration in the form of assets transferred, liabilities assumed and equity instruments issued. Costs attributable to business combinations are recognised directly in profit or loss when incurred.

If uncertainties exist regarding identification or measurement of acquired assets, liabilities or contingent liabilities or the determination of the purchase consideration, initial recognition will take place on the basis of provisional values. If it subsequently becomes apparent that the identification or measurement of the purchase consideration, acquired assets, liabilities or contingent liabilities was incorrect on initial recognition, the statement is adjusted retrospectively, including goodwill, until 12 months after the acquisition, and the comparative figures are restated. Hereafter, goodwill is not adjusted. Changes to estimates of contingent purchase consideration are recognised in profit or loss for the year.

Companies sold or wound up are recognised in the financial statements until the date of divestment or the date of winding-up. Gains or losses on the divestment or liquidation of subsidiaries and associates are stated as the difference between the sales amount or winding-up proceeds and the carrying amount of the net assets including goodwill at the date of divestment plus incurred and anticipated divestment or liquidation costs.

#### Foreign currency translation

The consolidated financial statements and the Parent Company's financial statements are presented in Danish kroner (DKK), rounded to the nearest million DKK, which is the functional currency of Spar Nord Bank A/S and the subsidiary Aktieselskabet Skelagervej 15. Transactions denominated in foreign currency are translated at the exchange rate ruling at the transaction date. Exchange differences arising between the exchange rate at the transaction date and the exchange rate at the payment date are recognised in the income statement as market value adjustments.

Monetary items denominated in foreign currency are translated at the exchange rate ruling at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date when the balance arose is recognised in the income statement as market value adjustments.

#### Offsetting

Receivables and payables are offset when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

#### Fair value measurement of financial instruments

Fair value is the amount at which a financial asset or liability may be traded between market participants at the measurement date in the principal market, or, in its absence, the most advantageous market to which Spar Nord has access at such time

Fair value is measured based on the following fair value hierarchy, which reflects the parameters included in the measurement:

##### Level 1 – Quoted market price:

Quoted prices (unadjusted) in active markets for identical assets or liabilities

##### Level 2 – observable input:

Valuation techniques based on inputs other than quoted prices at Level 1, observable either directly (prices) or indirectly (derived from prices).

##### Level 3 – non-observable input:

Valuation techniques based on inputs for valuing an asset or liability based on unobservable market data. The valuation is based primarily on generally accepted valuation principles.

At the end of the accounting period, Spar Nord recognises transfers between levels in the fair value hierarchy for the whole financial year.

#### Financial instruments – general

At initial recognition, financial assets are assigned to one of the following categories:

- trading book, which is measured at fair value;
- loans, advances and receivables, which are measured at amortised cost;
- held-to-maturity investments, which are measured at amortised cost;
- financial assets designated at fair value through profit and loss (fair value option);
- assets under pooled schemes, which are measured at fair value.

At initial recognition, financial liabilities are assigned to one of the following categories:

- trading book, which is measured at fair value;
- liabilities under pooled schemes, which are measured at fair value;
- other financial liabilities, which are measured at amortised cost.

Spar Nord has no held-to-maturity investments.

#### Bonds, shares, etc.

At initial recognition at the settlement date, bonds and shares, etc. are measured at fair value less transaction costs. Subsequently, bonds and shares, etc. are measured at fair value. Realised and unrealised gains and losses as well as dividends are recognised in market value adjustments and in dividends on shares in the income statement.

If an active market exists, the fair value of bonds and shares, etc. is measured on the basis of quoted market prices for the relevant financial instruments. A market is considered active when the instrument is traded with sufficient frequency and in sufficient volume to provide a valid pricing basis. The fair value of such instruments is determined on the basis of the most recently observed closing prices on the balance sheet date (Level 1). In the alternative, generally recognised models and observable market data for corresponding assets are used to measure the fair value (Level 2).

Spar Nord's acquired strategic shares, which are not included in the trading portfolio, are measured at fair value on the basis of available trading information or accepted valuation principles and current market data, including an assessment of future earnings and cash flows (Level 3). The fair value is also affected by co-ownership, trading with the relevant company and shareholders' agreements.

Securities are removed from the balance sheet on the settlement date.

### Derivatives

Derivative financial instruments and unsettled spot transactions are recognised at fair value on transaction date. Positive fair values are recognised under Other assets. Negative fair values are recognised under Other liabilities.

At initial recognition, derivative financial instruments and unsettled spot transactions are recognised at fair value less transaction costs. On subsequent recognition, derivative financial instruments and unsettled spot transactions are recognised at fair value.

Realised and unrealised gains and losses are recognised in the income statement as market value adjustments. Gains or losses at initial recognition ("day 1 profit/loss") are not recognised for derivative instruments, but are amortised over the term of the relevant instrument.

The Group makes a fair value adjustment to cover the counterparty credit risk on derivative financial instruments with a positive fair value (CVA).

The calculation of fair value is based on generally recognised models and observable market data (Level 2), including yield curves, exchange rates and volatility curves, for measuring the fair value. The valuation models used comprise swap models, credit pricing models as well as option models, such as Black & Scholes models.

### Repo transactions and reverse repo transactions

Securities sold, for which a simultaneous repurchase agreement is made, are recognised at the settlement date in the balance sheet as if the securities were still held. The amount received is recognised as a liability, and the difference between the offered price and the bid price is recognised as interest in the income statement over the term of the relevant instrument. The return on the securities is recognised in the income statement.

Securities bought, for which a simultaneous agreement is made to resell the securities, are not recognised in the balance sheet, and the return on the acquired securities are not recognised in the income statement.

The purchase sum paid is recognised as a receivable, and the difference between the bid and offered price is recognised as interest in the income statement over the term of the relevant instrument.

Repo transactions and reverse repo transactions are recognised as deposits/loans and advances or payables/receivables to/from credit institutions and are measured at amortised cost.

### Hedge accounting

Spar Nord uses derivative financial instruments to hedge the interest rate risk on fixed-rate assets and liabilities (fair value hedge) measured at amortised cost. Such hedging derivatives are measured at fair value through profit or loss. When the hedge accounting criteria are fulfilled, the carrying amount of the hedged assets and liabilities is adjusted for changes in fair value regarding the hedged risks (fair value hedge). If the hedge criteria cease to be met, the accumulated value adjustments of the hedged items are amortised over the term to maturity.

## INCOME STATEMENT

### Interest income and expenses

Interest income and expenses comprise:

- interest-bearing financial instruments measured at amortised cost, which are recognised in the income statement applying the effective interest method based on the cost of the financial instrument;
- amortisation of fees which are an integral part of the effective yield of the financial instrument, including origination fees, and amortisation of any additional difference between cost and redemption price;
- interest on financial instruments measured at fair value, but not interest on assets and deposits under pooled schemes, which is recognised under market value adjustments;
- interest on loans with individual impairment is made on the basis of the value after impairment;
- interest income on financial leases and purchase contracts recognised on the basis of the agreed effective interest rate; and
- fees, etc. from operating and finance leases that are accrued over the remaining term of the leases and recognised on an ongoing basis under Interest income.

### Fee and commission income, net

Fees, charges and commissions relating to loans, advances and receivables that are considered an integral part of such loans, etc. are recognised as part of the carrying amount of loans, advances and receivables and are recognised in the income statement over the term of the loans and advances as part of the effective interest rate. Commissions relating to guarantees are carried to income over the term of the guarantees. Income generated upon performing a given transaction, including securities and custodianship fees plus payment services fees, is recognised as income when the transaction has been performed.

### Market value adjustments

Market value adjustments include realised and unrealised market value adjustments of items in the trading portfolio of securities and derivative financial instruments and other shares at fair value (fair value option). In addition, the impact on profits/losses from exchange rate adjustments and fair value hedge accounting is also recognised under market value adjustments.

### Other operating income

Other operating income includes items of a secondary nature relative to Spar Nord's activities, including gains on the disposal of acquired investment and domicile properties, the disposal of leasing assets, adjustment of guarantees taken over, etc.

Other operating income also includes lease payments from operating leases and rental income from properties after deducting operating expenses.

Disposal gains are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal.

### Staff costs and administrative expenses

Staff costs and administrative expenses comprise salaries and remuneration, etc. for staff and management as well as administrative expenses. Staff costs comprise salaries, holiday pay, anniversary lump sums, pension costs, etc. Administrative expenses include costs of IT, marketing, premises and office expenses, etc.



**Other operating expenses**

Other operating expenses comprise items of a secondary nature relative to Spar Nord's activities, including contributions to the Guarantee Fund and the Resolution Fund.

**Income from investments in associates and group enterprises**

Income from investments in associates and group enterprises comprises the proportionate share of the net profit or loss of the individual enterprise.

**Tax**

The parent company Spar Nord Bank A/S is jointly taxed with its Danish subsidiary. The current Danish income tax liability is allocated among the Danish companies of the tax pool in proportion to their taxable income. Companies utilising tax losses in other companies pay joint taxation contributions to the parent company equal to the tax value of the utilised losses, while companies whose tax losses are utilised by other companies receive joint taxation contributions from the parent company equal to the tax value of the utilised losses (full allocation). The jointly taxed Danish companies are taxed under the Danish on-account tax scheme. Spar Nord recognises a deferred tax liability in respect of recaptured losses related to international joint taxation concerning previous activities abroad, where the deducted tax loss on foreign activities continues to be subject to the ten-year period of commitment for the international tax pool.

Tax for the year, consisting of the year's current tax and changes in deferred tax, is recognised in the income statement as regards the amount that can be attributed to the profit or loss for the year, in other comprehensive income as regards the amount that can be attributed to other comprehensive income items and in equity as regards the amount that can be attributed to movements taken directly to equity.

**BALANCE SHEET****Due from credit institutions and central banks**

Amounts due from credit institutions and central banks comprise amounts due from other credit institutions and time deposits with central banks. Reverse repo transactions, that is purchases of securities from credit institutions and central banks to be repurchased at a later date, are recognised as amounts due from credit institutions and central banks. As stated under Loans, advances and receivables, the valuation of amounts due from credit institutions and central bank is made at amortised cost.

**Loans, advances and other receivables at amortised cost**

This item comprises loans, advances and receivables, including mortgage deeds, finance leases (see separate section below) and reverse repo transactions where the counterparty is not a credit institution or a central bank.

Loans, advances and receivables are initially recognised at fair value plus transaction costs and less fees and commissions received that are directly related to the establishment. Subsequently, loans, advances and receivables which are not reverse repo transactions are measured at amortised cost using the effective interest method less write-downs for bad debt losses. The measurement of reverse repo transactions is described in the section Repo transactions and reverse repo transactions.

**Impairment**

Loans, advances and receivables are monitored continuously to assess whether there is any objective evidence of impairment and whether an impairment test shows any losses. This is done by individually assessing all significant and credit-quality flagged loans, advances and receivables. For minor loan exposures of less than DKK 250,000, credit-quality flagged customers are automatically assessed based on the customer data and characteristics recorded. Loans, advances and receivables that are not individually impaired are into groups with similar credit risk characteristics and assessed on a pooled basis.

**Individual impairment charges**

Impairment is based on an individual assessment of exposures when there is objective evidence of impairment of an individual facility

Objective evidence of impairment of loans and advances exists if at least one of the following events has occurred:

- The borrower is experiencing significant financial difficulty.
- The borrower's actions, such as default or delinquency in interest or principal payments, lead to a breach of contract.
- Spar Nord, for reasons relating to the borrower's financial difficulty, grants to the borrower a concession that Spar Nord would not otherwise have granted.
- It becomes probable that the borrower will enter into bankruptcy or other financial restructuring.

The impairment charge is calculated as the difference between the carrying amount and the discounted value of the expected future cash flows. Collateral is deducted at fair value less realisation costs. Any subsequent increase in the discounted value of the expected cash flows will lead to a full or partial reversal of the impairment charge booked. The discounted value of fixed-rate loans is calculated at the original effective interest rate, whereas the present value of loans with a variable rate of interest is calculated at the current effective interest rate.

Where a borrower is experiencing significant financial difficulty, the debt is written down to the amount that the borrower is expected to be able to repay after financial restructuring. If financial restructuring is not possible, the debt is written down to the estimated recoverable amount in the event of bankruptcy.

**Collective impairment charges**

Individually assessed loans and advances not subject to impairment and all other loans and advances are divided into groups to assess the need for impairment charges. Such assessment involves groups of loans with similar credit risk characteristics. Collective impairment charges are made, among other things, to cover a deterioration of the payment pattern from the relevant portfolio and changes in circumstances which, based on experience, are related to the extent of default in the relevant group of loans and advances.

The portfolio assessment is made on the basis of the Bank's classification systems which divide the customers into nine rating categories.

The calculation of collective impairment charges is based on gross migration. Thus, following a gross addition, the total groups of impairment losses are composed of the sum total of the individual borrowers' deterioration in rating, calculated exclusively for the customers whose rating has deteriorated, with a resulting increase in risk compared to the risk originally expected, where this heightened risk has not been offset by a corresponding increase in the customer's interest rate.

Thus, it is not taken into account that other borrowers may have improved their rating during the period, with a resulting decrease in risk compared to the risk originally expected.

Spar Nord calculates collective impairment charges as the difference between the present value of the originally expected future losses and the present value of expected future losses after the rating deterioration for the individual customer. The discount rate used is the weighted average of the agreed-upon effective interest rates on the individual loans and advances.

Collective impairment charges on leasing loans are based on a portfolio impairment charges calculated separately for the industries transport, construction, agriculture, industry and other areas, as these groups have similar credit risk characteristics. The collective impairment charges are based on a statistical model that incorporates external cyclical indicators in the form of the unemployment rate and an index of consumer confidence. Moreover, the model incorporates developments in the ratio of down payments and deposits, as a higher ratio of down payments or deposits will reduce the collective impairment charges.

#### **Impairment losses, etc.**

Impairment losses on loans and advances are charged to an allowance account, which is deducted from loans and advances. Any movement in the allowance account is recognised in the income statement under Loan impairment charges etc. If subsequent events show that impairment is not permanent, charges are reversed via loan impairment charges etc. Loans and advances that are considered uncollectible are written off. Write-offs are debited to the allowance account. Loans are written off once the usual collection procedure has been completed as follows:

- the debtor has filed an insolvency or bankruptcy petition and the liquidator has indicated the probable financial result of the insolvency/bankruptcy proceedings;
- Spar Nord cancels debts following either a compulsory or private arrangement with creditors;
- Spar Nord considers collection of the debt completely unlikely for other reasons.

No interest on the written-down portion of the individual loans and advances is taken to income.

#### **Leasing**

Leases are classified as finance leases when all significant risks and rewards of ownership of an asset are transferred to the lessee. All other leases are classified as operating leases.

Where Spar Nord is the lessor, finance lease assets are recognised under loans and advances at the net investment in the leases less depreciation (payments), calculated according to the annuity principle over the term of the lease.

Income from lease assets is recognised based on the effective interest rate in the lease, and is recognised in the income statement under Interest income. Gains or losses on the sale of lease assets are recognised as other operating income and other operating expenses.

Where Spar Nord is the lessor, operating lease assets are recognised under Other property, plant and equipment and depreciated as Spar Nord's other property, plant and equipment. Lease income from operating leases is recognised under Other operating income on a straight-line basis over the current term of the lease.

#### **Investments in subsidiaries and associates**

Investments in associates are recognised at the proportionate share of the net asset value (NAV) on the balance sheet date plus the carrying amount of acquired goodwill.

Investments in group enterprises in the parent company are recognised at the proportionate share of the net asset value (NAV) on the balance sheet date plus the carrying amount of acquired goodwill.

Goodwill is calculated and measured as described above under Business combinations.

The share of profit/loss for the year after tax is recognised in the income statement under Income from investments in associates and group enterprises. In connection with the purchase or sale of group enterprises or associates, the results of such group enterprises or associates are recognised in the income statement from or until the acquisition date, as the case may be.

Any gain or loss upon sale is calculated as the difference between the selling price and the carrying amount at the transfer date, including the carrying amount of goodwill, and is recognised under Other operating income/Other operating expenses.

#### **Pension pools**

Assets forming part of pension pools and customers' contributions to pension pools are presented in separate balance sheet items. The return on pooled assets and contributions is presented together under market value adjustments and is specified in note 8. Assets and liabilities in pooled schemes are recognised at fair value.

#### **Intangible assets**

##### **Goodwill**

Acquired goodwill is recognised at cost less accumulated impairment writedowns, as described under Business combinations.

Goodwill is not amortised.

Goodwill on associates is recognised in Investments in associates.

The carrying amount of goodwill is allocated to Spar Nord's cash-generating units at the date of acquisition. The determination of cash-generating units is based on the management structure and the in-house financial management.

Goodwill is not amortised; instead each cash-generating unit is tested for impairment of goodwill at least once a year. Goodwill is written down to its recoverable amount in the income statement provided that the carrying amount of the net assets of the cash-generating unit exceeds the higher of the assets' fair value less costs to sell and their value in use, which equals the present value of the future cash flows expected to be derived from the unit.

#### **Customer relations and software**

Customer relations taken over on the acquisition of undertakings are recognised at cost and amortised on a straight-line basis over the expected useful life, which does not exceed ten years. The expected useful life depends on customer loyalty.

Acquired software is recognised at cost, including installation expenses, and amortised according to the straight-line method over the expected useful life of a maximum of five years.

Useful lives are reassessed annually. Any changes in amortisation as a result of changes in useful life are recognised in future reporting periods as a change in accounting estimates.

Customer relations and software that are amortised are subjected to an impairment test when there is evidence of impairment. When there is evidence of impairment, they are written down to the value in use.

#### Land and buildings

Properties are recognised at cost upon acquisition and subsequently measured at fair value. Borrowing costs from general borrowing or loans that are directly attributable to the acquisition and construction of qualifying assets (properties) are attributed to the cost of the specific individual asset.

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, etc. Operating expenses and maintenance costs are calculated based on 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, credit quality, etc. The fair value of the individual property is reassessed once a year based on the current market and the interest level.

Domicile property is real property occupied by Spar Nord's administrative departments, branches and other service units. The carrying amount of domicile property is systematically depreciated over the expected useful life of 50 years for buildings. Special fixtures in buildings are depreciated according to the straight-line method over a useful life of 20 years. Allowance is made for the expected residual value when calculating depreciation. The revaluation of domicile property to fair value is recognised in Other comprehensive income and allocated to a special reserve under equity, Revaluation reserves, while depreciation and impairment are recognised in the income statement under Depreciation, amortisation and impairment of intangible assets and property, plant and equipment.

Domicile property which, according to a publicly announced plan, the Group expects to sell within twelve months is recognised as temporary assets.

Land is not depreciated.

Investment property is real property, including real property let under operating leases and acquired properties, which the Group owns for the purpose of receiving rent and/or obtaining capital gains. Investment property is not depreciated. Changes in fair values are recognised in the Parent Company under Market value adjustments, while net fair value changes in the Group are recognised under Other operating expenses. Rental income is recognised in the income statement under Other operating income.

#### Other property, plant and equipment

Operating equipment in the form of IT equipment, vehicles, furniture, fixtures and leasehold improvements are recognised at cost less accumulated depreciation and impairment charges. Where Spar Nord is the lessor, operating lease assets are also recognised under property, plant and equipment. The basis of depreciation for property, plant and equipment is the difference between cost and residual value at the end of its useful life, and the residual value is assessed regularly. Leasehold improvements are depreciated over the term of the lease, with a maxi-

mum of ten years. For other operating equipment, depreciation is made on a straight-line basis over the expected useful life of a maximum of five years.

#### Impairment

Property, plant and equipment are tested for impairment if indications of impairment exist. An impaired asset is written down to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Impairment losses are recognised in the income statement.

#### Temporary assets

Temporary assets comprise property, plant and equipment, including assets taken over as a result of the liquidation of customer exposures, the intention being to sell the assets within 12 months. Assets taken over are recognised at the lower of carrying amount and fair value, less costs to sell.

Assets are not depreciated as from the date they are classified as temporary.

Impairment losses occurring in connection with the initial classification as "temporary assets", and gains or losses in relation to subsequent measurement at the lower of the carrying amount and fair value less costs to sell are recognised in the income statement under the items to which they relate. Gains and losses are disclosed in the notes to the financial statements.

Assets and related liabilities are recognised separately in the balance sheet.

#### Payable and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as estimated tax on the taxable income for the year, adjusted for tax on prior years' taxable income and for tax paid under the on-account tax scheme.

Deferred tax is measured in accordance with the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, no deferred tax is recognised on timing differences regarding non-deductible goodwill and other items for which timing differences have arisen at the acquisition date without affecting the financial results or taxable income. In cases where the tax base may be computed according to several sets of tax regulations, deferred tax is measured on the basis of the intended use of the asset or settlement of the liability planned by Management.

Deferred tax is recognised in the balance sheet under Deferred tax assets and Deferred tax liabilities on the basis of expected tax rates.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised under Deferred tax assets at the expected value of their utilisation, either as a set-off against tax on future income or as a set-off against deferred tax liabilities within the same legal tax entity and jurisdiction.

Deferred tax assets and tax liabilities are offset if the enterprise has a legally enforceable right to set off current tax liabilities and tax assets or intends either to settle current tax liabilities and tax assets on a net basis or to realise the assets and settle the liabilities simultaneously.

Adjustment is made to deferred tax relating to eliminations of unrealised intra-group profits and losses.

Deferred tax is measured on the basis of the tax regulations and rates that, according to the rules in force at the balance sheet date, will apply at the time the deferred tax is expected to crystallise as current tax. Changes in deferred tax resulting from changes in tax rates are recognised in the income statement.

#### Other assets

Other assets include capital contributions to Bankernes EDB Central a.m.b.a., interest and commissions receivable as well as the positive fair value of derivative instruments. Fair-value measurement of the positive fair value of derivative financial instruments is described in more detail in the section Derivative financial instruments. Other items are measured at amortised cost.

#### Prepayments and deferred income

Prepayments and deferred income are measured at amortised cost and are recognised under assets (prepayments) and liabilities (deferred income), respectively.

#### Financial liabilities

Amounts due to credit institutions and central banks and deposits include amounts received under repo transactions (sales of securities which the Group agrees to repurchase at a later date). Amounts due to credit institutions and central banks and deposits are recognised at the raising of a loan at fair value corresponding to the consideration received less directly attributable transaction costs. Amounts due to credit institutions and central banks and deposits not classified as repo transactions are subsequently measured at amortised cost using the effective interest method. Thus, the difference between net proceeds and nominal value is recognised in the income statement under Interest expenses over the loan term.

Other liabilities are measured at net realisable value.

#### Other non-derivative liabilities at fair value

Other non-derivative liabilities at fair value comprise negative holdings in connection with reverse repo transactions and agreements on securities lending etc.

Negative holdings concerning reverse repo transactions and agreements on securities lending arise when Spar Nord resells assets received as collateral. As such assets are not recognised in the balance sheet, a resale results in a negative holding.

#### Other liabilities

Other liabilities include interest payable, the negative fair value of derivative financial instruments and employee benefits payable. Fair-value measurement of the negative fair value of derivative financial instruments is described in more detail in the section Derivative financial instruments. Other items are measured at amortised cost.

#### Provisions

Provisions include mainly guarantee commitments, provisions for losses on irrevocable credit commitments, legal actions and any restructuring costs, etc.

Restructuring costs are recognised as liabilities, provided that a detailed, formal restructuring plan is available at the reporting date.

A provision is recognised when a legal or constructive obligation exists and when it is probable that the obligation will become effective and it can be measured reliably.

Provisions are based on Management's best estimate of the amount of the commitments. In the measurement of provisions, the costs required to settle the liability are discounted if such discounting would have a material effect on the financial statements.

#### Subordinated debt

Subordinated debt are liabilities in the form of tier 2 capital and other capital contributions which, in the event of the Company's voluntary or compulsory winding up, will not be repaid until after the claims of ordinary creditors have been met.

Subordinated debt is recognised at the raising of a loan at fair value less directly attributable transaction costs. Subsequently, subordinated debt is measured at amortised cost using the effective interest method.

#### Equity

##### Revaluation reserves

Revaluation reserves comprise revaluations of Spar Nord's domicile property after the recognition of deferred tax. The reserve is dissolved when properties are impaired, sold or otherwise disposed of.

##### Statutory reserves

Statutory reserves comprise value adjustments of investments in associates and group enterprises according to the equity method. The reserves are reduced by the dividends distributed to the Parent Company and other movements in the equity of group enterprises and associates, or if the investments are realised in whole or in part.

##### Additional tier 1 (AT1) capital

Additional Tier 1 (AT1) capital issued with a perpetual term and without a contractual obligation to make repayments of principal and pay interest (additional tier 1 capital under CRR) does not fulfil the conditions for being classified as a financial liability according to IAS 32. Therefore, any such issue of Additional Tier 1 (AT1) capital is considered equity.

The net amount at the time of issue is recognised as an increase in equity. The payment of interest is treated as dividend and recognised directly in equity at the time when the liability arises.

Upon Spar Nord's redemption of the bonds, the equity will be reduced by the redemption amount at the time of redemption. Cost and selling prices on the purchase and sale of Additional Tier 1 (AT1) capital under CRR are recognised directly in equity in the same way as the portfolio of treasury shares.

##### Proposed dividend

Proposed dividend is recognised as a liability at the time of adoption at the annual general meeting (the declaration date). Dividend proposed to be distributed for the year is included under equity until adoption of the dividend proposal. In accordance with the Bank's dividend policy, Spar Nord aims to distribute 40-50% of the net profit for the year as ordinary dividends with due consideration to meeting the Bank's capital targets.

##### Treasury shares and own bonds

Treasury shares and own bonds are not recognised as assets. Cost and selling prices of treasury shares as well as dividends are recognised directly in retained earnings under equity. Capital reduction by cancellation of treasury shares will lower the share capital by an amount equal to the nominal value of the investments at the time of registration of the capital reduction.

The acquisition of own bonds is recognised directly in Subordinated debt. Upon the acquisition of own bonds, any loss or gain is recognised in the income statement as the difference between the acquisition cost and the carrying amount of the liability.

#### **Contingent assets and liabilities**

Contingent assets and liabilities consist of possible assets and liabilities arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Spar Nord.

Contingent assets are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are disclosed when an outflow of economic resources from Spar Nord is possible but not probable. Disclosure also includes current liabilities which have not been recognised because it is not probable that the liability will entail an outflow of economic resources from Spar Nord or where the liability cannot be reliably measured.

#### **Cash flow statement**

The cash flow statement shows the cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year. Cash flows from operating activities are calculated according to the indirect method as the profit or loss for the year adjusted for non-cash operating items and changes in working capital.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of intangible assets and property, plant and equipment as well as associates and group enterprises, etc. Cash flows from financing activities comprise dividends paid and movements in the equity, subordinated debt and treasury shares.

Cash and cash equivalents comprise cash balances, demand deposits with central banks and amounts due from credit institutions and central banks with less than three months to maturity. These assets can be readily converted into cash and carry only minimal risk of change in value.

#### **Segment information**

Segment information is provided in accordance with Spar Nord's accounting policies and follows the internal management reporting.

Inter-segment transactions are settled on an arm's length basis. Expenses incurred centrally such as salaries, rent, depreciation, etc. are allocated to the individual segments based on an assessment of the proportionate share of the overall activity level. Segment assets and liabilities are assets and liabilities that are used for maintaining the operating activities of a segment or have come into existence as a result of such activities and that are either directly attributable or may be reasonably allocated to a segment. A calculated share of shareholders' equity is allocated to each segment.

Other income and expenses are charged to Other areas, and this item also includes the activities of the subsidiary Aktieselskabet Skelagervej 15.

#### **Calculation of performance indicators and financial ratios (core earnings)**

The Group's performance indicators and financial ratios (core earnings) appearing from the Management's review differ from the Consolidated Financial Statements format. The relationship between Core earnings and the Consolidated Financial Statements format is shown in note 3, Business segments.

Ratio definitions are set out in note 58.

### Information about standards not yet effective

The International Accounting Standards Board (IASB) has published a number of new financial reporting standards (IAS and IFRS) and interpretations (IFRIC), which Spar Nord is not required to observe in preparing the 2017 Annual Report. IFRS 9, 15 and 16 and amendments to IAS 40 and IFRS 2. IFRS 9, 15 and 16 have been adopted by the EU, whereas none of the other standards and interpretations have been adopted by the EU.

Spar Nord does not expect to implement the new standards and interpretations until they become mandatorily effective. Besides IFRS 9, see below, the other new standards and interpretations are not expected to materially affect the Bank's financial reporting.

#### IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments", which replaces IAS 39, changes the classification and related measurement of financial assets and liabilities and, to some extent, the rules on hedge accounting.

The standard is effective for financial years beginning on or after 1 January 2018 from which date Spar Nord is going to implement it.

#### 1) IFRS 9 – classification and measurement

A more logical approach to classification of financial assets is introduced, driven by Spar Nord's business model and the underlying contractual cash flows related to the financial assets.

- Subsequent to initial recognition, financial assets held with the objective of collecting contractual cash flows, and where the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, are measured at amortised cost.

Spar Nord's loans and advances at amortised cost and receivables from credit institutions are part of this classification. The portfolio is measured at amortised cost.

- Subsequent to initial recognition, financial assets held within a combined business model where some financial assets are held with the objective of collecting contractual cash flows and other financial assets are sold, and where the contractual cash flows from the financial assets in the combined business model are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income.

The financial assets are part of a risk management system and an investment strategy based on fair values and are, on this basis, part of Spar Nord's internal management reporting. The portfolio is therefore measured at fair value through profit and loss.

- Subsequent to initial recognition, financial assets that do not meet the abovementioned business model criteria, or where the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding, are measured at fair value through profit or loss.

This residual category includes financial assets held for trading. The portfolio is measured at fair value through profit and loss.

The use of the IFRS 9 measurement categories for financial assets on the basis of the business model and on the basis of the contractual cash flows characteristics is expected to lead to insignificant changes in classification and measurement principles relative to those applied in Spar Nord's 2017 Annual Report.

#### 2) IFRS 9 – impairment

The new impairment model implies that impairment losses must be recognised on all Spar Nord's credit exposures measured at amortised cost based on statistically expected credit losses ("expected loss" model). Based on the existing rules, impairment losses are not recognised until there is objective evidence of impairment ("incurred loss" model).

Under the new expected loss model, on initial recognition of a financial asset, a loss allowance will be recognised in an amount equivalent to the 12-month expected credit losses (stage 1). If, on measurement subsequent to initial recognition, the credit risk increases significantly, a loss allowance will be recognised in an amount equivalent to the lifetime expected credit losses of the asset (stage 2). Where it is established that the asset is credit-impaired (stage 3), a loss allowance will be recognised in an amount equivalent to the lifetime expected credit losses of the asset, but interest revenue will be recognised in the income statement using the effective interest method relative to the recognised impairment loss.

The classification into stages and the calculation of expected credit losses are largely based on Spar Nord's rating models.

Newly developed impairment models support the calculation of expected credit losses based on loss ratios and the concepts of PD (Probability-of-Default), LGD (Loss-Given-Default) and EAD (Exposure-at-Default).

The calculation of the expected credit losses on exposures in stages 1 and 2 is based on a model calculation, whereas the calculation in respect of exposures from the weak part of stage 2 as well as stage 3 exposures is made as a combination of an individual assessment and a modal calculation. The model calculation is based on the Bank's model, which has been part of the basis for Spar Nord's credit control for a number of years, supplemented by a macro-economic module, which adjusts the calculated PD values.

A smaller, delimited portfolio is classified as being exposed to low credit risk. Exposures to these counterparties are maintained in stage 1.

- *On transition from stage 1 to stage 2, a substantial increase in the credit risk is defined as follows:*

The credit risk is assessed based on the change in the risk of default. The credit risk has increased significantly since initial recognition in the following situations:

- A 100% increase in the PD for the expected remaining life of the financial asset and a 0.5 % point increase in the 12-month PD where the 12-month PD was below 1% on initial recognition.
- A 100% increase in the PD for the expected remaining life of the financial asset or a 2.0% point increase in the 12-month PD where the 12-month PD was 1% or higher on initial recognition.
- The credit quality department oversees changes in the credit quality of exposures and undertakes systematic credit quality control of the credit portfolio. A "weak list" for high-risk customers is used for credit control purposes. If a customer is marked "weak", the customer's PD will be re-calculated.

- If a financial asset has been in arrears for more than 30 days, the credit risk will be considered to have increased significantly as well.

Exposures with customers whose ability to pay shows considerable signs of weakness will be categorised as the weak part of stage 2. Generally, a customer's ability to pay in this category shows a PD that exceeds 5.0%.

- On calculation of expected losses, the prospective information will be applied as follows:

The prospective information which is part of the calculation of expected losses is based on macro-economic forecasts.

The model is structured around a number of regression models determining the historical correlation between default and a number of explanatory macro-economic variables such as unemployment, GDP, house price trends, industry indices, etc. Stress scenarios are used as the underlying basis for calculating the weighed expected losses.

- *Definition of default*

An exposure to a counterparty is considered to have defaulted if

- The counterparty's exposures are credit-impaired, and the counterparty is not considered to be able to settle its credit liabilities as agreed.
- The counterparty's liabilities have been put on hold, or significantly relaxed terms have been granted with respect to interest rate, repayment profile or respite
- The counterparty's exposure has for a long period of time (90 days) been in arrears or overdrawn and the amount concerned is considered to be significant.

### 3) IFRS 9 – hedge accounting

The new rules on hedge accounting widen the scope for hedge accounting in order to align business entities' financial reporting with its actual risk management.

As Spar Nord has not adopted the changed rules on hedge accounting, they do not affect Spar Nord's financial reporting.

4) *Impact on Spar Nord of the adoption of IFRS 9 and capital phasing-in*

- Overall, the changed method for determining credit losses is estimated to result in an increase of the Bank's impairment losses and provisions in the region of DKK 225-275 million. Reduced by the tax impact of 2%, this equals a reduction in shareholders' equity of 2.2-2.6%.

The effect after tax will be recognised as a reduction of shareholders' equity at 1 January 2018.

- As Spar Nord has decided to adopt the transition rules according to CRR II/CRD V/BRRD II, any adverse impact of the IFRS 9 impairment rules will not take full effect on the capital base until after five years.

The overall impact of IFRS 9 on the Bank's capital base is assessed to be insignificant when the standard become effective on 1 January 2018, while its impact on the capital base going forward will be slightly adverse as the transition rules are being phased out.

## IFRS 16 Leases

IFRS 16 "Leases" was published in mid-January 2016. The standard, which becomes effective for financial years beginning on or after 1 January 2019, changes the accounting for those leases which are today treated as operating leases.

An analysis of the implications of the new standard for Spar Nord is yet to be made. At the end of 2017, Spar Nord had operating leases with minimum lease liabilities corresponding to maximum 1.0% of the balance sheet total, which are to be recognised in the balance sheet going forward.



## NOTE

2 **SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS**

Management's estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities underlie the calculation of the carrying amount of certain assets and liabilities.

The estimates and assessments made by the management are based on assumptions that the management finds reasonable, but which are inherently uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unexpected future events or circumstances may arise. Therefore, estimates and judgments are inherently difficult to make and will always entail uncertainty when they involve transactions with customers and other counterparties. It may be necessary to change previous estimates as a result of changes to the assumptions on which the estimates were based or as a result of new information or subsequent events.

The estimates and assumptions that are deemed critical to the consolidated financial statements are as follows:

- loan impairment charges
- the fair value of financial instruments

**Impairment of loans**

Testing for impairment of individual loans and advances requires estimates of factors subject to great uncertainty. The test involves estimates of the most probable future cash flows that the customer can generate. For loan exposures of less than DKK 250,000, credit-quality flagged customers are automatically assessed based on the customer data and characteristics recorded. Loans, advances and receivables that are not individually impaired are into groups with similar credit risk characteristics and assessed on a pooled basis.

Loans for which there is no objective evidence of impairment, or for which evidence of impairment has not been individually identified, are included in a group that is subjected to an impairment test at portfolio level.

In connection with testing a group of loans and advances for impairment, it is essential to identify the events that give an objective indication of losses on the group. The assessment of the present value of cash flows generated by customers in the group is subject to uncertainty when historical data and empirical assessments are used to adjust the assumptions based on historical data and for the purpose of reflecting the current situation.

Loans and advances are assigned to groups having uniform credit risk properties using Spar Nord's rating system. Customers are subjected to ongoing rating, and if calculations show that customers' credit risk properties have changed, they will be transferred to new rating groups on an ongoing basis. Thus the downgrading of a customer to a weaker group serves as an indicator of the deterioration.

If the Bank is aware at the balance sheet date that circumstances have occurred that have either worsened or improved expected future cash flows, and these changes have not been taken into account in the models, the appropriate action will be taken to correct this, based on a qualified management estimate.

Spar Nord uses a credit system incorporating statistically based rating models for both retail and business customers. In addition, the rating is based on the flagging of customers that show signs of default risk.

Credit-quality flagging is based on important Management estimates, particularly affected by such factors as property prices, unemployment rates and demand for various products and services. 2017 saw a minor improvement in the credit quality for retail customers, while there was a substantial improvement for the business customers. It was a reasonably good year for agricultural customers, who realised decent settlement prices for both milk and pork, allowing most producers to generate a profit in 2017.

From end-2016 to end-2017, the impairment account fell from DKK 1.9 billion to DKK 1.6 billion.

To reduce the risk attaching to individual exposures, Spar Nord accepts collateral consisting mainly of mortgages and charges on physical assets, securities and vehicles, of which mortgages on real property are the most common type. The valuation of such collateral is based on significant estimates made by Management.

Loans and advances amounted to DKK 46,747 million, corresponding to about 58% of the Group's assets at end-2017. Reference is made to note 19, Loans, advances and other receivables at amortised cost, and to note 51, Credit risk, for further details.

**Fair value of financial instruments**

Spar Nord measures a number of financial instruments at fair value, including all derivative financial instruments, as well as shares and bonds.

Assessments are made in connection with determining the fair value of financial instruments in the following areas:

- choosing valuation method;
- determining when available listed prices do not reflect the fair value;
- calculating fair value adjustments to provide for relevant risk factors, such as credit, model and liquidity risks;
- assessing which market parameters are to be monitored; making estimates of future cash flows and return requirements for unlisted securities.

In these situations, the decisions are based on judgments in accordance with Spar Nord's accounting policies. All such decisions are approved by the relevant group functions.

As part of its day-to-day operations, Spar Nord has acquired strategic investments in sector supplier companies.

Strategic investments are measured at fair value based on the available information about trading in the relevant company's equity investments or, alternatively, by using a valuation model based on generally accepted methods and current market data, including an assessment of expected future earnings and cash flows. The valuation will also be affected by co-ownership, trading with the relevant company and shareholders' agreements, etc. If a reliable fair value cannot be determined, the investment will be valued at cost less any impairment charges.

Valuations of financial instruments that are only to a limited ex-

tent based on observable market data are subject to estimates. This applies for example to unlisted shares and certain bonds for which an active market does not exist. More details are provided in the applicable paragraphs of note 1, Accounting policies, and in note 49, Fair value information, including a sensitivity analysis

Financial instruments valued on the basis of non-observable input amounted to DKK 1,719 million, equal to 2% of Spar Nord's assets at year-end 2017.

## NOTE

## 3 BUSINESS SEGMENTS

**Description of business segments**

The Group is organised into different business areas and resource and support functions, according to product and service characteristics. The reporting segments correspond to the Group's organisational units based on customer affiliation, and an internal follow-up is carried on in this regard.

Spar Nord's Local Banks cater to all types of retail and business customers. Corporate Banking provides services to large business customers and high-net-worth personal customers. Spar Nord's Local Banks (the retail bank unit) constitute the largest organisational unit in the Spar Nord Group, consisting of 50 local banks throughout the country. Spar Nord Bank's leasing activities form an integral part of Spar Nord's Local Banks.

Trading, Financial Markets & the International Division is composed of Markets, Shares, Interest & Forex, Asset Management and the International Division. The activities of Trading, Financial Markets & the International Division centre on forex and securities, including hedging and managing the transactions made by the local banks' customers. Moreover, Trading, Financial Markets & the International Division cooperates with a number of the Bank's largest business customers and retail customers, as well as managing some of the Bank's own positions. The International Division offers products and advice associated with export and import.

Other areas comprise central staff and support functions, other income and expenses and eliminations.

**Principles for Intra-group settlement**

An internal interest rate is calculated for all business segments. The internal interest rate is used to equalise differences between assets and liabilities (surplus/deficit of liquidity) among the business segments. The internal interest rate is calculated on the basis of market rates plus a liquidity premium.

Costs incurred centrally and a few income items are basically allocated internally between the individual business segments on the basis of cost. An allocation is made from the unit paying the costs based on an assessment of each individual unit's proportionate share of the overall activity level.

Other income and expenses are allocated to the business segments to whose operation they are directly related or can reasonably be allocated.

The assets and liabilities of the business segments are the operating assets and operating liabilities that are employed by a segment for its operations and that are either directly attributable to the segment or can reasonably be allocated to the segment. The individual business segment includes allocated

capital equal to 13% (2016: 12%) of the average risk-weighted items of the business area. In the business segment Other areas, the difference between allocated capital and equity is presented.

**Information about income broken down by products and services**

The Group's business areas are organised according to differences in products and services, and products and services are uniform within the individual business areas.

Income from the business area Spar Nord's Local Banks mainly comprises income from interest, fees, charges and commissions related to products within lending and deposits as well as leasing activities. The customers consist of retail, business and public-sector customers.

Income from the business area Trading, Financial Markets & the International Division comprises interest and market value adjustments on forex and trading products as well as interest income and market value adjustments on the Bank's portfolio of securities.

**Core earnings are Spar Nord' alternative performance measure**

The Group uses core earnings as a performance measure.

The core earnings format in the Management's review presents the share of the discount, recognised as income, on exposures taken over together with loan impairment charges etc., whereas in the income statement according to the Group's accounting policies, the item is included in interest income. The purpose of the presentation in the core earnings format is to achieve consistent management and presentation of the entire loan portfolio.

Note 4, Interest income, presents the share of the discount, recognised as income, on exposures taken over in other interest income.

In previous years, other items after core earnings comprised contributions to sector-wide solutions and special merger-related items. Contributions to sector-wide solutions comprised Spar Nord's payments to the guarantee fund for depositors and investors and value adjustment on claims.

A reconciliation of the correlation between core earnings in the Management's review and the income statement according to Spar Nord's accounting policies is shown in the following pages in note 3.

## BUSINESS SEGMENTS 2017

| DKKm   | Spar Nord's<br>Local Banks | Trading, Financial<br>Markets &<br>the International<br>Division | Other Areas | Core earnings*) | Reclassi-<br>fications**) | Group, total |
|--|----------------------------|--|-------------|-----------------|---------------------------|--------------|
| <b>INCOME STATEMENT</b>  |                            |  |             |                 |                           |              |
| Net interest income  | 1,442                      | 41   | 63          | 1,546           | 31                        | 1,577        |
| Net income from fees, charges and commissions                  | 1,119                      | -4   | 1           | 1,116           | 0                         | 1,116        |
| Market value adjustments and dividends                         | 153                        | 202  | 49          | 404             | 0                         | 404          |
| Other operating income   | 23                         | 1  | 27          | 51              | 0                         | 51           |
| Income from investments in associates<br>and group enterprises | 0                          | 0  | 32          | 32              | 0                         | 32           |
| <b>Core income/revenue, total</b>                              | <b>2,737</b>               | <b>240</b>   | <b>172</b>  | <b>3,150</b>    | <b>31</b>                 | <b>3,181</b> |
| Operating expenses, depreciation and amortization              | 1,567                      | 57   | 312         | 1,936           | 0                         | 1,936        |
| <b>Core earnings before impairment</b>                         | <b>1,170</b>               | <b>183</b>   | <b>-140</b> | <b>1,213</b>    | <b>31</b>                 | <b>1,244</b> |
| Loan impairment charges etc.                                   | -22                        | -14  | -2          | -38             | 31                        | -7           |
| <b>Profit/loss before tax</b>                                  | <b>1,192</b>               | <b>197</b>   | <b>-138</b> | <b>1,251</b>    | <b>0</b>                  | <b>1,251</b> |

\*) The core earnings column corresponds to the Group figures in the Management's review.

\*\*) The relation to the Group is specified in the column Reclassifications. Reclassifications have impacted the items Net interest income and Loan impairment charges etc. in the amount of DKK 31 million.

|  | Spar Nord's<br>Local Banks | Trading, Financial<br>Markets &<br>the International<br>Division | Other Areas  | Group, total  |
|--|----------------------------|--|--------------|---------------|
| <b>BALANCE SHEET</b>   |                            |  |              |               |
| Loans, advances and other receivables at amortised cost  | 37,091                     | 9,648  | 8            | 46,747        |
| Investments in associates and group enterprises  | 0                          | 0  | 128          | 128           |
| Intangible assets and property, plant and equipment *)   | 244                        | 0  | 680          | 924           |
| Other assets **)   | 16,836                     | 14,591   | 1,141        | 32,568        |
| <b>Allocated assets, total</b>   | <b>54,171</b>              | <b>24,239</b>  | <b>1,957</b> | <b>80,367</b> |
| Deposits and other payables  | 47,895                     | 437  | 511          | 48,843        |
| Equity (allocated capital)   | 5,248                      | 918  | 2,809        | 8,975         |
| Other liabilities  | 15,811                     | 3,559  | 3,179        | 22,549        |
| <b>Allocated equity and liabilities, total</b>   | <b>68,954</b>              | <b>4,907</b>   | <b>6,506</b> | <b>80,367</b> |
| <b>Disclosures – income/revenue, total</b>   |                            |  |              |               |
| Internal income/revenue  | -135                       | 73   | 589          | 527           |
| Internal income and eliminations,<br>offset against costs  | 0                          | -51  | -476         | -527          |
| Income/revenue, external customers   | 2,872                      | 218  | 91           | 3,181         |
| <b>Income/revenue, total</b>   | <b>2,737</b>               | <b>240</b>   | <b>204</b>   | <b>3,181</b>  |
| <b>Disclosures, cash flow statement</b>  |                            |  |              |               |
| Depreciation, amortisation and impairment ***)   | 21                         | 0  | 40           | 61            |
| Additions, intangible assets and property, plant and equipment *)  | 36                         | 0  | 58           | 94            |
| Non-cash operating items excl. depr., amort. and impairment of<br>int. assets and prop., plant & equipment | 0                          | 0  | -314         | -314          |
| Impairment and reversal of loan impairment charges etc.  | 275                        | 0  | 0            | 275           |
| <b>Financial ratios</b>  |                            |  |              |               |
| Return on equity, % ****)  | 24.1                       | 23.7   | -            | -             |
| Cost share of core income  | 0.57                       | 0.24   | -            | -             |
| Total risk amount, end of period   | 40,370                     | 7,060  | 2,116        | 49,546        |
| Number of employees (full-time equivalents, end of period)   | 1,040                      | 75   | 423          | 1,538         |

\*) All assets are located in Denmark.

\*\*) Temporary assets amount to DKK 21 million, of which DKK 2 million relates to leasing activities and DKK 19 million relates to other areas.

\*\*\*) No significant impairment writedowns have been made.

\*\*\*\*) The rate of return on equity per annum has been calculated on allocated capital, which amounts to 13% of the average total risk exposure amount.

**BUSINESS SEGMENTS 2016**

| DKK m  | Spar Nord's<br>Local Banks | Trading, Financial<br>Markets &<br>the International<br>Division | Other Areas | Core earnings*) | Reclassi-<br>fications**) | Group, total |
|--|----------------------------|--|-------------|-----------------|---------------------------|--------------|
| <b>INCOME STATEMENT</b>  |                            |  |             |                 |                           |              |
| Net interest income  | 1,474                      | 53   | 94          | 1,621           | 50                        | 1,671        |
| Net income from fees, charges and commissions                  | 1,044                      | 10   | -1          | 1,053           | 0                         | 1,053        |
| Market value adjustments and dividends                         | 135                        | 229  | 70          | 434             | 0                         | 434          |
| Other operating income   | 17                         | 1  | 12          | 30              | 0                         | 30           |
| Income from investments in associates<br>and group enterprises | 0                          | 0  | 30          | 30              | 0                         | 30           |
| <b>Core income/revenue, total</b>                              | <b>2,670</b>               | <b>292</b>   | <b>204</b>  | <b>3,167</b>    | <b>50</b>                 | <b>3,217</b> |
| Operating expenses, depreciation and amortization              | 1,576                      | 50   | 271         | 1,896           | 0                         | 1,896        |
| <b>Core earnings before impairment</b>                         | <b>1,095</b>               | <b>243</b>   | <b>-67</b>  | <b>1,270</b>    | <b>50</b>                 | <b>1,320</b> |
| Loan impairment charges etc.                                   | 245                        | 4  | -6          | 242             | 50                        | 292          |
| <b>Profit/loss before tax</b>                                  | <b>850</b>                 | <b>239</b>   | <b>-61</b>  | <b>1,028</b>    | <b>0</b>                  | <b>1,028</b> |

\*) The core earnings column corresponds to the Group figures in the Management's review.

\*\*) The relation to the Group is specified in the column Reclassifications. Reclassifications have impacted the items Net interest income and Loan impairment charges etc. in the amount of DKK 50 million.

|  | Spar Nord's<br>Local Banks | Trading, Financial<br>Markets &<br>the International<br>Division | Other Areas  | Group, total  |
|--|----------------------------|--|--------------|---------------|
| <b>BALANCE SHEET</b>   |                            |  |              |               |
| Loans, advances and other receivables at amortised cost  | 34,942                     | 6,256  | 148          | 41,346        |
| Investments in associates and group enterprises  | 0                          | 0  | 118          | 118           |
| Intangible assets and property, plant and equipment *)   | 256                        | 0  | 683          | 939           |
| Other assets **)   | 15,946                     | 18,825   | 1,300        | 36,070        |
| <b>Allocated assets, total</b>   | <b>51,144</b>              | <b>25,081</b>  | <b>2,249</b> | <b>78,473</b> |
| Deposits and other payables  | 45,561                     | 400  | 504          | 46,464        |
| Equity (allocated capital)   | 4,592                      | 665  | 3,370        | 8,627         |
| Other liabilities  | 14,909                     | 5,199  | 3,274        | 23,382        |
| <b>Allocated equity and liabilities, total</b>   | <b>65,062</b>              | <b>6,263</b>   | <b>7,148</b> | <b>78,473</b> |
| <b>Disclosures – income/revenue, total</b>   |                            |  |              |               |
| Internal income/revenue  | -122                       | 54   | 622          | 554           |
| Internal income and eliminations,<br>offset against costs  | 0                          | -45  | -509         | -554          |
| Income/revenue, external customers   | 2,792                      | 284  | 141          | 3,217         |
| <b>Income/revenue, total</b>   | <b>2,670</b>               | <b>292</b>   | <b>254</b>   | <b>3,217</b>  |
| <b>Disclosures, cash flow statement</b>  |                            |  |              |               |
| Depreciation, amortisation and impairment ***)   | 19                         | 0  | 75           | 94            |
| Additions, intangible assets and property, plant and equipment *)  | 47                         | 0  | 32           | 79            |
| Non-cash operating items excl. depr., amort. and impairment of<br>int. assets and prop., plant & equipment | 0                          | 0  | -120         | -120          |
| Impairment and reversal of loan impairment charges etc.  | 54                         | 0  | 0            | 54            |
| <b>Financial ratios</b>  |                            |  |              |               |
| Return on equity, % ****)  | 19.5                       | 37.8   | -            | -             |
| Cost share of core income  | 0.59                       | 0.17   | -            | -             |
| Total risk exposure, end of period   | 38,266                     | 6,827  | 2,393        | 47,486        |
| Number of employees (full-time equivalents, end of period)   | 1,120                      | 64   | 356          | 1,540         |

\*) All assets are located in Denmark.

\*\*) Temporary assets amount to DKK 34 million, of which DKK 14 million relates to leasing activities and DKK 20 million relates to other areas.

\*\*\*) No significant impairment writedowns have been made.

\*\*\*\*) The rate of return on equity per annum has been calculated on allocated capital, which amounts to 12% of the average total risk exposure amount.

## NOTE

|   | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|---|------------------------------------|------------------------------------|--|--|
| <b>4 INTEREST INCOME</b>  |                                    |                                    |  |  |
| Due from credit institutions and central banks  | 3                                  | 3                                  | 3  | 3  |
| Loans, advances and other receivables   | 1,617                              | 1,688                              | 1,612  | 1,680  |
| Bonds   | 84                                 | 118                                | 84   | 118  |
| Foreign-exchange contracts  | 3                                  | 3                                  | 3  | 3  |
| Interest-rate contracts   | -59                                | -70                                | -59  | -70  |
| <b>Derivative financial instruments, total</b>  | <b>-56</b>                         | <b>-67</b>                         | <b>-56</b>                                     | <b>-67</b>                                     |
| Other interest income   | 31                                 | 73                                 | 31   | 73   |
| <b>Total interest income</b>  | <b>1,680</b>                       | <b>1,816</b>                       | <b>1,675</b>                                   | <b>1,807</b>                                   |
| <i>Of which, income from genuine reverse repo transactions booked under</i>                           |                                    |                                    |  |  |
| Due from credit institutions and central banks  | -9                                 | -10                                | -9   | -10  |
| Loans, advances and other receivables   | -20                                | -10                                | -20  | -10  |
| <b>5 INTEREST EXPENSES</b>  |                                    |                                    |  |  |
| Credit institutions and central banks   | -3                                 | -4                                 | -3   | -4   |
| Deposits and other payables   | 53                                 | 96                                 | 53   | 116  |
| Subordinated debt   | 52                                 | 52                                 | 52   | 52   |
| Other interest expenses   | 1                                  | 1                                  | 1  | 1  |
| <b>Total interest expenses</b>  | <b>103</b>                         | <b>145</b>                         | <b>103</b>                                     | <b>165</b>                                     |
| <i>Of which, interest expenses from genuine repo transactions booked under</i>                        |                                    |                                    |  |  |
| Credit institutions and central banks   | -8                                 | -11                                | -8   | -11  |
| <b>6 DIVIDENDS ON SHARES, ETC.</b>  |                                    |                                    |  |  |
| Shares, etc. in the trading book  | 9                                  | 6                                  | 9  | 6  |
| Shares at fair value (the fair-value option)  | 14                                 | 42                                 | 14   | 36   |
| <b>Dividends on shares, etc., total</b>   | <b>23</b>                          | <b>48</b>                          | <b>23</b>                                      | <b>41</b>                                      |
| <b>7 FEES, CHARGES AND COMMISSIONS RECEIVED</b>   |                                    |                                    |  |  |
| Securities trading and custody accounts   | 439                                | 455                                | 439  | 455  |
| Payment services  | 166                                | 141                                | 166  | 141  |
| Loan transaction fees   | 493                                | 458                                | 493  | 458  |
| of which mortgage credit institutions   | 380                                | 339                                | 380  | 339  |
| Guarantee commission  | 30                                 | 36                                 | 30   | 36   |
| Other fees, charges and commissions   | 138                                | 86                                 | 138  | 86   |
| <b>Total fees, charges and commissions received</b>   | <b>1,265</b>                       | <b>1,175</b>                       | <b>1,265</b>                                   | <b>1,175</b>                                   |
| <b>Total fees, charges and commissions paid</b>   | <b>149</b>                         | <b>122</b>                         | <b>149</b>                                     | <b>122</b>                                     |
| <b>Total net fees, charges and commissions received</b>   | <b>1,116</b>                       | <b>1,053</b>                       | <b>1,116</b>                                   | <b>1,053</b>                                   |
| <b>8 MARKET VALUE ADJUSTMENTS</b>   |                                    |                                    |  |  |
| Other loans, advances and receivables at fair value   | 0                                  | -3                                 | 0  | -3   |
| Bonds   | 91                                 | 163                                | 91   | 163  |
| Shares, etc.  | 165                                | 132                                | 163  | 86   |
| Foreign currency  | 36                                 | 52                                 | 36   | 52   |
| Foreign exchange, interest, share, commodity and other contracts and derivative financial instruments | 89                                 | 40                                 | 89   | 40   |
| Assets linked to pooled schemes   | 566                                | 381                                | 566  | 381  |
| Deposits in pooled schemes  | -566                               | -381                               | -566   | -381   |
| Other liabilities   | 0                                  | 2                                  | 0  | 2  |
| <b>Total market value adjustments</b>   | <b>381</b>                         | <b>386</b>                         | <b>379</b>                                     | <b>340</b>                                     |
| Trading book  | 244                                | 275                                | 244  | 275  |
| Other shares at fair value (the fair-value option)  | 137                                | 111                                | 135  | 65   |
| <b>Total market value adjustments</b>   | <b>381</b>                         | <b>386</b>                         | <b>379</b>                                     | <b>340</b>                                     |

NOTE

## 9 NET FINANCIALS, THE SPAR NORD GROUP

| 2017  | Interest income<br>DKKk | Interest expenses<br>DKKk | Net interest<br>DKKk | Market value adjustments<br>DKKk | Dividend<br>DKKk | Total<br>DKKk |
|---|-------------------------|---------------------------|----------------------|----------------------------------|------------------|---------------|
| <i>Net financials at amortised cost</i>                   |                         |                           |                      |                                  |                  |               |
| Due from and due to credit institutions and central banks | 12                      | 6                         | 6                    | -                                | -                | 6             |
| Lending and deposits, banking activities                  | 1,638                   | 53                        | 1,585                | -                                | -                | 1,585         |
| Repo and reverse repo transactions                        | -30                     | -9                        | -21                  | -                                | -                | -21           |
| Subordinated debt   | 0                       | 52                        | -52                  | -                                | -                | -52           |
| Other interest  | 31                      | 1                         | 30                   | -                                | -                | 30            |
| <b>Total</b>  | <b>1,651</b>            | <b>103</b>                | <b>1,548</b>         | <b>0</b>                         | <b>0</b>         | <b>1,549</b>  |
| <i>Net financials at fair value</i>                       |                         |                           |                      |                                  |                  |               |
| Trading book  | 29                      | 0                         | 29                   | 244                              | 9                | 282           |
| Other financial investment assets                         | 0                       | 0                         | 0                    | 137                              | 14               | 151           |
| <b>Total</b>  | <b>29</b>               | <b>0</b>                  | <b>29</b>            | <b>381</b>                       | <b>23</b>        | <b>433</b>    |
| <b>Total net income from financials</b>                   | <b>1,680</b>            | <b>103</b>                | <b>1,577</b>         | <b>381</b>                       | <b>23</b>        | <b>1,982</b>  |

## 2016

|   |              |            |              |            |           |              |
|---|--------------|------------|--------------|------------|-----------|--------------|
| <i>Net financials at amortised cost</i>                   |              |            |              |            |           |              |
| Due from and due to credit institutions and central banks | 13           | 7          | 6            | -          | -         | 6            |
| Lending and deposits, banking activities                  | 1,698        | 96         | 1,602        | -          | -         | 1,602        |
| Repo and reverse repo transactions                        | -20          | -11        | -9           | -          | -         | -9           |
| Subordinated debt   | 0            | 52         | -52          | 2          | -         | -50          |
| Other interest  | 73           | 1          | 73           | -          | -         | 73           |
| <b>Total</b>  | <b>1,764</b> | <b>145</b> | <b>1,620</b> | <b>2</b>   | <b>0</b>  | <b>1,622</b> |
| <i>Net financials at fair value</i>                       |              |            |              |            |           |              |
| Trading book  | 51           | 0          | 51           | 273        | 6         | 330          |
| Other financial investment assets                         | 0            | 0          | 0            | 111        | 42        | 153          |
| <b>Total</b>  | <b>51</b>    | <b>0</b>   | <b>51</b>    | <b>384</b> | <b>48</b> | <b>483</b>   |
| <b>Total net income from financials</b>                   | <b>1,816</b> | <b>145</b> | <b>1,671</b> | <b>386</b> | <b>48</b> | <b>2,105</b> |

The Spar Nord Group had no held-to-maturity investments in 2016 and 2017.

## NOTE

|   | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|---|------------------------------------|------------------------------------|--|--|
| <b>10 OTHER OPERATING INCOME</b>                        |                                    |                                    |  |  |
| Gain on sale of properties                              | 4                                  | 1                                  | 4  | 1  |
| Gain on sale of other property, plant and equipment     | 1                                  | 0                                  | 1  | 0  |
| Payments under operating leases and other rental income | 9                                  | 9                                  | 9  | 9  |
| Other income  | 23                                 | 17                                 | 23   | 17   |
| <i>Operation of investment properties</i>               |                                    |                                    |  |  |
| Rental income   | 16                                 | 17                                 | 7  | 7  |
| Operating expenses                                      | 1                                  | 3                                  | 1  | 3  |
| Maintenance   | 1                                  | 0                                  | 1  | 0  |
| Changes in value, investment properties                 | 0                                  | -10                                | -  | -  |
| <b>Other operating income, total</b>                    | <b>51</b>                          | <b>30</b>                          | <b>42</b>                                      | <b>31</b>                                      |

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| <b>11 STAFF COSTS AND ADMINISTRATIVE EXPENSES</b>    |              |              |              |              |
| Staff costs  | 1,165        | 1,142        | 1,165        | 1,142        |
| Administrative expenses                              | 698          | 647          | 704          | 654          |
| <b>Total staff costs and administrative expenses</b> | <b>1,863</b> | <b>1,789</b> | <b>1,869</b> | <b>1,795</b> |

*Staff costs:*

|                          |              |              |              |              |
|--------------------------|--------------|--------------|--------------|--------------|
| Salaries                 | 930          | 933          | 930          | 933          |
| Pensions                 | 106          | 107          | 106          | 107          |
| Social security costs    | 129          | 102          | 129          | 102          |
| <b>Total staff costs</b> | <b>1,165</b> | <b>1,142</b> | <b>1,165</b> | <b>1,142</b> |

Of which, remuneration to members of the Executive Board and Board of Directors and material risk takers:

*Board of Directors*

|                           |            |            |            |            |
|---------------------------|------------|------------|------------|------------|
| Number                    | 9          | 9          | 9          | 9          |
| Fixed pay                 | 3.5        | 3.2        | 3.5        | 3.2        |
| Pension                   | -          | -          | -          | -          |
| <b>Total remuneration</b> | <b>3.5</b> | <b>3.2</b> | <b>3.5</b> | <b>3.2</b> |

*Breakdown of remuneration to Board of Directors*

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Kjeld Johannesen                                  | 0.7        | 0.5        | 0.7        | 0.5        |
| Per Nikolaj Bukh                                  | 0.5        | 0.4        | 0.5        | 0.4        |
| Kaj Christiansen                                  | 0.4        | 0.4        | 0.4        | 0.4        |
| Torben Fristrup (retired on 20 April 2016)        | -          | 0.3        | -          | 0.3        |
| Morten B. Gaardboe (took office on 20 April 2016) | 0.3        | 0.1        | 0.3        | 0.1        |
| Laila Mortensen                                   | 0.3        | 0.3        | 0.3        | 0.3        |
| Ole Skov  | 0.4        | 0.3        | 0.4        | 0.3        |
| Jannie Skovsen                                    | 0.3        | 0.3        | 0.3        | 0.3        |
| Gitte Holmgaard Sørensen                          | 0.3        | 0.3        | 0.3        | 0.3        |
| John Sørensen                                     | 0.4        | 0.3        | 0.4        | 0.3        |
| <b>Total remuneration earned and paid</b>         | <b>3.5</b> | <b>3.2</b> | <b>3.5</b> | <b>3.2</b> |
| - Of which, committee fees                        | 0.7        | 0.7        | 0.7        | 0.7        |

The Board of Directors' remuneration in the Parent Company and the Group is identical. The subsidiary's board of directors is composed of persons employed by Spar Nord Bank, the Parent Company, and none of them have received remuneration as members of the subsidiary's board of directors. The remuneration of the Board of Directors is based on intragroup management agreements.

The members of the Board of Directors receive a fixed fee. In addition, a fixed fee is paid to members of the Audit Committee, the Risk Committee and the Nomination and Remuneration Committee.

The Board of Directors receives no variable pay.

The members of the Board of Directors are not covered by any corporate pension schemes.

*Material risk takers:*

|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Number                                    | 15          | 16          | 15          | 16          |
| Fixed pay *)                              | 17.6        | 16.1        | 17.6        | 16.1        |
| Variable pay (lower threshold limit)      | 0.9         | 0.8         | 0.9         | 0.8         |
| Pension                                   | 2.5         | 2.4         | 2.5         | 2.4         |
| <b>Total remuneration earned and paid</b> | <b>21.1</b> | <b>19.3</b> | <b>21.1</b> | <b>19.3</b> |

\*) The amount includes the value of a company-provided car, etc. and has been deducted from remuneration received from directorships.

In accordance with the Danish Financial Business Act, Spar Nord's remuneration policy defines the group of persons who are material risk takers. No variable remuneration components over and above the statutorily allowed lower threshold limit (DKK 100,000 per year) are paid to material risk takers. The remuneration paid to Group Management (Board of Directors and Executive Board) does not include any variable components or discretionary pension benefits. The remuneration policy was adopted at the Annual General Meeting on 26 April 2017. The remuneration policy is available at [sparnord.com/investor-relations/organisation/governance/](http://sparnord.com/investor-relations/organisation/governance/).

According to the remuneration policy, the Board of Directors and the Executive Board are included in the group of material risk takers. The Board of Directors' and Executive Board's remuneration and number of members, etc. are not included in the above specification. The specifications of the Board of Directors' and Executive Board's remuneration, etc. must be included in the total calculation and specification of the Bank's material risk takers.

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|--|--|
| <i>Executive Board</i>                       |                                    |                                    |  |  |
| Number                                       | 3                                  | 3                                  | 3  | 3  |
| Base salary                                  | 11.4                               | 11.0                               | 11.4   | 11.0   |
| – less fees received from directorships      | 1.5                                | 1.4                                | 1.5  | 1.4  |
| <b>The Bank's expense, base salary</b>       | <b>9.9</b>                         | <b>9.6</b>                         | <b>9.9</b>                                     | <b>9.6</b>                                     |
| Pension, ordinary contribution               | 1.7                                | 1.6                                | 1.7  | 1.6  |
| <b>Total remuneration earned and paid</b>    | <b>11.6</b>                        | <b>11.2</b>                        | <b>11.6</b>                                    | <b>11.2</b>                                    |
| Breakdown of remuneration to Executive Board |                                    |                                    |  |  |
| Lasse Nyby                                   |                                    |                                    |  |  |
| Base salary*)                                | 4.2                                | 4.1                                | 4.2  | 4.1  |
| – less fees received from directorships      | 0.5                                | 0.4                                | 0.5  | 0.4  |
| <b>The Bank's expense, base salary</b>       | <b>3.7</b>                         | <b>3.7</b>                         | <b>3.7</b>                                     | <b>3.7</b>                                     |
| Pension, ordinary contribution               | 0.6                                | 0.6                                | 0.6  | 0.6  |
| <b>Total remuneration earned and paid</b>    | <b>4.3</b>                         | <b>4.3</b>                         | <b>4.3</b>                                     | <b>4.3</b>                                     |
| John Lundsgaard                              |                                    |                                    |  |  |
| Base salary                                  | 3.6                                | 3.5                                | 3.6  | 3.5  |
| – less fees received from directorships      | 0.4                                | 0.4                                | 0.4  | 0.4  |
| <b>The Bank's expense, base salary</b>       | <b>3.2</b>                         | <b>3.1</b>                         | <b>3.2</b>                                     | <b>3.1</b>                                     |
| Pension, ordinary contribution               | 0.5                                | 0.5                                | 0.5  | 0.5  |
| <b>Total remuneration earned and paid</b>    | <b>3.7</b>                         | <b>3.6</b>                         | <b>3.7</b>                                     | <b>3.6</b>                                     |
| Lars Møller                                  |                                    |                                    |  |  |
| Base salary*)                                | 3.6                                | 3.4                                | 3.6  | 3.4  |
| – less fees received from directorships      | 0.6                                | 0.6                                | 0.6  | 0.6  |
| <b>The Bank's expense, base salary</b>       | <b>3.0</b>                         | <b>2.8</b>                         | <b>3.0</b>                                     | <b>2.8</b>                                     |
| Pension, ordinary contribution               | 0.5                                | 0.5                                | 0.5  | 0.5  |
| <b>Total remuneration earned and paid</b>    | <b>3.5</b>                         | <b>3.3</b>                         | <b>3.5</b>                                     | <b>3.3</b>                                     |

\*) The amount includes the value of a company car etc.

The members of the Executive Board receive no variable pay.

Members of the Executive Board receive remuneration for their Group executive board duties based on the management agreement with the subsidiary.

#### Termination rules

The members of the Executive Board have a term of notice of 12 months and will receive compensation on termination of employment corresponding to two years' pay.

#### Pension obligation

Like the other employees, members of the Executive Board and material risk takers are comprised by defined contribution pension plans.

Note 46 provides information on the Board of Directors and the Executive Board's loans, advances and loan commitments, deposits, collateral and interest rates.



## NOTE

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|--|--|
|--|------------------------------------|------------------------------------|--|--|

*Number of employees:*

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| <b>Average number of employees in the financial year converted into full-time equivalents</b> | <b>1,546</b> | <b>1,548</b> | <b>1,546</b> | <b>1,548</b> |
|---|--------------|--------------|--------------|--------------|

*Administrative expenses:*

|                               |            |            |            |            |
|-------------------------------|------------|------------|------------|------------|
| IT expenses                   | 354        | 333        | 354        | 333        |
| Marketing costs               | 111        | 91         | 111        | 91         |
| Cost of premises              | 99         | 86         | 105        | 92         |
| Staff and travelling expenses | 56         | 56         | 56         | 56         |
| Office expenses               | 21         | 24         | 21         | 24         |
| Other administrative expenses | 57         | 58         | 57         | 58         |
| <b>Total</b>                  | <b>698</b> | <b>647</b> | <b>704</b> | <b>654</b> |

12 **AUDIT FEES**

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Fees to the audit firm appointed at the General Meeting | 3.5        | 1.5        | 3.5        | 1.4        |
| Fees to other audit firms for non-audit services        | 0.5        | 0.7        | 0.5        | 0.7        |
| <b>Total audit fees</b>                                 | <b>4.1</b> | <b>2.2</b> | <b>4.0</b> | <b>2.1</b> |

## Total fees to the audit firm appointed at the General Meeting break down as follows:

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Statutory audit  | 1.0        | 0.9        | 0.9        | 0.8        |
| Other assurance engagements  | 0.3        | 0.3        | 0.3        | 0.3        |
| Tax and VAT assistance   | 0.3        | 0.0        | 0.3        | 0.0        |
| Non-audit services   | 2.1        | 0.3        | 2.1        | 0.3        |
| <b>Total fees to the audit firm appointed at the General Meeting</b> | <b>3.5</b> | <b>1.5</b> | <b>3.5</b> | <b>1.4</b> |

The fee for non-audit services provided by Ernst & Young, godkendt revisionspartnerselskab to the Group amounted to DKK 2.4 million, consisting of tax consulting of DKK 0.3 million concerning GAP analysis for Fatca, QI and CRS and discussions about annuity pensions. Other services amounted to DKK 2.1 million and consist of a review of quarterly financial statements for recognition of the profit for the period in own funds, discussions about IFRS 9 and about the use of IRB models.

13 **AMORTISATION, DEPRECIATION AND IMPAIRMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT***Intangible assets*

|                                       |   |    |   |    |
|---------------------------------------|---|----|---|----|
| Customer relations, amortisation      | 7 | 7  | 7 | 7  |
| Other intangible assets, amortisation | 4 | 17 | 4 | 17 |

*Property, plant and equipment*

|   |    |    |    |    |
|---|----|----|----|----|
| Domicile properties, depreciation                 | 14 | 15 | 14 | 14 |
| Domicile properties, net impairment               | 4  | 12 | 2  | 12 |
| Temporary property portfolio, impairment          | 1  | 2  | 1  | 2  |
| Other property, plant and equipment, depreciation | 31 | 42 | 31 | 42 |

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| <b>Total amortisation, depreciation and impairment of intangible assets and property, plant and equipment</b> | <b>61</b> | <b>94</b> | <b>59</b> | <b>93</b> |
|---|-----------|-----------|-----------|-----------|

## NOTE

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|--|--|
| <b>14 OTHER OPERATING EXPENSES</b>     |                                    |                                    |  |  |
| Contributions to sector-wide solutions | 8                                  | 9                                  | 8  | 9  |
| Miscellaneous operating expenses       | 5                                  | 4                                  | 5  | 4  |
| <b>Total other operating expenses</b>  | <b>13</b>                          | <b>13</b>                          | <b>13</b>                                      | <b>13</b>                                      |

Contributions to sector-wide solutions comprise payments to the Guarantee Fund and the Resolution Fund, which form part of the national restructuring and resolution scheme. No contributions were paid to the Guarantee Fund in 2016 and 2017, whereas contributions to the Resolution Fund in the amount of DKK 8 million were expensed in 2017 (2016: DKK 9 million).

|   |           |            |           |            |
|---|-----------|------------|-----------|------------|
| <b>15 LOAN IMPAIRMENT CHARGES, ETC.</b>               |           |            |           |            |
| Due from credit institutions                          | -14       | 3          | -14       | 3          |
| Loans, advances and receivables etc.                  | 33        | 265        | 33        | 265        |
| Guarantees  | -26       | 24         | -26       | 24         |
| <b>Total impairment of loans and receivables etc.</b> | <b>-7</b> | <b>292</b> | <b>-7</b> | <b>292</b> |

The impairment accounts for loans & advances and guarantees, respectively, are shown in note 51.

|  |           |           |           |            |
|--|-----------|-----------|-----------|------------|
| <b>16 INCOME FROM INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES</b>    |           |           |           |            |
| Income from investments in associates                                    | 32        | 30        | 32        | 30         |
| Income from investments in group enterprises                             | 0         | 0         | 18        | 75         |
| <b>Total income from investments in associates and group enterprises</b> | <b>32</b> | <b>30</b> | <b>51</b> | <b>105</b> |

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| <b>17 TAX</b>                                   |            |            |            |            |
| <i>Tax for the year breaks down as follows:</i> |            |            |            |            |
| Tax on profit/loss for the year                 | 262        | 190        | 258        | 180        |
| Tax on other comprehensive income               | 0          | 0          | 0          | 0          |
| Tax on changes in equity                        | -11        | -6         | -11        | -6         |
| <b>Total tax</b>                                | <b>251</b> | <b>184</b> | <b>247</b> | <b>173</b> |

*Tax on the profit/loss for the year breaks down as follows:*

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Current tax                               | 231        | 199        | 226        | 195        |
| Deferred tax for the year                 | 27         | -3         | 27         | -10        |
| Adjustment of deferred tax, prior years   | 0          | -5         | 0          | -3         |
| Adjustment of current tax for prior years | 4          | 0          | 4          | -2         |
| <b>Tax on profit/loss for the year</b>    | <b>262</b> | <b>190</b> | <b>258</b> | <b>180</b> |

*Specification of the effective tax rate:*

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| Current Danish tax rate, %                                       | 22,0        | 22,0        | 22,0        | 22,0        |
| Income from investments and market value adjustment of shares, % | -1,7        | -2,7        | -2,0        | -3,4        |
| Non-deductible expenses and non-taxable income, %                | 0,3         | -0,3        | 0,3         | -0,5        |
| Adjustment of prior-year taxes, %                                | 0,3         | -0,5        | 0,3         | -0,5        |
| <b>Total effective tax rate</b>                                  | <b>20,9</b> | <b>18,5</b> | <b>20,6</b> | <b>17,6</b> |

| <i>Tax on other comprehensive income</i>        | Before tax<br>2017<br>DKKm | Tax<br>income/<br>expense<br>2017<br>DKKm | After tax<br>2017<br>DKKm | Before tax<br>2016<br>DKKm | Tax<br>income/<br>expense<br>2016<br>DKKm | After tax<br>2016<br>DKKm |
|---|----------------------------|---|---------------------------|----------------------------|---|---------------------------|
| <b>The Spar Nord Group</b>                      |                            |   |                           |                            |   |                           |
| Adjustment relating to associates               | 0                          | 0   | 0                         | 0                          | 0   | 0                         |
| Net revaluation of properties                   | 11                         | 0   | 11                        | -5                         | 0   | -5                        |
| <b>Tax on other comprehensive income, total</b> | <b>11</b>                  | <b>0</b>                                  | <b>11</b>                 | <b>-5</b>                  | <b>0</b>                                  | <b>-5</b>                 |

*Tax on changes in equity*

|  |            |           |            |            |          |            |
|--|------------|-----------|------------|------------|----------|------------|
| <b>The Spar Nord Group</b>                       |            |           |            |            |          |            |
| Interest, additional tier 1 (AT1) capital        | -49        | 11        | -38        | -26        | 6        | -20        |
| Costs of issuing additional tier 1 (AT1) capital | 0          | 0         | 0          | -3         | 1        | -2         |
| <b>Tax on changes in equity</b>                  | <b>-49</b> | <b>11</b> | <b>-38</b> | <b>-29</b> | <b>6</b> | <b>-23</b> |

NOTE

|   | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|---|------------------------------------|------------------------------------|--|--|
| <b>18 DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS</b>              |                                    |                                    |  |  |
| Due from credit institutions  | 1,437                              | 2,179                              | 1,435  | 2,183  |
| <b>Total due from credit institutions and central banks</b>           | <b>1,437</b>                       | <b>2,179</b>                       | <b>1,435</b>                                   | <b>2,183</b>                                   |
| <i>Shown by term to maturity</i>                                      |                                    |                                    |  |  |
| Demand deposits   | 272                                | 126                                | 270  | 130  |
| Up to 3 months  | 1,102                              | 1,980                              | 1,102  | 1,980  |
| Over 3 months and up to 1 year  | 63                                 | 0                                  | 63   | 0  |
| Over 1 year and up to 5 years   | 0                                  | 73                                 | 0  | 73   |
| Over 5 years  | 0                                  | 0                                  | 0  | 0  |
| <b>Total</b>  | <b>1,437</b>                       | <b>2,179</b>                       | <b>1,435</b>                                   | <b>2,183</b>                                   |
| <i>Of which, genuine purchase and resale transactions</i>             |                                    |                                    |  |  |
| Reverse repo transactions   | 570                                | 1,453                              | 570  | 1,453  |
| <b>19 LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST</b>     |                                    |                                    |  |  |
| Lending, banking and leasing activities                               | 37,272                             | 35,092                             | 37,272   | 34,965   |
| Lending, reverse repo transactions                                    | 9,475                              | 6,253                              | 9,475  | 6,253  |
| <b>Loans, advances and other receivables at amortised cost, total</b> | <b>46,747</b>                      | <b>41,346</b>                      | <b>46,747</b>                                  | <b>41,219</b>                                  |
| <i>Broken down by category</i>  |                                    |                                    |  |  |
| Loan contracts with access to variable utilisation                    | 21,056                             | 19,834                             | 21,056   | 19,834   |
| Lease contracts   | 2,725                              | 1,881                              | 2,725  | 1,881  |
| Mortgage deeds  | 6                                  | 9                                  | 6  | 9  |
| Other lending   | 22,960                             | 19,621                             | 22,960   | 19,494   |
| <b>Total</b>  | <b>46,747</b>                      | <b>41,346</b>                      | <b>46,747</b>                                  | <b>41,219</b>                                  |
| <i>Shown by term to maturity</i>                                      |                                    |                                    |  |  |
| Demand deposits   | 1,191                              | 761                                | 1,191  | 761  |
| Up to 3 months  | 10,436                             | 7,515                              | 10,436   | 7,515  |
| Over 3 months and up to 1 year  | 16,133                             | 14,858                             | 16,133   | 14,731   |
| Over 1 year and up to 5 years   | 7,340                              | 6,978                              | 7,340  | 6,978  |
| Over 5 years  | 11,647                             | 11,234                             | 11,647   | 11,234   |
| <b>Total</b>  | <b>46,747</b>                      | <b>41,346</b>                      | <b>46,747</b>                                  | <b>41,219</b>                                  |

|   | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|---|------------------------------------|------------------------------------|--|--|
| <b>Lease payments broken down by contractual term to maturity *)</b>  |                                    |                                    |  |  |
| <b>Gross investments in finance leases</b>  |                                    |                                    |  |  |
| Up to 1 year  | 655                                | 469                                | 655  | 469  |
| 1-5 years   | 2,005                              | 1,364                              | 2,005  | 1,364  |
| Over 5 years  | 218                                | 173                                | 218  | 173  |
| <b>Total</b>  | <b>2,877</b>                       | <b>2,006</b>                       | <b>2,877</b>                                   | <b>2,006</b>                                   |
| Of which, unearned, future financial income   | 152                                | 125                                | 152  | 125  |
| <b>Net investments in finance leases</b>  | <b>2,725</b>                       | <b>1,881</b>                       | <b>2,725</b>                                   | <b>1,881</b>                                   |
| <b>Net investments in finance leases</b>  |                                    |                                    |  |  |
| Up to 1 year  | 599                                | 424                                | 599  | 424  |
| 1-5 years   | 1,914                              | 1,290                              | 1,914  | 1,290  |
| Over 5 years  | 213                                | 168                                | 213  | 168  |
| <b>Total</b>  | <b>2,725</b>                       | <b>1,881</b>                       | <b>2,725</b>                                   | <b>1,881</b>                                   |
| *) The Group's lease contracts consist mainly of finance leases and are recognised in the balance sheet under lending, leasing activities.  |                                    |                                    |  |  |
| Finance lease assets, with the Group as lessor, comprise agricultural equipment, passenger cars and trucks, industrial machinery, contractor's equipment, etc. The lease contracts are in Danish and foreign currency. The contracts can be terminated during the lease term. |                                    |                                    |  |  |
| Accumulated impairment of uncollectible minimum lease payments receivable   | 21                                 | 18                                 | 21   | 18   |
| Rental income recognised in the income statement under the item "Interest income"   | 65                                 | 50                                 | 65   | 50   |
| Average remaining term of the lease contracts (years)   | 3.4 år                             | 3.5 år                             | 3.4 år   | 3.5 år   |
| <b>Gross loans, advances and guarantees broken down by sectors and industries, %</b>  |                                    |                                    |  |  |
| <b>Public authorities</b>   | <b>0.0</b>                         | <b>0.1</b>                         | <b>0.0</b>                                     | <b>0.1</b>                                     |
| <i>Industry</i>   |                                    |                                    |  |  |
| Agriculture, hunting, forestry and fisheries  | 5.3                                | 6.3                                | 5.3  | 6.3  |
| Industry and raw materials extraction   | 4.5                                | 4.8                                | 4.5  | 4.8  |
| Utilities   | 2.7                                | 3.1                                | 2.7  | 3.1  |
| Building and construction   | 4.1                                | 3.5                                | 4.1  | 3.5  |
| Trade   | 6.1                                | 6.9                                | 6.1  | 7.0  |
| Transport, hotels and restaurants   | 3.2                                | 3.0                                | 3.2  | 3.0  |
| Information and communication   | 0.3                                | 0.3                                | 0.3  | 0.3  |
| Financing and insurance   | 21.1                               | 16.2                               | 21.1   | 16.0   |
| Real property   | 9.5                                | 10.8                               | 9.5  | 10.8   |
| Other industries  | 4.9                                | 4.8                                | 4.9  | 4.8  |
| <b>Total business customers</b>   | <b>61.7</b>                        | <b>59.7</b>                        | <b>61.7</b>                                    | <b>59.6</b>                                    |
| <b>Retail customers</b>   | <b>38.3</b>                        | <b>40.2</b>                        | <b>38.3</b>                                    | <b>40.3</b>                                    |
| <b>Total</b>  | <b>100.0</b>                       | <b>100.0</b>                       | <b>100.0</b>                                   | <b>100.0</b>                                   |

NOTE

|                                   | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|-----------------------------------|------------------------------------|------------------------------------|--|--|
| <b>20 BONDS AT FAIR VALUE</b>     |                                    |                                    |  |  |
| Mortgage bonds                    | 9,288                              | 12,990                             | 9,288  | 12,990   |
| Government bonds                  | 642                                | 603                                | 642  | 603  |
| Other bonds                       | 908                                | 1,343                              | 908  | 1,343  |
| <b>Bonds at fair value, total</b> | <b>10,838</b>                      | <b>14,936</b>                      | <b>10,838</b>                                  | <b>14,936</b>                                  |

|                                    |    |    |    |    |
|------------------------------------|----|----|----|----|
| Of which, subordinated receivables | 44 | 42 | 44 | 42 |
|------------------------------------|----|----|----|----|

All bonds form part of the Bank's trading book.

|   |            |              |            |              |
|---|------------|--------------|------------|--------------|
| <b>Other non-derivative financial liabilities at fair value</b> | <b>932</b> | <b>2,006</b> | <b>932</b> | <b>2,006</b> |
|---|------------|--------------|------------|--------------|

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| <b>21 SHARES, ETC.</b>   |              |              |              |              |
| Shares/unit trust certificates listed on NASDAQ Copenhagen A/S | 143          | 165          | 143          | 165          |
| Shares/unit trust certificates listed on other stock exchanges | 54           | 40           | 54           | 40           |
| Unlisted shares at fair value                                  | 1,429        | 1,353        | 1,429        | 1,353        |
| <b>Total shares, etc.</b>                                      | <b>1,626</b> | <b>1,557</b> | <b>1,626</b> | <b>1,557</b> |

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Trading book   | 221          | 211          | 221          | 211          |
| Other shares at fair value using the fair-value option | 1,405        | 1,346        | 1,405        | 1,346        |
| <b>Total shares</b>                                    | <b>1,626</b> | <b>1,557</b> | <b>1,626</b> | <b>1,557</b> |

|   |          |          |          |          |
|---|----------|----------|----------|----------|
| <b>Other non-derivative financial liabilities at fair value</b> | <b>2</b> | <b>2</b> | <b>2</b> | <b>2</b> |
|---|----------|----------|----------|----------|

Securities that are not included in the Group's trading book are measured at fair value through profit and loss using the fair-value option.

The securities form part of a portfolio that is managed – and on which the returns are measured on the basis of fair value – in accordance with a documented risk management and investment strategy.

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| <b>22 INVESTMENTS IN ASSOCIATES</b>             |            |            |            |            |
| Total cost, beginning of year                   | 96         | 59         | 96         | 59         |
| Reclassified to/from shares                     | 0          | 11         | 0          | 11         |
| Additions                                       | 14         | 26         | 14         | 26         |
| Disposals                                       | 24         | 0          | 24         | 0          |
| <b>Total cost, end of year</b>                  | <b>86</b>  | <b>96</b>  | <b>86</b>  | <b>96</b>  |
| Revaluations and impairment, beginning of year  | 22         | 23         | 22         | 23         |
| Reclassified to/from shares                     | 0          | 7          | 0          | 7          |
| Profit/loss                                     | 32         | 30         | 32         | 30         |
| Dividend  | 31         | 38         | 31         | 38         |
| Reversal of revaluations and impairments        | -19        | 0          | -19        | 0          |
| <b>Revaluations and impairment, end of year</b> | <b>42</b>  | <b>22</b>  | <b>42</b>  | <b>22</b>  |
| <b>Carrying amount, end of year</b>             | <b>128</b> | <b>118</b> | <b>128</b> | <b>118</b> |

In 2017 and 2016, Spar Nord had no equity investments in associates that were individually significant for the Spar Nord Group.

**Financial information for all associates that are not individually significant and are recognised according to the equity method:**

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|
| <i>The Spar Nord Group's share of:</i> |                                    |                                    |
| Profit/loss for the year               | 32                                 | 30                                 |
| Other comprehensive income             | 0                                  | 0                                  |
| <b>Total comprehensive income</b>      | <b>32</b>                          | <b>30</b>                          |

**Reconciliation of carrying amount at 31 December**

|  |            |            |
|--|------------|------------|
| The Spar Nord Group's share of equity in significant associates                | 0          | 0          |
| Goodwill relating to associates  | 37         | 37         |
| Carrying amount of equity investments in individually insignificant associates | 91         | 81         |
| <b>Total</b>   | <b>128</b> | <b>118</b> |

NOTE

23

**INVESTMENTS IN GROUP ENTERPRISES**

|   | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|---|------------------------------------|------------------------------------|--|--|
| Total cost, beginning of year                   | -                                  | -                                  | 1,220  | 1,220  |
| Additions                                       | -                                  | -                                  | 0  | 0  |
| Disposals                                       | -                                  | -                                  | 0  | 0  |
| <b>Total cost, end of year</b>                  | <b>-</b>                           | <b>-</b>                           | <b>1,220</b>                                   | <b>1,220</b>                                   |
| Revaluations and impairment, beginning of year  | -                                  | -                                  | 364  | 289  |
| Profit/loss                                     | -                                  | -                                  | 18   | 75   |
| Dividend  | -                                  | -                                  | 1,200  | 0  |
| Other capital movements                         | -                                  | -                                  | 0  | 0  |
| Reversal of revaluations and impairments        | -                                  | -                                  | 0  | 0  |
| <b>Revaluations and impairment, end of year</b> | <b>-</b>                           | <b>-</b>                           | <b>-818</b>                                    | <b>364</b>                                     |
| <b>Carrying amount, end of year</b>             | <b>-</b>                           | <b>-</b>                           | <b>402</b>                                     | <b>1,584</b>                                   |

**GROUP ENTERPRISES 2017***Consolidated companies*

|  | Share<br>capital<br>end of year<br>DKKm | Equity<br>end of year<br>DKKm | Profit/loss<br>for year year<br>DKKm |
|--|---|-------------------------------|--------------------------------------|
| Aktieselskabet Skelagervej 15, Aalborg | 27                                      | 402                           | 18                                   |

The company was a wholly subsidiary in 2016 and 2017.

## NOTE

24

**INTANGIBLE ASSETS**

## Goodwill

|                                     | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|-------------------------------------|------------------------------------|------------------------------------|--|--|
| Total cost, beginning of year       | 160                                | 160                                | 160  | 160  |
| Additions                           | 0                                  | 0                                  | 0  | 0  |
| Disposals                           | 0                                  | 0                                  | 0  | 0  |
| <b>Total cost, end of year</b>      | <b>160</b>                         | <b>160</b>                         | <b>160</b>                                     | <b>160</b>                                     |
| Impairment, beginning of year       | 2                                  | 2                                  | 2  | 2  |
| Impairment for the year             | 0                                  | 0                                  | 0  | 0  |
| Reversal of impairment on disposals | 0                                  | 0                                  | 0  | 0  |
| <b>Impairment, end of year</b>      | <b>2</b>                           | <b>2</b>                           | <b>2</b>                                       | <b>2</b>                                       |
| <b>Carrying amount, end of year</b> | <b>159</b>                         | <b>159</b>                         | <b>159</b>                                     | <b>159</b>                                     |

## Customer relations

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Total cost, beginning of year                   | 65        | 65        | 65        | 65        |
| Additions                                       | 0         | 0         | 0         | 0         |
| Disposals                                       | 0         | 0         | 0         | 0         |
| <b>Total cost, end of year</b>                  | <b>65</b> | <b>65</b> | <b>65</b> | <b>65</b> |
| Amortisation and impairment, beginning of year  | 39        | 32        | 39        | 32        |
| Amortisation for the year                       | 7         | 7         | 7         | 7         |
| <b>Amortisation and impairment, end of year</b> | <b>46</b> | <b>39</b> | <b>46</b> | <b>39</b> |
| <b>Carrying amount, end of year</b>             | <b>19</b> | <b>26</b> | <b>19</b> | <b>26</b> |

## Other intangible assets

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Total cost, beginning of year                   | 61        | 63        | 61        | 63        |
| Additions                                       | 1         | 6         | 1         | 6         |
| Disposals                                       | 32        | 8         | 32        | 8         |
| <b>Total cost, end of year</b>                  | <b>30</b> | <b>61</b> | <b>30</b> | <b>61</b> |
| Amortisation and impairment, beginning of year  | 51        | 40        | 51        | 40        |
| Amortisation for the year                       | 4         | 17        | 4         | 17        |
| Reversal of amortisation on disposals           | 32        | 6         | 32        | 6         |
| <b>Amortisation and impairment, end of year</b> | <b>23</b> | <b>51</b> | <b>23</b> | <b>51</b> |
| <b>Carrying amount, end of year</b>             | <b>6</b>  | <b>10</b> | <b>6</b>  | <b>10</b> |

|                                |            |            |            |            |
|--------------------------------|------------|------------|------------|------------|
| <b>Total intangible assets</b> | <b>184</b> | <b>194</b> | <b>184</b> | <b>194</b> |
|--------------------------------|------------|------------|------------|------------|

The remaining amortisation periods are 1-5 years (2016: 2-6 years) for customer relations and 1-5 years (2016: 1-5 years) for other intangible assets. Goodwill had an indefinite useful life in both 2017 and 2016.

| Spar Nord Group<br>Goodwill                | Cost at<br>01.01.17<br>DKKm | Additions/<br>disposals<br>2017<br>DKKm | Cost at<br>31.12.17<br>DKKm | Impairment<br>01.01.17<br>DKKm | Impairment<br>2017<br>DKKm | Impairment<br>on disposals<br>2017<br>DKKm | Impairment<br>31.12.17<br>DKKm | Carrying<br>amount<br>31.12.17<br>DKKm |
|--|-----------------------------|---|-----------------------------|--------------------------------|----------------------------|--|--------------------------------|--|
| Banking activities, Roskilde Bank branches | 87                          | 0                                       | 87                          | 0                              | 0                          | 0  | 0                              | 87                                     |
| Banking activities, Sparbank               | 35                          | 0                                       | 35                          | 0                              | 0                          | 0  | 0                              | 35                                     |
| Banking activities, branches, Other        | 38                          | 0                                       | 38                          | 2                              | 0                          | 0  | 2                              | 37                                     |
| <b>Total goodwill</b>                      | <b>160</b>                  | <b>0</b>                                | <b>160</b>                  | <b>2</b>                       | <b>0</b>                   | <b>0</b>                                   | <b>2</b>                       | <b>159</b>                             |

|  | Cost at<br>01.01.16<br>DKKm | Additions/<br>disposals<br>2016<br>DKKm | Cost at<br>31.12.16<br>DKKm | Impairment<br>01.01.16<br>DKKm | Impairment<br>2016<br>DKKm | Impairment<br>on disposals<br>2016<br>DKKm | Impairment<br>31.12.16<br>DKKm | Carrying<br>amount<br>31.12.16<br>DKKm |
|--|-----------------------------|---|-----------------------------|--------------------------------|----------------------------|--|--------------------------------|--|
| Banking activities, Roskilde Bank branches | 87                          | 0                                       | 87                          | 0                              | 0                          | 0  | 0                              | 87                                     |
| Banking activities, Sparbank               | 35                          | 0                                       | 35                          | 0                              | 0                          | 0  | 0                              | 35                                     |
| Banking activities, branches, Other        | 38                          | 0                                       | 38                          | 2                              | 0                          | 0  | 2                              | 37                                     |
| <b>Total goodwill</b>                      | <b>160</b>                  | <b>0</b>                                | <b>160</b>                  | <b>2</b>                       | <b>0</b>                   | <b>0</b>                                   | <b>2</b>                       | <b>159</b>                             |



**IMPAIRMENT TEST**

The impairment test compares the carrying amount with the estimated present value of the anticipated future cash flows (value in use). The special debt structure in financial groups means that the calculation basis for the present value of future cash flows is based on a simplified equity model.

The equity model is based on approved strategies and earnings estimates for the cash-generating business areas for the next five years.

The share of equity has been fixed at 13% (2016: 12%) of total risk exposure amount.

The impairment test in 2017 did not give rise to any writedowns for impairment of intangible assets.

**Goodwill**

The Spar Nord Group's goodwill with an indefinite useful life is tested annually for impairment. The activities are tested on the identified cash-generating unit to which the assets have been allocated.

Goodwill is included in the cash-generating business area – Spar Nord's Local Banks – which is the business area comprising the branch network. For a more detailed description of Spar Nord's Local Banks, reference is made to note 3.

**PRINCIPAL ASSUMPTIONS****Cash flow during the budget period**

Cash flow during the budget period (five years) is impacted by expectations of interest rates and the impact on the lending and deposit margins at Spar Nord's Local Banks.

The assumptions used in the impairment test are conservative with respect to the future profit impact from the implementation of Spar Nord's strategy.

Growth during the budget period is projected at 1.5% (2016: 1.0%). The average annual growth reflects the targets incorporated into the Bank's outlook for the future.

**Net interest income**

The deposit and lending margins reflect the earnings margin, which is calculated as the difference between the interest rate towards the customers of Spar Nord's Local Banks and an internal funding rate based on the Bank's funding costs.

The interest margin is estimated on the basis of current lending rates and Management's expectations for future competition. The interest margin is expected to decline slightly.

The expectations for the development in deposits and lending reflect the Bank's estimate for the next few years. A marginal increase is expected in both lending and deposits.

**Net fee income**

The expectations for income from fees, charges and commissions are based on historical data, adjusted to reflect the current situation. Fee income is expected to reach a slightly higher level than in 2017.

**Costs and expenses**

Expectations as to costs and expenses are based on a projection of the cost base and anticipated changes in activities as well as pay increases according to collective agreements, changes in taxes and duties, etc.

**Loan impairment charges**

Expectations as to loan impairment charges are based on the Bank's estimate for the next few years. The expectations are based on historical data, adjusted to reflect the current situation. Loan impairment charges are expected to reach a higher level than in 2017.

**Cash flow during the terminal period**

Cash flow during the terminal period represents earnings in the preceding years, growing at a constant rate. Growth is projected at 1.5% (2016: 1.0%).

Growth has been projected on the basis of expectations for macroeconomic growth.

**Discount rate**

The discount rate used to calculate the discounted value of future cash flows is 11.5% (2016: 11.5%) before tax at a tax rate of 22%. After tax, the discount rate is 9.0% (2016: 9.0%).

The discount rate has been fixed on the basis of a CAPM model. The discount rate was unchanged from 2016 to 2017.

|  | 2017    | 2016    |
|--|---------|---------|
| <i>Primary assumptions; see above:</i>           |         |         |
| Acquired goodwill, DKKm                          | 159     | 159     |
| Budget period                                    | 5 years | 5 years |
| Average annual growth during the budget period   | 1.5%    | 1.0%    |
| Average annual growth during the terminal period | 1.5%    | 1.0%    |
| Discount factor before tax                       | 11.5%   | 11.5%   |
| Discount factor after tax                        | 9.0%    | 9.0%    |
| Share of equity in total risk exposure amount    | 13.0%   | 12.0%   |

### Sensitivity analyses

Management assesses that probable changes in basic assumptions will not cause the carrying amount of goodwill to exceed its recoverable amount.

Sensitivity analyses show that the goodwill relating to Spar Nord's Local Banks is robust to changes in assumptions.

The following matters do not lead to impairment

|  | 2017 | 2016 |
|--|------|------|
| Increase in the discount rate (pre-tax) up to  | 16%  | 18%  |
| Reduction in pre-tax profit/loss (change in net interest income, fee income, cost ratio or impairment) up to | 27%  | 37%  |
| Negative growth in balance-sheet items possible  | Yes  | Yes  |

Projections for the budget period mean that about 69% of the present value of expected cash flows in Spar Nord's Local Banks relates to the terminal period (2016: 68%)

### Customer relations

The carrying amount of customer relations recognised in connection with:

- the acquisition of assets and liabilities from FIH Erhvervsbank amounted to DKK 1 million (2016: DKK 2 million);
- the acquisition of banking activities from Roskilde Bank amounted to DKK 3 million (2016: DKK 5 million);
- the merger with Sparbank amounted to DKK 16 million (2016: DKK 19 million).

The assumptions used for recognising customer relations have been compared with the corresponding realised results – primarily income in excess of net interest income and the cost ratio.

The realised results are in line with expectations, for which reason there is no evidence of impairment.

### Other intangible assets

Management has not identified factors indicating any need for carrying out an impairment test in respect of other intangible assets.

Other intangible assets comprise software used by the Bank and are amortised at the rates stated in the accounting policies

NOTE

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**LAND AND BUILDINGS**

|   | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|---|------------------------------------|------------------------------------|--|--|
| <i>Investment properties</i>                                  |                                    |                                    |  |  |
| Fair value, beginning of year                                 | 135                                | 145                                | 70   | 71   |
| Additions, incl. improvements                                 | 0                                  | 1                                  | 0  | 0  |
| Disposals   | 0                                  | 1                                  | 0  | 1  |
| Unrealised fair value adjustment                              | 0                                  | -10                                | 0  | 0  |
| <b>Fair value, end of year</b>                                | <b>135</b>                         | <b>135</b>                         | <b>70</b>                                      | <b>70</b>                                      |
| Required rate of return used in calculating the fair value, % | 5.8 - 9.0                          | 5.8 - 8.0                          | 5.8 - 9.0                                      | 5.8 - 8.0                                      |

The unrealised fair value adjustment is recognised in the item Market value adjustments in the Parent Company's financial statements and in Other operating income in the consolidated financial statements.

The fair-value method (Level 3 in the fair-value hierarchy) has been chosen for measuring investment properties. Investment properties consist mainly of business leases. The periods of non-terminability for Spar Nord in the leases do not exceed 20 years.

For information regarding return on investment properties, please refer to note 10.

Note 10 includes operating expenses relating to investment properties that did not generate any rental income during the year for:

|  |   |   |   |   |
|--|---|---|---|---|
|  | 0 | 0 | 0 | 0 |
|--|---|---|---|---|

*Domicile properties*

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Total cost, beginning of year   | 673        | 674        | 545        | 546        |
| Transferred to temporary assets   | -38        | -10        | -38        | -10        |
| Additions   | 20         | 9          | 20         | 9          |
| Disposals   | 24         | 0          | 24         | 0          |
| <b>Total cost, end of year</b>  | <b>631</b> | <b>673</b> | <b>502</b> | <b>545</b> |
| Value adjustment, beginning of year   | 155        | 127        | 128        | 102        |
| Transferred to temporary assets   | -10        | -5         | -10        | -5         |
| Depreciation for the year   | 14         | 15         | 14         | 14         |
| Net impairment via the income statement   | 4          | 12         | 2          | 12         |
| Changes in value recognised in other comprehensive income                                     | -5         | 6          | -3         | 6          |
| Depreciation and impairment on disposals  | 14         | 0          | 14         | 0          |
| <b>Value adjustment, end of year</b>  | <b>144</b> | <b>155</b> | <b>118</b> | <b>128</b> |
| <b>Fair value, end of year</b>  | <b>487</b> | <b>519</b> | <b>384</b> | <b>417</b> |
| Most recent official property valuation   | 435        | 480        | 330        | 375        |
| Required rate of return used in calculating the fair value, %                                 | 5.8 - 10.0 | 5.8 - 10.0 | 5.8 - 10.0 | 5.8 - 10.0 |
| Carrying amount if domicile properties were measured according to the depreciated cost method | 398        | 430        | 296        | 328        |

No borrowing costs were recognised in 2017 and 2016.

The fair value method (Level 3 in the fair value hierarchy) has been chosen for measuring domicile properties. fair value has been determined based on observable prices and other valuation methods.

An external valuation of all properties has been obtained from a real estate agent to support the calculation of fair value, including the rental rates and rates of return used.

The annual review of the Bank's investment and corporate properties did not give rise to any significant changes in the required rates of return. The required rates of return remained within the 5.8-10.0% range (2016: 5.8-10.0%) for domicile properties and the 5.8-9.0% range (2016: 5.8-8.0%) for investment properties.

**Breakdown of required rates of return****Spar Nord Group  
2017**

| Required rates of return in % | Domicile properties |                        | Investment properties |                        |
|-------------------------------|---------------------|------------------------|-----------------------|------------------------|
|                               | No. of properties   | Fair value end of year | No. of properties     | Fair value end of year |
| -> 7.00                       | 9                   | 144                    | 2                     | 21                     |
| 7.00 - 8.00                   | 13                  | 248                    | 2                     | 85                     |
| 8.00 - 9.00                   | 6                   | 93                     | 6                     | 29                     |
| 9.00 ->                       | 1                   | 2                      | 0                     | 0                      |
| <b>Total</b>                  | <b>29</b>           | <b>487</b>             | <b>10</b>             | <b>135</b>             |

**2016****Required rates of return in %**

|              |           |            |           |            |
|--------------|-----------|------------|-----------|------------|
| -> 7.00      | 8         | 133        | 2         | 21         |
| 7.00 - 8.00  | 16        | 260        | 2         | 85         |
| 8.00 - 9.00  | 9         | 118        | 6         | 29         |
| 9.00 ->      | 3         | 7          | 0         | 0          |
| <b>Total</b> | <b>36</b> | <b>519</b> | <b>10</b> | <b>135</b> |

**Required rates of return****Property characteristics**

|             |  |
|-------------|--|
| -> 7.00     | Prime-location properties in major towns and cities, making the properties attractive to tenants and buyers. |
| 7.00 - 8.00 | Properties on the outskirts of attractive towns and properties with a good location in smaller towns.        |
| 8.00 - 9.00 | Properties located in small towns and villages.  |
| 9.00 ->     | Properties in towns where they are expected to be difficult to sell.   |

|   | Spar Nord Group<br>31.12.17<br>DKKm | Spar Nord Group<br>31.12.16<br>DKKm | Spar Nord Parent<br>Company<br>31.12.17<br>DKKm | Spar Nord Parent<br>Company<br>31.12.16<br>DKKm |
|---|-------------------------------------|-------------------------------------|---|---|
| Collateral provided to mortgage credit institutions in the form of mortgages on land and buildings has a carrying amount of | 65                                  | 83                                  | 0   | 18  |

**Sensitivity analyses**

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

Other things being equal, an increase of the required rate of return of 0.5 percentage point will reduce the fair value by DKK 41 million (2016: DKK 43 million).

Everything else being equal, a decrease of the rental level of 5% will reduce the fair value by DKK 28 million (2016: DKK 29 million).

## NOTE

## 26 OTHER PROPERTY, PLANT AND EQUIPMENT

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|--|--|
| Total cost, beginning of year                        | 395                                | 388                                | 395  | 388  |
| Additions  | 67                                 | 41                                 | 67   | 41   |
| Disposals  | 78                                 | 34                                 | 78   | 34   |
| <b>Total cost, end of year</b>                       | <b>384</b>                         | <b>395</b>                         | <b>384</b>                                     | <b>395</b>                                     |
| Depreciation and impairment, beginning of year       | 304                                | 288                                | 304  | 288  |
| Depreciation and impairment for the year             | 31                                 | 42                                 | 31   | 42   |
| Reversal of depreciation and impairment for the year | 70                                 | 26                                 | 70   | 26   |
| <b>Depreciation and impairment, end of year</b>      | <b>266</b>                         | <b>304</b>                         | <b>266</b>                                     | <b>304</b>                                     |
| <b>Carrying amount, end of year</b>                  | <b>119</b>                         | <b>91</b>                          | <b>119</b>                                     | <b>91</b>                                      |

The figures at end-2017 include various fully written-off assets used for the Spar Nord Group's and Parent Company's operations. The original purchase price of these assets amounts to DKK 184 million (2016: DKK 234 million).

**Leasing**

|  |    |    |    |    |
|--|----|----|----|----|
| Operating lease assets are recognised in the amount of | 14 | 20 | 14 | 20 |
|--|----|----|----|----|

The lease contracts were entered into for a term of 0-8 years, with individually agreed lease payments.

The contracts can be terminated during the lease term.

**Operating leases**

|              |           |           |           |           |
|--------------|-----------|-----------|-----------|-----------|
| Up to 1 year | 4         | 6         | 4         | 6         |
| 1-5 years    | 10        | 13        | 10        | 13        |
| Over 5 years | 0         | 1         | 0         | 1         |
| <b>Total</b> | <b>14</b> | <b>20</b> | <b>14</b> | <b>20</b> |

|   |   |   |   |   |
|---|---|---|---|---|
| Lease payments relating to operating lease assets recognised in the income statement under Other operating income | 7 | 5 | 7 | 5 |
|---|---|---|---|---|

|   |     |     |     |     |
|---|-----|-----|-----|-----|
| Average remaining term of the lease contracts (years) | 3.4 | 4.3 | 3.4 | 4.3 |
|---|-----|-----|-----|-----|

## 27 TEMPORARY ASSETS

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Total cost, beginning of year                   | 73        | 65        | 73        | 65        |
| Transferred from domicile properties            | 38        | 10        | 38        | 10        |
| Additions                                       | 7         | 22        | 7         | 22        |
| Disposals                                       | 79        | 24        | 79        | 24        |
| <b>Total cost, end of year</b>                  | <b>39</b> | <b>73</b> | <b>39</b> | <b>73</b> |
| Depreciation and impairment, beginning of year  | 39        | 37        | 39        | 37        |
| Transferred from domicile properties            | 10        | 5         | 10        | 5         |
| Movements during the year:                      | -31       | -3        | -31       | -3        |
| <b>Depreciation and impairment, end of year</b> | <b>18</b> | <b>39</b> | <b>18</b> | <b>39</b> |
| <b>Carrying amount, end of year</b>             | <b>21</b> | <b>34</b> | <b>21</b> | <b>34</b> |

Temporary assets comprise properties taken over and leased assets in connection with non-performing loans held by Spar Nord. Properties expected to be sold within a 12-month period according to a published plan are treated as Temporary assets.

Leased assets include trucks, agricultural machinery and heavy construction machinery.

Both properties and leased assets are expected to be disposed of within 12 months.

Properties are sold through estate agents, while leased assets are sold on the usual marketplace for the individual types of assets – primarily by auction or through dealers.

If, contrary to expectations, the assets are not sold within 12 months, they are reclassified to investment properties or, as the case may be, other property, plant and equipment.

## NOTE

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|--|--|
| <b>28 OTHER ASSETS</b>                                     |                                    |                                    |  |  |
| Positive fair value of derivative instruments, etc.        | 1,030                              | 1,284                              | 1,030  | 1,284  |
| Miscellaneous receivables                                  | 296                                | 194                                | 289  | 186  |
| Interest and commissions receivable                        | 51                                 | 229                                | 51   | 225  |
| Capital contribution to Bankernes EDB Central a.m.b.a.     | 316                                | 316                                | 316  | 316  |
| Other assets   | 70                                 | 63                                 | 70   | 63   |
| <b>Total other assets</b>                                  | <b>1,763</b>                       | <b>2,086</b>                       | <b>1,756</b>                                   | <b>2,074</b>                                   |
| <b>29 DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS</b>     |                                    |                                    |  |  |
| Due to central banks                                       | 31                                 | 37                                 | 31   | 37   |
| Due to credit institutions                                 | 1,933                              | 2,393                              | 1,903  | 2,363  |
| <b>Total due to credit institutions and central banks</b>  | <b>1,964</b>                       | <b>2,430</b>                       | <b>1,934</b>                                   | <b>2,399</b>                                   |
| <i>Shown by term to maturity</i>                           |                                    |                                    |  |  |
| Demand deposits  | 421                                | 231                                | 421  | 231  |
| Up to 3 months   | 1,512                              | 2,105                              | 1,512  | 2,105  |
| Over 3 months and up to 1 year                             | 0                                  | 45                                 | 0  | 45   |
| Over 1 year and up to 5 years                              | 0                                  | 5                                  | 0  | 5  |
| Over 5 years   | 30                                 | 44                                 | 0  | 14   |
| <b>Total</b>   | <b>1,964</b>                       | <b>2,430</b>                       | <b>1,934</b>                                   | <b>2,399</b>                                   |
| <i>Of which, genuine sale and repo transactions</i>        |                                    |                                    |  |  |
| Repo transactions  | 555                                | 1,400                              | 555  | 1,400  |
| Mortgage debt on real property                             | 30                                 | 44                                 | 0  | 14   |
| The carrying amount of the mortgaged properties amounts to | 65                                 | 83                                 | 0  | 18   |
| <b>30 DEPOSITS AND OTHER PAYABLES</b>                      |                                    |                                    |  |  |
| Demand deposits  | 43,132                             | 39,798                             | 43,393   | 41,121   |
| Subject to notice  | 1,456                              | 1,410                              | 1,456  | 1,410  |
| Time deposits  | 896                                | 1,714                              | 896  | 1,714  |
| Special types of deposits                                  | 3,359                              | 3,542                              | 3,359  | 3,542  |
| <b>Total deposits and other payables</b>                   | <b>48,843</b>                      | <b>46,464</b>                      | <b>49,105</b>                                  | <b>47,787</b>                                  |
| <i>Shown by term to maturity</i>                           |                                    |                                    |  |  |
| Demand deposits  | 43,132                             | 39,798                             | 43,393   | 41,121   |
| Up to 3 months   | 1,959                              | 2,134                              | 1,959  | 2,134  |
| Over 3 months and up to 1 year                             | 303                                | 350                                | 303  | 350  |
| Over 1 year and up to 5 years                              | 91                                 | 546                                | 91   | 546  |
| Over 5 years   | 3,359                              | 3,637                              | 3,359  | 3,637  |
| <b>Total</b>   | <b>48,843</b>                      | <b>46,464</b>                      | <b>49,105</b>                                  | <b>47,787</b>                                  |
| <i>Of which, genuine sale and repo transactions</i>        |                                    |                                    |  |  |
| Repo transactions  | 175                                | 0                                  | 175  | 0  |

## NOTE

|  | Spar Nord<br>Group<br>2017<br>DKKkM | Spar Nord<br>Group<br>2016<br>DKKkM | Spar Nord<br>Parent<br>Company<br>2017<br>DKKkM | Spar Nord<br>Parent<br>Company<br>2016<br>DKKkM |
|--|-------------------------------------|-------------------------------------|---|---|
| <b>31 OTHER LIABILITIES</b>  |                                     |                                     |   |   |
| Miscellaneous payables   | 1,799                               | 1,857                               | 1,798   | 1,854   |
| Negative fair value of derivative financial instruments, etc.  | 691                                 | 866                                 | 691   | 866   |
| Interest and commissions payable   | 12                                  | 19                                  | 12  | 19  |
| Other liabilities  | 365                                 | 343                                 | 364   | 342   |
| <b>Total other liabilities</b>   | <b>2,866</b>                        | <b>3,084</b>                        | <b>2,864</b>                                    | <b>3,081</b>                                    |
| <b>32 PROVISIONS</b>   |                                     |                                     |   |   |
| Provisions for deferred tax (see separate note 33)   | 136                                 | 109                                 | 137   | 109   |
| Provision for losses on guarantees   | 41                                  | 67                                  | 41  | 67  |
| Provisions for losses in connection with legal proceedings   | 0                                   | 1                                   | 0   | 1   |
| Other provisions   | 7                                   | 11                                  | 7   | 11  |
| Provisions for unutilised credit lines   | 15                                  | 15                                  | 15  | 15  |
| <b>Total provisions</b>  | <b>199</b>                          | <b>202</b>                          | <b>199</b>                                      | <b>203</b>                                      |
| <i>Provisions for losses on guarantees</i>   |                                     |                                     |   |   |
| Beginning of year  | 67                                  | 43                                  | 67  | 43  |
| New provisions   | 19                                  | 46                                  | 19  | 46  |
| Reversed provisions  | 45                                  | 22                                  | 45  | 22  |
| <b>Provisions for losses on guarantees, end of period</b>  | <b>41</b>                           | <b>67</b>                           | <b>41</b>                                       | <b>67</b>                                       |
| <i>Losses on guarantees recognised in the income statement</i>                                       |                                     |                                     |   |   |
| New provisions   | 19                                  | 46                                  | 19  | 46  |
| Reversed provisions  | 45                                  | 22                                  | 45  | 22  |
| <b>Recognised in the income statement</b>  | <b>-26</b>                          | <b>24</b>                           | <b>-26</b>                                      | <b>24</b>                                       |
| <i>Provisions for losses in connection with legal proceedings</i>                                    |                                     |                                     |   |   |
| Beginning of year  | 1                                   | 3                                   | 1   | 3   |
| New provisions   | 0                                   | 2                                   | 0   | 2   |
| Reversed provisions  | 1                                   | 1                                   | 1   | 1   |
| Conclusively lost  | 0                                   | 2                                   | 0   | 2   |
| <b>End of year</b>   | <b>0</b>                            | <b>1</b>                            | <b>0</b>  | <b>1</b>  |
| <i>Provisions for losses in connection with legal proceedings recognised in the income statement</i> |                                     |                                     |   |   |
| New provisions   | 0                                   | 2                                   | 0   | 2   |
| Reversed provisions  | 1                                   | 1                                   | 1   | 1   |
| <b>Recognised in the income statement</b>  | <b>-1</b>                           | <b>0</b>                            | <b>-1</b>                                       | <b>0</b>  |
| <i>Other provisions</i>  |                                     |                                     |   |   |
| Beginning of year  | 11                                  | 18                                  | 11  | 18  |
| New provisions   | 1                                   | 5                                   | 1   | 5   |
| Reversed provisions  | 3                                   | 7                                   | 3   | 7   |
| Applied to cover liabilities   | 2                                   | 5                                   | 2   | 5   |
| <b>End of year</b>   | <b>7</b>                            | <b>11</b>                           | <b>7</b>  | <b>11</b>                                       |
| <i>Other provisions recognised in the income statement</i>   |                                     |                                     |   |   |
| New provisions   | 1                                   | 5                                   | 1   | 5   |
| Reversed provisions  | 3                                   | 7                                   | 3   | 7   |
| <b>Recognised in the income statement</b>  | <b>-2</b>                           | <b>-2</b>                           | <b>-2</b>                                       | <b>-2</b>                                       |
| <i>Provisions for unutilised credit lines</i>  |                                     |                                     |   |   |
| Beginning of year  | 15                                  | 12                                  | 15  | 12  |
| New provisions   | 8                                   | 15                                  | 8   | 15  |
| Reversed provisions  | 8                                   | 12                                  | 8   | 12  |
| <b>End of year</b>   | <b>15</b>                           | <b>15</b>                           | <b>15</b>                                       | <b>15</b>                                       |
| <i>Provisions for unutilised credit lines recognised in the income statement</i>                     |                                     |                                     |   |   |
| New provisions   | 8                                   | 15                                  | 8   | 15  |
| Reversed provisions  | 8                                   | 12                                  | 8   | 12  |
| <b>Recognised in the income statement</b>  | <b>0</b>                            | <b>3</b>                            | <b>0</b>  | <b>3</b>  |
| <i>Provisions recognised in the income statement</i>   |                                     |                                     |   |   |
| New provisions   | 28                                  | 67                                  | 28  | 67  |
| Reversed provisions  | 57                                  | 42                                  | 57  | 42  |
| <b>Total provisions recognised in the income statement</b>   | <b>-28</b>                          | <b>25</b>                           | <b>-28</b>                                      | <b>25</b>                                       |



**Broken down by term to maturity, shown by category for the Spar Nord Group**

|  | Up to<br>3 months<br>DKKm | 3 months<br>up to 1 year<br>DKKm | Over 1 year<br>and up to 5<br>years<br>DKKm | Over<br>5 years<br>DKKm | Total<br>DKKm |
|--|---------------------------|----------------------------------|---|-------------------------|---------------|
| <b>2017</b>                            |                           |                                  |   |                         |               |
| Provisions for deferred tax            | 0                         | 5                                | -13   | 144                     | 136           |
| Provision for losses on guarantees     | 4                         | 3                                | 29  | 6                       | 41            |
| Other provisions                       | 0                         | 1                                | 2   | 3                       | 7             |
| Provisions for unutilised credit lines | 15                        | 0                                | 0   | 0                       | 15            |
| <b>Total provisions</b>                | <b>19</b>                 | <b>9</b>                         | <b>18</b>                                   | <b>153</b>              | <b>199</b>    |

**2016**

|  |           |          |           |            |            |
|--|-----------|----------|-----------|------------|------------|
| Provisions for deferred tax                                | 0         | 3        | -5        | 110        | 109        |
| Provision for losses on guarantees                         | 12        | 3        | 39        | 14         | 67         |
| Provisions for losses in connection with legal proceedings | 0         | 1        | 0         | 0          | 1          |
| Other provisions   | 1         | 1        | 6         | 3          | 11         |
| Provisions for unutilised credit lines                     | 15        | 0        | 0         | 0          | 15         |
| <b>Total provisions</b>                                    | <b>27</b> | <b>8</b> | <b>40</b> | <b>127</b> | <b>202</b> |

Uncertainty attaches to the due dates of liabilities for which provision has been made.

Provisions for deferred tax are specified in note 33.

Provisions for losses on guarantees have been made based on an individual assessment.

Provisions for losses in connection with legal proceedings have been made based on an individual assessment.

Other provisions include provisions for rent commitments and anniversary lump sums.

Provisions for unutilised credit lines relate to provisions for losses on unutilised credit lines.

NOTE

33

**PROVISIONS FOR DEFERRED TAX**

|  | Spar Nord<br>Group<br>2017<br>DKKkm | Spar Nord<br>Group<br>2016<br>DKKkm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKkm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKkm |
|--|-------------------------------------|-------------------------------------|---|---|
| Beginning of period  | 109                                 | 117                                 | 109   | 123   |
| Deferred tax for the year recognised in profit/loss for the year   | 27                                  | -8                                  | 27  | -13   |
| Deferred tax for the year recognised in other comprehensive income | 0                                   | 0                                   | 0   | 0   |
| <b>End of year</b>   | <b>136</b>                          | <b>109</b>                          | <b>137</b>                                      | <b>109</b>                                      |

| SPAR NORD GROUP   | Beginning<br>of year | Recognised in<br>profit/loss | Recognised<br>other comprehensive<br>for the year income | End of year |
|---|----------------------|------------------------------|--|-------------|
| <b>Changes in deferred tax in 2017</b>                  |                      |                              |  |             |
| Intangible assets                                       | 29                   | 0                            | 0  | 29          |
| Property, plant and equipment, incl. leased assets      | 103                  | 28                           | 0  | 130         |
| Loans, advances and other receivables at amortised cost | -19                  | 1                            | 0  | -18         |
| Payables and subordinated debt                          | 14                   | 1                            | 0  | 15          |
| Provisions  | -18                  | 1                            | 0  | -17         |
| Claw-back loss  | 4                    | 0                            | 0  | 4           |
| Miscellaneous   | -4                   | -3                           | 0  | -7          |
| <b>Total</b>  | <b>109</b>           | <b>27</b>                    | <b>0</b>   | <b>136</b>  |

|   |            |           |          |            |
|---|------------|-----------|----------|------------|
| <b>Changes in deferred tax in 2016</b>                  |            |           |          |            |
| Intangible assets                                       | 31         | -2        | 0        | 29         |
| Property, plant and equipment, incl. leased assets      | 98         | 5         | 0        | 103        |
| Loans, advances and other receivables at amortised cost | -19        | -1        | 0        | -19        |
| Other assets  | 67         | -67       | 0        | 0          |
| Payables and subordinated debt                          | 14         | 0         | 0        | 14         |
| Provisions  | -86        | 68        | 0        | -18        |
| Claw-back loss  | 3          | 1         | 0        | 4          |
| Tax loss *)   | -6         | 6         | 0        | 0          |
| Miscellaneous   | 15         | -19       | 0        | -4         |
| <b>Total</b>  | <b>117</b> | <b>-8</b> | <b>0</b> | <b>109</b> |

**SPAR NORD PARENT COMPANY****Changes in deferred tax in 2017**

|   |            |           |          |            |
|---|------------|-----------|----------|------------|
| Intangible assets                                       | 29         | 0         | 0        | 29         |
| Property, plant and equipment, incl. leased assets      | 104        | 28        | 0        | 131        |
| Loans, advances and other receivables at amortised cost | -19        | 1         | 0        | -18        |
| Payables and subordinated debt                          | 14         | 1         | 0        | 15         |
| Provisions  | -18        | 1         | 0        | -17        |
| Claw-back loss  | 4          | 0         | 0        | 4          |
| Miscellaneous   | -4         | -3        | 0        | -7         |
| <b>Total</b>  | <b>109</b> | <b>27</b> | <b>0</b> | <b>137</b> |

**Changes in deferred tax in 2016**

|   |            |            |          |            |
|---|------------|------------|----------|------------|
| Intangible assets                                       | 31         | -2         | 0        | 29         |
| Property, plant and equipment, incl. leased assets      | 98         | 6          | 0        | 104        |
| Loans, advances and other receivables at amortised cost | -19        | -1         | 0        | -19        |
| Other assets  | 67         | -67        | 0        | 0          |
| Payables and subordinated debt                          | 14         | 0          | 0        | 14         |
| Provisions  | -86        | 68         | 0        | -18        |
| Claw-back loss  | 3          | 1          | 0        | 4          |
| Miscellaneous   | 15         | -19        | 0        | -4         |
| <b>Total</b>  | <b>123</b> | <b>-13</b> | <b>0</b> | <b>109</b> |

\*) The tax loss in the Spar Nord Group in 2016 of DKK 6.0 million related to the joint taxation loss expected to be utilised by the subsidiary Aktieselskabet Skelagervej 15 within the next three years. At 31 December 2016, the tax loss had been utilised in full.

## NOTE

## Group

| Deferred tax assets not recognised in the balance sheet in 2017                  | Beginning of year<br>DKKk | Recognised in<br>profit/loss<br>DKKk | Additions/<br>disposals<br>DKKk | End of year<br>DKKk |
|--|---------------------------|--------------------------------------|---------------------------------|---------------------|
| Deferred tax assets not recognised relate to:                                    |                           |                                      |                                 |                     |
| Losses on properties with deductibility restricted to gains from the same source | 3                         | 0                                    | 5                               | 9                   |
| Tax loss abroad  | 4                         | 0                                    | 1                               | 5                   |
| <b>Deferred tax assets not recognised, total</b>                                 | <b>7</b>                  | <b>0</b>                             | <b>6</b>                        | <b>13</b>           |

## Deferred tax assets not recognised in the balance sheet in 2016

|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Deferred tax assets not recognised relate to:                                    |          |          |          |          |
| Losses on properties with deductibility restricted to gains from the same source | 2        | 0        | 1        | 3        |
| Tax loss abroad  | 3        | 0        | 1        | 4        |
| <b>Deferred tax assets not recognised, total</b>                                 | <b>5</b> | <b>0</b> | <b>2</b> | <b>7</b> |

All deferred tax liabilities are recognised in the balance sheet.

The temporary differences in 2017 and 2016 relating to losses on properties with deductibility restricted to gains from the same source arose on the sale of properties.

## 34 SUBORDINATED DEBT

Subordinated debt are liabilities in the form of tier 2 capital which, in the event of the Company's voluntary or compulsory winding up, will not be repaid until after the claims of ordinary creditors have been met. Premature redemption of subordinated debt is subject to the approval of the Danish FSA. Subordinated debt is included in own funds, etc. pursuant to the Danish Financial Business Act.

The issuance of additional tier 1 capital under CRR with a perpetual term and with voluntary payment of interest and repayments of principal is treated as equity for accounting purposes. For further details, please see Capital position.

Spar Nord is the borrower with respect to all loans.

| Currency   | Note | Principal<br>DKKk | Interest rate | Received | Maturity | Spar Nord<br>Group<br>2017<br>DKKk | Spar Nord<br>Group<br>2016<br>DKKk | Spar Nord<br>Parent<br>Company<br>2017<br>DKKk | Spar Nord<br>Parent<br>Company<br>2016<br>DKKk |
|--|------|-------------------|---------------|----------|----------|------------------------------------|------------------------------------|--|--|
| SEK  | a    | 600               | 1.978%        | 2017     | 18.10.27 | 452                                | 0                                  | 452  | 0  |
| DKK  | b    | 700               | Floating      | 2013     | 18.12.23 | 699                                | 698                                | 699  | 698  |
| DKK  | c    | 400               | 6.043%        | 2012     | -        | 0                                  | 403                                | 0  | 403  |
| <b>Supplementary capital contributions, total</b>    |      |                   |               |          |          | <b>1,151</b>                       | <b>1,102</b>                       | <b>1,151</b>                                   | <b>1,102</b>                                   |
| Portfolio of own bonds relating to subordinated debt |      |                   |               |          |          | -7                                 | -8                                 | -7   | -8   |
| <b>Subordinated debt, total</b>                      |      |                   |               |          |          | <b>1,144</b>                       | <b>1,093</b>                       | <b>1,144</b>                                   | <b>1,093</b>                                   |
| Interest on subordinated debt                        |      |                   |               |          |          | 50                                 | 51                                 | 50   | 51   |
| Costs of raising subordinated debt                   |      |                   |               |          |          | 2                                  | 2                                  | 2  | 2  |

a Redeemable as from 18.10.2022

b Redeemable as from 18.12.2018. If the loan is not redeemed, interest will be fixed at CIBOR3 + a 3.900% margin

c Redeemed at 28.11.2017

## Subordinated debt, specification of cash flows

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| <b>Beginning of period</b>             | <b>1,093</b> | <b>1,089</b> | <b>1,093</b> | <b>1,089</b> |
| <b>Movement during the period:</b>     |              |              |              |              |
| New loans                              | 466          | 0            | 466          | 0            |
| Redeemed                               | -400         | 0            | -400         | 0            |
| Change exchange rate adjustments       | -12          | 0            | -12          | 0            |
| Change in interest rate hedging        | -4           | -2           | -4           | -2           |
| Change in amortised costs              | -1           | 2            | -1           | 2            |
| Change in portfolio of own bonds       | 1            | 5            | 1            | 5            |
| <b>Total cash flows for the period</b> | <b>51</b>    | <b>4</b>     | <b>51</b>    | <b>4</b>     |
| <b>Carrying amount, end of period</b>  | <b>1,144</b> | <b>1,093</b> | <b>1,144</b> | <b>1,093</b> |

## NOTE

35 **TRANSFER OF FINANCIAL ASSETS**

Spar Nord has transferred the following financial assets that continue to be recognised in the balance sheet

|   | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|---|------------------------------------|------------------------------------|--|--|
| <i>Carrying amount of transferred financial assets</i>  |                                    |                                    |  |  |
| Bonds in repo transactions                              | 729                                | 1,403                              | 729  | 1,403  |
| <i>Carrying amount of related financial liabilities</i> |                                    |                                    |  |  |
| Due to credit institutions, repo transactions           | 555                                | 1,400                              | 555  | 1,400  |
| Deposits and other payables, repo transactions          | 175                                | 0                                  | 175  | 0  |
| <b>Total</b>  | <b>730</b>                         | <b>1,400</b>                       | <b>730</b>                                     | <b>1,400</b>                                   |
| <b>Net position</b>                                     | <b>1</b>                           | <b>-4</b>                          | <b>1</b>                                       | <b>-4</b>                                      |

Spar Nord has entered into agreements regarding the sale of securities as genuine sale and repo transactions. When it lends or sells securities subject to a repurchase agreement, Spar Nord receives cash or other financial assets upon the transfer of the securities to the counterparty. The counterparty is entitled to sell or repledge the securities lent or sold according to the repurchase agreements, but the counterparty is obliged to return the securities upon expiry of the contract. If the value of the securities increases or decreases, Spar Nord may make or receive a demand for payment of additional cash collateral in specific circumstances. Spar Nord has decided that it will essentially retain all the risks and benefits attaching to these securities, and therefore it has not ceased recognising them. In addition, Spar Nord recognises a financial liability for the cash received as collateral.

Spar Nord has not entered into agreements regarding the sale of assets where such assets cease to be recognised in the balance sheet, but where the seller has continued involvement after the sale.

36 **COLLATERAL ACCEPTED**

In connection with reverse repo transactions and agreements regarding securities lending, collateral that can be sold or repledged pursuant to the terms of the appropriate agreement is accepted.

|   |        |       |        |       |
|---|--------|-------|--------|-------|
| <i>Reverse repo transactions</i>                  |        |       |        |       |
| Collateral accepted that can be repledged or sold | 10,037 | 7,733 | 10,037 | 7,733 |
| Of which, repledged or sold                       | 1,105  | 2,096 | 1,105  | 2,096 |
| <i>Agreements regarding securities lending</i>    |        |       |        |       |
| Collateral accepted that can be repledged or sold | 15     | 6     | 15     | 6     |
| Of which, repledged or sold                       | 2      | 2     | 2      | 2     |

37 **COLLATERAL PROVIDED AND ENCUMBERED ASSETS**

Collateral provided through clearing systems, with central counterparties and other infrastructure institutions:

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Deposits, clearing   | 105          | 122          | 105          | 122          |
| Collateral provided for the market value of derivatives transactions | 424          | 523          | 424          | 523          |
| Positive market value of derivative contracts subject to netting     | 215          | 250          | 215          | 250          |
| Collateral provided as part of repo transactions                     | 729          | 1,403        | 729          | 1,403        |
| Other collateral provided  | 30           | 44           | 0            | 14           |
| <b>Total</b>   | <b>1,503</b> | <b>2,343</b> | <b>1,473</b> | <b>2,312</b> |

Assets are treated as encumbered if they have been provided as collateral or if they are subject to any agreement to secure, act as collateral for or improve the credit quality of any on- or off-balance-sheet transaction from which they cannot be freely withdrawn. Assets that have been provided as collateral and are subject to restrictions as concerns withdrawal, e.g. assets for which prior approval is required to withdraw or replace them with other assets, are considered to be encumbered.

Assets placed in unutilised facilities and which can be freely withdrawn are not considered to be encumbered.

Securities sold as part of sale and repurchase agreements (repo transactions) remain in the balance sheet. The counterparty is entitled to sell the securities or deposit them as collateral for other loans.

Assets deposited as collateral for own liabilities towards Danmarks Nationalbank (the central bank), Danish and foreign clearing centres and banks with which the Bank has concluded CSA agreements are all based on standard agreements customarily used by financial market participants

## NOTE

## 38 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

## Spar Nord Group

Assets and liabilities are offset when Spar Nord and the counterparty have a legal right to offset, while at the same time having agreed to make a net settlement or realise the asset and redeem the liability at the same time. Positive and negative fair values of derivatives with the same counterparty are offset if the parties have agreed to make a net settlement of the contractual payments, and if cash payment or provision of collateral for changes in the fair value takes place on a daily basis. Master netting agreements and corresponding agreements provide a further right to offset when a counterparty is in default, which additionally reduces the exposure to a counterparty in default, but this does not meet the criteria for offsetting for accounting purposes according to IFRS.

|                              | Gross<br>recognised<br>DKKk | Offset<br>DKKk | Net amount<br>of financial<br>liabilities<br>presented in the<br>balance sheet<br>DKKk | Financial<br>collateral<br>DKKk | Related amounts<br>not offset in the balance sheet |                    |
|------------------------------|-----------------------------|----------------|--|---------------------------------|--|--------------------|
|                              |                             |                |  |                                 | Cash<br>collateral<br>DKKk                         | Net amount<br>DKKk |
| <b>2017</b>                  |                             |                |  |                                 |  |                    |
| <b>Financial assets</b>      |                             |                |  |                                 |  |                    |
| Derivatives                  | 1,125                       | 96             | 1,030  | 215                             | 43   | 771                |
| Reverse repo transactions    | 10,045                      | 0              | 10,045   | 10,037                          | -  | 8                  |
| <b>Total</b>                 | <b>11,170</b>               | <b>96</b>      | <b>11,075</b>  | <b>10,252</b>                   | <b>43</b>  | <b>779</b>         |
| <b>Financial liabilities</b> |                             |                |  |                                 |  |                    |
| Derivatives                  | 1,066                       | 375            | 691  | 215                             | 407  | 68                 |
| Repo transactions            | 730                         | 0              | 730  | 729                             | -  | 1                  |
| <b>Total</b>                 | <b>1,796</b>                | <b>375</b>     | <b>1,421</b>   | <b>944</b>                      | <b>407</b>   | <b>69</b>          |
| <b>2016</b>                  |                             |                |  |                                 |  |                    |
| <b>Financial assets</b>      |                             |                |  |                                 |  |                    |
| Derivatives                  | 1,400                       | 115            | 1,284  | 250                             | 13   | 1,021              |
| Reverse repo transactions    | 7,706                       | 0              | 7,706  | 7,733                           | -  | -26                |
| <b>Total</b>                 | <b>9,106</b>                | <b>115</b>     | <b>8,990</b>   | <b>7,982</b>                    | <b>13</b>  | <b>995</b>         |
| <b>Financial liabilities</b> |                             |                |  |                                 |  |                    |
| Derivatives                  | 1,422                       | 556            | 866  | 250                             | 438  | 177                |
| Repo transactions            | 1,400                       | 0              | 1,400  | 1,403                           | -  | -4                 |
| <b>Total</b>                 | <b>2,821</b>                | <b>556</b>     | <b>2,265</b>   | <b>1,653</b>                    | <b>438</b>   | <b>174</b>         |

In the balance sheet, reverse repo transactions are classified as Due from credit institutions and central banks or as Loans, advances and other receivables at amortised cost.

Repo transactions are classified as Due to credit institutions and central banks or as Deposits and other payables in the balance sheet.

Repo transactions and reverse repo transactions are recognised in the balance sheet on a gross basis; see notes 35 and 36.

NOTE

39

**HEDGE ACCOUNTING****Spar Nord Group**

|   | Carrying amount<br>DKKm | Fair value<br>DKKm | Nominal value<br>DKKm |
|---|-------------------------|--------------------|-----------------------|
| <b>2017</b>                                 |                         |                    |                       |
| <i>Assets</i>                               |                         |                    |                       |
| Loans and advances                          | 77                      | 77                 | 75                    |
| Interest risk-hedging financial instruments |                         |                    |                       |
| Derivatives (swap contracts)                | -2                      | -2                 | 75                    |
| <b>2016</b>                                 |                         |                    |                       |
| <i>Assets</i>                               |                         |                    |                       |
| Loans and advances                          | 80                      | 80                 | 75                    |
| Interest risk-hedging financial instruments |                         |                    |                       |
| Derivatives (swap contracts)                | -5                      | -5                 | 75                    |
| <i>Liabilities</i>                          |                         |                    |                       |
| Subordinated debt                           | 401                     | 404                | 400                   |
| Interest risk-hedging financial instruments |                         |                    |                       |
| Derivatives (swap contracts)                | 4                       | 4                  | 400                   |

The Spar Nord Group hedges the interest-rate risk attaching to selected fixed-interest assets and liabilities.  
The effectiveness of such hedging is measured on a continuing basis.

The table below shows the value adjustment of hedged assets and liabilities  
as well as hedging derivatives recognised under market value adjustments.

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|--|--|
| <i>Hedging of fixed-interest assets</i>      |                                    |                                    |  |  |
| Hedged loans and advances                    | -3                                 | -3                                 | -3   | -3   |
| Hedging derivatives                          | 3                                  | 3                                  | 3  | 3  |
| <b>Impact on profit/loss</b>                 | <b>0</b>                           | <b>0</b>                           | <b>0</b>                                       | <b>0</b>                                       |
| <i>Hedging of fixed-interest liabilities</i> |                                    |                                    |  |  |
| Hedged deposits                              | 0                                  | 2                                  | 0  | 2  |
| Hedging derivatives                          | 0                                  | -2                                 | 0  | -2   |
| <b>Impact on profit/loss</b>                 | <b>0</b>                           | <b>0</b>                           | <b>0</b>                                       | <b>0</b>                                       |

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**CONTINGENT ASSETS**

|                                  |    |   |    |   |
|----------------------------------|----|---|----|---|
| Unrecognised deferred tax assets | 13 | 7 | 11 | 5 |
|----------------------------------|----|---|----|---|

For further information, see note 33.

Spar Nord is party to pending legal proceedings regarding tax and duties. If Spar Nord is successful in these proceedings, it will have a positive profit impact.

## NOTE

## 41 CONTINGENT LIABILITIES

|   | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|---|------------------------------------|------------------------------------|--|--|
| Financial guarantees                    | 4,092                              | 4,000                              | 4,092  | 4,000  |
| Loss guarantees for mortgage loans      | 4,983                              | 4,569                              | 4,983  | 4,569  |
| Registration and refinancing guarantees | 2,011                              | 2,885                              | 2,011  | 2,885  |
| Other contingent liabilities            | 876                                | 881                                | 876  | 881  |
| <b>Total contingent liabilities</b>     | <b>11,961</b>                      | <b>12,334</b>                      | <b>11,961</b>                                  | <b>12,334</b>                                  |

Financial guarantees largely consist of payment guarantees.

Loss guarantees for mortgage loans have been granted for the highest-risk portion of mortgage loans to personal customers and on business properties. The guarantee lies within 80% of the property value for personal customers, and within 60-80% of the value of business properties.

Registration and refinancing guarantees are furnished in connection with Land Registry processing upon the arrangement and refinancing of mortgage loans.

Other contingent liabilities relate mainly to performance bonds and letters of credit.

Reference is made to note 11 regarding the Executive Board's notice of termination and the associated compensation.

Spar Nord is taxed jointly with its Danish subsidiary in the Spar Nord Group. As management company, Spar Nord has unlimited, joint and several liability together with the subsidiary for the Danish corporate income tax payable. Due to the payment of tax on account, no tax was payable at 31.12.17 and 31.12.16. The corporate income tax receivable within the tax pool amounted to DKK 45 million at 31 December 2017 (2016: DKK 18 million). Any adjustments to the taxable income subject to joint taxation might entail an increase in the Parent Company's liability.

Spar Nord has made provisions for a deferred tax liability in respect of recaptured losses related to international joint taxation.

The Bank participates in the national restructuring and resolution scheme, with separate contributions being paid to the Guarantee Fund and the Resolution Fund.

The Guarantee Fund covers depositors' eligible deposits in the Bank under EUR 100,000 (see section 9(1) of the Danish Act on a Depositor and Investor Guarantee Scheme). The Bank made no contributions to the Guarantee Fund in 2017, as the Guarantee Fund's assets exceed its target level of 0.8% of the covered deposits in the sector. The Bank may be required to pay contributions in future if the Guarantee Fund's assets fall below 0.8% of the covered deposits in the sector.

The Resolution Fund covers the costs associated with the possible winding-up of financial institutions under the auspices of Finansielt Stabilitet (the Winding-Up Company). The Bank's contributions to the Resolution Fund are calculated based on the Bank's pro-rata share of the sector's total equity and liabilities less own funds and the deposits covered by the Guarantee Fund, adjusted by a risk factor. The Bank's contribution to the Resolution Fund for 2017 amounted to DKK 8 million (2016: DKK 9 million).

The amount of the contingent liabilities and the possible due dates are subject to uncertainty, for which reason this information has not been disclosed.

## 42 OTHER BINDING COMMITMENTS

|   | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|---|------------------------------------|------------------------------------|--|--|
| Other                                   | 501                                | 501                                | 518  | 530  |
| <b>Other binding commitments, total</b> | <b>501</b>                         | <b>501</b>                         | <b>518</b>                                     | <b>530</b>                                     |

*Other is composed of:*

*Lease obligations, with the Group as lessee*

Spar Nord is the lessee in a number of operating leases. Under such leases, Spar Nord has the right of use of an asset for a specific period of time against lease payments without assuming the significant risks and rewards of ownership of the asset. The leases concern the lease of properties and operating equipment. The leases are not recognised in the balance sheet. The minimum lease payments are broken down by lease term below:

*Operating lease obligations*

|              |            |            |            |            |
|--------------|------------|------------|------------|------------|
| Up to 1 year | 23         | 26         | 30         | 35         |
| 1-5 years    | 55         | 58         | 65         | 78         |
| Over 5 years | 37         | 31         | 37         | 31         |
| <b>Total</b> | <b>115</b> | <b>115</b> | <b>132</b> | <b>144</b> |

Lease payments of DKK 25 million (2016: DKK 27 million) are recognised for the Group under Staff costs and administrative expenses. The Group has not entered into finance leases as a lessee.

*Dataprocessing centre*

Spar Nord has entered into an agreement with BEC a.m.b.a. regarding the provision of IT services.

Spar Nord's membership of BEC a.m.b.a. means that in case of termination of the Bank's membership, it is liable to pay an exit fee. This liability is included under Miscellaneous above. In addition, a capital contribution to BEC a.m.b.a. has been recognised under Other assets.

The Spar Nord Group has no other significant binding agreements.



## NOTE

43 **LEGAL PROCEEDINGS, ETC.**

Spar Nord is party to a number of legal proceedings. The proceedings are assessed regularly and necessary provisions are made based on an assessment of the risk of loss. The pending legal proceedings are not expected to materially affect the Group's financial position.

44 **EARNINGS PER SHARE FOR THE YEAR**

|   | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm |
|---|------------------------------------|------------------------------------|
| The profit/loss of shareholders of the Parent Company, Spar Nord Bank A/S | 940                                | 812                                |
| Tax effect of interest on additional tier 1 (AT1) capital (see note 17)   | 11                                 | 6                                  |
| <b>Total</b>  | <b>951</b>                         | <b>818</b>                         |
| Number of shares, beginning of year                                       | 125,529,918                        | 125,529,918                        |
| Reduction of share capital (Share buyback programme 2016), no.            | 2,527,392                          | -                                  |
| Average number of treasury shares   | 50,996                             | 1,365,368                          |
| <b>Average number of shares in circulation</b>                            | <b>122,951,531</b>                 | <b>124,164,550</b>                 |
| Average dilutive effect of outstanding share options                      | 0                                  | 0                                  |
| <b>Average number of outstanding shares (diluted)</b>                     | <b>122,951,531</b>                 | <b>124,164,550</b>                 |
| Earnings per share for the year (DKK)                                     | 7.7                                | 6.6                                |
| Diluted earnings per share for the year (DKK)                             | 7.7                                | 6.6                                |

The issued share capital is divided into shares in the denomination of DKK 10. The Bank has only one share class.

Earnings per share for the year have been calculated as if the additional tier 1 (AT1) capital were treated as a liability, which means that the calculation of the financial ratio has been based on the shareholders' share of profit and equity. The shareholders' share of profit and equity appears from Capital position.

45 **BUSINESS COMBINATIONS****Acquisition of businesses and customer portfolios**

There were no business combinations in 2017.

**FIH Erhvervsbank**

In January 2016, Spar Nord entered into an agreement with FIH Erhvervsbank A/S regarding the acquisition of 34 business customer exposures with total loans of DKK 526 million, gross guarantees amounting to DKK 319 million, equal to net guarantees of DKK 64 million, and derivatives of DKK 30 million.

The acquisition of the portfolio has been recognised in accordance with the rules stipulated in IAS 39, according to which the loans acquired have been recognised at the agreed acquisition cost, equal to the fair value, which corresponds to an average price of the assets taken over of 100.

## NOTE

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| RELATED PARTIES<br>Spar Nord Group         | Parties with significant influence |              | Associates   |              | Group enterprises |              | Board of Directors |              | Executive Board |              |
|--|------------------------------------|--------------|--------------|--------------|-------------------|--------------|--------------------|--------------|-----------------|--------------|
|  | 2017<br>DKKm                       | 2016<br>DKKm | 2017<br>DKKm | 2016<br>DKKm | 2017<br>DKKm      | 2016<br>DKKm | 2017<br>DKKm       | 2016<br>DKKm | 2017<br>DKKm    | 2016<br>DKKm |
| Loans, advances and loan commitments       | -                                  | -            | 16           | 10           | -                 | -            | 46                 | 31           | 14              | 8            |
| Deposits                                   | 47                                 | 29           | 27           | 105          | -                 | -            | 36                 | 55           | 8               | 6            |
| Guarantees issued                          | -                                  | -            | -            | -            | -                 | -            | 5                  | 3            | -               | 3            |
| Other binding commitments                  | -                                  | -            | -            | -            | -                 | -            | 5                  | 8            | -               | -            |
| Collateral accepted                        | -                                  | -            | -            | -            | -                 | -            | 20                 | 21           | 4               | 8            |
| Interest income                            | -                                  | -            | -            | 1            | -                 | -            | -                  | -            | -               | -            |
| Fees, charges and commissions received     | -                                  | -            | -            | -            | -                 | -            | 1                  | -            | -               | -            |
| Dividends received from equity investments | -                                  | -            | 31           | 38           | -                 | -            | -                  | -            | -               | -            |
| Other income                               | 3                                  | 3            | -            | -            | -                 | -            | -                  | -            | -               | -            |

**Spar Nord Parent Company**

|  |    |    |    |     |       |       |    |    |    |   |
|--|----|----|----|-----|-------|-------|----|----|----|---|
| Loans, advances and loan commitments       | -  | -  | 16 | 10  | -     | -     | 46 | 31 | 14 | 8 |
| Deposits                                   | 47 | 29 | 27 | 105 | 264   | 1.323 | 36 | 55 | 8  | 6 |
| Guarantees issued                          | -  | -  | -  | -   | -     | -     | 5  | 3  | -  | 3 |
| Other binding commitments                  | -  | -  | -  | -   | -     | -     | 5  | 8  | -  | - |
| Collateral accepted                        | -  | -  | -  | -   | 65    | 65    | 20 | 21 | 4  | 8 |
| Interest income                            | -  | -  | -  | 1   | -     | -     | -  | -  | -  | - |
| Interest expenses                          | -  | -  | -  | -   | -     | 20    | -  | -  | -  | - |
| Fees, charges and commissions received     | -  | -  | -  | -   | -     | -     | 1  | -  | -  | - |
| Dividends received from equity investments | -  | -  | 31 | 38  | 1.200 | -     | -  | -  | -  | - |
| Other income                               | 3  | 3  | -  | -   | -     | -     | -  | -  | -  | - |
| Other expenses                             | -  | -  | -  | -   | 6     | 7     | -  | -  | -  | - |

Related parties with significant influence are shareholders with holdings exceeding 20% of Spar Nord Bank A/S, or where significant influence is otherwise considered to exist. Note 23 contains a list of group enterprises.

The Danish companies in the Group are jointly taxed, which means that the Parent Company is liable for the payment of Danish corporate income tax. In 2017, joint tax contributions in the amount of DKK 3 million (2016: DKK 3 million) were transferred between the companies.

In 2017, the interest rate for loans and advances to associates ranged from 4.35–6.00% (2016: 4.35–5.13%). A demand balance exists, and a fixed-term deposit existed in 2016 between Aktieselskabet Skelagervej 15 and the Spar Nord Parent Company, both carrying interest at the market rate.

Commitments and transactions with members of the Board of Directors and Executive Board comprise personal commitments of such parties and of their related parties. Commitments and transactions with retired and new members of the Board of Directors and Executive Board have been recognised up to and including the date of retirement and as from the date of appointment, as the case may be.

| The Group and the Parent Company                                 | Board of Directors |           | Executive Board |           |
|--|--------------------|-----------|-----------------|-----------|
|  | 2017               | 2016      | 2017            | 2016      |
| Loans and advances   | 31                 | 6         | 3               | 2         |
| Unutilised loan and guarantee commitments                        | 15                 | 25        | 10              | 6         |
| Guarantees issued  | 5                  | 3         | 0               | 3         |
| <b>Total loans and advances, loan commitments and guarantees</b> | <b>51</b>          | <b>35</b> | <b>14</b>       | <b>11</b> |
| Interest rate, loans   | 0.65 – 4.75        |           | 1.00 – 2.25     |           |
|  | 0.65 – 8.95        |           | 2.25 – 2.50     |           |

No transactions were concluded during the year with members of the Board of Directors, the Executive Board or executive staff members, other than transactions involving salary, remuneration, etc., securities trading and loans and provision of collateral. More details regarding the remuneration of the Board of Directors, the Executive Board and executive staff members appear from note 11.

Employee-elected Directors are eligible for bank staff loans/credits. Mastercard debit balances are interest free for the Bank's customers, as well as for the Executive Board and Board of Directors.

The respective shareholdings of the Executive Board and the Board of Directors are shown in note 47.

Other related party transactions, including credit facilities, are concluded on an arm's length basis.

Related parties holding at least 5% of the Bank's share capital at end-2017 comprised the Spar Nord Foundation, Aalborg, with a holding of 18.9% (2016: 18.5%) and Nykredit Realkredit A/S, Copenhagen, with a holding of 11.4% (2016: 11.1%)

The figures above do not include any bonds issued by Spar Nord that rank as debt, subordinated debt or additional tier 1 (AT1) capital, as such bonds are bearer securities. In such cases, Spar Nord Bank does not know the identity of the creditors. Spar Nord Bank shares may be registered in the name of the holder.

## NOTE

| 47 | SPAR NORD SHARES HELD BY MEMBERS OF THE MANAGEMENT TEAM *) | 2017<br>No. | 2016<br>No. |
|----|--|-------------|-------------|
|    | <b>Board of Directors</b>                                  |             |             |
|    | Kjeld Johannesen   | 60,000      | 50,000      |
|    | Per Nikolaj Bukh   | 27,200      | 27,200      |
|    | Kaj Christiansen   | 21,100      | 21,100      |
|    | Morten Bach Gaardboe                                       | 3,620       | 3,620       |
|    | Laila Mortensen  | 0           | 0           |
|    | Ole Skov   | 7,533       | 7,054       |
|    | Jannie Skovsen   | 7,770       | 7,404       |
|    | Gitte Holmgaard Sørensen                                   | 1,970       | 2,486       |
|    | John Sørensen  | 5,160       | 5,160       |
|    | <b>Executive Board</b>                                     |             |             |
|    | Lasse Nyby   | 49,100      | 47,784      |
|    | John Lundsgaard  | 71,926      | 71,113      |
|    | Lars Møller  | 67,404      | 65,460      |

\*) The holdings comprise all shares held by all members of the household.

#### 48 EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred after 31 December 2017.

#### 49 INFORMATION ON FAIR VALUE OF FINANCIAL INSTRUMENTS

##### Group

Financial instruments are recognised in the balance sheet either at fair value or amortised cost in accordance with the Group's accounting policies; see note 1.

##### Financial instruments recognised at fair value

The fair value is the amount at which a financial asset can be exchanged between knowledgeable, willing parties in an arm's length transaction. If an active market exists, the market price in the form of a listed price or price quotation is used. If a financial instrument is quoted in a market that is not active, the measurement is based on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance by including transactions in similar instruments that are assumed to be motivated by normal business considerations. For a number of financial assets and liabilities, no effective market exists. In such situations, an estimated value is used instead, taking account of recent transactions in similar instruments, and discounted cash flows or other recognised estimation and valuation techniques based on the market terms existing at the balance sheet date.

The most frequently used valuation models and estimation and valuation techniques include the pricing of transactions for future settlement and swap models that apply present value calculations, credit pricing models as well as option models, such as Black & Scholes models. In most cases, the valuation is largely based on observable input.

Unlisted shares recorded at fair value, see note 21, comprise unlisted shares that are not included in the Group's trading book. These unlisted shares are recognised at fair value, using the Fair Value Option (FVO), and are measured in accordance with provisions in shareholders' agreements and generally accepted valuation methods, etc.

As regards derivative instruments with a positive fair value, the Bank makes a credit valuation adjustment (CVA) to allow for changes in the associated credit risk. The calculation of CVA is based on the customer's PD (Probability of Default), LGD (Loss Given Default) and EPE (Expected Positive Exposure). In the event that the customer has no external rating, the customer's PD is based on the Bank's own credit models. The CVA amounted to DKK 4 million at end-2017 (2016: DKK 10 million).

##### Day-1 gains or losses

When valuing unlisted derivative instruments, the initial customer margin, etc. is amortised over the remaining term to maturity. At the end of 2017, the customer margin, etc. not yet amortised amounted to DKK 72 million (2016: DKK 69 million).

|  | 2017<br>DKKm | 2016<br>DKKm |
|--|--------------|--------------|
| Unamortised customer margin at 1 January           | 69           | 61           |
| Net development in amortisation of customer margin | 3            | 8            |
| <b>Unamortised customer margin at 31 December</b>  | <b>72</b>    | <b>69</b>    |

**Breakdown of financial instruments relative to the fair-value hierarchy classification and carrying amount**

|  | Quoted prices<br>Level 1<br>DKK | Observable prices<br>Level 2<br>DKK | Non-observable prices<br>Level 3<br>DKK | Total<br>DKK  |
|--|---------------------------------|-------------------------------------|---|---------------|
| <b>2017</b>  |                                 |                                     |   |               |
| <i>Financial assets</i>                                  |                                 |                                     |   |               |
| Bonds at fair value                                      | 8,732                           | 2,106                               | 0                                       | 10,838        |
| Shares, etc.   | 197                             | 21                                  | 1,408                                   | 1,626         |
| Assets linked to pooled schemes                          | 10,604                          | 4,508                               | 310                                     | 15,423        |
| Positive fair value of derivative financial instruments  | 0                               | 1,030                               | 0                                       | 1,030         |
| <b>Total financial assets</b>                            | <b>19,534</b>                   | <b>7,663</b>                        | <b>1,719</b>                            | <b>28,916</b> |
| <i>Financial liabilities</i>                             |                                 |                                     |   |               |
| Deposits in pooled schemes                               | 0                               | 15,423                              | 0                                       | 15,423        |
| Other non-derivative financial liabilities at fair value | 476                             | 458                                 | 0                                       | 934           |
| Negative fair value of derivative financial instruments  | 0                               | 691                                 | 0                                       | 691           |
| <b>Total financial liabilities</b>                       | <b>476</b>                      | <b>16,571</b>                       | <b>0</b>                                | <b>17,047</b> |
| <b>2016</b>  |                                 |                                     |   |               |
| <i>Financial assets</i>                                  |                                 |                                     |   |               |
| Bonds at fair value                                      | 12,321                          | 2,615                               | 0                                       | 14,936        |
| Shares, etc.   | 205                             | 1                                   | 1,352                                   | 1,557         |
| Assets linked to pooled schemes                          | 10,663                          | 3,680                               | 199                                     | 14,541        |
| Positive fair value of derivative financial instruments  | 0                               | 1,284                               | 0                                       | 1,284         |
| <b>Total financial assets</b>                            | <b>23,189</b>                   | <b>7,580</b>                        | <b>1,550</b>                            | <b>32,319</b> |
| <i>Financial liabilities</i>                             |                                 |                                     |   |               |
| Deposits in pooled schemes                               | 0                               | 14,541                              | 0                                       | 14,541        |
| Other non-derivative financial liabilities at fair value | 1,327                           | 681                                 | 0                                       | 2,008         |
| Negative fair value of derivative financial instruments  | 0                               | 866                                 | 0                                       | 866           |
| <b>Total financial liabilities</b>                       | <b>1,327</b>                    | <b>16,088</b>                       | <b>0</b>                                | <b>17,415</b> |

Bonds, assets linked to pooled schemes, derivative financial instruments and other non-derivative financial liabilities are valued according to the following principles:

- In case of quoted prices, the fair value is fixed as a quoted price or a price quotation by a recognised exchange or another external party.
- In case of pricing based on observable inputs, the fair value is calculated by means of a market-based yield curve plus/minus a credit spread, which is also calculated based on market prices.
- In case of pricing based on non-observable inputs, the calculation includes inputs based on the Bank's own valuations of individual components, and also market data in some cases.

Shares are valued according to the following principles:

- In case of quoted prices, the fair value is fixed as a price quoted by a recognised exchange or an external party.
  - In case of pricing based on observable inputs, the fair value is calculated based on available prices for shares that are not listed.
  - In case of pricing based on non-observable inputs, the calculation includes shares valued according to generally accepted valuation principles, e.g., the discounting of expected future cash flows, market expectations as to required rate of return on equity and comparable transactions. Shares that are priced on the basis of the prices recommended by Lokale Pengeinstitutter (the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) are included as non-observable inputs.
- The fair values are based on shareholders' agreements for the individual companies and share transactions completed. The fair value is often based on the companies' book equity (intrinsic value), which is used as a basis for the transaction price between shareholders.
- The fair value has been reliably measured for all shares, and accordingly no shares have been recognised at cost.

If an instrument is classified differently at the reporting date as compared to the beginning of the financial year, it is transferred to another category in the valuation hierarchy. Any reclassification is considered to have been made as of the reporting date. No transfers were made in 2017, but in 2016, shares recognised under assets linked to pooled schemes were transferred from a valuation category based on quoted prices (Level 1) to a valuation category based on non-observable inputs (Level 3). The adjustment to fair value is recognised in market value adjustments.

| Level 3  | Fair value based on net asset value (as per shareholders' agreements) 2017 DKK | Other 2017 DKK | Fair value based on net asset value (as per shareholders' agreements) 2016 DKK | Other 2016 DKK |
|--|--|----------------|--|----------------|
| Equities   | 1,063  | 345            | 982  | 370            |
| Assets linked to pooled schemes  | 0  | 310            | 0  | 199            |
| <b>Sensitivities</b>   |  |                |  |                |
| Change in the fair value of shares if the results of the companies change by 10% | 11   | -              | 9  | -              |

A substantial portion of the shares included under "Other" are valued based on future expected cash, market expectations as to the required rate of return on equity and comparable transactions.

For investment and domicile properties measured at fair value, see note 25.

## NOTE

**Financial instruments measured at fair value based on non-observable inputs (Level 3)**

In 2017, the Bank recognised unrealised market value adjustments of DKK 91 million (2016: DKK 65 million) in respect of unlisted shares valued on the basis of unobservable inputs.

|   | 2017<br>DKKm | 2016<br>DKKm |
|---|--------------|--------------|
| Carrying amount at 1 January  | 1,550        | 1,526        |
| Value adjustments through profit or loss  | 136          | 108          |
| Market value adjustments in other comprehensive income                                | 0            | 0            |
| Purchase  | 131          | 38           |
| Sale  | 99           | 320          |
| Transferred to/from Level 3   | 0            | 199          |
| <b>Carrying amount at 31 December</b>   | <b>1,719</b> | <b>1,550</b> |
| Market-value adjustments in the income statement of assets held at the reporting date | 91           | 65           |

Dividends on shares recognised in the income statement are not included in the above statement.

**Financial instruments recognised at amortised cost  
information on fair value**

|  | 2017<br>Carrying<br>amount<br>DKKm | 2017<br>Fair value<br>DKKm | 2016<br>Carrying<br>amount<br>DKKm | 2016<br>Fair value<br>DKKm |
|--|------------------------------------|----------------------------|------------------------------------|----------------------------|
| <i>Financial assets</i>                                    |                                    |                            |                                    |                            |
| Cash balances and demand deposits with central banks *)    | 1,298                              | 1,298                      | 595                                | 595                        |
| Due from credit institutions and central banks *)          | 1,437                              | 1,437                      | 2,179                              | 2,179                      |
| Loans, advances and other receivables at amortised cost *) | 46,747                             | 46,865                     | 41,346                             | 41,446                     |
| <b>Total</b>   | <b>49,483</b>                      | <b>49,600</b>              | <b>44,120</b>                      | <b>44,220</b>              |
| <i>Financial liabilities</i>                               |                                    |                            |                                    |                            |
| Due to credit institutions and central banks *)            | 1,964                              | 1,964                      | 2,430                              | 2,430                      |
| Deposits and other payables *)                             | 48,843                             | 48,842                     | 46,464                             | 46,480                     |
| Subordinated debt *)                                       | 1,144                              | 1,166                      | 1,093                              | 1,139                      |
| <b>Total</b>   | <b>51,951</b>                      | <b>51,972</b>              | <b>49,987</b>                      | <b>50,049</b>              |

\*) Level 3 in the fair value hierarchy

\*\*) Level 1 in the fair value hierarchy amounts to DKK 717 million (2016: DKK 722 million), and Level 3 in the fair value hierarchy amounts to DKK 449 million (2016: DKK 417 million).

The vast majority of amounts due to the Group, loans and advances, and deposits may not be assigned without the prior consent of customers, and an active market does not exist for such financial instruments. Consequently, the Group bases its fair value estimates on data showing changes in market conditions after the initial recognition of the individual instrument that affects the price that would have been fixed if the terms had been agreed at the balance sheet date. Other parties may make other estimates.

The Group discloses information about the fair value of financial instruments recognised at amortised cost on the basis of the following assumptions:

- For a number of the Group's deposits, loans and advances, the interest rate depends on interest developments.
- The fair value of loans and advances is calculated on the basis of a qualified estimate, taking into account that the Bank continuously adapts its loan terms to existing market conditions.
- The fair value of fixed-rate deposits is calculated by using the interest rate for similar deposits, based on an estimated yield curve.
- The fair value of subordinated debt is adjusted for listed debt at the most recent transaction price, while unlisted debt is recorded at an estimated transaction price.

50 **RISK MANAGEMENT**

Spar Nord is exposed to a number of risks in various categories.

The most important categories of risks are as follows:

- Credit risk: The risk of losses because counterparties fail to meet all or part of their payment obligations.
- Market risk: The risk of loss because the fair value of Spar Nord's assets and liabilities varies with changes in market conditions.
- Liquidity risk: The risk of loss because Spar Nord cannot meet its payment obligations via the ordinary liquidity reserves.
- Operational risk: The risk of financial loss owing to deficient or erroneous internal procedures and processes, human or system errors, or losses as a result of external events.

The following notes to the Annual Report contain the quantitative information regarding Spar Nord's credit, market, liquidity and operational risks. For more details, please refer to the unaudited Risk Report at [www.sparnord.com/risk](http://www.sparnord.com/risk).

## NOTE

## 51 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 in financial difficulty, large exposures, concentration risks and risks attaching to granted, unutilised credit lines.

In 2017, Spar Nord made no major changes in assumptions, objectives, policies, exposures and calculation methods, etc. as compared to the year before.

**Credit policy**

Spar Nord's overall credit risk is controlled on the basis of its credit policy, which the Board of Directors determines in conjunction with the general policies and frameworks for 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 Spar Nord's policy that credit must always be granted on the basis of insight into the customer's financial position and that credit quality – the customers' ability and intention 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 jeopardise the Group's reputation and professional profile. In addition, Spar Nord pursues a principle of not granting loans and credit facilities based on collateral alone. Thus, the customer should show the intention and have the ability to repay loans and credit lines without Spar Nord having to realise the collateral.

In its endeavours to ensure sound risk diversification of its credit exposure, Spar Nord has introduced a number of internal targets. In order not to lose its freedom of action towards a customer, Spar Nord generally aims not to increase its exposure towards a customer to such an extent that the customer would not be creditworthy in other banks. Consequently, Spar Nord has introduced a cap on customer exposures of DKK 500 million, of which basically the unsecured share of credit exposure may not exceed DKK 250 million in respect of any facility.

Exposures to financial institutions under supervision and repo and reverse repo transactions are not comprised by this restriction.

In determining the amount of exposure, generally accepted credit risk adjustments are made, as appears from the section regarding Large exposures in the CRR Regulation. The statutory limitations apply to trading partners in the financial sector with an external credit rating at investment grade level, and a DKK 700 million cap has been fixed internally for other trading partners in the financial sector.

Spar Nord has set targets for the industry diversification of the Bank's loans, advances and guarantees, which means that brackets have been fixed for the desired share of total exposure that major lines of industry may represent.

**TARGETS FOR INDUSTRY DIVERSIFICATION**

| %  | Maximum share of total amount <sup>*)</sup> |
|--|---|
| Agricultural sector                                    | 10  |
| Property sector  | 15  |
| of which speculative <sup>**) property financing</sup> | 5   |
| Financing and insurance                                | 10  |
| Industry and raw materials development                 | 10  |
| Trade  | 15  |
| Utilities  | 8   |

<sup>\*)</sup> Excl. reverse repo transactions

<sup>\*\*) CRR 575/2013 Article 4(79)</sup>

**Credit risk management and monitoring**

Although Spar Nord's business model is characterised by decentralised decision-making powers, the credit process is managed centrally.

With respect to new customers, lending authorities are typically half the amounts applicable to existing customers. The powers of authority in the credit area are governed by two factors: The individual local managers' ability and requirements and the wish that a certain share of authorisations from the local banks is to be dealt with by Credit Rating. Decentralised facility authorisation rights are maximised at DKK 10 million for existing customers.

Customer advisers, in consultation with local managers, handle the day-to-day management of Spar Nord'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 or the Board of Directors.

Credit Rating may authorise credit lines up to DKK 50 million for existing customers and DKK 25 million for new customers. The Credit Committee may authorise exposures up to DKK 100 million, and up to DKK 50 million for new facilities. Exposures exceeding DKK 100 million and new exposures exceeding DKK 50 million are subject to approval by the Board of Directors. The Credit Committee may authorise credit facility extensions of up to DKK 50 million relative to the most recent authorisation given by the Board of Directors.

Overall monitoring of Spar Nord'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 portfolio.

All new retail customer exposures in excess of DKK 100,000 and business customer exposures in excess of DKK 300,000 are systematically screened with a view to being selected for a manual credit quality development. The selection is made on the basis of a combination of risk parameters, which combined, or separately, indicate an increased level of risk. New customers with weak credit quality are registered on an ongoing basis.

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

Every month a statistically-based rating of both retail and business customers is performed. This is used at the local level to grant credit facilities. Thus, customers in the rating groups accorded the least risk exposure are more likely to be given higher credit limits or extensions than those with the greatest risk exposure. The systems are also used for managing overdrafts and for pricing purposes to help ensure a correlation between the risk assumed by the customer and the price paid.

No rating models have been developed for leasing arrangements.

Whenever a credit rating is made, it is essential to ensure that the customer can pay interest and repay the debt without collateral having to be realised. Based on this approach, loan and credit facilities are granted primarily on the basis of ability and willingness to pay interest and repay the debt, and secondarily on the basis of the collateral provided. Mortgages on real property, securities and vehicles make up the most common type of collateral.

#### Impairment

Spar Nord has defined a long list of risks that constitute objective evidence of impairment. Some risks are registered automatically in the systems, while others are registered manually by customer advisers and credit staff members.

All significant and credit-flagged exposures are evaluated individually. Credit-flagged exposures of less than DKK 250,000 are automatically reviewed using an algorithm based on the customer's financial key figures and Spar Nord's rating systems. All exposures that have not been impaired on an individual basis are assigned to groups having uniform credit risk exposure. If the review discloses objective evidence of impairment, an impairment loss is recognised. Impairment is calculated as the difference between the expected loss on the exposure at the time of establishment and the present value of expected future losses on the loan. An exposure need not be in default before impairment is recognised and approval procedures regarding any new extension of credit are tightened.

As an important part of its risk management procedures, Spar Nord flags all credit facilities showing any signs of default risk. Steps are taken to normalise or wind up flagged exposures. Exposures are primarily flagged as a result of local initiatives, but action may also be taken at central level. Lists with candidates for flagging are sent to the individual advisers twice a year.

Collective impairment losses are recognised when objective indications show that expected future losses exceed the anticipated loss when the loan was granted. Accordingly, in addition to objective indications for a group, collective impairment losses are basically recognised when customers are transferred to other groups with a higher credit risk exposure.

Interim impairment takes place on all exposures handed over to the Bank's internal debt collection department, but the portion of an exposure covered by sound, easily realisable collateral is not subjected to interim impairment.

Exposures with suspended interest accrual are subjected to particularly critical review, and if a loss is considered unavoidable, the loan is written off, either partly or fully. No interest on the written-down portion of an exposure is taken to income. If more lenient terms are granted to customers in financial difficulty, this will be considered objective evidence of impairment, and it will be determined whether individual impairment is necessary.

For more details, please refer to the unaudited Risk Report at [www.sparnord.com/risk](http://www.sparnord.com/risk).

#### CREDIT EXPOSURE FOR FINANCIAL REPORTING PURPOSES

*The Group's credit exposure for financial reporting purposes is composed of the following balance-sheet items and off-balance-sheet items*

|   | Spar Nord<br>Group<br>31.12.17<br>DKK m | Spar Nord<br>Group<br>31.12.16<br>DKK m |
|---|---|---|
| <b>Credit risk, loans, advances and receivables</b>   |   |   |
| Balance sheet items   |   |   |
| Loans, advances and other receivables at amortised cost                                       | 46,747                                  | 41,346                                  |
| Impairment account for loans, advances and other receivables                                  | 1,575                                   | 1,810                                   |
| Off-balance sheet items   |   |   |
| Guarantees, etc.  | 11,961                                  | 12,334                                  |
| Provisions for guarantees   | 41                                      | 67                                      |
| <b>Total credit exposure for financial reporting purposes, loans, advances and guarantees</b> | <b>60,324</b>                           | <b>55,557</b>                           |
| <b>Financial credit risk</b>  |   |   |
| Bonds at fair value   | 10,838                                  | 14,936                                  |
| Due from credit institutions and central banks  | 1,437                                   | 2,179                                   |
| Positive fair value of derivative instruments, financial enterprises                          | 231                                     | 285                                     |
| <b>Total credit exposure for financial reporting purposes</b>                                 | <b>12,505</b>                           | <b>17,400</b>                           |

**TOTAL GROSS LENDING AND GUARANTEES,  
BY CREDIT QUALITY**

| DKK m              | 2017                      |            |              |               | 2016                      |            |              |               |
|--------------------|---------------------------|------------|--------------|---------------|---------------------------|------------|--------------|---------------|
|                    | Credit quality categories |            |              |               | Credit quality categories |            |              |               |
|                    | 1                         | 2c         | 2b           | 2a/3          | 1                         | 2c         | 2b           | 2a/3          |
| Loans and advances | 4,059                     | 393        | 2,217        | 41,652        | 5,220                     | 616        | 2,885        | 34,434        |
| Guarantees         | 385                       | 30         | 465          | 11,122        | 408                       | 40         | 556          | 11,397        |
| <b>Total</b>       | <b>4,445</b>              | <b>423</b> | <b>2,682</b> | <b>52,774</b> | <b>5,629</b>              | <b>656</b> | <b>3,441</b> | <b>45,831</b> |

The table above shows a breakdown by credit quality using the Danish FSA's credit quality categories. Categories 2a and 3 comprise low-risk customers, categories 2c and 2b comprise heightened-risk customers while customers in financial difficulty are placed in category 1 (OEI).

**Breakdown of Spar Nord's exposures by business area**

Customers are categorised into five groups as part of the ongoing risk monitoring:

- 1) Retail customers – Local banks
- 2) Business customers – Local banks
- 3) Public-sector customers
- 4) Financial customers
- 5) Leasing activities

The Group's total loans, advances and guarantees before offsetting of impairment amounted to DKK 60.3 billion (2016: DKK 55.6 billion). The development is shown in figure 1.

As appears from figure 1, retail customers' exposures increased by DKK 0.8 billion in 2017, or 3.6%. During the same period, the amount of mortgage loans arranged through Totalcredit increased by DKK 2.7 billion. Thus, the overall growth in exposures to retail customers amounted to DKK 3.5 billion in 2017, equal to 4.1%.

Exposures to business customers in Spar Nord's Local Banks fell by DKK 0.2 billion in 2017, breaking down into a DKK 0.2 billion increase in lending and a DKK 0.4 billion decline in guarantees.

The total registered increase in exposures to business customers, incl. leasing, amounted to DKK 1.0 billion, equal to 4.4%.

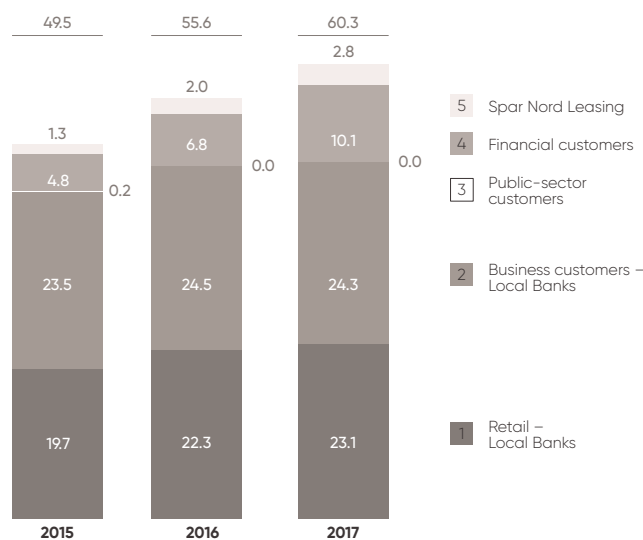
**SPAR NORD'S EXPOSURES BY CATEGORY  
(DKK BN)**


Figure 1



### CLASSIFICATION OF CUSTOMERS

The rating systems are used at the local level to grant credit facilities. Thus, customers in the rating groups accorded the least risk exposure are more likely to be given higher credit limits or extensions than those with the greatest risk exposure. The systems are also used for managing overdrafts and for pricing purposes.

As a component of Spar Nord's credit processing, all non-defaulting customers are risk-classified according to the probability that the individual customer defaults within the next 12 months. Customers are divided into groups 1 to 9, with group 9 containing customers subject to the highest risk. The probability of default is estimated statistically by means of the Bank's rating systems which are based on various models for the different customer segments.

The model applied to business customers employs three components: An accounting component used to risk-classify the customer based on its most recent financial statements. A behavioural component that classifies the customer based on its account behaviour and credit authorisation history. The third component is a cyclical component 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 performance indicators, 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 model exclusively.

New business customers are classified based on the accounting component 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, in which the Spar Nord adviser flags the credit quality as weak if a customer shows 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.

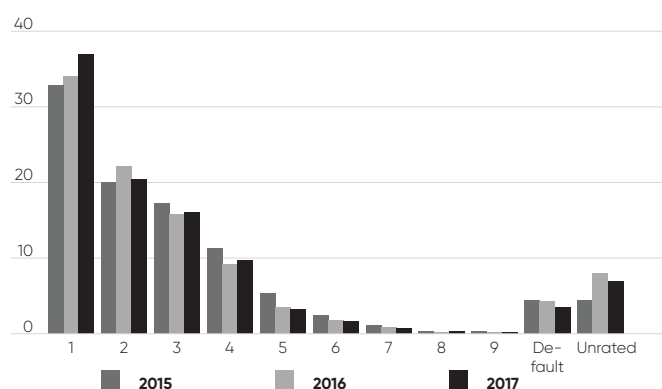
If a retail customer is flagged as having a weak credit quality and is not in default, the customer will be downgraded by one rating group; it should be noted that a customer flagged as having a weak credit quality does not qualify for rating in the best rating groups (1 and 2). Business customers are rated based on two categories, customers flagged as having a weak credit quality and customers not flagged, using two different models. However, both models are based on the same components.

Public-sector customers and financial customers are not subject to risk classification.

New business customers with no available financial statements (primarily newly established companies) are not rated for the first six months. Likewise, some new retail customers will not be subjected to application scoring, and thus not rated, for the first six months.

### EXPOSURES TO RETAIL CUSTOMERS BY RISK GROUP \*)

(%)



\*) Excl. SparXpres.

Figure 2

### AVERAGE RISK GROUP \*)

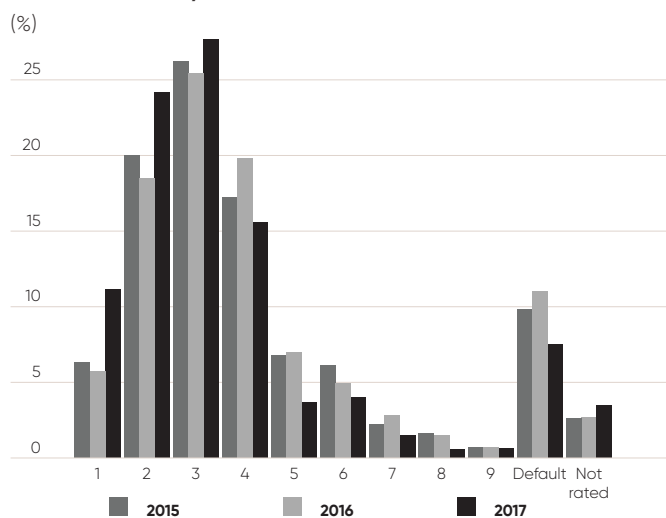
|                    | 2015 | 2016 | 2017 |
|--------------------|------|------|------|
| Average risk group | 2.8  | 2.7  | 2.6  |

\*) Exposures after impairments

Figure 3

As appears from figure 3, the average credit quality of retail customers improved slightly from 2016 to 2017. The average rating has been calculated at 2.6, a minor decline relative to the past two years.

### EXPOSURES TO BUSINESS CUSTOMERS BY RATING GROUPS \*)



\*) Excl. public-sector customers

Figure 4

### AVERAGE RISK GROUP \*)

|                    | 2015 | 2016 | 2017 |
|--------------------|------|------|------|
| Average risk group | 4.0  | 4.1  | 3.4  |

\*) Exposure after impairment and excl. public-sector customers.

Figure 5

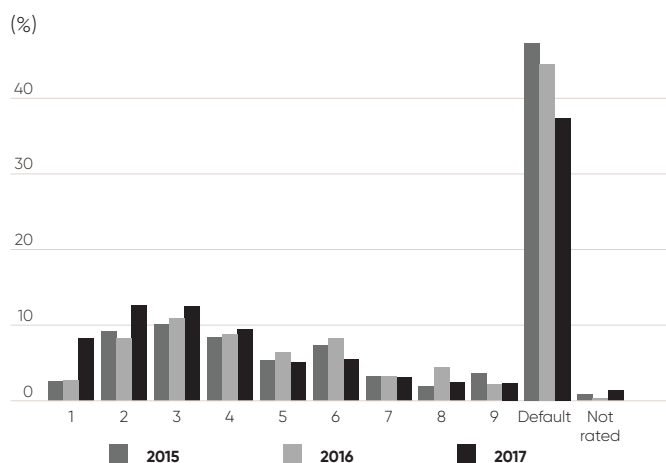
Figure 4 shows developments in business customer ratings. A relatively large improvement was seen in average credit quality in 2017. At end-2017, the average rating group was calculated at 3.4. The improvement was primarily driven by a decline in defaults and an increase in the three best rating groups.

### Agriculture

Loans, advances and guarantees to the agricultural sector totalled DKK 3.1 billion at end-2017, equal to 5.1%. At end-2016, the exposure to the sector was DKK 3.4 billion, equal to 6.1%. Thus, the overall exposure to the agricultural sector was reduced by DKK 0.3 billion from end-2016 to end-2017. This development reflects a decline in lending and a slight increase in guarantees.

Leasing loans amounted to DKK 0.5 billion at end-2017, against DKK 0.4 billion at end-2016.

### AGRICULTURAL EXPOSURE BY RATING GROUP \*)



\*) Excl. leasing

Figure 6

### AVERAGE RISK LEVEL – AGRICULTURE\*)

|                    | 2015 | 2016 | 2017 |
|--------------------|------|------|------|
| Average risk group | 6.6  | 6.3  | 5.6  |

\*) Exposure after impairment

Figure 7

As shown in figure 7, the average credit quality improved in 2017, primarily because of a decline in the default group, while there was also an increase in the best rating groups.

Spar Nord pursues the principle that if agricultural customers fail to deliver positive returns at the breakeven prices fixed by the Bank of DKK 950/kg (without supplementary payment) for pork, and DKK 2.20/kg for milk (without supplementary payment), this is defined as OEI. Breakeven prices are calculated based on financing at a 4% fixed interest rate for all the interest-bearing debt, regardless of the concrete financing chosen. If realistic results cannot be drawn up on these conditions, the exposure will be subjected to an impairment calculation. Spar Nord anticipates that in 2018 the settlement prices for milk will fall slightly compared with the average prices for 2017. Spar Nord expects that pork settlement prices in 2018 will decline noticeably relative to 2017.

Spar Nord's calculation of collateral values of agricultural properties is in accordance with the Danish Financial Supervisory Authority's most recent guidelines, which means that the land values in Spar Nord's primary market area range between DKK 125,000 and DKK 160,000 per hectare. Farm buildings are assessed in relation to their age, condition, etc. Farm buildings are measured at their fair value, which means that obsolete buildings are measured at DKK 0. Other agricultural assets such as livestock, stocks, equipment, etc. are recognised at 80% of their carrying amount. A 5% haircut is applied to all of the above-mentioned values.

Spar Nord's total impairment of agricultural loans amounted to DKK 522 million compared to DKK 755 million at end-2016, equal to 16.9% for 2017 and 22.2% for 2016.

Loan impairments generated an income of DKK 38 million in 2017 (2016: expense of DKK 121 million), while an amount of DKK 218 million (2016: DKK 226 million) was recognised as a loss.

The agricultural sector has been operating under harsh conditions in recent years, which has necessitated major loan impairment charges. The sector was still expected to face major debt repayment problems at end-2017. However, future settlement prices are of course very important in this regard. At the threshold to 2018, the outlook for Danish pork producers is somewhat dismal with current settlement prices somewhat below the level of 2017, and the forecast for 2018 shows that prices will be slightly lower than they were in 2017.

Despite the decent increase in settlement prices, it will still be necessary to wind up a number of agricultural holdings that have severe problems in coping with either low efficiency or high debt.

Overall, the portfolio of agricultural customers is still considered to be spread satisfactorily across production lines.

## AGRICULTURAL EXPOSURES BY PRODUCTION LINE

| DKK/m             | 2017                              |                      |                   |                | 2016                              |                      |                   |                |
|-------------------|-----------------------------------|----------------------|-------------------|----------------|-----------------------------------|----------------------|-------------------|----------------|
|                   | Loans and advances and guarantees | Non-performing loans | Of which impaired | Share impaired | Loans and advances and guarantees | Non-performing loans | Of which impaired | Share impaired |
| Cattle producers  | 875                               | 45                   | 526               | 60.1           | 1,113                             | 60                   | 685               | 61.6           |
| Pig producers     | 595                               | 7                    | 264               | 44.3           | 799                               | 60                   | 414               | 51.8           |
| Plant cultivation | 738                               | 4                    | 57                | 7.7            | 685                               | 8                    | 103               | 15.0           |
| Mink farmers      | 106                               | 0                    | 41                | 38.6           | 114                               | 3                    | 41                | 36.3           |
| Leasing           | 452                               | 0                    | 24                | 5.2            | 361                               | 1                    | 17                | 4.6            |
| Miscellaneous     | 330                               | 3                    | 8                 | 2.4            | 322                               | 0                    | 21                | 6.4            |
| <b>Total</b>      | <b>3,096</b>                      | <b>59</b>            | <b>919</b>        | <b>29.7</b>    | <b>3,394</b>                      | <b>132</b>           | <b>1,280</b>      | <b>37.7</b>    |

## AGRICULTURAL IMPAIRMENT BY PRODUCTION LINE

| DKK/m/%           | 2017               |            |                         |                              |                     | 2016               |            |                         |                              |                     |
|-------------------|--------------------|------------|-------------------------|------------------------------|---------------------|--------------------|------------|-------------------------|------------------------------|---------------------|
|                   | Impairment account | Impaired   | Impairment for the year | Impairment ratio of exposure | Percentage impaired | Impairment account | Impaired   | Impairment for the year | Impairment ratio of exposure | Percentage impaired |
| Cattle producers  | 326                | 88         | -26                     | 37.3                         | 62.0                | 425                | 84         | 103                     | 38.2                         | 62.1                |
| Pig producers     | 145                | 88         | -23                     | 24.4                         | 54.9                | 248                | 120        | 0                       | 31.0                         | 59.9                |
| Plant cultivation | 27                 | 30         | 9                       | 3.7                          | 47.6                | 50                 | 18         | 7                       | 7.3                          | 48.7                |
| Mink farmers      | 15                 | 2          | 1                       | 13.9                         | 36.0                | 16                 | 1          | 11                      | 14.0                         | 38.6                |
| Leasing           | 4                  | 1          | 2                       | 0.9                          | 17.7                | 2                  | 3          | 0                       | 0.5                          | 11.7                |
| Miscellaneous     | 5                  | 9          | -1                      | 1.6                          | 68.8                | 14                 | 0          | 2                       | 4.4                          | 68.4                |
| <b>Total</b>      | <b>522</b>         | <b>218</b> | <b>-38</b>              | <b>16.9</b>                  | <b>56.8</b>         | <b>755</b>         | <b>226</b> | <b>121</b>              | <b>22.2</b>                  | <b>59.0</b>         |

Figure 8

**Concentration risk**

Exposure to individual customers or a group of related customers, after adjusting for the impact of credit risk reduction and exceptions, etc., may not exceed 25% of the adjusted own funds according to CRR. Based on the Danish FSA's Diamond Test Model, the sum total of exposures amounting to 10% or more of the adjusted own funds may not exceed 125% of own funds. However, this calculation may exclude exposures to financial institutions that do not exceed EUR 150 million after adjustments.

Spar Nord reports Large exposures to the Danish FSA and the EBA on a quarterly basis to comply with these rules.

Spar Nord has internally introduced a more conservative cap on exposures of DKK 500 million with a maximum unsecured share of DKK 250 million. Exposures to trading partners in the financial sector and repo transactions and reverse repo transactions are not included for the purpose of calculating the Group's cap of DKK 500 million.

The Spar Nord Group has not had exposures to non-financial businesses or groups that exceed these limits.

The table below shows credit exposures to groups totalling 10% or more of adjusted own funds calculated according to CRR, adjusted for the impact of credit reduction and exceptions, etc.

| Credit exposure *)<br>Spar Nord Group                                 | 2017<br>Number      | 2017<br>DKKm | 2017<br>% | 2016<br>Number      | 2016<br>DKKm | 2016<br>% |
|---|---------------------|--------------|-----------|---------------------|--------------|-----------|
| DKKm  | Number<br>of groups | Exposure     | Exposure  | Number<br>of groups | Exposure     | Exposure  |
| Exposures > 10 % of adjusted own funds<br>calculated according to CRR | 1                   | 1,554        | 17.2      | 1                   | 1,221        | 14.5      |

\*) Total exposure has been calculated in accordance with the Danish FSA's guidelines on the reporting of financial statements.

Exposures > 10% consist of exposures to trading partners in the financial sector.

In relation to the benchmark for large exposures in the Financial Supervisory Authority's Diamond Test Model, which may not exceed 175% of the institution's common equity tier 1 (CET1) capital, Spar Nord's large exposures amounted to 76.2% at end-2017 (2016: 73.5%)

**LOANS, ADVANCES AND GUARANTEES BROKEN DOWN  
BY EXPOSURE \*)**

| DKKm         | Number<br>2017 | Number<br>2016 | Share<br>in %<br>2017 | Share<br>in %<br>2016 |
|--------------|----------------|----------------|-----------------------|-----------------------|
| 0 - 0.1      | 51,286         | 50,124         | 1.2                   | 1.3                   |
| 0.1 - 0.5    | 35,594         | 34,992         | 11.2                  | 11.2                  |
| 0.5 - 1.0    | 13,334         | 12,445         | 12.6                  | 11.9                  |
| 1.0 - 5.0    | 8,033          | 8,017          | 25.0                  | 26.4                  |
| 5.0 - 10.0   | 913            | 891            | 9.6                   | 9.5                   |
| 10.0 - 20.0  | 414            | 388            | 8.9                   | 8.7                   |
| 20.0 - 50.0  | 227            | 248            | 10.8                  | 12.1                  |
| 50.0 - 100.0 | 78             | 66             | 8.4                   | 7.2                   |
| 100.0 -      | 48             | 47             | 12.3                  | 11.7                  |
| <b>Total</b> | <b>109,927</b> | <b>107,218</b> | <b>100.0</b>          | <b>100.0</b>          |

\*) Excl. reverse repo transactions and SparXpres

Figure 9

A breakdown by exposure size shows that Spar Nord's portfolio of loans, advances and guarantees is well-diversified, as 59.6% (2016: 60.3%) is attributable to exposures of less than DKK 10 million, and as the Group only has 48 exposures (2016: 47) of more than DKK 100 million.

**COLLATERAL ACCEPTED**

Spar Nord wants to reduce the risk attaching to individual exposures by accepting collateral such as mortgages and charges over physical assets, securities and guarantees, etc. whenever possible. Mortgages on real property are by far the most important collateral type provided to Spar Nord. Mortgages on real property consist mainly of mortgages on private housing.

**MORTGAGES BROKEN DOWN BY PROPERTY TYPE**

|                        | <b>2017</b>   | <b>2017</b>       | <b>2016</b>   | <b>2016</b>       |
|------------------------|---------------|-------------------|---------------|-------------------|
|                        | <b>DKKmn</b>  | <b>Share in %</b> | <b>DKKmn</b>  | <b>Share in %</b> |
| Private housing        | 14,014        | 56.8              | 12,913        | 55.4              |
| Holiday homes          | 980           | 4.0               | 953           | 4.1               |
| Offices and businesses | 3,618         | 14.7              | 3,757         | 16.1              |
| Agriculture            | 2,353         | 9.5               | 2,434         | 10.4              |
| Other                  | 3,710         | 15.0              | 3,253         | 14.0              |
| <b>Total</b>           | <b>24,675</b> | <b>100.0</b>      | <b>23,311</b> | <b>100.0</b>      |

Figure 10

**GEOGRAPHICAL BREAKDOWN OF MORTGAGES**

|                          | <b>2017</b>       | <b>2016</b>       |
|--------------------------|-------------------|-------------------|
|                          | <b>Share in %</b> | <b>Share in %</b> |
| The Capital Region       | 15.8              | 14.4              |
| Central Jutland Region   | 20.2              | 20.5              |
| Northern Jutland region  | 38.3              | 40.1              |
| Zealand region           | 11.3              | 9.5               |
| Southern Denmark region  | 12.8              | 11.9              |
| International activities | 1.6               | 3.6               |
| <b>Total</b>             | <b>100.0</b>      | <b>100.0</b>      |

Figure 11

Spar Nord monitors the value of collateral provided on an ongoing basis. If the risk exposure to a counterparty increases, the collateral is subjected to a particularly critical review. 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.

Spar Nord's evaluation of mortgages on rental properties is based on the capacity of the properties to generate a return. Various requirements are made with regard to the rate of return, depending on the use of the property, the condition of the buildings and the physical location in Denmark. Residential rental property is valued on the basis of a required rate of return in the 4.25-10.0% range (2016: 4.5% to 10.0% range).

### THE GROUP'S UNSECURED SHARE OF CREDIT EXPOSURE

|                                | Spar Nord<br>Group<br>2017 | Spar Nord<br>Group<br>2016 |
|--------------------------------|----------------------------|----------------------------|
| <b>Unsecured share, %</b>      |                            |                            |
| < 10                           | 47.8                       | 43.8                       |
| 10 – 50                        | 18.9                       | 20.8                       |
| 50 – 75                        | 8.8                        | 9.4                        |
| > 75                           | 24.4                       | 26.0                       |
| <b>Average unsecured share</b> | <b>34.9</b>                | <b>37.2</b>                |

The decline in the unsecured share of credit exposure is primarily attributable to a major increase in reverse repo transactions (lending) of DKK 3.2 billion, which exclusively reduces the unsecured share by 2.0 percentage points.

### THE GROUP'S UNSECURED SHARE OF CREDIT EXPOSURE

| Industry                              | 2017          |             | 2016          |             |
|---------------------------------------|---------------|-------------|---------------|-------------|
|                                       | DKKm          | %           | DKKm          | %           |
| Public authorities                    | 9             | 98.8        | 37            | 99.6        |
| Agriculture, hunting and forestry     | 873           | 28.2        | 1,142         | 33.6        |
| Fisheries                             | 32            | 28.8        | 46            | 43.3        |
| Industry and raw materials extraction | 819           | 30.6        | 908           | 34.3        |
| Utilities                             | 499           | 30.4        | 536           | 30.7        |
| Construction and engineering          | 647           | 26.3        | 709           | 36.8        |
| Trade                                 | 1,586         | 43.0        | 1,847         | 47.9        |
| Transport, hotels and restaurants     | 431           | 22.4        | 488           | 29.1        |
| Information and communication         | 94            | 46.8        | 92            | 47.1        |
| Financing and insurance               | 2,214         | 17.4        | 1,764         | 19.6        |
| Real property                         | 2,390         | 41.9        | 2,386         | 39.7        |
| Other industries                      | 1,338         | 45.3        | 1,184         | 44.8        |
| <b>Total business customers</b>       | <b>10,932</b> | <b>29.4</b> | <b>11,139</b> | <b>33.5</b> |
| <b>Total retail customers</b>         | <b>10,150</b> | <b>43.9</b> | <b>9,508</b>  | <b>42.6</b> |
| <b>Total</b>                          | <b>21,082</b> | <b>34.9</b> | <b>20,647</b> | <b>37.2</b> |

Figure 12

In the event that Spar Nord calls up collateral that cannot easily be converted to cash, Spar Nord pursues the policy of attempting to dispose of such assets as soon as possible.

In 2017, the Group repossessed equipment and took over properties worth DKK 5 million (2016: DKK 24 million) in connection with non-performing loans.

The leased assets are valued and depreciated on an ongoing basis. Thus, in periods of declining prices for leased assets, the collateral calculated for the Bank's leasing activities is reduced.

### SPAR NORD GROUP COLLATERAL AND CATEGORY

|   | 2017<br>DKKm  | 2016<br>DKKm  |
|---|---------------|---------------|
| <b>Collateral accepted</b>  |               |               |
| Credit exposure, carrying amount  | 60,324        | 55,557        |
| Value of collateral   | 39,243        | 34,910        |
| <b>Unsecured, total</b>   | <b>21,082</b> | <b>20,647</b> |
| <b>Types of collateral</b>  |               |               |
| Real property   | 14,970        | 14,246        |
| Custody accounts/securities   | 10,823        | 7,319         |
| Guarantees/sureties   | 494           | 487           |
| Vehicles  | 656           | 656           |
| Cash  | 441           | 508           |
| Other collateral  | 4,449         | 4,093         |
| <b>Collateral used, total</b>   | <b>31,833</b> | <b>27,308</b> |
| Specially secured transactions (mortgage credit institution guarantees) | 5,077         | 5,927         |
| <b>Total collateral accepted, excl. Spar Nord Leasing</b>               | <b>36,910</b> | <b>33,235</b> |
| Collateral accepted, leasing activities                                 | 2,333         | 1,675         |
| <b>Total</b>  | <b>39,243</b> | <b>34,910</b> |

Figure 13

The property value under mortgages broken down by property type is calculated at DKK 24.7 billion (2016: DKK 23.3 billion), while only DKK 15.0 billion (2016: DKK 14.2 billion) is recorded as security on properties in the table above. This is because the DKK 24.7 billion (2016: DKK 23.3 billion) represents the amount mortgaged to Spar Nord and recorded as collateral provided, while the DKK 15.0 billion (2016: DKK 14.2 billion) is the share actually used for calculating collateral regarding a specific exposure. Some exposures are smaller than the collateral value, and collateral has also been provided by customers who do not currently have loans and credit facilities.

**Impairment account**

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|--|--|
| <i>Individual loan impairment charges</i>  |                                    |                                    |  |  |
| Individual impairment charges, beginning of period   | 1,686                              | 1,646                              | 1,686  | 1,646  |
| New individual impairment charges  | 310                                | 601                                | 310  | 601  |
| Reversal of individual impairment charges  | 326                                | 319                                | 326  | 319  |
| Previously impaired, now finally lost  | 383                                | 304                                | 383  | 304  |
| Other movements  | 36                                 | 63                                 | 36   | 63   |
| <b>Individual impairment, end of period</b>  | <b>1,323</b>                       | <b>1,686</b>                       | <b>1,323</b>                                   | <b>1,686</b>                                   |
| <i>Collective loan impairment charges</i>  |                                    |                                    |  |  |
| Collective impairment charges, beginning of period   | 124                                | 138                                | 124  | 138  |
| New collective impairment charges  | 128                                | 0                                  | 128  | 0  |
| Reversal of collective impairment charges  | 9                                  | 15                                 | 9  | 15   |
| Other movements  | 9                                  | 1                                  | 9  | 1  |
| <b>Collective impairment, end of period</b>  | <b>251</b>                         | <b>124</b>                         | <b>251</b>                                     | <b>124</b>                                     |
| <i>Total loan impairment charges, etc.</i>   |                                    |                                    |  |  |
| Impairment, beginning of year  | 1,810                              | 1,783                              | 1,810  | 1,783  |
| New impairment charges   | 438                                | 601                                | 438  | 601  |
| Reversed impairment charges  | 334                                | 334                                | 334  | 334  |
| Previously impaired, now finally lost  | 383                                | 304                                | 383  | 304  |
| Other movements  | 44                                 | 64                                 | 44   | 64   |
| <b>Impairment, end of period</b>   | <b>1,575</b>                       | <b>1,810</b>                       | <b>1,575</b>                                   | <b>1,810</b>                                   |
| <i>Impairment recognised in the income statement</i>   |                                    |                                    |  |  |
| New impairment charges   | 438                                | 601                                | 438  | 601  |
| Reversed impairment charges  | 334                                | 334                                | 334  | 334  |
| Loss without prior impairment  | 96                                 | 114                                | 96   | 114  |
| Amounts recovered on previously impaired receivables   | 167                                | 116                                | 167  | 116  |
| <b>Recognised in the income statement</b>  | <b>33</b>                          | <b>265</b>                         | <b>33</b>                                      | <b>265</b>                                     |
| <i>Provision for losses on guarantees</i>  |                                    |                                    |  |  |
| Provisions, beginning of period  | 67                                 | 43                                 | 67   | 43   |
| New provisions   | 19                                 | 46                                 | 19   | 46   |
| Reversed provisions  | 45                                 | 22                                 | 45   | 22   |
| <b>Provisions for losses on guarantees, end of period</b>  | <b>41</b>                          | <b>67</b>                          | <b>41</b>                                      | <b>67</b>                                      |
| <i>Provisions for losses on guarantees recognised in the income statement</i>  |                                    |                                    |  |  |
| New provisions   | 19                                 | 46                                 | 19   | 46   |
| Reversed provisions  | 45                                 | 22                                 | 45   | 22   |
| <b>Recognised in the income statement</b>  | <b>-26</b>                         | <b>24</b>                          | <b>-26</b>                                     | <b>24</b>                                      |
| <b>Impairment account for loans, advances and provisions on guarantees, total</b>  | <b>1,616</b>                       | <b>1,877</b>                       | <b>1,616</b>                                   | <b>1,877</b>                                   |
| <i>Impairment, other credit risks</i>  |                                    |                                    |  |  |
| Impairment, other credit risks, beginning of year  | 14                                 | 11                                 | 14   | 11   |
| New impairment charges   | 0                                  | 4                                  | 0  | 4  |
| Reversed impairment charges  | 14                                 | 1                                  | 14   | 1  |
| Other movements  | 0                                  | 1                                  | 0  | 1  |
| <b>Impairment, other credit risks, total</b>   | <b>0</b>                           | <b>14</b>                          | <b>0</b>                                       | <b>14</b>                                      |
| <b>Impairment account for loans, advances, provisions on guarantees and other credit risks, total</b>                              | <b>1,616</b>                       | <b>1,891</b>                       | <b>1,616</b>                                   | <b>1,891</b>                                   |
| <b>Loan impairment charges etc.</b>  |                                    |                                    |  |  |
| <i>The total recognition in the income statement under impairment of loans and receivables etc. can be broken down as follows:</i> |                                    |                                    |  |  |
| Impairment of loans, advances and receivables  | 33                                 | 265                                | 33   | 265  |
| Provision for losses on guarantees   | -26                                | 24                                 | -26  | 24   |
| Impairment, credit institutions  | -14                                | 3                                  | -14  | 3  |
| <b>Total impairment of loans and receivables etc.</b>  | <b>-7</b>                          | <b>292</b>                         | <b>-7</b>                                      | <b>292</b>                                     |
| <b>Loans with suspended interest payments</b>  | <b>143</b>                         | <b>177</b>                         | <b>143</b>                                     | <b>177</b>                                     |
| <i>Interest on impaired receivables is calculated on the impaired balance only.</i>  |                                    |                                    |  |  |
| <b>Interest accrued on loans subject to impairment charges</b>   | <b>44</b>                          | <b>65</b>                          | <b>44</b>                                      | <b>65</b>                                      |

| Exposures and impairment<br>by industry        | 2017                              |              |                     |              | 2016                              |              |                     |              |
|--|-----------------------------------|--------------|---------------------|--------------|-----------------------------------|--------------|---------------------|--------------|
|  | Loans, advances<br>and guarantees |              | Total<br>impairment |              | Loans, advances<br>and guarantees |              | Total<br>impairment |              |
|  | DKKm                              | %            | DKKm                | %            | DKKm                              | %            | DKKm                | %            |
| <i>Industry</i>                                |                                   |              |                     |              |                                   |              |                     |              |
| Public authorities                             | 9                                 | 0.0          | 0                   | 0.0          | 37                                | 0.1          | 0                   | 0.0          |
| Agriculture, hunting, forestry and fisheries   | 3,209                             | 5.3          | 522                 | 32.3         | 3,501                             | 6.3          | 757                 | 40.3         |
| Industry and raw materials extraction          | 2,679                             | 4.5          | 65                  | 4.1          | 2,646                             | 4.8          | 46                  | 2.5          |
| Utilities                                      | 1,642                             | 2.7          | 17                  | 1.1          | 1,746                             | 3.1          | 28                  | 1.5          |
| Construction and engineering                   | 2,463                             | 4.1          | 64                  | 4.0          | 1,925                             | 3.5          | 57                  | 3.0          |
| Trade  | 3,682                             | 6.1          | 51                  | 3.1          | 3,857                             | 6.9          | 83                  | 4.4          |
| Transport, hotels and restaurants              | 1,920                             | 3.2          | 95                  | 5.9          | 1,673                             | 3.0          | 63                  | 3.4          |
| Information and communication                  | 200                               | 0.3          | 2                   | 0.1          | 195                               | 0.3          | 6                   | 0.3          |
| Financing and insurance                        | 12,735                            | 21.1         | 85                  | 5.3          | 8,996                             | 16.2         | 98                  | 5.2          |
| Real property                                  | 5,703                             | 9.5          | 203                 | 12.5         | 6,008                             | 10.8         | 278                 | 14.8         |
| Other industries                               | 2,951                             | 4.9          | 89                  | 5.5          | 2,643                             | 4.8          | 83                  | 4.4          |
| <b>Total business customers</b>                | <b>37,194</b>                     | <b>61.7</b>  | <b>1,194</b>        | <b>73.9</b>  | <b>33,226</b>                     | <b>59.8</b>  | <b>1,498</b>        | <b>79.8</b>  |
| <b>Total retail customers</b>                  | <b>23,130</b>                     | <b>38.3</b>  | <b>422</b>          | <b>26.1</b>  | <b>22,330</b>                     | <b>40.2</b>  | <b>379</b>          | <b>20.2</b>  |
| <b>Total loans and guarantees</b>              | <b>60,324</b>                     | <b>100.0</b> | <b>1,616</b>        | <b>100.0</b> | <b>55,557</b>                     | <b>100.0</b> | <b>1,877</b>        | <b>100.0</b> |
| <i>Of which, collective impairment charges</i> |                                   |              |                     |              |                                   |              |                     |              |
| Retail customers                               |                                   |              | 91                  | 36.3         |                                   |              | 22                  | 17.2         |
| Industry                                       |                                   |              | 160                 | 63.7         |                                   |              | 102                 | 82.8         |
| <b>Collective impairment charges</b>           |                                   |              | <b>251</b>          | <b>100.0</b> |                                   |              | <b>124</b>          | <b>100.0</b> |

In connection with Spar Nord's ongoing credit risk management, collective impairment charges are not allocated to various industries but instead recognised as a combined item, broken down by retail and business customers, as collective impairment charges have been calculated based on rating models

#### Individually impaired loans, etc.

|  |                      |                      |
|--|----------------------|----------------------|
| The Spar Nord Group/Spar Nord Parent Company   | <b>2017<br/>DKKm</b> | <b>2016<br/>DKKm</b> |
| <i>Loans, advances and receivables</i>   |                      |                      |
| Sum total of loans, advances and receivables for which individual impairment has been recognised | 2,912                | 3,740                |
| Impairment of loans, advances and receivables  | 1,323                | 1,686                |
| <b>Carrying amount of loans, advances and receivables</b>  | <b>1,588</b>         | <b>2,054</b>         |
| <i>Guarantees</i>  |                      |                      |
| Sum total of guarantees for which individual provisions have been made                           | 218                  | 248                  |
| Provisions for guarantees  | 41                   | 67                   |
| <b>Carrying amount of guarantees</b>   | <b>177</b>           | <b>181</b>           |

#### Impairment account for individual impairment shown by cause of impairment

|   | 2017   |                    | 2016   |                    |
|---|--|--------------------|--|--------------------|
|   | Credit exposure<br>before impairment<br>DKKm | Impairment<br>DKKm | Credit exposure<br>before impairment<br>DKKm | Impairment<br>DKKm |
| <i>Individual impairment of loans and advances, receivables<br/>and guarantees</i>        |  |                    |  |                    |
| Insolvent liquidation and bankruptcy  | 38   | 32                 | 199  | 142                |
| Collection or suspension of payments  | 100  | 44                 | 187  | 123                |
| Other financial difficulty  | 2,991  | 1,288              | 3,602  | 1,488              |
| <b>Individual impairment of loans and advances, receivables<br/>and guarantees, total</b> | <b>3,130</b>                                 | <b>1,365</b>       | <b>3,988</b>                                 | <b>1,753</b>       |

Virtually all cases of insolvent liquidation and bankruptcy are attributable to business facilities.

The collateral for individually impaired loans and for overdue loans that have not been individually impaired does not differ significantly from Spar Nord's other collateral.



**FORBEARANCE**

A loan facility is defined as being subject to forbearance if the conditions regarding interest payments and/or repayments have been relaxed on account of the borrower's financial difficulty or if the loan has been refinanced on more lenient terms.

At Spar Nord, forbearance is considered objective evidence of impairment (OEI), and the terms are deemed to have been relaxed if business customers with OEI are granted an interest rate of less than 3%. For retail customers, the terms are considered to have been relaxed if they are granted an interest rate of less than 3.5%. Moreover, repayment terms for retail customers that lead to terms to maturity exceeding 20 years are considered relaxed terms. The terms of a home loan will typically have been fixed prior to any OEI and will therefore not be included for the purpose of identifying facilities with relaxed terms, regardless of whether the above criteria have been met.

**Non-performing loans (NPL)**

Non-performing loans (NPL) are defined as the category of exposures that are in default (in terms of the Basel criteria) and/or impaired, i.e. exposures towards customers whose balances have been written off, written down or are past due by 90 days.

Figure 14 shows a breakdown of loans and advances for which the terms have been relaxed.

| Loans and advances subject to forbearance<br>(DKKm) | 2017               |                        |                  |              |
|---|--------------------|------------------------|------------------|--------------|
|   | Business customers | Agricultural customers | Retail customers | Total        |
| Non-Performing                                      | 555                | 565                    | 215              | 1,335        |
| Performing  | 48                 | 5                      | 11               | 63           |
| <b>Total</b>  | <b>603</b>         | <b>570</b>             | <b>226</b>       | <b>1,398</b> |

| Loans and advances subject to forbearance<br>(DKKm) | 2016               |                        |                  |              |
|---|--------------------|------------------------|------------------|--------------|
|   | Business customers | Agricultural customers | Retail customers | Total        |
| Non-Performing                                      | 591                | 617                    | 187              | 1,394        |
| Performing  | 85                 | 5                      | 22               | 112          |
| <b>Total</b>  | <b>676</b>         | <b>622</b>             | <b>209</b>       | <b>1,507</b> |

Figure 14

**Claims due, but not impaired  
Group**

| DKKm         | 2017<br>In<br>default | 2017<br>Collateral | 2016<br>In<br>default | 2016<br>Collateral |
|--------------|-----------------------|--------------------|-----------------------|--------------------|
|              |                       |                    |                       |                    |
| 0 - 30 days  | 197                   | 167                | 121                   | 116                |
| 31 - 60 days | 7                     | 7                  | 6                     | 6                  |
| 61 - 90 days | 2                     | 2                  | 2                     | 2                  |
| > 90 days    | 4                     | 3                  | 9                     | 8                  |
| <b>Total</b> | <b>210</b>            | <b>179</b>         | <b>137</b>            | <b>132</b>         |

Figure 15

Collateral amounts are calculated on the basis of the Bank's collateral registration system. The collateral registration is based on a prudent valuation of all pledged/mortgaged assets.

**EXPOSURES NEITHER DUE NOR IMPAIRED,  
BY CREDIT QUALITY \*)**

| DKKm               | 2017                      |            |              |               | 2016                      |            |              |               |
|--------------------|---------------------------|------------|--------------|---------------|---------------------------|------------|--------------|---------------|
|                    | Credit quality categories |            |              |               | Credit quality categories |            |              |               |
|                    | 1                         | 2c         | 2b           | 2a/3          | 1                         | 2c         | 2b           | 2a/3          |
| Loans and advances | 1,135                     | 388        | 2,202        | 41,476        | 1,469                     | 609        | 2,863        | 34,338        |
| Guarantees         | 167                       | 30         | 465          | 11,122        | 160                       | 40         | 556          | 11,397        |
| <b>Total</b>       | <b>1,302</b>              | <b>418</b> | <b>2,667</b> | <b>52,598</b> | <b>1,629</b>              | <b>649</b> | <b>3,419</b> | <b>45,734</b> |

\*) Danish FSA's credit quality categories

**UNAUTHORISED OVERDRAFTS**

Developments in unauthorised overdrafts are monitored on an ongoing basis at the Bank. The development is shown in figures 16 and 17 below, which include a trendline for developments from month to month in the past two years. Retail customers' unauthorised overdrafts remained at a stable low level of less than 0.6% during the year. The unauthorised overdrafts of business customers, excl. agricultural customers, also remained at a low level throughout the period, averaging about 0.3% of the loans and advances granted by Spar Nord's Local Banks. This is considered satisfactory.

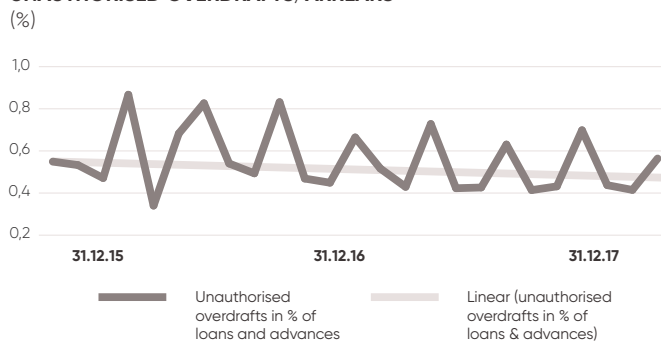
**RETAIL CUSTOMERS - LOCAL BANKS - DEVELOPMENT IN UNAUTHORISED OVERDRAFTS/ARREARS**

Figure 16

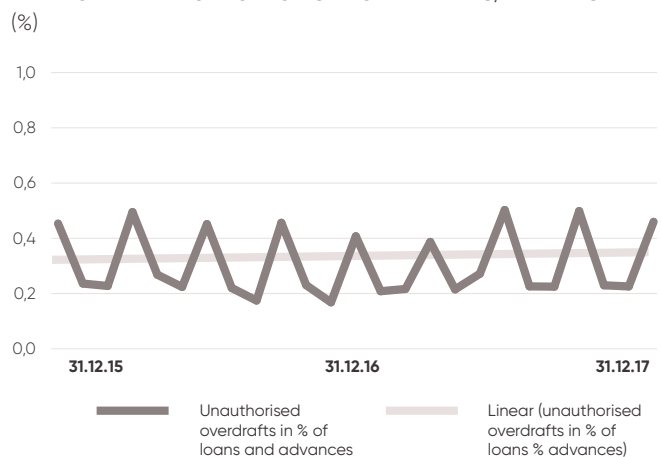
**NON-AGRICULTURAL BUSINESS CUSTOMERS - LOCAL BANKS - DEVELOPMENT IN UNAUTHORISED OVERDRAFTS/ARREARS**

Figure 17

**FINANCIAL CREDIT RISK**

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

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

| <b>FINANCIAL CREDIT RISK</b> |   |   |  |  |
|------------------------------|---|---|--|--|
| <b>GROUP</b>                 | <b>2017<br/>Carrying<br/>amount<br/>DKKkM</b> | <b>2016<br/>Carrying<br/>amount<br/>DKKkM</b> | <b>2017<br/>Risk<br/>portfolio<br/>DKKkM</b> | <b>2016<br/>Risk<br/>portfolio<br/>DKKkM</b> |
| AAA                          | 9,874   | 14,787  | 9,777  | 14,037                                       |
| AA                           | 474   | 350   | 474  | 350  |
| A                            | 1,636   | 1,336   | 1,636  | 1,336  |
| BBB                          | 215   | 592   | 215  | 592  |
| BB                           | 77  | 75  | 77   | 75   |
| B                            | 10  | 15  | 10   | 15   |
| CCC                          | 1   | 1   | 1  | 1  |
| Not rated                    | 219   | 245   | 218  | 240  |
| <b>Total</b>                 | <b>12,505</b>                                 | <b>17,400</b>                                 | <b>12,409</b>                                | <b>16,645</b>                                |

Overall, Management's assessment is that Spar Nord's credit risk exposure to financial counterparties remains at a moderate level, as 95.8% (2016: 94.5%) of the financial credit risk is attributable to counterparties with a rating of A or higher.

**BOND PORTFOLIO**

The Group's bond portfolio is the most significant source of financial credit risk.

**BOND PORTFOLIO BY ISSUER TYPE**

| <b>GROUP</b>      |               |               |               |               |
|-------------------|---------------|---------------|---------------|---------------|
| Mortgage bonds    | 9,288         | 12,990        | 9,339         | 12,299        |
| Financial issuers | 637           | 1,073         | 637           | 1,068         |
| Credit bonds      | 271           | 271           | 271           | 271           |
| Government bonds  | 642           | 603           | 494           | 543           |
| <b>Total</b>      | <b>10,838</b> | <b>14,936</b> | <b>10,741</b> | <b>14,181</b> |

Calculated as risk portfolio, Spar Nord's bond portfolio is composed of 87.0% mortgage bonds (2016: 86.8%), 5.9% bonds from financial issuers (2016: 7.5%) and 7.1% from other issuers (2016: 5.7%).

**BOND PORTFOLIO BY RATING**

| <b>GROUP</b> |               |               |               |               |
|--------------|---------------|---------------|---------------|---------------|
| AAA          | 9,304         | 13,334        | 9,207         | 12,584        |
| AA           | 232           | 158           | 232           | 158           |
| A            | 984           | 825           | 984           | 824           |
| BBB          | 97            | 388           | 97            | 388           |
| BB           | 76            | 73            | 76            | 73            |
| B            | 10            | 15            | 10            | 15            |
| CCC          | 1             | 1             | 1             | 1             |
| Not rated    | 134           | 142           | 133           | 138           |
| <b>Total</b> | <b>10,838</b> | <b>14,936</b> | <b>10,741</b> | <b>14,181</b> |

**Due from credit institutions**

The other major source of financial credit risk is amounts due from credit institutions and central banks. In this area, Spar Nord's exposure is typically 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.

**DUE FROM CREDIT INSTITUTIONS BY PRODUCT TYPE**

| GROUP  | 2017<br>Carrying<br>amount<br>DKKmn | 2016<br>Carrying<br>amount<br>DKKmn | 2017<br>Risk<br>portfolio<br>DKKmn | 2016<br>Risk<br>portfolio<br>DKKmn |
|--|-------------------------------------|-------------------------------------|------------------------------------|------------------------------------|
| Reverse repo transactions  | 570                                 | 1,453                               | 570                                | 1,453                              |
| Deposits and unlisted bonds  | 175                                 | 73                                  | 175                                | 73                                 |
| Current accounts   | 272                                 | 126                                 | 272                                | 126                                |
| CSA accounts, etc.   | 420                                 | 527                                 | 420                                | 527                                |
| <b>Total</b>   | <b>1,437</b>                        | <b>2,179</b>                        | <b>1,437</b>                       | <b>2,179</b>                       |
| Positive fair value of derivative instruments, financial enterprises | 231                                 | 285                                 | 231                                | 285                                |
| <b>Total</b>   | <b>1,668</b>                        | <b>2,464</b>                        | <b>1,668</b>                       | <b>2,464</b>                       |

**DUE FROM CREDIT INSTITUTIONS BY RATING**

| GROUP        | 2017<br>Carrying<br>amount<br>DKKmn | 2016<br>Carrying<br>amount<br>DKKmn | 2017<br>Risk<br>portfolio<br>DKKmn | 2016<br>Risk<br>portfolio<br>DKKmn |
|--------------|-------------------------------------|-------------------------------------|------------------------------------|------------------------------------|
| AAA          | 570                                 | 1,453                               | 570                                | 1,453                              |
| AA           | 242                                 | 192                                 | 242                                | 192                                |
| A            | 652                                 | 512                                 | 652                                | 512                                |
| BBB          | 117                                 | 204                                 | 117                                | 204                                |
| BB           | 1                                   | 2                                   | 1                                  | 2                                  |
| Not rated    | 85                                  | 102                                 | 85                                 | 102                                |
| <b>Total</b> | <b>1,668</b>                        | <b>2,464</b>                        | <b>1,668</b>                       | <b>2,464</b>                       |

87.8% (2016: 87.5%) of Spar Nord's amounts due from credit institutions concerns institutions with an A rating or higher. Of the total amounts due from credit institutions of DKK 1.7 billion (2016: DKK 2.5 billion), 34.2% (2016: 58.9%) is attributable to institutions with a AAA rating, 14.5% (2016: 7.8%) to institutions with a AA rating, and 39.1% (2016: 20.8%) to institutions with an A rating.

Balances with unrated credit institutions are attributable primarily to Danish credit institutions.

## NOTE

52

**MARKET RISK**

Market risk is an umbrella heading for the risk of loss caused by changes in the value of a portfolio of financial instruments due to fluctuations in exchange rates or prices in financial markets.

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

In 2017, Spar Nord made no major changes in assumptions, objectives, policies, exposures and calculation methods, etc. as compared to the year before.

Spar Nord's interest rate risk, foreign exchange risk and equity risk are described below.

**Market risk policy**

The market risk policy determines Spar Nord's overall risk profile for market risk, as well as the overall organisational delegation of responsibilities in the market risk area with a view to profitably supporting Spar Nord's business model.

The policy identifies and sets limits for the various types of market risk, setting out specific limits for how much risk Spar Nord is ready to assume. The principal market risks for Spar Nord are the credit spread risk on the Bank's bond portfolio and the Bank's interest rate risk, followed by equity risk in and outside the trading book and, lastly, very limited foreign exchange, option and commodity risks. The policy establishes the methods to be used in calculating the various risk targets.

**Management, monitoring and reporting**

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

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, both intraday and end of day
- Regular reporting to the Executive Board and the Board of Directors
- Reporting of regulatory capital

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.

**Interest rate risk**

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

Spar Nord's interest-rate risk both within and outside the trading book is calculated on the basis of the duration and agreed cash flow. For managing Spar Nord's portfolio of callable Danish mortgage bonds, Spar Nord 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 upon changes in the underlying parameters.

The interest rate risk is assessed on a daily basis, and decisions are made in light of expectations of macroeconomic developments and cyclical trends. Spar Nord 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.

Shown below is the interest rate risk relative to duration and exchange rates. This shows the risk of changes in a delimited time interval in the yield curve. The table shows the interest rate risk broken down on the individual time intervals, given a 1 percentage point increase in interest rates.

**INTEREST-RATE RISK SHOWN BY DURATION AND CURRENCY (DKKM)**

|              | Less than 3 months | 3 mths – 1 year | 1– 3 years | 3– 7 years | Over 7 years | Total     |
|--------------|--------------------|-----------------|------------|------------|--------------|-----------|
| <b>2017</b>  |                    |                 |            |            |              |           |
| DKK          | 8                  | 6               | 19         | 30         | 14           | 77        |
| EUR          | -1                 | -1              | -6         | -10        | -10          | -28       |
| Other        | 2                  | 1               | 1          | 1          | 0            | 5         |
| <b>Total</b> | <b>10</b>          | <b>6</b>        | <b>14</b>  | <b>21</b>  | <b>4</b>     | <b>55</b> |
| <b>2016</b>  |                    |                 |            |            |              |           |
| DKK          | 13                 | -8              | 6          | 14         | 55           | 79        |
| EUR          | 3                  | 4               | -13        | -1         | 7            | 0         |
| Other        | 2                  | 0               | 0          | 1          | 0            | 2         |
| <b>Total</b> | <b>18</b>          | <b>-4</b>       | <b>-8</b>  | <b>13</b>  | <b>62</b>    | <b>81</b> |

As shown in the table, Spar Nord is exposed mainly to a positive interest rate risk in DKK and a negative interest rate risk in EUR (2016: positive interest rate risk in DKK). The interest rate risk amounted to DKK 55 million, which is a DKK 26 million reduction of the positive net interest rate risk compared with end-2016.

On a 1 percentage point upward shift in the yield curve, a positive interest rate risk will adversely affect equity. In 2017, the interest-rate risk would, as a maximum, have impacted the equity negatively by 1.3% (2016: negatively by a maximum of 1.7%) if interest rates had increased by one percentage point.

**FOREIGN EXCHANGE RISK**

Foreign exchange risk is the risk of loss on positions in foreign currency due to exchange rate fluctuations. Currency options are included in the calculation at the Delta-adjusted position.

The foreign exchange risk is illustrated by the table below. The calculation is based on the assumption that all exchange rates develop unfavourably for Spar Nord by 2%.

|   | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>FOREIGN EXCHANGE RISK</b>                                |                                    |                                    |                                    |                                    |
| <b>Assets denominated in foreign currencies, total</b>      | <b>9,338</b>                       | <b>8,602</b>                       | <b>9,338</b>                       | <b>8,602</b>                       |
| <b>Liabilities denominated in foreign currencies, total</b> | <b>1,492</b>                       | <b>997</b>                         | <b>1,492</b>                       | <b>997</b>                         |

Foreign-exchange risk broken down by currency:

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| EUR   | 0.3        | 0.8        | 0.3        | 0.8        |
| SEK   | 0.0        | 0.0        | 0.0        | 0.0        |
| USD   | 0.0        | 0.6        | 0.0        | 0.6        |
| GBP   | 0.0        | 0.1        | 0.0        | 0.1        |
| CHF   | 0.0        | 0.1        | 0.0        | 0.1        |
| NOK   | 0.1        | 0.2        | 0.1        | 0.2        |
| JPY   | 0.1        | 0.0        | 0.1        | 0.0        |
| Other currencies  | 0.1        | 0.4        | 0.1        | 0.4        |
| <b>Foreign-exchange risk regarding financial instruments, etc., total</b> | <b>0.8</b> | <b>2.2</b> | <b>0.8</b> | <b>2.2</b> |

As appears from the table, the overall foreign exchange risk for Spar Nord was DKK 0.8 million at end-2017, which is DKK 1.4 million less than at end-2016. The change was caused by a reduced foreign exchange position in most currencies.

**EQUITY RISK**

Equity risk is the risk of loss due to fluctuating share prices, calculated as the net value of long and short positions in shares and share-related instruments

Equity positions are calculated depending on whether they are a part of the trading book or not.

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|
| <i>Equity risk in the trading book</i>           |                                    |                                    |
| Listed shares forming part of the trading book   | 197                                | 205                                |
| Unlisted shares forming part of the trading book | 24                                 | 7                                  |
| <b>Total shares in the trading book</b>          | <b>221</b>                         | <b>211</b>                         |

Shares in the trading book are held for trading purposes.

*Equity risk outside the trading book*

|   |              |              |
|---|--------------|--------------|
| Shares in credit and financing institutions                   | 1,251        | 1,135        |
| Shares in unit trust management companies                     | 88           | 78           |
| Shares in pension institutions                                | 2            | 2            |
| Shares in data supplier                                       | 0            | 42           |
| Other equities  | 65           | 88           |
| <b>Total shares in strategic business partners</b>            | <b>1,405</b> | <b>1,346</b> |
| Realised gains  | 46           | 46           |
| Unrealised gains  | 91           | 65           |
| <b>Total associates</b>                                       | <b>128</b>   | <b>118</b>   |
| <b>Total shares not forming part of the trading portfolio</b> | <b>1,533</b> | <b>1,464</b> |

A salient feature of shares outside the trading book 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, including sector companies.

Spar Nord's most important shareholding included under associates at end-2017 was Valueinvest Asset Management SA (2016: Valueinvest Asset Management SA).

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 Spar Nord's operations.

In several of the sector companies, the shares are reallocated to the effect that the ownership interest of the respective institution will reflect its business volume with the sector company. The shares are typically reallocated on the basis of the sector company's equity value. In light of this, Spar Nord adjusts the recognised value of these shares when new information is available that warrants a change of value measurement. In other sector companies, the shares are not reallocated, but are measured based on a fair value corresponding to the net asset value or another recognised valuation method (including discounting of cash flows and market expectations with respect to equity return requirements). The adjustments of the values of the shares in these companies are also recognised in the income statement.

|                             | <b>Spar Nord<br/>Group<br/>2017<br/>DKKm</b> | <b>Spar Nord<br/>Group<br/>2016<br/>DKKm</b> | <b>Spar Nord<br/>Group<br/>2017<br/>DKKm</b> | <b>Spar Nord<br/>Group<br/>2016<br/>DKKm</b> |
|-----------------------------|--|--|--|--|
| Shares in the trading book: |  |  |  |  |
| Long positions              | 221  | 211  | 221  | 211  |
| Short positions             | 2  | 2  | 2  | 2  |
| <b>Gross holding</b>        | <b>223</b>                                   | <b>213</b>                                   | <b>223</b>                                   | <b>213</b>                                   |

Reference is made to note 21 regarding the amount of shares recognised according to the fair value option.

## SENSITIVITY ANALYSIS

The sensitivity information shows how Spar Nord's income statement will be impacted if interest rates change, if share prices drop or if all exchange rates develop unfavourably.

|  | <b>Impact on equity</b> |                       | <b>Impact on operating profit</b> |                          |
|--|-------------------------|-----------------------|-----------------------------------|--------------------------|
|  | <b>31.12.17<br/>%</b>   | <b>31.12.16<br/>%</b> | <b>31.12.17<br/>DKKm</b>          | <b>31.12.16<br/>DKKm</b> |
| - Interest rate increase of 1 %-point                              | -0.4                    | -0.9                  | -32                               | -66                      |
| - Interest rate decrease of 1 %-point                              | 0.4                     | 0.9                   | 32                                | 66                       |
| - Share price decrease of 10% in the trading book                  | -0.2                    | -0.2                  | -17                               | -16                      |
| - A fair value decrease of 10% for shares outside the trading book | -1.5                    | -1.5                  | -120                              | -114                     |
| - Unfavourable 2% exchange rate fluctuation                        | 0.0                     | 0.0                   | -1                                | -2                       |

The sensitivity information shows the impact of isolated changes in interest rates in the trading book, while the impact of changes in exchange rates and the share portfolio is shown for positions both in and outside the trading book. The impact on the operating profit and the impact on equity are calculated after tax.

It appears from the table that the impact of an interest rate increase will be a loss equal to 0.4% of shareholders' equity. If the price of Spar Nord's share portfolio both in and outside the trading book falls by 10%, it will result in a loss equal to 1.7% of shareholders' equity.

## NOTE

53 **LIQUIDITY RISK**

In 2017, Spar Nord made no major changes in calculation methods, policies and exposures etc. as compared to the year before.

Spar Nord Bank is generally exposed to liquidity risks when lending, investment and funding activities result in a cash flow mismatch.

Liquidity risk means that Spar Nord cannot meet its payment obligations while also meeting the statutory liquidity requirements. Moreover, a liquidity risk exists if the lack of financing/funding prevents Spar Nord from adhering to the adopted business model, or if Spar Nord's costs for procurement of liquidity rise disproportionately.

**Liquidity policy**

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

The aim of the liquidity policy is to ensure that Spar Nord has a liquidity risk that at all times bears a natural relation to Spar Nord's overall risk profile. In addition, the liquidity policy is intended to ensure that Spar Nord continuously handles and manages its liquidity appropriately and is capable of meeting its payment obligations as and when due while complying with applicable legislation and supporting future activities and growth. Finally, the policy is intended to ensure a financing structure that is optimised in relation to risk and price.

Spar Nord's objective is for the LCR to amount to at least 125% in compliance with the regulation on LCR. In addition, Spar Nord aims stay below the threshold value for Funding Ratio in the Diamond Test Model.

**Management, monitoring and reporting**

On the basis of the policies and objectives defined by the Board of Directors, the Executive Board has defined operational frameworks and specific limits for Trading, Financial Markets & the International Division, which is responsible for managing Spar Nord's short-term liquidity. The Finance & Accounts Department is responsible for managing Spar Nord's long-term funding.

The Finance & Accounts Department is responsible for calculating, monitoring and checking that Spar Nord's liquidity risk does not exceed the allocated limits. The department regularly reports to the Board of Directors, the Executive Board and the Danish Financial Supervisory Authority.



**STRATEGIC LIQUIDITY**

Spar Nord calculates its strategic liquidity as deposits excl. repo transactions, senior loans, issued bonds, subordinated debt and equity less lending excl. reverse repo transactions. On the other hand, subordinated debt, senior loans and issued bonds due within 12 months are not included in the calculation of strategic liquidity.

**STRATEGIC LIQUIDITY**

(DKK BN)

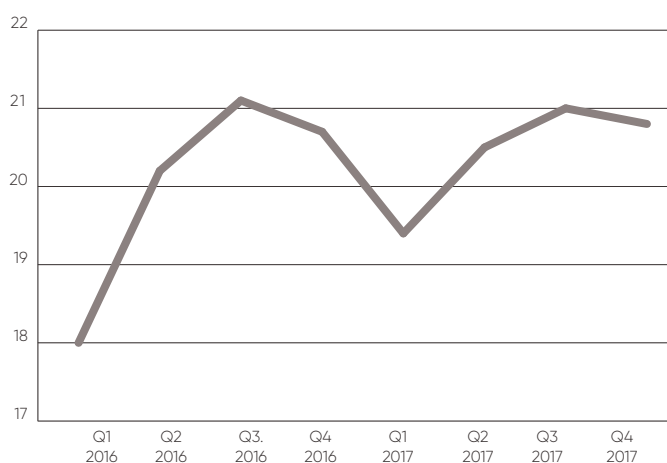


Figure 18

At end-2017, Spar Nord had strategic liquidity of DKK 20.8 billion, a DKK 0.1 billion increase on end-2016, when strategic liquidity was calculated at DKK 20.7 billion.

The flat net development was due to the fact that both lending and deposits increased by DKK 2.2 billion. In addition, equity etc. increased by DKK 0.4 billion, while subordinated debt of DKK 0.3 billion had a term to maturity of less than 12 months, as a result of which it is not recognised as long-term liquidity.

Subsequently, the strategic liquidity has been specified for the individual constituent parts for end-2017 and -2016, respectively.

|  | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm |
|--|------------------------------------|------------------------------------|
| <b>STRATEGIC LIQUIDITY</b>   |                                    |                                    |
| Deposits, banking activities   | 48,668                             | 46,464                             |
| Senior loans   | 30                                 | 49                                 |
| Subordinated debt  | 1,144                              | 1,093                              |
| Equity   | 8,975                              | 8,627                              |
| <b>Liquidity procurement</b>   | <b>58,817</b>                      | <b>56,233</b>                      |
| <b>Lending (banking and leasing activities)</b>  | <b>37,272</b>                      | <b>35,092</b>                      |
| Senior loans, issued bonds and subordinated<br>debt with a term to maturity of less than 12 months | 700                                | 401                                |
| <b>Strategic liquidity</b>   | <b>20,845</b>                      | <b>20,740</b>                      |

Figure 19

**Short-term Liquidity**

Spar Nord employs fixed models to monitor and control the Bank's short-term liquidity, including the daily management of LCR and intraday liquidity and ongoing preparation of stress tests.

**LCR**

At end-2017, LCR was calculated at 187% (2016: 171%), which is comfortably above Spar Nord's target LCR of at least 125% (2016: 100%). The excess coverage of 62 percentage points (2016: 71) corresponds to excess liquidity of DKK 5.7 billion (2016: DKK 6.6 billion). Relative to the statutory requirement of 100% at 1 January 2018, this equals DKK 8.1 billion.

**LIQUIDITY COVERAGE RATIO (LCR)**

(%)

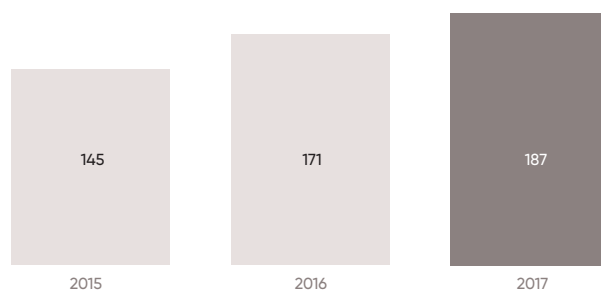


Figure 20

The liquidity reserve according to LCR basically consists of central bank reserves and government debt (Level 1A assets) and mortgage bonds offering particularly high liquidity and very high credit quality (Level 1B assets).

**LIQUIDITY COVERAGE RATIO**

| DKKbn                 | 2017       | 2016       |
|-----------------------|------------|------------|
| Liquidity reserve     | 17,342     | 16,289     |
| Liquidity requirement | 9,282      | 9,533      |
| <b>LCR (%)</b>        | <b>187</b> | <b>171</b> |

Figure 21

**Stress test**

In accordance with the Executive Order on Management and Control of Banks etc., Spar Nord prepares internal liquidity stress tests based on LCR. 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. The stress tests prepared have lived up to statutory requirements as well as internal targets throughout the period.

In addition, Spar Nord performs a stress test corresponding to Moody's "12-month scenario with no access to funding". This scenario operates on the assumption that Spar Nord 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. Contractual due dates are used for money-market balances, while the stable deposit base remains an accessible source of funding in the period.

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

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

(DKKbn)

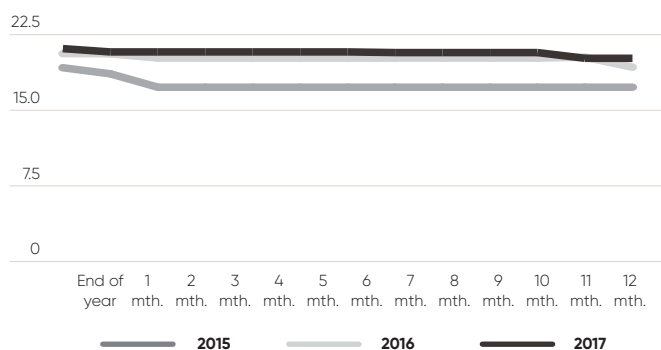


Figure 22

### Funding structure

Spar Nord's operations are predominantly 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 equity

From an overall perspective, Spar Nord's funding at end-2017 increased by DKK 2.3 billion compared with end-2016. The principal change in Spar Nord's funding is a DKK 2.4 billion increase in deposits, which was primarily driven by deposits on demand. A net decline in the use of repos and repurchases and debt to central banks and credit institutions have to some degree affected the Bank's total funding at the end of 2017. Deposits remain Spar Nord's largest source of funding, and at end-2017 it represented 80.2% (2016: 79.2%) of total funding.

In total, the long-term funding (funding with a term to maturity of more than 12 months) amounts to 93.1%, which is 1.4 percentage points up on end-2016.

### FUNDING STRUCTURE

| DKKm/%   | 2017          | 2016          | 2017         | 2016         |
|--|---------------|---------------|--------------|--------------|
| Central banks and credit institutions                            | 1,377         | 981           | 2.3          | 1.7          |
| Repos and repurchases with central banks and credit institutions | 555           | 1,400         | 0.9          | 2.4          |
| Senior loans < 1 year  | 2             | 0             | 0.0          | 0.0          |
| Issued bonds < 1 year  | 0             | 0             | 0.0          | 0.0          |
| Deposits < 1 year  | 2,262         | 2,483         | 3.7          | 4.2          |
| Deposits > 1 year and on demand                                  | 46,582        | 43,981        | 76.5         | 75.0         |
| Senior loans > 1 year  | 30            | 49            | 0.0          | 0.1          |
| Issued bonds > 1 year  | 0             | 0             | 0.0          | 0.0          |
| Subordinated debt  | 1,144         | 1,093         | 1.9          | 1.9          |
| Equity   | 8,975         | 8,627         | 14.7         | 14.7         |
| <b>Total</b>   | <b>60,926</b> | <b>58,614</b> | <b>100.0</b> | <b>100.0</b> |

Figure 23

### FUNDING STRUCTURE

(DKKBN)

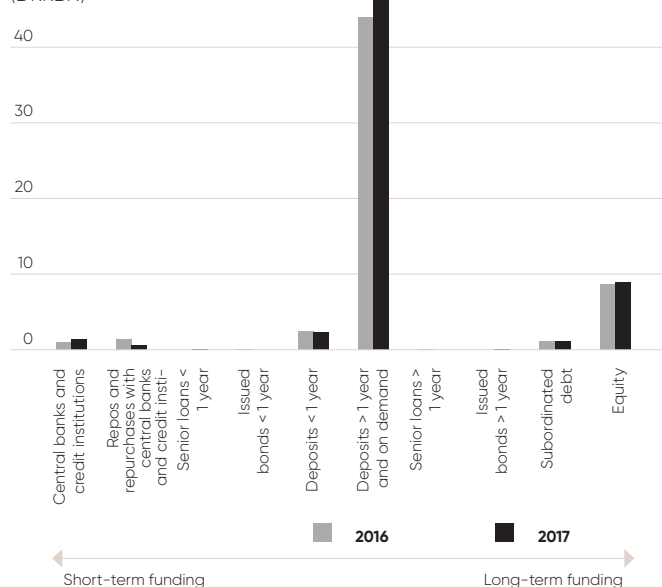


Figure 24

### Contingency liquidity plan

Spar Nord has prepared a liquidity contingency plan pursuant to the Danish Executive Order on Management and Control of Banks. This plan contains a catalogue of possible courses of action for strengthening Spar Nord'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 liquidity contingency plan is applied if Spar Nord can only meet the predetermined liquidity instructions with difficulty and with resulting sharply increased funding costs.

| Balance sheet items expected to be recovered or repaid within or after 12 months: | 2017             | 2017            | 2016             | 2016            |
|---|------------------|-----------------|------------------|-----------------|
|   | < 1 year<br>DKKm | >1 year<br>DKKm | < 1 year<br>DKKm | >1 year<br>DKKm |
| <b>Assets</b>   |                  |                 |                  |                 |
| Cash balances and demand deposits with central banks                              | 1,298            | 0               | 595              | 0               |
| Due from credit institutions and central banks                                    | 1,437            | 0               | 2,106            | 73              |
| Loans, advances and other receivables at amortised cost                           | 27,760           | 18,987          | 23,134           | 18,212          |
| Bonds at fair value   | 1,311            | 9,526           | 532              | 14,404          |
| Shares, etc.  | 197              | 1,429           | 205              | 1,353           |
| Investments in associates   | 0                | 128             | 0                | 118             |
| Assets linked to pooled schemes   | 1,499            | 13,924          | 1,890            | 12,652          |
| Intangible assets   | 11               | 173             | 14               | 181             |
| - Investment properties   | 0                | 135             | 0                | 135             |
| - Domicile properties   | 14               | 473             | 15               | 503             |
| <b>Land and buildings, total</b>  | <b>14</b>        | <b>608</b>      | <b>15</b>        | <b>638</b>      |
| Other property, plant and equipment   | 31               | 88              | 48               | 43              |
| Current tax assets  | 45               | 0               | 18               | 0               |
| Temporary assets  | 21               | 0               | 34               | 0               |
| Other assets  | 672              | 1,091           | 791              | 1,296           |
| Prepayments and deferred income   | 115              | 0               | 124              | 0               |
| <b>Total</b>  | <b>34,414</b>    | <b>45,953</b>   | <b>29,504</b>    | <b>48,970</b>   |
| <b>Liabilities</b>  |                  |                 |                  |                 |
| Due to credit institutions and central banks                                      | 1,934            | 30              | 2,381            | 49              |
| Deposits and other payables   | 45,393           | 3,450           | 42,281           | 4,183           |
| Deposits in pooled schemes  | 1,499            | 13,924          | 1,890            | 12,652          |
| Other non-derivative financial liabilities at fair value                          | 934              | 0               | 2,008            | 0               |
| Other liabilities   | 2,275            | 591             | 2,333            | 751             |
| Prepayments and deferred income   | 19               | 0               | 24               | 0               |
| <b>Total payables</b>   | <b>52,054</b>    | <b>17,995</b>   | <b>50,916</b>    | <b>17,635</b>   |
| Provisions for deferred tax   | 5                | 131             | 3                | 105             |
| Provision for losses on guarantees  | 7                | 34              | 14               | 53              |
| Other provisions  | 16               | 5               | 18               | 9               |
| Subordinated debt   | 696              | 448             | 401              | 692             |
| <b>Total</b>  | <b>52,777</b>    | <b>18,614</b>   | <b>51,353</b>    | <b>18,494</b>   |

Contractually, demand deposits have ultra-short maturity and are therefore shown above with a term to maturity of less than 12 months.

Bonds are broken down by duration.

**Contractual term to maturity of financial liabilities**

|   | Carrying<br>amount<br>DKKm | Contractual<br>cash<br>flows<br>DKKm | Within<br>1 year<br>DKKm | 1-5 years<br>DKKm | Over 5 years<br>DKKm |
|---|----------------------------|--------------------------------------|--------------------------|-------------------|----------------------|
| <b>2017</b>   |                            |                                      |                          |                   |                      |
| <b>Non-derivative instruments</b>                         |                            |                                      |                          |                   |                      |
| Due to credit institutions and central banks              | 1,964                      | 1,966                                | 1,934                    | 1                 | 32                   |
| Deposits and other payables                               | 48,843                     | 48,923                               | 45,403                   | 120               | 3,400                |
| Deposits in pooled schemes                                | 15,423                     | 15,423                               | 1,499                    | 3,723             | 10,200               |
| Other non-derivative instruments                          | 934                        | 934                                  | 934                      | 0                 | 0                    |
| Other liabilities, excl. derivative instruments           | 2,176                      | 2,176                                | 2,110                    | 65                | 0                    |
| Subordinated debt   | 1,144                      | 1,216                                | 730                      | 485               | 0                    |
| Irrevocable credit commitments and contingent liabilities | 11,961                     | 11,961                               | 4,503                    | 3,448             | 4,010                |
| <b>Derivatives</b>  |                            |                                      |                          |                   |                      |
| Fair value of derivatives                                 | 691                        | 608                                  | 163                      | 149               | 296                  |
| <b>Total</b>  | <b>83,135</b>              | <b>83,206</b>                        | <b>57,277</b>            | <b>7,991</b>      | <b>17,939</b>        |

**2016**

|   |               |               |               |              |               |
|---|---------------|---------------|---------------|--------------|---------------|
| <b>Non-derivative instruments</b>                         |               |               |               |              |               |
| Due to credit institutions and central banks              | 2,430         | 2,433         | 2,382         | 6            | 46            |
| Deposits and other payables                               | 46,464        | 46,815        | 42,308        | 650          | 3,857         |
| Deposits in pooled schemes                                | 14,541        | 14,541        | 1,890         | 3,581        | 9,071         |
| Other non-derivative instruments                          | 2,008         | 2,008         | 2,008         | 0            | 0             |
| Other liabilities, excl. derivative instruments           | 2,219         | 2,219         | 2,158         | 61           | 0             |
| Subordinated debt   | 1,093         | 1,164         | 446           | 719          | 0             |
| Irrevocable credit commitments and contingent liabilities | 12,334        | 12,334        | 4,954         | 3,826        | 3,554         |
| <b>Derivatives</b>  |               |               |               |              |               |
| Fair value of derivatives                                 | 866           | 781           | 173           | 216          | 392           |
| <b>Total</b>  | <b>81,955</b> | <b>82,295</b> | <b>56,318</b> | <b>9,058</b> | <b>16,919</b> |

The maturity analysis shows the contractual, undiscounted cash flows and comprises agreed payments, including principal and interest.

For liabilities with variable cash flow, such as floating-rate financial liabilities, the information is based on the conditions existing at the balance sheet date.

Subordinated debt is deemed to fall due at the time when the Spar Nord Group may choose between redeeming the debt or paying an increased interest rate/increased redemption price. If Spar Nord instead chooses to extend the loans, interest of DKK 34 million (2016: DKK 50 million) falls due for payment within 1 year, DKK 137 million (2016: DKK 199 million) within 1-5 years, and DKK 1,216 million including repayments of DKK 1,147 million (2016: DKK 1,164 million including repayments of DKK 1,092 million) after 5 years. Spar Nord has no subordinated debt with a perpetual term.

As regards deposits in pension pools, only the customers' deposits in the pension pools are allocated, as future yields for pension pool participants depend on the return on pooled assets. The dates when the obligations fall due are correlated to the assets in the pension pools.

Payments regarding irrevocable credit commitments and guarantees fall due if a number of predetermined conditions have been met. Such payment obligations have been recognised at the time when the agreements expire.

Under the agreements made, customers can usually demand repayment of their deposits at short notice. However, in practice they are considered a stable funding source, as amounts disbursed largely equal deposits received.

The above-mentioned breakdown by term to maturity has been based on the earliest date when a demand for payment can be made.

## NOTE

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**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.

Model risk, which is the risk of loss as a consequence of decisions based mainly on output from internal models and occurring due to errors in the development, implementation or use of such models, is also defined as operational risk.

Operational risks are categorised on the basis of the seven event types defined by Basel III: employment practices and workplace safety; external fraud; business disruption and systems failures; internal fraud; clients, products and business practice; execution/delivery and process management; and damage to physical assets.

**OPERATIONAL RISK POLICY**

Spar Nord's Board of Directors has defined a policy for operational risk, the aim of which is to provide an overview of Spar Nord's operational risk and thus to minimise the number of errors and losses.

To ensure that operational risk is kept at an acceptable level, Spar Nord's Board of Directors has defined the Group's risk appetite. If risks are identified that exceed the defined risk appetite, scenario analyses are conducted and used to draw up risk mitigation proposals.

**Management, monitoring and reporting**

All of Spar Nord's activities are subject to operational risk. Spar Nord strives to limit the operational risk level to the extent possible.

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

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

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

Throughout Spar Nord, events that result in a loss of more than DKK 10,000 are recorded and categorised, 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.

Scenarios are prepared for risks that may result in potential losses of more than DKK 10 million.

Reports are submitted quarterly to the Executive Board and the risk owners, and an annual risk report is submitted to the Board of Directors. Actual and potential loss events exceeding DKK 1 million are reported on an ongoing basis to both the Executive Board and the Board of Directors.

In the quarterly reports, the risk owners are informed about the loss events and new risks identified for the relevant business area during the period under review.

The systematic registration and categorisation of loss events provide an overview of sources of loss and the experience base which the Bank uses proactively in its management of operational risks.

**Loss events and fraud**

Spar Nord's operational loss events are primarily the result of external fraud; clients, products and business practices; and execution/delivery and process management.

External fraud accounted for 49%; clients, products and business practice represented 18%; and execution/delivery and process management made up 33% of the Bank's loss events. The breakdown on these loss events was 54%, 28% and 18%, respectively, in 2016. The majority of loss events consist of events with a minor financial impact. External fraud includes events like card abuse and online banking fraud.

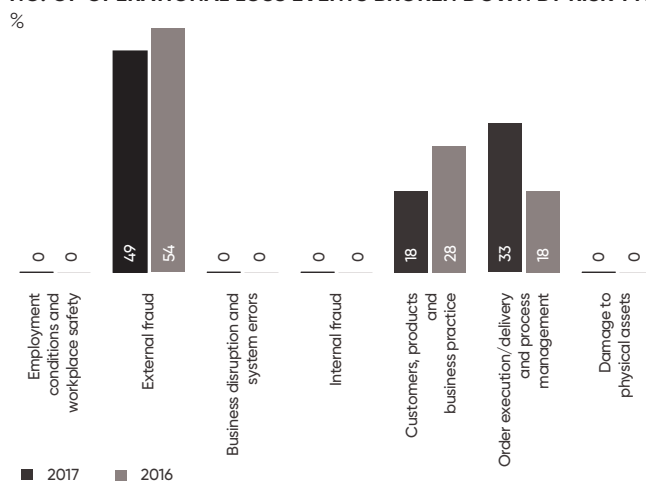
**NO. OF OPERATIONAL LOSS EVENTS BROKEN DOWN BY RISK TYPE**

Figure 25

The total loss in 2017 amounted to DKK 8 million (2016: DKK 7 million), of which external fraud accounts for DKK 3 million (2016: DKK 3 million).

In view of the regular reporting provided to Spar Nord's Board of Directors and Executive Board, Management believes that Spar Nord has satisfactory measures to counter the risk of being exposed to fraud.

**IT security**

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

The work of the IT security function is based on a defined security and risk level aimed at ensuring that the Bank's day-to-day business and activities are consistently supported by a secure and reliable IT infrastructure. The IT security function is responsible for complying with the adopted IT security level and the Spar Nord Group's IT contingency plan. The IT security function contributes to ensuring and controlling that Spar Nord's IT activities to the best possible extent are protected against internal and external threats. The IT security function is thus charged with ensuring compliance with legislative and sector-specific requirements, Spar Nord's own requirements and customer expectations in terms of Spar Nord's availability, confidentiality and integrity.

Spar Nord's activity in the area of IT security is based on regulatory requirements as well as considerations for day-to-day operations. All IT installations running at Spar Nord and its service providers must operate according to documented schedules and guidelines. The operation must be secure and stable, a requirement ensured through the highest possible degree of automation and ongoing capacity adjustments. IT services run by external service providers must be based on written agreements. The Bank's IT security efforts include the preparation of contingency plans and recovery procedures and periodic test of such measures aimed to ensure continued operation at a satisfactory level in the case of extraordinary events.

The IT security function also promotes in-house knowledge of IT security by regularly arranging awareness activities. In 2017, the function teamed up with the HR department to conduct a large-scale awareness event involving all of the Bank's employees and dedicated to general IT security and cyber security. In addition, the IT security function held an event for a representative group of employees focusing on phishing.

**Compliance risk**

Operational risk also includes compliance risk, which is the risk associated with non-compliance with applicable legislation, market standards and ethical standards. The compliance function is thus charged with assisting the Management in identifying compliance risks in order to mitigate the risk of sanctions being imposed Spar Nord, a risk of loss of reputation or that Spar Nord or its customers suffer material financial losses. Spar Nord has defined a policy for the compliance function setting out the function's objective, risk profile and strategy.

Spar Nord also retain a strong focus on anti-money-laundering (AML) measures, including the risk-mitigating measures that must be implemented to prevent Spar Nord from being used for money-laundering activities and terrorism financing purposes.

Spar Nord's AML function is charged with ensuring that Spar Nord complies with the Danish Act on Measures to Prevent Money Laundering and Financing of Terrorism, EU Funds Transfer Regulation and EU anti-terrorism regulations. The AML function is anchored in the Legal Department and reports directly to the Executive Board and Board of Directors.

In 2017, the AML function focused on optimising Spar Nord's existing KYC systems and processes, increased transaction monitoring, training of Spar Nord's employees and registration of beneficial owners as a result of new requirements under the new act on anti-money laundering.

**Capital requirement**

The capital required to cover Spar Nord's operational risks is calculated using the basic indicator approach.

In 2017, the operational risk amounted to 11.5% (2016: 12.1%) of the total risk exposure amount, ending at DKK 5,692 million at end-2017 (2016: DKK 5,732 million), which results in a capital requirement of DKK 455 million (2016: DKK 459 million).

## NOTE

55 **CAPITAL MANAGEMENT**

Spar Nord's objectives of capital management are:

- to comply with the statutory requirements regarding Spar Nord's capital adequacy;
- to ensure that Spar Nord will at all times have adequate capital to support future activities and growth;
- to maintain a relatively high common equity tier 1 (CET1) ratio and thus keep the dependency on subordinated debt at a moderate level.

During the year under review, Spar Nord met all statutory capital adequacy ratios.

Spar Nord revised its targets in mid-2017 to the following:

- a common equity tier 1 capital ratio of 13.0% (previously "at least 12.0%")
- an own funds ratio of 16.5% (previously "at least 15.5%")

The Bank's dividend policy was also revised in mid-2017 so that Spar Nord will henceforth pursue a goal of distributing 40-50% of the net profit for the year as dividends (previously "at least two-thirds").

Among other things, the capital targets have been fixed to ensure that the Bank maintains adequate own funds to be able to continue its lending operations during periods of difficult market conditions (such as deep economic recession or unexpectedly heavy credit losses).

In connection with the implementation of the new resolution rules for Danish banks (the so-called MREL requirements), the Danish FSA announced that Spar Nord will be subject to the same resolution rules as the SIFI institutions. This means that, once the rules have been phased in over the coming years, Spar Nord must have a total capital base equal to twice its calculated capital requirement.

During the year under review, Spar Nord's common equity tier 1 (CET1) ratio ranged from 13.2-14.4% (2016: 13.8-14.0%) and thus exceeded Spar Nord's current internal target of 13.0% (2016: 12.0%). Correspondingly, the internal target of an own funds ratio of 16.5% (2016: 15.5%) has been met, as it remained within the 16.9-18.2% band during the year (2016: 16.6-17.7%).

Capital management is based on the methods of accounting and financial ratios developed by the Basel Committee, which have been incorporated into Danish legislation. Management currently monitors the Bank's capital adequacy. The figures calculated at the end of each quarter for Spar Nord's own funds, total risk exposure amount and capital adequacy ratios, including the calculation of the Bank's solvency need ratio, are reported to the Danish FSA in accordance with existing rules.

Spar Nord's individual solvency need is an expression of its own assessment as to how high the total capital ratio should be to safeguard depositors against losses. Since the end of 2012, Spar Nord has based the calculation of its individual solvency need on the so-called 8+ approach. This approach is based on the statutory minimum requirement of 8.0% of the total risk exposure amount (Pillar I) plus add-ons for risks and matters not fully reflected in the calculation of total risk exposure amount. Thus, it is assumed that ordinary risks are covered by the 8% requirement, and that it must therefore be determined which additional risks Spar Nord may have that warrant an add-on to the capital requirement (Pillar II); see the guidelines from the Danish FSA in this respect.

Spar Nord's common equity tier 1 capital consists of its share capital, proposed dividends and retained earnings. Additional tier 1 (AT1) capital and tier 2 capital (T2) in the form of subordinated debt are included in the calculation of Spar Nord's own funds. A number of deductions are made in connection with calculating Spar Nord's common equity tier 1 capital, tier 1 capital and own funds. Such deductions consist primarily of proposed dividends, share repurchase programme, intangible assets and equity investments in other credit institutions as well as tier 2 capital provided to other credit institutions.

The total risk exposure is the calculated risk associated with Spar Nord's business areas. Total risk exposure is calculated as follows: assets, items subject to a market risk, and exposures in the form of guarantees are weighted on the basis of standard weights that depend on the type of the individual items and counterparty, with due provision being made for any collateral provided. To this should be added a supplement to cover Spar Nord's operational risks.

Own funds are specified in Capital position.

The maturity profile for Spar Nord's subordinated debt is shown in note 34.

Spar Nord continuously assesses the need for adapting the capital structure, including its goals, policies and processes.

For more details, please refer to the unaudited Risk Report at [www.sparnord.com/risk](http://www.sparnord.com/risk).



NOTE

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**POOLED SCHEMES**

|  | Pension<br>pools<br>2017<br>DKKm | Other<br>pools<br>2017<br>DKKm | Spar Nord<br>Group<br>2017<br>DKKm | Spar Nord<br>Group<br>2016<br>DKKm | Spar Nord<br>Parent<br>Company<br>2017<br>DKKm | Spar Nord<br>Parent<br>Company<br>2016<br>DKKm |
|--|----------------------------------|--------------------------------|------------------------------------|------------------------------------|--|--|
|--|----------------------------------|--------------------------------|------------------------------------|------------------------------------|--|--|

**INCOME STATEMENT***Interest income/forward premium on:*

|                              |           |          |           |           |           |           |
|------------------------------|-----------|----------|-----------|-----------|-----------|-----------|
| Cash deposits                | 0         | 0        | 0         | 2         | 0         | 2         |
| Other bonds                  | 89        | 1        | 90        | 84        | 90        | 84        |
| <b>Total interest income</b> | <b>89</b> | <b>1</b> | <b>90</b> | <b>85</b> | <b>90</b> | <b>85</b> |

*Dividends on:*

|                         |            |          |            |            |            |            |
|-------------------------|------------|----------|------------|------------|------------|------------|
| Shares, etc.            | 107        | 1        | 108        | 107        | 108        | 107        |
| Unit trust certificates | 0          | 0        | 0          | 5          | 0          | 5          |
| <b>Total dividends</b>  | <b>107</b> | <b>1</b> | <b>108</b> | <b>113</b> | <b>108</b> | <b>113</b> |

*Market value adjustments of:*

|                                       |            |          |            |            |            |            |
|---------------------------------------|------------|----------|------------|------------|------------|------------|
| Other bonds, etc.                     | 10         | 0        | 10         | 35         | 10         | 35         |
| Shares, etc.                          | 829        | 9        | 838        | 90         | 838        | 90         |
| Unit trust certificates               | 34         | 0        | 34         | 52         | 34         | 52         |
| Foreign currency                      | -321       | -4       | -325       | 142        | -325       | 142        |
| Derivatives                           | 0          | 0        | 0          | 32         | 0          | 32         |
| <b>Total market value adjustments</b> | <b>551</b> | <b>6</b> | <b>557</b> | <b>350</b> | <b>557</b> | <b>350</b> |

|   |            |          |            |            |            |            |
|---|------------|----------|------------|------------|------------|------------|
| <b>Fees, charges and commissions paid</b> | <b>188</b> | <b>2</b> | <b>191</b> | <b>168</b> | <b>191</b> | <b>168</b> |
|---|------------|----------|------------|------------|------------|------------|

|                                  |            |          |            |            |            |            |
|----------------------------------|------------|----------|------------|------------|------------|------------|
| <b>Profit/loss for the pools</b> | <b>559</b> | <b>6</b> | <b>566</b> | <b>381</b> | <b>566</b> | <b>381</b> |
|----------------------------------|------------|----------|------------|------------|------------|------------|

**BALANCE SHEET****Assets**

|                         |               |            |               |               |               |               |
|-------------------------|---------------|------------|---------------|---------------|---------------|---------------|
| Cash deposits           | 862           | 9          | 871           | 953           | 871           | 953           |
| Other bonds             | 6,738         | 83         | 6,821         | 6,474         | 6,821         | 6,474         |
| Other shares, etc.      | 6,944         | 78         | 7,022         | 6,034         | 7,022         | 6,034         |
| Unit trust certificates | 652           | 10         | 662           | 1,040         | 662           | 1,040         |
| Other assets            | 46            | 1          | 46            | 41            | 46            | 41            |
| <b>Total assets</b>     | <b>15,242</b> | <b>181</b> | <b>15,423</b> | <b>14,541</b> | <b>15,423</b> | <b>14,541</b> |

**Liabilities**

|                                     |               |            |               |               |               |               |
|-------------------------------------|---------------|------------|---------------|---------------|---------------|---------------|
| Total deposits                      | 14,627        | 174        | 14,801        | 14,075        | 14,801        | 14,075        |
| Other liabilities                   | 615           | 7          | 622           | 467           | 622           | 467           |
| <b>Total equity and liabilities</b> | <b>15,242</b> | <b>181</b> | <b>15,423</b> | <b>14,541</b> | <b>15,423</b> | <b>14,541</b> |

NOTE

57 **PERFORMANCE INDICATORS AND FINANCIAL RATIOS**

THE DANISH FSA'S LAYOUT AND RATIO SYSTEM

**SPAR NORD GROUP****PERFORMANCE INDICATORS**

DKKm

**INCOME STATEMENT**

|   | 2017  | 2016  | 2015  | 2014  | 2013  |
|---|-------|-------|-------|-------|-------|
| Net interest and fee income                                 | 2,716 | 2,771 | 2,861 | 2,810 | 2,903 |
| Market value adjustments                                    | 381   | 386   | 452   | 363   | 193   |
| Staff costs and administrative expenses                     | 1,863 | 1,789 | 1,768 | 1,838 | 1,667 |
| Loan impairment charges etc.                                | -7    | 292   | 373   | 603   | 726   |
| Income from investments in associates and group enterprises | 32    | 30    | 28    | 104   | 78    |
| Profit/loss for the year                                    | 989   | 838   | 897   | 614   | 536   |

**BALANCE SHEET**

|                    |        |        |        |        |        |
|--------------------|--------|--------|--------|--------|--------|
| Loans and advances | 46,747 | 41,346 | 38,039 | 35,948 | 37,648 |
| Equity             | 8,975  | 8,627  | 7,887  | 7,033  | 6,533  |
| Total assets       | 80,367 | 78,473 | 76,357 | 78,825 | 74,605 |

**FINANCIAL RATIOS****Own funds**

|                      |      |      |      |      |      |
|----------------------|------|------|------|------|------|
| Own funds ratio      | 18.2 | 17.7 | 17.0 | 15.0 | 19.4 |
| Tier 1 capital ratio | 16.0 | 15.6 | 14.9 | 13.3 | 17.4 |

**Earnings**

|                             |   |      |      |      |      |      |
|-----------------------------|---|------|------|------|------|------|
| Return on equity before tax | % | 14.2 | 12.5 | 14.4 | 10.4 | 10.7 |
| Return on equity after tax  | % | 11.2 | 10.2 | 12.0 | 9.0  | 8.6  |
| Income/cost ratio           |   | 1.65 | 1.47 | 1.46 | 1.27 | 1.26 |
| Return on assets            | % | 1.2  | 1.1  | 1.2  | 0.8  | 0.7  |

**Market risk and liquidity**

|   |   |       |       |       |       |       |
|---|---|-------|-------|-------|-------|-------|
| Interest rate risk  | % | 0.7   | 1.2   | 1.8   | 0.6   | -0.3  |
| Foreign exchange position                                   | % | 3.3   | 3.2   | 3.4   | 2.6   | 3.7   |
| Foreign exchange risk                                       | % | 0.1   | 0.1   | 0.1   | 0.0   | 0.0   |
| Excess coverage relative to statutory liquidity requirement | % | 326.4 | 308.3 | 296.1 | 186.0 | 230.7 |

**Credit risk**

|   |   |      |      |      |      |      |
|---|---|------|------|------|------|------|
| Loans and advances as % of deposits                 |   | 72.7 | 67.8 | 65.5 | 67.7 | 74.0 |
| Loans and advances plus impairment as % of deposits |   | 75.2 | 70.7 | 68.5 | 71.1 | 77.1 |
| Loans and advances rel. to equity                   |   | 5.2  | 4.8  | 4.8  | 5.1  | 5.8  |
| Increase in loans and advances for the year         | % | 6.2  | 3.6  | -4.5 | -1.1 | -7.9 |
| Sum of large exposures                              | % | 17.2 | 14.5 | 16.1 | 0.0  | 26.2 |
| Impairment ratio for the year                       |   | 0.0  | 0.5  | 0.8  | 1.3  | 1.6  |

**SPAR NORD SHARE****DKK per share of DKK 10**

|  |     |      |     |      |      |
|--|-----|------|-----|------|------|
| Profit/loss for the year               | 8.0 | 6.8  | 7.2 | 4.9  | 4.3  |
| Net asset value (NAV)                  | 66  | 63   | 60  | 56   | 52   |
| Dividend                               | 3.5 | 5.0  | 5.0 | 1.6  | 1.0  |
| Share price/profit/loss for the period | 9.0 | 11.9 | 8.5 | 11.8 | 11.4 |
| Share price/NAV                        | 1.1 | 1.3  | 1.0 | 1.0  | 0.9  |

Ratio definitions are shown in note 58.

**PERFORMANCE INDICATORS AND FINANCIAL RATIOS***The danish FSA's layout and ratio system***SPAR NORD PARENT COMPANY****PERFORMANCE INDICATORS**

DKKm

**INCOME STATEMENT**

|   | 2017  | 2016  | 2015  | 2014  | 2013  |
|---|-------|-------|-------|-------|-------|
| Net interest and fee income                                 | 2,711 | 2,736 | 2,810 | 2,770 | 2,878 |
| Market value adjustments                                    | 379   | 340   | 450   | 183   | 177   |
| Staff costs and administrative expenses                     | 1,869 | 1,795 | 1,776 | 1,844 | 1,673 |
| Loan impairment charges etc.                                | -7    | 292   | 373   | 603   | 726   |
| Income from investments in associates and group enterprises | 51    | 105   | 79    | 332   | 109   |
| Profit/loss for the year                                    | 991   | 839   | 897   | 613   | 538   |

**BALANCE SHEET**

|                    |        |        |        |        |        |
|--------------------|--------|--------|--------|--------|--------|
| Loans and advances | 46,747 | 41,219 | 37,912 | 35,821 | 37,648 |
| Equity             | 8,975  | 8,627  | 7,887  | 7,033  | 6,533  |
| Total assets       | 80,597 | 79,758 | 77,498 | 79,950 | 75,453 |

**FINANCIAL RATIOS****Own funds**

|                      |      |      |      |      |      |
|----------------------|------|------|------|------|------|
| Own funds ratio      | 18.1 | 17.3 | 16.8 | 14.8 | 19.1 |
| Tier 1 capital ratio | 15.9 | 15.3 | 14.8 | 13.1 | 17.2 |

**Earnings**

|                             |   |      |      |      |      |      |
|-----------------------------|---|------|------|------|------|------|
| Return on equity before tax | % | 14.2 | 12.3 | 14.2 | 10.3 | 10.6 |
| Return on equity after tax  | % | 11.3 | 10.2 | 12.0 | 9.0  | 8.6  |
| Income/cost ratio           |   | 1.65 | 1.46 | 1.46 | 1.27 | 1.25 |
| Return on assets            | % | 1.2  | 1.1  | 1.2  | 0.8  | 0.7  |

**Market risk and liquidity**

|   |   |       |       |       |       |       |
|---|---|-------|-------|-------|-------|-------|
| Interest rate risk  | % | 0.7   | 1.1   | 1.6   | 0.3   | -0.4  |
| Foreign exchange position                                   | % | 3.3   | 3.2   | 3.4   | 2.6   | 3.7   |
| Foreign exchange risk                                       | % | 0.1   | 0.1   | 0.1   | 0.1   | 0.0   |
| Excess coverage relative to statutory liquidity requirement | % | 325.2 | 301.9 | 290.4 | 182.1 | 226.7 |

**Credit risk**

|   |   |      |      |      |      |      |
|---|---|------|------|------|------|------|
| Loans and advances as % of deposits                 |   | 72.4 | 66.1 | 63.9 | 66.0 | 72.7 |
| Loans and advances plus impairment as % of deposits |   | 74.9 | 69.0 | 66.9 | 69.4 | 75.8 |
| Loans and advances rel. to equity                   |   | 5.2  | 4.8  | 4.8  | 5.1  | 5.8  |
| Increase in loans and advances for the year         | % | 6.6  | 3.6  | -4.5 | -1.4 | -7.9 |
| Sum of large exposures                              | % | 17.2 | 0.0  | 14.8 | 0.0  | 26.1 |
| Impairment ratio for the year                       |   | 0.0  | 0.5  | 0.8  | 1.3  | 1.6  |

**SPAR NORD SHARE****DKK per share of DKK 10**

|  |     |      |     |      |      |
|--|-----|------|-----|------|------|
| Profit/loss for the year               | 8.1 | 6.8  | 7.2 | 4.9  | 4.3  |
| Net asset value (NAV)                  | 66  | 63   | 60  | 56   | 52   |
| Dividend                               | 3.5 | 5.0  | 5.0 | 1.6  | 1.0  |
| Share price/profit/loss for the period | 8.9 | 11.9 | 8.5 | 11.8 | 11.4 |
| Share price/NAV                        | 1.1 | 1.3  | 1.0 | 1.0  | 0.9  |

*Ratio definitions are shown in note 58.*

NOTE

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**RATIO DEFINITIONS****Own funds ratio \*)**

Own funds in per cent of total risk exposure amount

**Tier 1 capital ratio \*)**

Tier 1 capital in per cent of total risk exposure amount

**Common equity tier 1 capital ratio \*)**

Common equity tier 1 capital in per cent of total risk exposure amount

**Return on equity before tax \*)**

Profit/loss before tax in per cent of average equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year.

**Return on equity after tax \*)**

Profit/loss after tax in per cent of average equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year.

**Income/cost ratio \*)**

Net interest and fee income, Market value adjustments, Other operating income and Profit/loss on equity investments in associates and group enterprises / Staff costs and administrative expenses, Depreciation, amortisation and impairment of intangible assets and property, plant and equipment, Other operating expenses and Impairment of loans, advances and receivables.

**Return on assets \*)**

Profit/loss after tax in per cent of total assets.

**Interest rate risk \*)**

Interest rate risk in per cent of tier 1 capital.

**Foreign exchange position \*)**

Foreign exchange indicator 1 in per cent of tier 1 capital.

**Foreign exchange risk \*)**

Foreign exchange indicator 2 in per cent of tier 1 capital.

**Loans and advances plus impairment as % of deposits \*)**

Loans and advances plus impairment as % of deposits

**Loans and advances as % of deposits \*)**

Loans and advances in per cent of deposits.

**Excess coverage relative to statutory liquidity requirement \*)**

Cash balances, Demand deposits with Danmarks Nationalbank (the central bank), Absolutely secure and liquid demand deposits with credit institutions and insurance companies, Uncollateralised certificates of deposit issued by Danmarks Nationalbank and Secure and marketable (listed) uncollateralised securities in per cent of 10% of Reduced payables and guarantee commitments.

**Liquidity Cover Ratio (LCR)**

Liquid assets in per cent of the net value of cash inflows and cash outflows viewed over a 30-day period of heightened corporate financial stress.

**Sum of large exposures \*)**

Sum of large exposures in per cent of own funds, adjusted for exposures to credit institutions, etc. below EUR 150 million after making allowance for credit risk reduction and exceptions, etc.

**Impairment ratio for the year \*)**

Impairment for the year in per cent of loans and advances + guarantees + impairment of loans, advances and receivables etc.

**Increase in loans and advances for the year \*)**

Increase in loans and advances from the beginning of the year to the end of the year, excl. repos, in per cent.

**Loans and advances relative to equity \*)**

Loans and advances/equity.

**Earnings per share for the year \*)**

Profit/loss for the year after tax/average number of shares in circulation excl. treasury shares. The average number of shares is calculated as a simple average of the shares at the beginning of the year and at the end of the year.

**Net asset value per share \*)**

Shareholders' equity/number of shares excl. treasury shares Shareholders' equity is calculated as if the additional tier 1 (AT1) capital were treated as a liability.

**Dividend per share \*)**

Proposed dividend/number of shares.

**Share price relative to earnings per share for the year \*)**

Share price/earnings per share for the year.

**Share price relative to net asset value (NAV) \*)**

Share price/NAV per share.

**Return on equity before tax, excl. additional tier 1 (AT1) capital**

Profit/loss before tax in per cent of average shareholders' equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year. Profit/loss before tax and shareholders' equity are calculated as if the additional tier 1 (AT1) capital were treated as a liability.

**Return on equity after tax excl. additional tier 1 (AT1) capital**

Profit/loss after tax in per cent of average shareholders' equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year. Profit/loss after tax and shareholders' equity are calculated as if the additional tier 1 (AT1) capital were treated as a liability.

**Cost share of core income**

Cost share of core income.

**Cost share of core income – incl. loan impairment charges**

Total costs plus loan impairment charges etc./core income.

**Rate of return, %.**

Year-end price – year-end price the year before + dividend the year before + extraordinary dividend for the year in per cent of the year-end price the year before.

**Price/earnings**

Year-end price/Earnings per share for the year.

Profit/loss for the year is calculated as if the additional tier 1 (AT1) capital were treated as a liability.

**Earnings per share for the period/year**

The profit/loss for the year/period after tax/average number of shares in circulation, excl. treasury shares. The average number of shares is calculated as a simple average of the shares at the beginning of the year and at the end of the year.

Profit/loss for the year/period after tax is calculated as if the additional tier 1 (AT1) capital were treated as a liability.

**Diluted earnings per share for the year**

The profit/loss for the year after tax/average number of shares in circulation including dilutive effect of share options and conditional shares.

\*) Danish FSA's ratio definitions.



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The Annual 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.