

# Interim report for Q1–Q3 2018 of Spar Nord Bank A/S

Net profit of DKK 849 million and  
return on equity of 13.5%

## Contents

### MANAGEMENT'S REVIEW

|   |    |
|---|----|
| Performance indicators and financial ratios – quarterly .....   | 3  |
| Executive Summary .....   | 5  |
| Management commentary on Q1-Q3 2018 .....                       | 6  |
| Spar Nord shares held by members of<br>the management team..... | 10 |
| Overview of group companies.....                                | 10 |
| Alternative performance measures .....                          | 11 |

### INTERIM REPORT FOR Q1-Q3 2018

#### SPAR NORD GROUP

|  |    |
|--|----|
| Performance indicators and financial ratios.....                     | 12 |
| Statement by the Board of Directors and<br>the Executive Board ..... | 13 |
| Income statement .....   | 14 |
| Balance sheet .....  | 15 |
| Capital position.....  | 16 |
| Cash flow statement.....   | 18 |
| Notes .....  | 19 |
| Notes without reference.....   | 33 |

# Performance indicators and financial ratios – Group

## CORE EARNINGS – QUARTERLY

| INCOME STATEMENT<br>DKKm  | Q1-Q3<br>2018 | Q1-Q3<br>2017 | Change<br>in % | Q3<br>2018    | Q2<br>2018    | Q1<br>2018    | Q4<br>2017    | Q3<br>2017    | Full year<br>2017 |
|---|---------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|-------------------|
| Net interest income *)  | 1,159         | 1,173         | -1             | 386           | 384           | 389           | 373           | 388           | 1,546             |
| Net fee income  | 856           | 837           | 2              | 293           | 273           | 290           | 279           | 264           | 1,116             |
| Market value adjustments and dividends  | 260           | 303           | -14            | 77            | 64            | 119           | 102           | 18            | 404               |
| Other operating income  | 192           | 36            | -              | 12            | 169           | 10            | 15            | 12            | 51                |
| Income from investments in associates and group enterprises                                     | 28            | 27            | 3              | 3             | 15            | 9             | 5             | 7             | 32                |
| <b>Core income</b>  | <b>2,495</b>  | <b>2,376</b>  | <b>5</b>       | <b>771</b>    | <b>905</b>    | <b>818</b>    | <b>773</b>    | <b>688</b>    | <b>3,150</b>      |
| Salaries  | 841           | 850           | -1             | 252           | 313           | 277           | 316           | 247           | 1,165             |
| Operating expenses  | 531           | 515           | 3              | 165           | 183           | 183           | 195           | 168           | 710               |
| Depreciation, amortisation and impairment   | 45            | 46            | -3             | 15            | 15            | 15            | 14            | 18            | 61                |
| <b>Costs and expenses</b>   | <b>1,418</b>  | <b>1,411</b>  | <b>0</b>       | <b>433</b>    | <b>510</b>    | <b>474</b>    | <b>525</b>    | <b>433</b>    | <b>1,936</b>      |
| <b>Core earnings before impairment</b>  | <b>1,077</b>  | <b>966</b>    | <b>12</b>      | <b>338</b>    | <b>395</b>    | <b>344</b>    | <b>248</b>    | <b>254</b>    | <b>1,213</b>      |
| Loan impairment charges etc. *)   | 67            | -51           | -              | 50            | 39            | -23           | 13            | -42           | -38               |
| <b>Profit/loss before tax</b>   | <b>1,011</b>  | <b>1,016</b>  | <b>-1</b>      | <b>288</b>    | <b>355</b>    | <b>367</b>    | <b>235</b>    | <b>297</b>    | <b>1,251</b>      |
| Tax   | 162           | 218           | -26            | 69            | 37            | 56            | 44            | 73            | 262               |
| <b>Profit/loss</b>  | <b>849</b>    | <b>799</b>    | <b>6</b>       | <b>219</b>    | <b>319</b>    | <b>311</b>    | <b>190</b>    | <b>224</b>    | <b>989</b>        |
| Of which, share attributable to interest expenses to holders of additional tier 1 (AT1) capital | 37            | 36            | 1              | 12            | 12            | 12            | 12            | 12            | 49                |
| <b>BALANCE SHEET</b>  |               |               |                |               |               |               |               |               |                   |
| <b>DKKm</b>   |               |               |                |               |               |               |               |               |                   |
| Total assets  | 85,461        | 80,372        | 6              | 85,461        | 83,561        | 80,934        | 80,367        | 80,372        | 80,367            |
| <b>Loans and advances</b>   | <b>46,636</b> | <b>45,471</b> | <b>3</b>       | <b>46,636</b> | <b>45,678</b> | <b>44,866</b> | <b>46,747</b> | <b>45,471</b> | <b>46,747</b>     |
| Lending, banking and leasing activities   | 39,154        | 36,630        | 7              | 39,154        | 38,336        | 37,551        | 37,272        | 36,630        | 37,272            |
| Lending, reverse repo transactions  | 7,482         | 8,841         | -15            | 7,482         | 7,342         | 7,315         | 9,475         | 8,841         | 9,475             |
| <b>Deposits</b>   | <b>64,704</b> | <b>63,296</b> | <b>2</b>       | <b>64,704</b> | <b>64,866</b> | <b>62,874</b> | <b>64,266</b> | <b>63,296</b> | <b>64,266</b>     |
| Deposits, banking activities  | 49,007        | 48,092        | 2              | 49,007        | 49,514        | 47,765        | 48,668        | 48,092        | 48,668            |
| Deposits, repo transactions   | 0             | 0             | -              | 0             | 0             | 0             | 175           | 0             | 175               |
| Deposits in pooled schemes  | 15,696        | 15,204        | 3              | 15,696        | 15,352        | 15,110        | 15,423        | 15,204        | 15,423            |
| Subordinated debt   | 1,532         | 1,086         | 41             | 1,532         | 1,522         | 1,128         | 1,144         | 1,086         | 1,144             |
| Holders of additional tier 1 (AT1) capital instruments  | 875           | 872           | 0              | 875           | 860           | 874           | 861           | 872           | 861               |
| Equity  | 8,310         | 7,920         | 5              | 8,310         | 8,100         | 8,220         | 8,114         | 7,920         | 8,114             |
| Contingent liabilities  | 12,028        | 11,742        | 2              | 12,028        | 12,095        | 11,407        | 11,961        | 11,742        | 11,961            |
| Total risk exposure amount  | 52,712        | 49,243        | 7              | 52,712        | 51,493        | 51,559        | 49,546        | 49,243        | 49,546            |
| Tier 1 capital  | 8,361         | 7,777         | 8              | 8,361         | 8,235         | 8,055         | 7,924         | 7,777         | 7,924             |
| Impairment account and discount on commitments taken over **)                                   | 1,871         | 1,708         | 10             | 1,871         | 1,894         | 1,874         | 1,616         | 1,708         | 1,616             |
| Contractual non-performing loans  | 415           | 388           | 7              | 415           | 383           | 393           | 341           | 388           | 341               |
| Business volume   | 244,710       | 238,807       | 2              | 244,710       | 242,522       | 239,196       | 241,393       | 238,807       | 241,393           |

\*) In the core earnings format in 2017, an amount was reclassified between the items Net interest income and Loan impairment charges, etc., which relates to the share of the discount, recognised as income, on commitments taken over. See note 3.

\*\*) Spar Nord's impairment account amounts to DKK 1,871 million (Q1-Q3 2017: DKK 1,651 million) (note 6) and the discount on commitments taken over amounts to DKK 0 million (Q1-Q3 2017: DKK 57 million).

The 2018 quarterly figures are inclusive of impairment of undrawn maximum.

In accordance with the accounting policies, the comparative figures have not been restated in connection with the implementation of IFRS 9 on financial instruments at 01.01.2018.

# Performance indicators and financial ratios – Group

## CORE EARNINGS – QUARTERLY

| FINANCIAL RATIOS  | Q1-Q3<br>2018 | Q1-Q3<br>2017 | Q3<br>2018 | Q2<br>2018 | Q1<br>2018 | Q4<br>2017 | Q3<br>2017 | Full year<br>2017 |
|---|---------------|---------------|------------|------------|------------|------------|------------|-------------------|
| <b>OWN FUNDS</b>  |               |               |            |            |            |            |            |                   |
| Own funds ratio   | 18.7          | 17.9          | 18.7       | 18.9       | 17.8       | 18.2       | 17.9       | 18.2              |
| Tier 1 capital ratio  | 15.9          | 15.8          | 15.9       | 16.0       | 15.6       | 16.0       | 15.8       | 16.0              |
| Common equity tier 1 capital ratio                                      | 14.3          | 14.2          | 14.3       | 14.4       | 14.0       | 14.4       | 14.2       | 14.4              |
| <b>EARNINGS</b>   |               |               |            |            |            |            |            |                   |
| Return on equity before tax excl. additional tier 1 (AT1) capital, % *) | 12.0          | 12.5          | 3.4        | 4.3        | 4.4        | 2.8        | 3.6        | 15.1              |
| Return on equity after tax excl. additional tier 1 (AT1) capital, % *)  | 10.1          | 9.8           | 2.6        | 3.9        | 3.7        | 2.3        | 2.7        | 12.0              |
| Cost share of core income   | 0.57          | 0.59          | 0.56       | 0.56       | 0.58       | 0.68       | 0.63       | 0.61              |
| Cost share of core income<br>- incl. loan impairment charges, etc.      | 0.59          | 0.57          | 0.63       | 0.61       | 0.55       | 0.70       | 0.57       | 0.60              |
| Return on assets, %   | 1.0           | 1.0           | 0.3        | 0.4        | 0.4        | 0.2        | 0.3        | 1.2               |
| <b>MARKET RISK AND LIQUIDITY</b>  |               |               |            |            |            |            |            |                   |
| Interest rate risk, %   | 0.9           | 1.3           | 0.9        | 0.8        | 0.8        | 0.7        | 1.3        | 0.7               |
| Foreign-exchange position, %  | 1.5           | 5.2           | 1.5        | 1.3        | 1.4        | 3.3        | 5.2        | 3.3               |
| Foreign-exchange risk, %  | 0.1           | 0.1           | 0.1        | 0.1        | 0.0        | 0.1        | 0.1        | 0.1               |
| Liquidity Cover Ratio (LCR), %  | 157           | 165           | 157        | 176        | 173        | 187        | 165        | 187               |
| Bank and leasing loans relative to bank deposits, %                     | 79.9          | 76.2          | 79.9       | 77.4       | 78.6       | 76.6       | 76.2       | 76.6              |
| <b>CREDIT RISK</b>  |               |               |            |            |            |            |            |                   |
| Bank and leasing loans relative to shareholders' equity                 | 4.7           | 4.6           | 4.7        | 4.7        | 4.6        | 4.6        | 4.6        | 4.6               |
| Increase in loans and advances for the period, %                        | 5.7           | 4.4           | 2.1        | 2.1        | 1.3        | 1.8        | 0.8        | 6.2               |
| Sum of large exposures, % **)   | 74.4          | 18.7          | 74.4       | 79.1       | 74.1       | 17.2       | 18.7       | 17.2              |
| Impairment ratio, %   | 0.1           | -0.1          | 0.1        | 0.1        | 0.0        | 0.0        | -0.1       | -0.1              |
| <b>EMPLOYEES AND BRANCHES</b>   |               |               |            |            |            |            |            |                   |
| Number of employees (full-time equivalents, end of period)              | 1,523         | 1,557         | 1,523      | 1,527      | 1,520      | 1,538      | 1,557      | 1,538             |
| Number of branches  | 49            | 51            | 49         | 49         | 50         | 50         | 51         | 50                |
| <b>SPAR NORD SHARE</b>  |               |               |            |            |            |            |            |                   |
| <b>DKK PER SHARE OF DKK 10</b>  |               |               |            |            |            |            |            |                   |
| Share price, end of period  | 60            | 78            | 60         | 68         | 72         | 72         | 78         | 72                |
| Net asset value (NAV), *)   | 68            | 64            | 68         | 66         | 67         | 66         | 64         | 66                |
| Profit/loss for the period *)   | 6.7           | 6.3           | 1.7        | 2.5        | 2.5        | 1.5        | 1.7        | 7.7               |
| Dividend  | -             | -             | -          | -          | -          | -          | -          | 3.5               |
| Return  | -             | -             | -          | -          | -          | -          | -          | -5                |
| Price/earnings *)   | -             | -             | -          | -          | -          | -          | -          | 9                 |

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

\*\*\*) In 2018, financial ratios are calculated according to the new rules.

In accordance with the accounting policies, the comparative figures have not been restated in connection with the implementation of IFRS 9 on financial instruments at 01.01.2018.

## Executive Summary

*"In addition to the satisfactory bottom-line figures, we are particularly pleased with the strong growth in our business. Bank loans to retail and business customers are up by 5%, and mortgage loans are up by 4%. These figures are both an indication that we are winning market share and that the Danish economy as a whole is doing reasonably well with private households and Danish businesses generally remaining upbeat. We would of course have liked to convert the positive trends in our business volume to an equally positive top-line performance, but that is not easy with interest rates remaining extremely low," said Spar Nord's CEO Lasse Nyby.*

Spar Nord achieved a satisfactory net profit of DKK 849 million in Q1-Q3 2018, which corresponds to an annualised return on equity of 13.5%. The profit marks an increase of DKK 50 million, or 6%, on the same period of 2017 and is substantially above the Bank's strategic target of having a return on equity of 9-11% after tax.

Core income amounted to DKK 2,495 million, which is 5% higher than in the year-earlier period. Net interest income was DKK 1,159 million against DKK 1,173 million in Q1-Q3 2017, net fee income was DKK 856 million against DKK 837 million, and market value adjustments were DKK 260 million against DKK 303 million. The income improvement was thus to a significant extent attributable to an increase in other operating income (sale of shares in Valueinvest) in the amount of DKK 154 million.

Total costs and expenses amounted to DKK 1,418 million, which is on a level with the same period of last year. As in the preceding periods of 2018, costs in Q3 were affected by investments in the IT area, while costs were reduced in all other areas.

Core earnings before impairment were DKK 1,077 million, which is DKK 112 million, or 12%, higher than in Q1-Q3 2017. Loan impairment charges etc. were a net expense of DKK 67 million, which was in line with expectations.

### BUSINESS VOLUME

The Group's total business volume (deposits, loans, advances and guarantees, mortgage credits arranged and customers' custodian-ship accounts) amounted to DKK 244.7 billion at 30 September 2018, which was DKK 3.3 billion higher than at end-2017.

The positive development covers a DKK 1.9 billion (5%) increase in bank lending and a DKK 3.3 billion increase (4%) in mortgage lending. Detracting from performance was a DKK 2.5 billion (5%) decline in customers' custodian accounts.

### ACQUISITION OF STAKE IN DANSKE ANDELSKASSERS BANK

Shortly before the end of the quarter, Spar Nord announced that the Bank had acquired 27% of the shares of Danske Andelskassers Bank for DKK 236 million.

From the perspective of a strategic investment, DAB is attractive for Spar Nord because there is a strong match between the two banks in a number of areas, including in relation to customer focus, channel strategy, geography and IT platform.

In addition, Spar Nord considers the acquisition an attractive financial investment, among other things because the divestment of large shareholdings in Nørresundby Bank A/S in 2015 and Valueinvest Asset Management SA in 2018 released capital for so-called "material equity investments" in other financial enterprises.

### STRONG DEVELOPMENT IN IMAGE AND CUSTOMER SATISFACTION

In the most recent period, Spar Nord has performed well in a number of different surveys in which retail customers and business customers have been asked to assess the Danish banks. Most recently, in the "Finansimage" survey conducted by Wilke for Finanswatch, Spar Nord was highlighted as being the bank with the best image in the three Danish regions of Northern Jutland, Central Jutland and Southern Denmark. Earlier in the same month, figures from Aalund Research showed that, among the large Danish banks, Spar Nord has the most satisfied business customers in the SME segment (businesses with 10-499 employees).

The Spar Nord management considers the positive performance, not least the improvement in retail and commercial customers' evaluation of the Bank's advice and other services, as evidence that the strategic initiatives we have launched in recent years have been successful.

### GUIDANCE MAINTAINED

On the basis of developments and performance in Q1-Q3, management has resolved to maintain the full-year forecast for core earnings before impairment at around DKK 1.3 billion. The net profit for the year is still expected to be around DKK 1.0 billion.

# Management commentary on Q1-Q3 2018

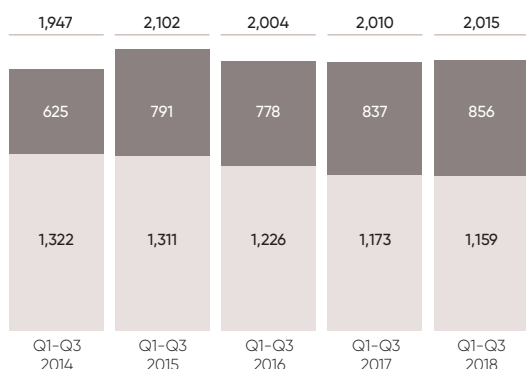
Spar Nord achieved a net profit of DKK 849 million in Q1-Q3 2018, which corresponds to an annualised return on equity of 13.5%. The profit is DKK 50 million, or 6%, higher than in the year-earlier period and is considered satisfactory by Management.

Core income amounted to DKK 2,495 million, which is 5% higher than in the year-earlier period.

## Net interest income and net fee income

DKKm

■ Net interest income  
■ Net fee income



## NET INTEREST INCOME STABILISED

Net interest income was DKK 1,159 million in Q1-Q3 2018, against DKK 1,173 million in the same period of 2017. Net interest income for Q1-Q3 2018 includes DKK 15 million of interest income from previous impairment exposures (Q1-Q3 2017: DKK 31 million). Compared with the year-earlier period, interest income from loans to customers was DKKm 25 million lower (excl. non-recurring income), while interest expenses from deposits were reduced by DKK 29 million.

The lending margin in September 2018 was 23 basis points lower than it was in September 2017. However, there is a tendency of a reduced pressure on interest margins in 2018, among other things due to active initiatives on both the deposit and the lending side.

From Q2 to Q3 net interest income rose from DKK 384 million to DKK 386 million.

## NET FEE INCOME AT A SATISFACTORY LEVEL

Net fee income was DKK 856 million in Q1 2018, against DKK 837 million in the same period of 2017. As in the year-earlier period, net income from fees, charges and commissions accounted for 42% of total net interest and fee income in the period.

The year-on-year increase was especially attributable to mortgage lending, including the continuing growth in the volume of mortgage loans arranged from Totalkredit. Net fee income from securities trading and asset management was unchanged, covering an increase in income from asset management combined with lower income from unit trusts.

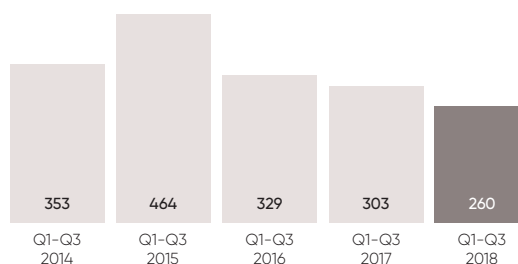
From Q2 to Q3, net interest income rose from DKK 273 million to DKK 293 million, driven by rising activity in securities trading and asset management.

## MARKET VALUE ADJUSTMENTS LIFTED BY EQUITY INVESTMENTS

Market value adjustments and dividends amounted to DKK 260 million, against DKK 303 million in the same period of 2017.

## Market value adjustments and dividends

DKKm



Adding to performance was a substantial improvement in market value adjustments and dividends on equity investments, not least BankInvest, while earnings from bonds and financial instruments were notably lower than last year.

From Q2 to Q3, market value adjustments rose from DKK 64 million to DKK 77 million, attributable in particular to a more positive development in shares, etc.

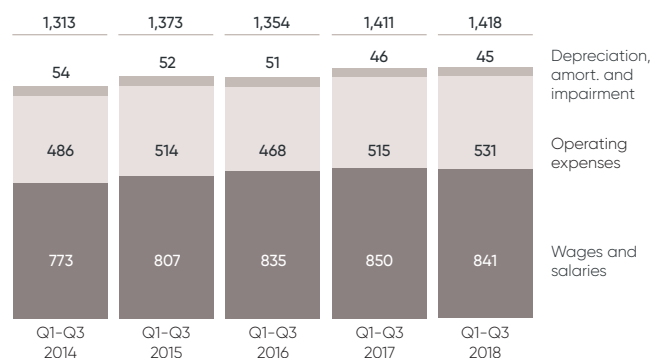
## INCOME OF DKK 154 MILLION FROM DIVESTMENT OF VALUEINVEST

Other operating income amounted to DKK 192 million in Q1-Q3 2018, against DKK 36 million in the same period of 2017. The increase was driven by the sale of Spar Nord's shareholding in Valueinvest Asset Management SA.

Income from investments in associates and group enterprises amounted to DKK 28 million compared with DKK 27 million in 2017.

**COSTS DRIVEN BY MAJOR IT INVESTMENTS**

The Group's total costs and expenses amounted to DKK 1,418 million, against DKK 1,411 million in the same period of 2017.

**Total costs**  
DKKm

Wages and salaries accounted for DKK 841 million of total costs and expenses. Realised payroll costs were DKK 8 million lower than in Q1-Q3 2017, primarily due to factors of a technical nature (regarding overtime pay, holiday pay, etc.).

As a result of pay rises under collective agreements, costs for basic salaries were thus slightly higher than in the year-earlier period, although Spar Nord employed 34 employees fewer at 30 September 2018 than one year before.

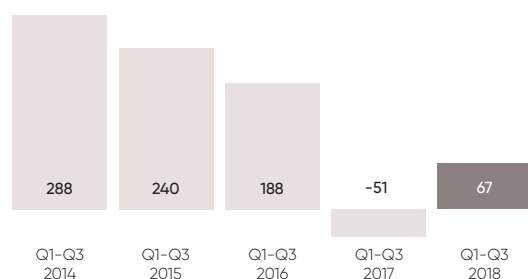
Other operating expenses came to DKK 531 million, which is DKK 16 million, or 3%, higher than in Q1-Q3 2017. The increase was attributable to higher costs associated with strategic IT projects, both at the BEC data centre and in-house projects at Spar Nord, while costs were reduced in all other areas (premises, marketing, etc.).

The realised core income and costs correspond to a Cost/Income Ratio of 0.57, which is better than Spar Nord's strategic target of 0.60.

From Q2 to Q3, costs were reduced from DKK 510 million to DKK 433 million, due to the usual adjustment of holiday pay obligations during the summer holiday period and lower operating expenses for activities such as marketing.

**AGRICULTURAL LOANS AFFECTING LOAN IMPAIRMENTS**

Loan impairment charges etc. were an expense of DKK 67 million, which compares to an income of DKK 51 million in the year-earlier period.

**Impairment**  
DKKm

As was the case in Q2, challenges for agricultural customers affected impairment developments in Q3. In Q3, impairments thus had a negative profit impact of DKK 50 million, bringing the year-to-date impact to DKK 67 million, equal to an impairment ratio of 0.15% p.a.

Year-to-day, the total profit impact for agriculture is DKK 122 million, for retail customers (incl. SparExpres) it is DKK 7 million, while loan impairments of DKK 62 million were reversed for other business customers.

**The Groups loans, advances and guarantees \*)**  
**Breakdown by industry**

| Industry %                            | Loans and guarantees |              | Impairment account |
|---------------------------------------|----------------------|--------------|--------------------|
|                                       | 31.12.17             | 30.09.18     | 30.09.18           |
| Agriculture, hunting and forestry     | 6.1                  | 6.1          | 32.9               |
| Fisheries                             | 0.2                  | 0.2          | 0.0                |
| Industry and raw materials extraction | 5.3                  | 5.3          | 4.6                |
| Utilities                             | 3.1                  | 2.7          | 1.4                |
| Construction and engineering          | 4.8                  | 4.6          | 4.3                |
| Trade                                 | 7.2                  | 7.7          | 4.8                |
| Transport, hotels and restaurants     | 3.8                  | 4.1          | 5.5                |
| Information and communication         | 0.4                  | 0.4          | 0.2                |
| Financing and insurance               | 6.6                  | 6.4          | 6.8                |
| Real property                         | 11.2                 | 11.0         | 11.1               |
| Other industries                      | 5.8                  | 6.5          | 5.5                |
| <b>Total business customers</b>       | <b>54.5</b>          | <b>55.0</b>  | <b>77.0</b>        |
| Public authorities                    | 0.0                  | 0.0          | 0.0                |
| Retail customers                      | 45.5                 | 45.0         | 23.0               |
| <b>Total</b>                          | <b>100.0</b>         | <b>100.0</b> | <b>100.0</b>       |

\*) Excl. reverse repo transactions

**Agricultural exposures by production line**

| 30.09.18<br>DKKm  | Loans and advances and guarantees | Non-performing loans | Of which impaired | Share impaired |
|-------------------|-----------------------------------|----------------------|-------------------|----------------|
| Cattle producers  | 781                               | 19                   | 428               | 54.9           |
| Pig producers     | 644                               | 12                   | 300               | 46.6           |
| Plant cultivation | 812                               | 29                   | 205               | 25.3           |
| Mink farmers      | 97                                | 2                    | 32                | 33.2           |
| Leasing           | 520                               | 0                    | 23                | 4.5            |
| Miscellaneous     | 383                               | 3                    | 20                | 5.1            |
| <b>Total</b>      | <b>3,237</b>                      | <b>64</b>            | <b>1,009</b>      | <b>31.2</b>    |

**Agricultural impairments by production line**

| 30.09.18<br>DKKm/% | Impairment account | Written off | Impairment for the year | Impairment ratio of exposure | Percentage of impaired |
|--------------------|--------------------|-------------|-------------------------|------------------------------|------------------------|
| Cattle producers   | 261                | 63          | 6                       | 33.4                         | 60.8                   |
| Pig producers      | 206                | 7           | 45                      | 31.9                         | 68.5                   |
| Plant cultivation  | 108                | 0           | 58                      | 13.2                         | 52.4                   |
| Mink farmers       | 17                 | 6           | 7                       | 17.6                         | 53.1                   |
| Leasing            | 13                 | 0           | 4                       | 2.4                          | 54.9                   |
| Miscellaneous      | 24                 | 0           | 3                       | 6.3                          | 121.7                  |
| <b>Total</b>       | <b>628</b>         | <b>76</b>   | <b>122</b>              | <b>19.4</b>                  | <b>62.2</b>            |

Individual impairment charges (stage 3) amounted to DKK 1,463 million at 30 September 2018, while stage 1 and 2 impairments totalled DKK 408 million.

### PROFIT BEFORE TAX OF DKK 1,011 MILLION AND NET PROFIT OF DKK 849 MILLION

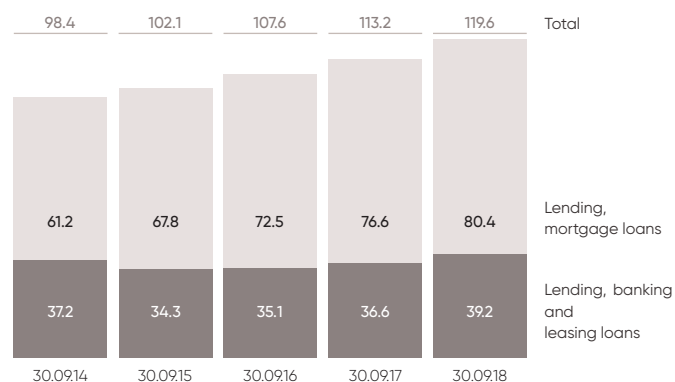
The profit before tax was DKK 1,011 million against DKK 1,016 million in Q1-Q3 2017. The Group's effective tax rate was 16%, bringing the net profit to DKK 849 million, against DKK 799 million in the same period last year. The low effective tax rate was due to tax exemption for income relating to both Valueinvest and BankInvest in Q1-Q3.

### BUSINESS VOLUME GROWING TO DKK 245 BILLION

The Group's total business volume (deposits, loans, advances and guarantees, mortgage credits arranged and customers' custodianship accounts) amounted to DKK 244.7 billion at 30 September 2018, which was DKK 3.3 billion higher than at end-2017.

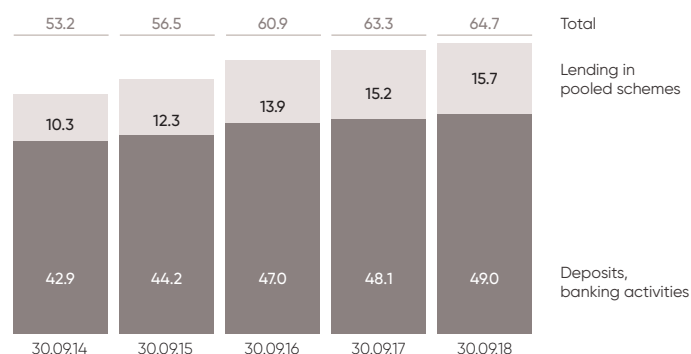
Compared with end-2017, bank and leasing loans rose DKK 1.9 billion, or 5% to DKK 39.2 billion.

#### Total credits arranged (DKKbn)



In Q1-Q3 2018, the volume of mortgage loans arranged grew DKK 3.3 billion to DKK 80.4 billion, equal to 4%. In total, the volume of mortgage loans arranged from Totalkredit amounted to DKK 69.3 billion and from DLR Kredit DKK 11.1 billion.

#### Total deposits (DKKbn)



Deposits, banking activities increased by DKK 0.3 billion, or 1%, in Q1-Q3, while deposits in pooled schemes climbed DKK 0.3 billion.

Lastly, customers' custodianship accounts have declined by DKK 2.5 billion, or 5%, since 1 January.

### STRATEGIC LIQUIDITY AT COMFORTABLE LEVEL OF DKK 199 BILLION

Spar Nord has defined strategic liquidity as the difference between bank and leasing lending and the 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)   | 30.09.18    | 30.06.18    | 31.03.18    | 31.12.17    | 30.09.17    |
|---|-------------|-------------|-------------|-------------|-------------|
| Deposits, banking activities                              | 49.0        | 49.5        | 47.8        | 48.7        | 48.1        |
| Senior loans/bond issues                                  | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Equity and subordinated debt                              | 10.7        | 10.5        | 10.2        | 10.1        | 9.9         |
| <b>Liquidity procurement</b>                              | <b>59.7</b> | <b>60.0</b> | <b>58.0</b> | <b>58.8</b> | <b>58.0</b> |
| Lending, banking and leasing activities                   | 39.2        | 38.3        | 37.6        | 37.3        | 36.6        |
| Maturity, senior issued bonds & subordinated debt <1 year | 0.7         | 0.7         | 0.7         | 0.7         | 0.4         |
| <b>Strategic liquidity, total</b>                         | <b>19.9</b> | <b>21.0</b> | <b>19.8</b> | <b>20.8</b> | <b>21.0</b> |

At the end September 2018, Spar Nord's strategic liquidity amounted to DKK 199 billion, down DKK 0.9 billion compared with end-2017 and DKK 1.1 billion lower than at 30 June 2018. The decline was due to an increase in lending.

Spar Nord's LCR ratio at 30 September 2018 was 157.

### STRONG 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%. In connection with the expected assignment of SIFI status (beginning of 2019), Spar Nord expects to raise these targets to 13.5% and 17.5%.

At 30 September 2018, the common equity tier 3 (CET1) ratio was 14.3%, while the own funds ratio was 18.7%. This should be viewed relative to the individual solvency need calculated by Spar Nord at 9.3% plus the 1.9% combined buffer requirement, as a result of which the total capital requirement is 11.2%. Thus, Spar Nord has an excess capital coverage of 7.0 percentage points, equal to DKK 3.7 billion, which has been reduced by tier 2 capital of DKK 0.3 billion because Spar Nord currently has more tier 2 capital than what may be included in the excess coverage calculation.

Spar Nord did not issue or repay subordinated capital in Q3.

### PHASING IN OF MREL REQUIREMENTS

As Spar Nord is expected to be assigned SIFI status, the Bank must comply with the same requirements regarding eligible liabilities (MREL requirements) as other SIFIs. The requirements will be phased in from the beginning of 2019 to the beginning of 2022, and when they are fully phased in, Spar Nord must have total capital of about 30% of the REA.

Over the coming years, the phasing in of the new requirements is expected to lead to a need for issuing MREL funds (senior non-preferred) to the tune of DKK 6 billion. The first issues are expected to be made in H2 2019, and efforts will be made to ensure an even distribution of issues during the period until the MREL requirements enter into force.



### ACQUISITION OF STAKE IN DANSKE ANDELSKASSERS BANK

On 26 September, Spar Nord announced that the Bank had acquired 27% of the shares of Danske Andelskassers Bank for DKK 236 million.

From the perspective of a strategic investment, DAB is attractive for Spar Nord because there is a strong match between the two banks in a number of areas, including in relation to customer focus, channel strategy, geography and IT platform.

In addition, the acquisition is considered a financial investment, not least because the divestment of large shareholdings in Nørresundby Bank A/S in 2015 and Valueinvest Asset Management SA in 2018 released capital for so-called "material equity investments" in other financial enterprises.

The stake has been recognised as investments in associates and will be recognised according to the equity method. The Bank has assessed that the fair value of acquired net assets equals the cost price of the shares, as a result of which no goodwill or negative goodwill has arisen in connection with the investment.

### STRONG DEVELOPMENT IN IMAGE AND CUSTOMER SATISFACTION

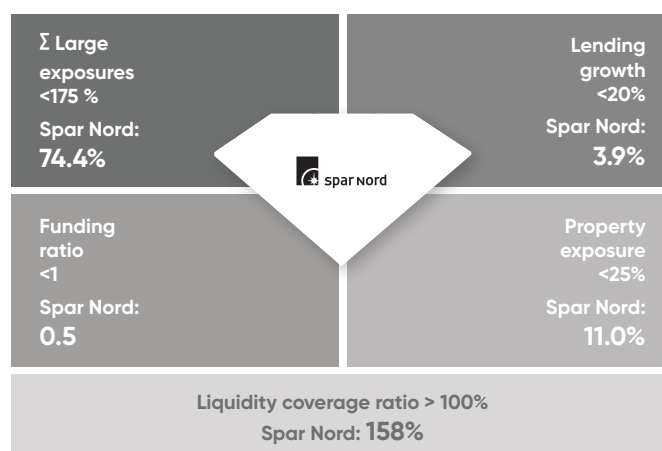
In the most recent period, Spar Nord has performed well in a number of different surveys in which retail customers and business customers have been asked to assess the Danish banks. Most recently, in the "Finansimage" survey conducted by Wilke for Finanswatch, Spar Nord was highlighted as being the bank with the best image in the three Danish regions of Northern Jutland, Central Jutland and Southern Denmark. Earlier in the same month, figures from Aalund Research showed that, among the large Danish banks, Spar Nord has the most satisfied business customers in the SME segment (businesses with 10-499 employees).

The Spar Nord management considers the positive performance, not least the improvement in retail and commercial customers' evaluation of the Bank's advice and other services, as evidence that the strategic initiatives we have launched in recent years have been successful.

### 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 30 September 2018, Spar Nord was comfortably within all threshold values in the Supervisory Authority Diamond Test Model. At 30 September, Spar Nord could report the following values in respect of the defined reference points:



### OUTLOOK FOR 2018

At the beginning of 2018, Spar Nord forecast core earnings before impairment of around the DKK 1.1 billion mark and a net profit of around DKK 0.8 billion.

As a result of information on non-recurring income from market value adjustments of BI Holding A/S in Q1 and sales proceeds from Valueinvest Asset Management SA in Q2, Spar Nord opted in Q1 twice to upgrade its guidance for a profit before impairment for the full-year 2018 from "about DKK 1.1 billion" to "about DKK 1.3 billion" and the guidance for the net profit to "about 1.0 billion".

On the basis of the overall financial performance for Q1-Q3, Spar Nord retains its guidance for core earnings and net profit.

**SPAR NORD SHARES HELD BY MEMBERS OF THE MANAGEMENT TEAM**

| <b>Board of Directors</b> | <b>At 30.09.18</b> | <b>At 30.06.18</b> | <b>Executive Board</b> | <b>At 30.09.18</b> | <b>At 30.06.18</b> |
|---------------------------|--------------------|--------------------|------------------------|--------------------|--------------------|
| Kjeld Johannesen          | 80,000             | 80,000             | Lasse Nyby             | 52,365             | 51,161             |
| Per Nikolaj Bukh          | 27,200             | 27,200             | John Lundsgaard        | 74,768             | 74,274             |
| Lene Aaen                 | 2,784              | 2,593              | Lars Møller            | 70,614             | 69,431             |
| Kaj Christiansen          | 21,100             | 21,100             |                        |                    |                    |
| Morten Bach Gaardboe      | 3,620              | 3,620              |                        |                    |                    |
| Laila Mortensen           | 0                  | 0                  |                        |                    |                    |
| Jannie Skovsen            | 8,374              | 8,151              |                        |                    |                    |
| Gitte Holmgaard Sørensen  | 2,638              | 2,392              |                        |                    |                    |
| John Sørensen             | 5,160              | 5,160              |                        |                    |                    |

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

**OVERVIEW OF GROUP COMPANIES**

|  | <b>Share capital<br/>end of period*)<br/>DKKm</b> | <b>Equity<br/>end of<br/>period*)</b> | <b>Profit/loss *)<br/>DKKm</b> |
|--|---|---------------------------------------|--------------------------------|
| <b>Consolidated subsidiaries</b>       |   |                                       |                                |
| Aktieselskabet Skelagervej 15, Aalborg | 27  | 402                                   | 18                             |

*\*) According to the most recent annual report.*

The company is a wholly-owned subsidiary in 2017 and 2018.

## Alternative performance measures

Spar Nord's Management believes that the alternative performance measures (APMs) used in the Management's review provide valuable information to readers of the financial statements. The APMs provide a more consistent basis for comparing the results of financial periods and for assessing the performance of the Group. They are also an important aspect of the way in which Spar Nord's Management defines operating targets and monitors performance.

Throughout the Management's review, performance is assessed on the basis of the financial highlights and segment reporting, which represent the financial information regularly provided to Management. The differences between the financial highlights and the IFRS financial statements relate only to certain changes in the presentation. There are no adjusting items, which means that net profit is the same in the financial highlights and in the IFRS income statement. A reconciliation of the correlation between core income in the management commentary and the IFRS financial statements is shown in note 3 Segment information.

Spar Nord uses core earnings as a performance measure. From 2018, there is no difference between "Core earnings before impairment" in the core earnings format and "Profit/loss before loan impairment charges" in the IFRS financial statements, as there is no discount on commitments taken over. In the core earnings format, the recognised share of discount on commitments taken over was previously presented together with loan impairment charges, etc., whereas in the IFRS financial statements it was included in interest income.

In previous years, other items in the core earnings format comprised contributions to sector-wide solutions and special merger-related items.

Defined below are the additional key indicators shown on page 4 of the management commentary and in the other sections of the management commentary.

|  |  |
|--|--|
| Return on equity before tax, excl. additional tier 1 (AT1) capital | Profit/loss before tax in per cent of shareholders' equity.<br>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 shareholders' equity.<br>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  | Total costs/core income.   |
| Cost share of core income – incl. loan impairment charges          | Total costs plus loan impairment charges etc./core income.   |
| Bank and leasing loans relative to bank deposits                   | Bank and leasing loans as a percentage of bank deposits  |
| Bank and leasing loans relative to shareholders' equity            | Bank and leasing loans / shareholders' equity  |

# Performance indicators and financial ratios – Group

## THE DANISH FSA'S LAYOUT AND RATIO SYSTEM 5-YEAR OVERVIEW

| INCOME STATEMENT<br>DKKm                                    | Q1-Q3<br>2018 | Q1-Q3<br>2017 | Change<br>in % | Q1-Q3<br>2018 | Q1-Q3<br>2017 | Q1-Q3<br>2016 | Q1-Q3<br>2015 | Q1-Q3<br>2014 | Full year<br>2017 |
|---|---------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|-------------------|
| Net interest and fee income                                 | 2,068         | 2,062         | 0              | 2,068         | 2,062         | 2,091         | 2,185         | 2,031         | 2,716             |
| Market value adjustments                                    | 207           | 280           | -26            | 207           | 280           | 280           | 409           | 335           | 381               |
| Staff costs and administrative expenses                     | 1,366         | 1,358         | 1              | 1,366         | 1,358         | 1,295         | 1,315         | 1,247         | 1,863             |
| Loan impairment charges etc.                                | 67            | -21           | -410           | 67            | -21           | 225           | 278           | 334           | -7                |
| Income from investments in associates and group enterprises | 28            | 27            | 3              | 28            | 27            | 23            | 20            | 79            | 32                |
| Profit/loss   | 849           | 799           | 6              | 849           | 799           | 690           | 779           | 635           | 989               |
| <b>BALANCE SHEET</b>  |               |               |                |               |               |               |               |               |                   |
| <b>DKKm</b>   |               |               |                |               |               |               |               |               |                   |
| Loans and advances  | 46,636        | 45,471        | 3              | 46,636        | 45,471        | 39,697        | 38,223        | 37,362        | 46,747            |
| Equity  | 9,184         | 8,793         | 4              | 9,184         | 8,793         | 8,073         | 7,768         | 7,047         | 8,975             |
| Total assets  | 85,461        | 80,372        | 6              | 85,461        | 80,372        | 78,957        | 79,958        | 78,816        | 80,367            |

In accordance with the accounting policies, the comparative figures have not been restated in connection with the implementation of IFRS 9 on financial instruments at 01.01.2018.

| FINANCIAL RATIOS   |      |       |  |      |       |       |       |       |       |
|--|------|-------|--|------|-------|-------|-------|-------|-------|
| <b>OWN FUNDS</b>   |      |       |  |      |       |       |       |       |       |
| Own funds ratio  | 18.7 | 17.9  |  | 18.7 | 17.9  | 16.6  | 16.5  | 15.5  | 18.2  |
| Tier 1 capital ratio   | 15.9 | 15.8  |  | 15.9 | 15.8  | 14.5  | 14.5  | 13.6  | 16.0  |
| <b>EARNINGS</b>  |      |       |  |      |       |       |       |       |       |
| Return on equity before tax, %                                 | 11.3 | 11.7  |  | 11.3 | 11.7  | 10.6  | 12.6  | 11.2  | 14.2  |
| Return on equity after tax, %                                  | 9.5  | 9.2   |  | 9.5  | 9.2   | 8.6   | 10.5  | 9.4   | 11.2  |
| Income/cost ratio  | 1.68 | 1.73  |  | 1.68 | 1.73  | 1.53  | 1.54  | 1.44  | 1.65  |
| Return on assets, %  | 1.0  | 1.0   |  | 1.0  | 1.0   | 0.9   | 1.0   | 0.8   | 1.2   |
| <b>MARKET RISK AND LIQUIDITY</b>                               |      |       |  |      |       |       |       |       |       |
| Interest rate risk, %  | 0.9  | 1.3   |  | 0.9  | 1.3   | 0.4   | 1.2   | 1.9   | 0.7   |
| Foreign-exchange position, %                                   | 1.5  | 5.2   |  | 1.5  | 5.2   | 3.1   | 4.0   | 3.4   | 3.3   |
| Foreign-exchange risk, %                                       | 0.1  | 0.1   |  | 0.1  | 0.1   | 0.0   | 0.1   | 0.0   | 0.1   |
| Excess coverage relative to statutory liquidity requirement, % | -    | 313.4 |  | -    | 313.4 | 298.8 | 263.7 | 194.3 | 326.4 |
| Loans and advances as % of deposits                            | 72.1 | 71.8  |  | 72.1 | 71.8  | 65.2  | 67.1  | 70.2  | 72.7  |
| <b>CREDIT RISK</b>   |      |       |  |      |       |       |       |       |       |
| Loans and advances relative to equity                          | 5.1  | 5.2   |  | 5.1  | 5.2   | 4.9   | 4.9   | 5.3   | 5.2   |
| Increase in loans and advances for the period, %               | 5.7  | 4.4   |  | 5.7  | 4.4   | 3.6   | -3.3  | 3.7   | 6.2   |
| Sum of large exposures, % *)                                   | 74.4 | 18.7  |  | 74.4 | 18.7  | 15.8  | 15.9  | 30.9  | 17.2  |
| Impairment ratio for the period                                | 0.1  | 0.0   |  | 0.1  | 0.0   | 0.4   | 0.6   | 0.7   | 0.0   |
| <b>THE SPAR NORD SHARE</b>                                     |      |       |  |      |       |       |       |       |       |
| <b>DKK PER SHARE OF DKK 10</b>                                 |      |       |  |      |       |       |       |       |       |
| Profit/loss for the period                                     | 6.9  | 6.5   |  | 6.9  | 6.5   | 5.5   | 6.2   | 5.1   | 8.0   |
| Net asset value (NAV)  | 68   | 64    |  | 68   | 64    | 62    | 59    | 56    | 66    |
| Dividend   | -    | -     |  | -    | -     | -     | 2.0   | -     | 3.5   |
| Share price/profit/loss for the period                         | 8.7  | 12.0  |  | 8.7  | 12.0  | 11.6  | 12.3  | 11.8  | 9.0   |
| Share price/NAV  | 0.9  | 1.2   |  | 0.9  | 1.2   | 1.0   | 1.3   | 1.1   | 1.1   |

\*) In 2018, financial ratios are calculated according to new rules.

In accordance with the accounting policies, the comparative figures have not been restated in connection with the implementation of IFRS 9 on financial instruments at 01.01.2018.

## Management's statement on the Interim Report

The Board of Directors and the Executive Board have today discussed and adopted the Interim Financial Statements of Spar Nord Bank for the period from 1 January to 30 September 2018.

The Consolidated Interim Financial Statements are presented in accordance with IAS 34 "Interim Financial Reporting", as adopted by the EU.

Moreover, the Interim Financial Statements are presented in accordance with additional Danish disclosure requirements regarding interim financial statements of listed financial institutions.

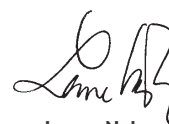
The interim financial statements are unaudited and have not been reviewed, but the external auditor has verified the profit. This verification included procedures consistent with the requirements relating to a review. Hence, it was ascertained that the conditions for on-going recognition of the profit for the period in own funds were met.

In our opinion, the Interim Financial Statements give a true and fair view of the Group's financial position at 30 September 2018 and of the results of the Group's operations and cash flows for the period from 1 January to 30 September 2018.

In addition, we consider the Management's review to give a fair presentation of the development in the Group's activities and financial affairs as well as a description of the significant risks and elements of uncertainty that may affect the Group.

**Aalborg, 7 November 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



**Per Nikolaj Bukh**

Deputy Chairman of the Board  
of Directors



**Lene Aaen**



**Kaj Christiansen**



**Morten Bach Gaardboe**



**Laila Mortensen**



**Jannie Skovsen**



**Gitte Holmgaard Sørensen**



**John Sørensen**

## Income statement - Group

NOTE

|  | Q1-Q3<br>2018<br>DKKkm | Q1-Q3<br>2017<br>DKKkm | Q3<br>2018<br>DKKkm | Q3<br>2017<br>DKKkm | Full year<br>2017<br>DKKkm |
|--|------------------------|------------------------|---------------------|---------------------|----------------------------|
| 4.1 Interest income  | 1,252                  | 1,309                  | 420                 | 425                 | 1,719                      |
| 4.2 Interest expenses  | 93                     | 106                    | 35                  | 35                  | 141                        |
| <b>Net interest income</b>   | <b>1,159</b>           | <b>1,203</b>           | <b>386</b>          | <b>390</b>          | <b>1,577</b>               |
| Dividends on shares, etc.  | 53                     | 23                     | 8                   | 4                   | 23                         |
| 4.3 Fees, charges and commissions received   | 973                    | 943                    | 333                 | 305                 | 1,265                      |
| 4.3 Fees, charges and commissions paid   | 117                    | 106                    | 40                  | 41                  | 149                        |
| <b>Net interest and fee income</b>   | <b>2,068</b>           | <b>2,062</b>           | <b>687</b>          | <b>658</b>          | <b>2,716</b>               |
| 4.4 Market value adjustments   | 207                    | 280                    | 69                  | 13                  | 381                        |
| Other operating income   | 192                    | 36                     | 12                  | 12                  | 51                         |
| 4.5 Staff costs and administrative expenses  | 1,366                  | 1,358                  | 415                 | 413                 | 1,863                      |
| Amortisation, depreciation and impairment of intangible assets and property, plant and equipment | 45                     | 46                     | 15                  | 18                  | 61                         |
| Other operating expenses   | 7                      | 7                      | 3                   | 2                   | 13                         |
| Income from investments in associates and group enterprises                                      | 28                     | 27                     | 3                   | 7                   | 32                         |
| <b>Profit/loss before loan impairment charges (core earnings before impairment)</b>              | <b>1,077</b>           | <b>995</b>             | <b>338</b>          | <b>256</b>          | <b>1,244</b>               |
| 6.2.1 Loan impairment charges etc.   | 67                     | -21                    | 50                  | -40                 | -7                         |
| <b>Profit/loss before tax</b>  | <b>1,011</b>           | <b>1,016</b>           | <b>288</b>          | <b>297</b>          | <b>1,251</b>               |
| Tax  | 162                    | 218                    | 69                  | 73                  | 262                        |
| <b>Profit/loss</b>   | <b>849</b>             | <b>799</b>             | <b>219</b>          | <b>224</b>          | <b>989</b>                 |
| <b>APPROPRIATION:</b>  |                        |                        |                     |                     |                            |
| The shareholders of the Parent Company Spar Nord Bank A/S  | 812                    | 762                    | 207                 | 211                 | 940                        |
| Holders of additional tier 1 (AT1) capital instruments   | 37                     | 36                     | 12                  | 12                  | 49                         |
| <b>Profit/loss</b>   | <b>849</b>             | <b>799</b>             | <b>219</b>          | <b>224</b>          | <b>989</b>                 |
| <b>EARNINGS PER SHARE</b>  |                        |                        |                     |                     |                            |
| Earnings per share (DKK)   | 6.7                    | 6.3                    | 1.7                 | 1.7                 | 7.7                        |
| Diluted earnings per share (DKK)   | 6.7                    | 6.3                    | 1.7                 | 1.7                 | 7.7                        |
| <b>STATEMENT OF COMPREHENSIVE INCOME</b>   |                        |                        |                     |                     |                            |
| <b>Profit/loss for the period</b>  | <b>849</b>             | <b>799</b>             | <b>219</b>          | <b>224</b>          | <b>989</b>                 |
| <b>Other comprehensive income</b>  |                        |                        |                     |                     |                            |
| <b>Items that cannot be reclassified to the income statement:</b>                                |                        |                        |                     |                     |                            |
| Net revaluation of domicile property   | 1                      | 1                      | 0                   | 0                   | 11                         |
| <b>Other comprehensive income after tax</b>  | <b>1</b>               | <b>1</b>               | <b>0</b>            | <b>0</b>            | <b>11</b>                  |
| <b>Total comprehensive income</b>  | <b>850</b>             | <b>800</b>             | <b>220</b>          | <b>224</b>          | <b>1,000</b>               |
| <i>Appropriation:</i>  |                        |                        |                     |                     |                            |
| The shareholders of the Parent Company Spar Nord Bank A/S  | 813                    | 764                    | 207                 | 212                 | 951                        |
| Holders of additional tier 1 (AT1) capital instruments   | 37                     | 36                     | 12                  | 12                  | 49                         |
| <b>Total comprehensive income</b>  | <b>850</b>             | <b>800</b>             | <b>220</b>          | <b>224</b>          | <b>1,000</b>               |

## Balance sheet - Group

NOTE

|                                     | 30.09.18<br>DKKm | 30.09.17<br>DKKm | Full year<br>2017<br>DKKm |
|-------------------------------------|------------------|------------------|---------------------------|
| <b>ASSETS</b>                       |                  |                  |                           |
|                                     | 938              | 1,347            | 1,298                     |
| 6.4                                 | 1,961            | 1,824            | 1,437                     |
|                                     | 39,154           | 36,630           | 37,272                    |
|                                     | 7,482            | 8,841            | 9,475                     |
| 6.3                                 | <b>46,636</b>    | <b>45,471</b>    | <b>46,747</b>             |
|                                     | 15,158           | 11,980           | 10,838                    |
|                                     | 1,749            | 1,519            | 1,626                     |
|                                     | 299              | 120              | 128                       |
|                                     | 15,696           | 15,204           | 15,423                    |
|                                     | 179              | 186              | 184                       |
|                                     | 135              | 135              | 135                       |
|                                     | 528              | 524              | 487                       |
|                                     | <b>663</b>       | <b>659</b>       | <b>621</b>                |
|                                     | 126              | 108              | 119                       |
|                                     | 107              | 0                | 45                        |
|                                     | 11               | 23               | 21                        |
| 5.1                                 | 1,803            | 1,820            | 1,763                     |
|                                     | 134              | 112              | 115                       |
| <b>Total assets</b>                 | <b>85,461</b>    | <b>80,372</b>    | <b>80,367</b>             |
| <b>LIABILITIES</b>                  |                  |                  |                           |
| <b>PAYABLES</b>                     |                  |                  |                           |
|                                     | 5,607            | 2,855            | 1,964                     |
| 5.2                                 | 49,007           | 48,092           | 48,843                    |
|                                     | 15,696           | 15,204           | 15,423                    |
|                                     | 1,232            | 1,400            | 934                       |
|                                     | 0                | 45               | 0                         |
| 5.3                                 | 2,912            | 2,695            | 2,866                     |
|                                     | 35               | 19               | 19                        |
| <b>Total payables</b>               | <b>74,491</b>    | <b>70,310</b>    | <b>70,049</b>             |
| <b>PROVISIONS</b>                   |                  |                  |                           |
|                                     | 139              | 108              | 136                       |
|                                     | 78               | 49               | 41                        |
|                                     | 37               | 25               | 21                        |
| <b>Total provisions</b>             | <b>254</b>       | <b>183</b>       | <b>199</b>                |
| <b>SUBORDINATED DEBT</b>            |                  |                  |                           |
| 5.4                                 | 1,532            | 1,086            | 1,144                     |
| <b>Total liabilities</b>            | <b>76,277</b>    | <b>71,580</b>    | <b>71,392</b>             |
| <b>EQUITY</b>                       |                  |                  |                           |
|                                     | 1,230            | 1,230            | 1,230                     |
|                                     | 95               | 93               | 94                        |
|                                     | -                | -                | 431                       |
|                                     | 6,985            | 6,598            | 6,359                     |
| <b>Shareholders' equity</b>         | <b>8,310</b>     | <b>7,920</b>     | <b>8,114</b>              |
|                                     | 875              | 872              | 861                       |
| <b>Total equity</b>                 | <b>9,184</b>     | <b>8,793</b>     | <b>8,975</b>              |
| <b>Total equity and liabilities</b> | <b>85,461</b>    | <b>80,372</b>    | <b>80,367</b>             |
| <b>OFF-BALANCE SHEET ITEMS</b>      |                  |                  |                           |
| 5.5                                 | 15               | 8                | 13                        |
| 5.6                                 | 12,028           | 11,742           | 11,961                    |
| 5.7                                 | 567              | 501              | 501                       |

## Capital position - Group

### STATEMENT OF CHANGES IN EQUITY

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

|  | Share capital<br>DKKk | Revalua-<br>tion<br>reserve<br>DKKk | Statutory<br>reserves<br>DKKk | Proposed<br>dividend<br>DKKk | Retained<br>earnings<br>DKKk | Total<br>DKKk | Addi-<br>tional<br>tier 1<br>capital<br>DKKk | Total<br>DKKk |
|--|-----------------------|-------------------------------------|-------------------------------|------------------------------|------------------------------|---------------|--|---------------|
| <b>EQUITY AT 30.09.18</b>  |                       |                                     |                               |                              |                              |               |  |               |
| Equity at 31.12.17   | 1,230                 | 94                                  | 0                             | 431                          | 6,359                        | 8,114         | 861  | 8,975         |
| Change in accounting policies, IFRS 9. See note 1.1                              | -                     | -                                   | -                             | -                            | -195                         | -195          | -  | -195          |
| <b>Equity at 01.01.18</b>  | <b>1,230</b>          | <b>94</b>                           | <b>0</b>                      | <b>431</b>                   | <b>6,164</b>                 | <b>7,919</b>  | <b>861</b>                                   | <b>8,780</b>  |
| <i>Comprehensive income in 2018</i>  |                       |                                     |                               |                              |                              |               |  |               |
| Profit/loss for the period   | -                     | -                                   | 28                            | -                            | 784                          | 812           | 37   | 849           |
| <i>Other comprehensive income</i>  |                       |                                     |                               |                              |                              |               |  |               |
| Net revaluation of properties  | -                     | 0                                   | -                             | -                            | 1                            | 1             | -  | 1             |
| <b>Other comprehensive income, total</b>   | <b>-</b>              | <b>0</b>                            | <b>-</b>                      | <b>-</b>                     | <b>1</b>                     | <b>1</b>      | <b>-</b>                                     | <b>1</b>      |
| <b>Total comprehensive income for the period</b>                                 | <b>-</b>              | <b>0</b>                            | <b>28</b>                     | <b>-</b>                     | <b>785</b>                   | <b>813</b>    | <b>37</b>                                    | <b>850</b>    |
| <i>Transactions with owners</i>  |                       |                                     |                               |                              |                              |               |  |               |
| Interest paid on additional tier 1 (AT1) capital                                 | -                     | -                                   | -                             | -                            | -                            | -             | -24  | -24           |
| Dividends paid   | -                     | -                                   | -                             | -431                         | -                            | -431          | -  | -431          |
| Dividends received, treasury shares  | -                     | -                                   | -                             | -                            | 0                            | 0             | -  | 0             |
| Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital | -                     | -                                   | -                             | -                            | -225                         | -225          | -  | -225          |
| Addition upon sale of treasury shares and additional tier 1 (AT1) capital        | -                     | -                                   | -                             | -                            | 224                          | 224           | 1  | 225           |
| Revaluation reserves, associates   | -                     | -                                   | -23                           | -                            | 23                           | 0             | -  | 0             |
| Dividends received from associates recognised at net asset value                 | -                     | -                                   | -5                            | -                            | 5                            | 0             | -  | 0             |
| Tax  | -                     | -                                   | -                             | -                            | 8                            | 8             | -  | 8             |
| <b>Total transactions with owners</b>  | <b>-</b>              | <b>-</b>                            | <b>-28</b>                    | <b>-431</b>                  | <b>36</b>                    | <b>-423</b>   | <b>-23</b>                                   | <b>-446</b>   |
| <b>Equity at 30.09.18</b>  | <b>1,230</b>          | <b>95</b>                           | <b>0</b>                      | <b>0</b>                     | <b>6,985</b>                 | <b>8,310</b>  | <b>875</b>                                   | <b>9,184</b>  |
| <b>EQUITY AT 30.09.17</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 period   | -                     | -                                   | 27                            | -                            | 735                          | 763           | 36   | 799           |
| <i>Other comprehensive income</i>  |                       |                                     |                               |                              |                              |               |  |               |
| Net revaluation of properties  | -                     | 1                                   | -                             | -                            | -                            | 1             | -  | 1             |
| <b>Other comprehensive income, total</b>   | <b>-</b>              | <b>1</b>                            | <b>-</b>                      | <b>-</b>                     | <b>-</b>                     | <b>1</b>      | <b>-</b>                                     | <b>1</b>      |
| <b>Total comprehensive income for the period</b>                                 | <b>-</b>              | <b>1</b>                            | <b>27</b>                     | <b>-</b>                     | <b>735</b>                   | <b>764</b>    | <b>36</b>                                    | <b>800</b>    |
| <i>Transactions with owners</i>  |                       |                                     |                               |                              |                              |               |  |               |
| Interest paid on additional tier 1 (AT1) capital                                 | -                     | -                                   | -                             | -                            | -                            | 0             | -24  | -24           |
| 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 | -                     | -                                   | -                             | -                            | -349                         | -349          | -2   | -351          |
| Addition upon sale of treasury shares and additional tier 1 (AT1) capital        | -                     | -                                   | -                             | -                            | 347                          | 347           | -  | 347           |
| Revaluation reserves, associates   | -                     | -                                   | -18                           | -                            | 18                           | 0             | -  | 0             |
| Dividends received from associates recognised at net asset value                 | -                     | -                                   | -31                           | -                            | 31                           | 0             | -  | 0             |
| Tax  | -                     | -                                   | -                             | -                            | 8                            | 8             | -  | 8             |
| <b>Total transactions with owners</b>  | <b>-25</b>            | <b>-</b>                            | <b>-49</b>                    | <b>-628</b>                  | <b>94</b>                    | <b>-608</b>   | <b>-26</b>                                   | <b>-635</b>   |
| <b>Equity at 30.09.17</b>  | <b>1,230</b>          | <b>93</b>                           | <b>0</b>                      | <b>0</b>                     | <b>6,598</b>                 | <b>7,920</b>  | <b>872</b>                                   | <b>8,793</b>  |

The share capital consists of 123,002,526 shares with a nominal value of DKK 10.



|                                 | Q1-Q3<br>2018 | Q1-Q3<br>2017 | Full year<br>2017 |
|---------------------------------|---------------|---------------|-------------------|
| <b>TREASURY SHARE PORTFOLIO</b> |               |               |                   |
| Number of shares                | 44,464        | 81,678        | 38,048            |
| Percentage of share capital     | 0.0           | 0.0           | 0.0               |

**ADDITIONAL TIER 1 (AT1) CAPITAL**

| Currency   | Note | Principal<br>DKKm | Interest rate | Received | Maturity  | Q1-Q3<br>2018<br>DKKm | Q1-Q3<br>2017<br>DKKm | Full year<br>2017<br>DKKm |
|--|------|-------------------|---------------|----------|-----------|-----------------------|-----------------------|---------------------------|
| DKK  | a    | 400.0             | 6.052%        | 2015     | Perpetual | 406                   | 403                   | 411                       |
| DKK  | b    | 450.0             | 5.500%        | 2016     | Perpetual | 468                   | 469                   | 450                       |
| <b>Additional tier 1 (AT1) capital issued under CRR, total</b> |      |                   |               |          |           | <b>875</b>            | <b>872</b>            | <b>861</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 5.400% 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 5.500% 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**

|  |            |            |            |
|--|------------|------------|------------|
| <b>Cash flows, beginning of period</b> | 767        | 817        | 817        |
| <i>Movement during the period:</i>     |            |            |            |
| Change in portfolio of own bonds       | 1          | -2         | -1         |
| Interest paid                          | -24        | -24        | -49        |
| <b>Total cash flows for the period</b> | <b>-23</b> | <b>-26</b> | <b>-50</b> |
| <b>Cash flows, end of period</b>       | <b>744</b> | <b>791</b> | <b>767</b> |

**OWN FUNDS**

|  |               |               |               |
|--|---------------|---------------|---------------|
| Equity   | 9,184         | 8,793         | 8,975         |
| Phasing in of IFRS 9   | 201           | -             | -             |
| Additional tier 1 (AT1) capital included in equity                     | 875           | 872           | 861           |
| Proposed dividend, excl. share re. share buyback programme             | 424           | 400           | 431           |
| Intangible assets, incl. share recognised in investments in associates | 147           | 190           | 188           |
| Other primary deductions   | 48            | 42            | 41            |
| Deductions, equity investments   | 369           | 316           | 331           |
| <b>Common equity tier 1 (CET1) capital</b>                             | <b>7,522</b>  | <b>6,973</b>  | <b>7,123</b>  |
| Additional tier 1 (AT1) capital *)                                     | 843           | 843           | 843           |
| Other deductions   | 4             | 40            | 41            |
| <b>Tier 1 capital</b>  | <b>8,361</b>  | <b>7,777</b>  | <b>7,924</b>  |
| Subordinated debt, excl. Additional Tier 1 (AT1) capital *)            | 1,514         | 1,081         | 1,133         |
| Other deductions   | 11            | 40            | 41            |
| <b>Own funds</b>   | <b>9,864</b>  | <b>8,818</b>  | <b>9,016</b>  |
| Weighted risk exposure amount, credit risk etc.                        | 43,369        | 39,674        | 40,658        |
| Weighted risk exposure amount, market risk                             | 3,638         | 3,877         | 3,196         |
| Weighted risk exposure amount, operational risk                        | 5,705         | 5,692         | 5,692         |
| <b>Total risk exposure amount</b>                                      | <b>52,712</b> | <b>49,243</b> | <b>49,546</b> |
| Common equity tier 1 capital ratio                                     | 14.3          | 14.2          | 14.4          |
| Tier 1 capital ratio   | 15.9          | 15.8          | 16.0          |
| Own funds ratio  | 18.7          | 17.9          | 18.2          |

\*) Including portfolio of own bonds

As Spar Nord has adopted the transition rules according to CRD, any adverse impact of the IFRS 9 impairment rules will not take full effect on own funds until after five years. Spar Nord has calculated the negative impact of IFRS 9 on own funds at DKK 10 million on entry into force of the rules at 01.01.2018.

NOTE

**Cash flow statement - Group**

|  | <b>Q1-Q3<br/>2018<br/>DKKm</b> | <b>Q1-Q3<br/>2017<br/>DKKm</b> | <b>Full year<br/>2017<br/>DKKm</b> |
|--|--------------------------------|--------------------------------|------------------------------------|
| <b>OPERATING ACTIVITIES</b>  |                                |                                |                                    |
| Profit/loss before tax   | 1,011                          | 1,016                          | 1,251                              |
| Fair value changes, investment properties and temporary assets                                   | 0                              | 0                              | 0                                  |
| Amortisation, depreciation and impairment of intangible assets and property, plant and equipment | 45                             | 46                             | 61                                 |
| Gains and losses on the sale of intangible assets and property, plant and equipment              | 0                              | -2                             | -1                                 |
| Gains and losses on sale of associates   | -155                           | 0                              | 0                                  |
| Adjustment of loan impairment charges etc.   | -10                            | 240                            | 275                                |
| Provisions   | 19                             | -19                            | -31                                |
| Income from investments in associates and group enterprises                                      | -28                            | -27                            | -32                                |
| Corporate income tax paid  | -157                           | -147                           | -251                               |
| <b>Operating activities, total</b>   | <b>725</b>                     | <b>1,108</b>                   | <b>1,273</b>                       |
| <b>WORKING CAPITAL</b>   |                                |                                |                                    |
| Movement in credit institutions and central banks, net   | 3,703                          | 546                            | -456                               |
| Movement in loans, advances and other receivables at amortised cost                              | -94                            | -4,479                         | -5,677                             |
| Movement in bonds at fair value  | -4,321                         | 2,956                          | 4,099                              |
| Movement in equity portfolio   | -123                           | 39                             | -69                                |
| Movement in other assets and other liabilities, net  | 304                            | -723                           | -965                               |
| Movement in deposits and other payables  | 164                            | 1,628                          | 2,379                              |
| <b>Working capital, total</b>  | <b>-367</b>                    | <b>-33</b>                     | <b>-689</b>                        |
| <b>Cash generated from operations, total</b>   | <b>358</b>                     | <b>1,075</b>                   | <b>583</b>                         |
| <b>INVESTING ACTIVITIES</b>  |                                |                                |                                    |
| Acquisition of associates and group enterprises  | -239                           | -8                             | -14                                |
| Sale of associates and group enterprises   | 247                            | 2                              | 5                                  |
| Acquisition of intangible assets   | -1                             | 0                              | -1                                 |
| Acquisition of property, plant and equipment   | -82                            | -70                            | -94                                |
| Sale of property, plant and equipment  | 6                              | 24                             | 72                                 |
| Dividends from associates and group enterprises  | 5                              | 31                             | 31                                 |
| <b>Investing activities, total</b>   | <b>-65</b>                     | <b>-21</b>                     | <b>0</b>                           |
| <b>FINANCING ACTIVITIES</b>  |                                |                                |                                    |
| 5.4 Subordinated debt  | 388                            | -7                             | 51                                 |
| Additional Tier 1 (AT1) capital recognised in equity (see specification in Capital position)     | -23                            | -26                            | -50                                |
| Dividends paid, excluding dividends on treasury shares   | -430                           | -615                           | -615                               |
| Acquisition of treasury shares   | -225                           | -349                           | -454                               |
| Sale of treasury shares  | 224                            | 348                            | 457                                |
| <b>Financing activities, total</b>   | <b>-66</b>                     | <b>-650</b>                    | <b>-612</b>                        |
| <b>Movements in cash and cash equivalents for the period</b>                                     | <b>227</b>                     | <b>405</b>                     | <b>-29</b>                         |
| Cash and cash equivalents, beginning of year   | 2,672                          | 2,701                          | 2,701                              |
| Movements in cash and cash equivalents for the period  | 227                            | 405                            | -29                                |
| <b>Cash and cash equivalents, end of year</b>  | <b>2,899</b>                   | <b>3,106</b>                   | <b>2,672</b>                       |
| <b>Cash and cash equivalents, end of period</b>  |                                |                                |                                    |
| Cash, cash equivalents and demand deposits with central banks                                    | 938                            | 1,347                          | 1,298                              |
| Due from credit institutions and central banks within less than 3 months                         | 1,961                          | 1,759                          | 1,374                              |
| <b>Total</b>   | <b>2,899</b>                   | <b>3,106</b>                   | <b>2,672</b>                       |

## Notes – Group

NOTE

### 1 ACCOUNTING POLICIES

The interim report is presented in accordance with IAS 34, "Interim Financial Reporting", as adopted by the EU, and additional Danish disclosure requirements for interim reports. The application of IAS 34 means that the presentation is limited relative to the presentation of an annual report and that the recognition and measurement principles of the International Financial Reporting Standards (IFRS) have been applied.

Other than as set out below, the accounting policies are unchanged from those applied in Annual Report 2017.

Annual Report 2017 contains the full description of the accounting policies.

Figures in the interim report 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.

### 1.1 CHANGES IN ACCOUNTING POLICIES

The following amendments to IFRS were implemented effective 1 January 2018:

- IFRS 9 Financial instruments
- IFRS 15 Revenue from Contracts with Customers

Of these, only IFRS 9 has affected recognition and measurement in the interim report. Shown below is the impact in connection with the transition at 1 January 2018.

#### 1.1.1 Impact of IFRS 9

IFRS 9 "Financial Instruments", which replaces IAS 39, changes the classification and related measurement of certain 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.

In accordance with the transition requirements of IFRS 9, comparative figures are not restated as retrospective application of the impairment requirements is not possible without the use of hindsight. The accounting impact is shown below:

|   | IAS 39<br>Amount<br>31.12.17<br>DKKm | Effect of<br>changed<br>measurement *)<br>DKKm | IFRS 9<br>Amount<br>01.01.18<br>DKKm |
|---|--------------------------------------|--|--------------------------------------|
| <b>Financial assets</b>   |                                      |  |                                      |
| Cash in hand and demand deposits with central banks                                 | 1,298                                | 0  | 1,298                                |
| Due from credit institutions and central banks                                      | 1,437                                | -1   | 1,437                                |
| Lending, banking and leasing activities   | 37,272                               | -216   | 37,056                               |
| Lending, reverse repo transactions  | 9,475                                | 0  | 9,475                                |
| <b>Loans, advances and other receivables at amortised cost, total</b>               | <b>46,747</b>                        | <b>-216</b>                                    | <b>46,531</b>                        |
| <b>Non-financial assets</b>   |                                      |  |                                      |
| Current tax assets  | 45                                   | 55   | 100                                  |
| <b>Total assets</b>   | <b>49,528</b>                        | <b>-162</b>                                    | <b>49,367</b>                        |
| <b>Financial liabilities</b>  |                                      |  |                                      |
| Due to credit institutions and central banks  | 1,964                                | 0  | 1,964                                |
| Deposits and other payables   | 48,843                               | 0  | 48,843                               |
| Subordinated debt   | 1,144                                | 0  | 1,144                                |
| <b>Non-financial liabilities</b>  |                                      |  |                                      |
| Provisions for losses on guarantees   | 41                                   | 27   | 68                                   |
| Other provisions (provision for undrawn maximum)                                    | 15                                   | 7  | 21                                   |
| <b>Total liabilities</b>  | <b>52,007</b>                        | <b>33</b>                                      | <b>52,041</b>                        |
| <b>One-off effect which is recognised in shareholders' equity at 1 January 2018</b> |                                      | <b>-195</b>                                    |                                      |
| <b>Off-balance sheet items</b>  |                                      |  |                                      |
| Guarantees  | 11,961                               | -27  | 11,934                               |
| Undrawn maximum and loan commitments  | 20,802                               | -7   | 20,795                               |
| <b>Total</b>  | <b>32,763</b>                        | <b>-33</b>                                     | <b>32,730</b>                        |

\*) Recognised in retained earnings in shareholders' equity at 01.01.2018.

As shown, the changed method for determining credit losses is estimated to result in an increase of the Bank's impairment losses and provisions at 01.01.2018 totalling DKK 250 million. Reduced by the tax impact of 22%, this equals a one-off effect of DKK -195 million or a reduction in shareholders' equity of 2.4%.

The effect after tax has been recognised as a reduction of shareholders' equity at 01.01.2018.

**General provisions in IFRS 9 on classification and measurement**

In accordance with IFRS 9, a more logical approach to classification and measurement of financial assets is introduced, driven by Spar Nord's business model and the underlying contractual cash flows related to the characteristics of the financial assets:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

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.

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 held with the objective of selling before expiry, 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. When the financial asset is derecognised in the balance sheet, the cumulative gains and losses recognised in other comprehensive income are reclassified to the income statement.

Subsequent to initial recognition, financial assets that do not meet the above-mentioned 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 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 has led to insignificant changes in measurement principles relative to those applied in Spar Nord's 2017 Annual Report.

The principles applicable to financial liabilities are largely unchanged from IAS 39. Generally, financial liabilities are still measured at amortised cost with bifurcation of embedded derivatives not closely related to a host contract. Financial liabilities recognised at fair value consist of derivatives and the trading book.

**Impairment model**

IFRS 9 introduces a new model for impairment of certain financial assets, stipulating that impairments must be recognised for expected credit losses for all financial assets recognised at amortised cost or at fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantees. For financial assets recognised at amortised cost, the impairment for expected credit losses is recognised in the income statement and set off against the asset in the balance sheet. However, on loan commitments and financial guarantee contracts impairments are recognised as a liability.

The above 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 previous rules, impairment losses were not recognised until there was objective evidence of impairment ("incurred loss" model). In addition, forward-looking information will be taken into consideration.

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, while 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.

The expected credit loss is measured for each facility. 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. For the above exposures exceeding DKK 250,000, the Bank performs an individual assessment of the expected credit losses and the pertaining probabilities. For facilities below DKK 250,000, model-based calculations will be used.. 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 development in the customers' PD level. Accordingly, the credit risk has increased significantly subsequent to 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 per cent.

The prospective information which is part of the calculation of expected losses is based on macroeconomic forecasts. The model is structured around a number of regression models determining the historical correlation between default and a number of explanatory macroeconomic 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. Macroeconomic scenarios are created: worst case, base case, best case, including an assessment of the probability for each scenario. The scenarios are approved by the Credit Committee with the involvement of specialists.

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.

The lifetime expected credit losses cover the expected remaining lifetime of the facility. For most facilities, the expected lifetime is limited to the remaining contractual maturity, however, capped at five years. For facilities comprising both a loan and an undrawn loan commitment, Spar Nord's exposure to credit losses is not limited to the contractual notice period. For such facilities, the expected lifetime is assumed to be the period during which Spar Nord expects to be exposed to credit losses. For facilities, for which the expected lifetime is longer than the remaining contractual maturity, an expected maturity of one year has been applied. This includes for example credit cards and overdraft facilities.

All impairments will be allocated to individual impairments and Spar Nord will cease to recognise collective impairments under IFRS 9. Existing collective impairments aimed at capturing specific high-risk areas are incorporated as forward-looking elements and used in the expected credit losses of the individual exposures.

**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.

**Capital phasing in**

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

The impact of IFRS 9 on Spar Nord's own funds was DKK 10 million when the rules became effective on 1 January 2018, while the impact on the own funds going forward will be slightly adverse as the transition rules are being phased out.

|      |  |
|------|--|
| NOTE | <p>1.1.2 <b>Impact of IFRS 15</b></p> <p>IFRS 15 Revenue from Contracts with Customers replaces existing revenue standards (IAS 11 and 18) and relevant interpretations. IFRS 15 introduces a new model for recognition and measurement of revenue concerning sales contracts with customers. The new model comprises five steps that must be applied to all contracts with customers to determine when and how revenue is to be recognised in the income statement. The standard does not change the recognition and measurement of Spar Nord's sales contracts with customers and will therefore not have any impact.</p>  |
|      | <p>1.2 <b>Information about standards not yet effective</b></p> <p>IFRS 16 Leasing, which is approved by the EU, is effective for financial years beginning on or after 1 January 2019. The standard changes the accounting for those leases which are today treated as operating leases. The analysis of the implications of the new standard for Spar Nord remains to be completed. At 30.09.2018, 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.</p>  |
|      | <p>2 <b>JUDGMENTS AND ESTIMATES</b></p> <p>Measuring certain assets and liabilities requires Management to make an estimate of how future events will affect the value of such assets and liabilities. Estimates considered material in presenting the financial statements are, among other things, those made when determining loan impairments, the fair values of unlisted financial instruments as well as provisions. The applied estimates are based on assumptions deemed reasonable by Management but which are inherently uncertain.</p> <p>In the presentation of the condensed Interim Financial Statements, the critical judgments made by Management in the application of the Group's accounting policies, and the considerable uncertainty related thereto, are identical to those applying to the presentation of the Financial Statements at 31 December 2017. However, there have been changes to financial assets and financial liabilities due to the transition to IAS 39 and IFRS 9. See note 1.</p> <p>Significant estimates related to classification and measurement of financial assets, including in particular Spar Nord's bond portfolio and shares in sector-related companies, concern the use of the fair value option.</p> <p>In accordance with both IAS 39 and IFRS 9, Spar Nord applies the fair value option concerning shares and bonds, where returns are managed and reported consistently for all bonds on a daily, weekly and monthly basis irrespective of trading volume in the individual ISIN codes. Spar Nord's business model has not been changed, and Spar Nord continues to recognise and measure bonds and shares at fair value through profit or loss.</p> |

NOTE

## 3 Segment information

## 3.1 BUSINESS SEGMENTS – Q1-Q3 2018

| DKKm   | Spar Nord's<br>Local Banks | Trading, Financial<br>Markets & the<br>International<br>division | Other Areas | Core earnings *)<br>and Group |
|--|----------------------------|--|-------------|-------------------------------|
| <b>INCOME STATEMENT</b>  |                            |  |             |                               |
| Net interest income  | 1,057                      | 35   | 67          | 1,159                         |
| Net fee income   | 858                        | -2   | 0           | 856                           |
| Market value adjustments and dividends                         | 212                        | 21   | 27          | 260                           |
| Other operating income   | 17                         | 1  | 174         | 192                           |
| Income from investments in associates<br>and group enterprises | 0                          | 0  | 28          | 28                            |
| <b>Core income/revenue, total</b>                              | <b>2,144</b>               | <b>55</b>  | <b>296</b>  | <b>2,495</b>                  |
| Operating expenses, depreciation and amortisation              | 1,163                      | 47   | 208         | 1,418                         |
| <b>Core earnings before impairment</b>                         | <b>981</b>                 | <b>8</b>   | <b>88</b>   | <b>1,077</b>                  |
| Loan impairment charges etc.                                   | 68                         | 1  | -2          | 67                            |
| <b>Profit/loss before tax</b>                                  | <b>914</b>                 | <b>7</b>   | <b>90</b>   | <b>1,011</b>                  |

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

|  | Spar Nord's<br>Local Banks | Trading, Financial<br>Markets & the<br>International<br>division | Other Areas  | Group, total  |
|--|----------------------------|--|--------------|---------------|
| <b>BALANCE SHEET</b>                                       |                            |  |              |               |
| Loans, advances and other receivables at amortised cost    | 39,010                     | 7,621  | 5            | 46,636        |
| Investments in associates and group enterprises            | 0                          | 0  | 299          | 299           |
| Intangible assets and property, plant and equipment *)     | 247                        | 0  | 721          | 968           |
| Other assets **)   | 17,176                     | 19,022   | 1,360        | 37,558        |
| <b>Allocated assets, total</b>                             | <b>56,433</b>              | <b>26,643</b>  | <b>2,385</b> | <b>85,461</b> |
| Deposits and other payables                                | 48,082                     | 381  | 544          | 49,007        |
| Equity (allocated capital)                                 | 5,533                      | 1,018  | 2,633        | 9,184         |
| Other liabilities  | 16,195                     | 7,472  | 3,602        | 27,269        |
| <b>Allocated equity and liabilities, total</b>             | <b>69,810</b>              | <b>8,871</b>   | <b>6,780</b> | <b>85,461</b> |
| <b>Disclosures – income/revenue, total</b>                 |                            |  |              |               |
| Internal income/revenue                                    | -120                       | 54   | 464          | 398           |
| Internal income and eliminations, offset against costs     | 0                          | -36  | -362         | -398          |
| Income/revenue, external customers                         | 2,264                      | 37   | 194          | 2,495         |
| <b>Income/revenue, total</b>                               | <b>2,144</b>               | <b>55</b>  | <b>296</b>   | <b>2,495</b>  |
| <b>Financial ratios</b>                                    |                            |  |              |               |
| Return on equity, % ***)                                   | 22.6                       | 0.8  | -            | -             |
| Cost share of core income                                  | 0.54                       | 0.85   | -            | -             |
| Total risk exposure, end of period                         | 42,560                     | 7,830  | 2,322        | 52,712        |
| Number of employees (full-time equivalents, end of period) | 1,026                      | 75   | 422          | 1,523         |

As in previous years, the Group uses core earnings as a performance measure. The reporting segments correspond to the Group's organisational entities, and an internal follow-up is carried out in this regard.

**DESCRIPTION OF BUSINESS AREA ACTIVITIES:**

- For a description of the activities of Spar Nord's Local Banks and Trading, Financial Markets & the International Division, please see page 57 of Annual Report 2017.
- The activities of the Local Banks include the Group's leasing activities, and the activities of Other areas include central staffs and support functions.

Intra-group settlement is determined based on the same principles as in previous years and expresses contributions to earnings from the activities carried out by the respective business areas.

Internal management takes place based on a net-interest consideration, and accordingly interest income and expenses are not disclosed.

\*) All assets are located in Denmark.

\*\*\*) Temporary assets amount to DKK 11 million, of which DKK 2 million relates to the Group's leasing activities and DKK 9 million relates to Other areas.

\*\*\*\*) 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.

NOTE

## Segment information

### 3.2 BUSINESS SEGMENTS – Q1-Q3 2017

| DKKm   | Spar Nord's<br>Local Banks & the<br>International<br>division | Trading, Financial<br>Markets | Other Areas | Core earnings <sup>*)</sup> | Reclassifi-<br>cations <sup>**)</sup> | Group, total |
|--|---|-------------------------------|-------------|-----------------------------|---------------------------------------|--------------|
| <b>INCOME STATEMENT</b>  |   |                               |             |                             |                                       |              |
| Net interest income  | 1,092   | 32                            | 49          | 1,173                       | 30                                    | 1,203        |
| Net fee income   | 841   | -1                            | -3          | 837                         | 0                                     | 837          |
| Market value adjustments and dividends                         | 114   | 184                           | 5           | 303                         | 0                                     | 303          |
| Other operating income   | 14  | 1                             | 21          | 36                          | 0                                     | 36           |
| Income from investments in associates<br>and group enterprises | 0   | 0                             | 27          | 27                          | 0                                     | 27           |
| <b>Core income/revenue, total</b>                              | <b>2,062</b>  | <b>215</b>                    | <b>99</b>   | <b>2,376</b>                | <b>30</b>                             | <b>2,406</b> |
| Operating expenses, depreciation and amortisation              | 1,175   | 43                            | 193         | 1,411                       | 0                                     | 1,411        |
| <b>Core earnings before impairment</b>                         | <b>887</b>  | <b>172</b>                    | <b>-94</b>  | <b>966</b>                  | <b>30</b>                             | <b>995</b>   |
| Loan impairment charges etc.                                   | -36   | -14                           | -1          | -51                         | 30                                    | -21          |
| <b>Profit/loss before tax</b>                                  | <b>923</b>  | <b>186</b>                    | <b>-92</b>  | <b>1,016</b>                | <b>0</b>                              | <b>1,016</b> |

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

<sup>\*\*)</sup> 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 30 million.

|   | Spar Nord's<br>Local Banks & the<br>International<br>division | Trading, Financial<br>Markets | Other Areas  | Group, total  |
|---|---|-------------------------------|--------------|---------------|
| <b>BALANCE SHEET</b>  |   |                               |              |               |
| Loans, advances and other receivables at amortised cost           | 36,470  | 8,975                         | 26           | 45,471        |
| Investments in associates and group enterprises                   | 0   | 0                             | 120          | 120           |
| Intangible assets and property, plant and equipment <sup>*)</sup> | 253   | 0                             | 700          | 953           |
| Other assets <sup>**)</sup>                                       | 16,608  | 15,992                        | 1,228        | 33,828        |
| <b>Allocated assets, total</b>                                    | <b>53,330</b>   | <b>24,968</b>                 | <b>2,075</b> | <b>80,372</b> |
| Deposits and other payables                                       | 47,322  | 268                           | 502          | 48,092        |
| Equity (allocated capital)  | 5,191   | 933                           | 2,668        | 8,793         |
| Other liabilities   | 15,612  | 4,835                         | 3,040        | 23,488        |
| <b>Allocated equity and liabilities, total</b>                    | <b>68,126</b>   | <b>6,037</b>                  | <b>6,210</b> | <b>80,372</b> |
| <b>Disclosures – income/revenue, total</b>                        |   |                               |              |               |
| Internal income/revenue   | -100  | 53                            | 444          | 398           |
| Internal income and eliminations, offset against costs            | 0   | -37                           | -360         | -398          |
| Income/revenue, external customers                                | 2,161   | 200                           | 45           | 2,406         |
| <b>Income/revenue, total</b>                                      | <b>2,062</b>  | <b>215</b>                    | <b>129</b>   | <b>2,406</b>  |
| <b>Financial ratios</b>   |   |                               |              |               |
| Return on equity, % <sup>***)</sup>                               | 25.6  | 34.6                          | -            | -             |
| Cost share of core income   | 0.57  | 0.20                          | -            | -             |
| Total risk exposure, end of period                                | 39,932  | 7,177                         | 2,134        | 49,243        |
| Number of employees (full-time equivalents, end of period)        | 1,066   | 75                            | 416          | 1,557         |

As in previous years, the Group uses core earnings as a performance measure.

The reporting segments correspond to the Group's organisational entities, and an internal follow-up is carried out in this regard.

#### DESCRIPTION OF BUSINESS AREA ACTIVITIES:

- For a description of the activities of Spar Nord's Local Banks and Trading, Financial Markets & the International Division, please see page 57 of Annual Report 2017.
- The activities of the Local Banks include the Group's leasing activities, and the activities of Other areas include central staffs and support functions.

Intra-group settlement is determined based on the same principles as in previous years and expresses contributions to earnings from the activities carried out by the respective business areas.

Internal management takes place based on a net-interest consideration, and accordingly interest income and expenses are not disclosed.

<sup>\*)</sup> All assets are located in Denmark.

<sup>\*\*)</sup> Temporary assets amount to DKK 23 million, of which DKK 10 million relates to the Group's leasing activities and DKK 13 million relates to Other areas.

<sup>\*\*\*)</sup> 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 until 30.06.2017 and subsequently to 13%.



NOTE

| 4   | <b>Notes to the income statement</b>  | <b>Q1-Q3<br/>2018<br/>DKKm</b> | <b>Q1-Q3<br/>2017<br/>DKKm</b> | <b>Full year<br/>2017<br/>DKKm</b> |
|-----|---|--------------------------------|--------------------------------|------------------------------------|
| 4.1 | <b>INTEREST INCOME</b>  |                                |                                |                                    |
|     | Due from credit institutions and central banks  | 1                              | 2                              | 3                                  |
|     | Loans, advances and other receivables   | 1,168                          | 1,218                          | 1,602                              |
|     | Bonds   | 52                             | 64                             | 84                                 |
|     | Foreign-exchange contracts  | 7                              | 3                              | 3                                  |
|     | Interest-rate contracts   | -29                            | -44                            | -59                                |
|     | <b>Derivative financial instruments, total</b>  | <b>-23</b>                     | <b>-41</b>                     | <b>-56</b>                         |
|     | Other interest income   | 1                              | 30                             | 31                                 |
|     | <b>Total interest income after offsetting negative interest income</b>  | <b>1,199</b>                   | <b>1,272</b>                   | <b>1,664</b>                       |
|     | Negative interest income offset against interest income   | 28                             | 20                             | 30                                 |
|     | Negative interest expenses offset against interest expenses   | 25                             | 16                             | 24                                 |
|     | <b>Total interest income before offsetting negative interest income</b>   | <b>1,252</b>                   | <b>1,309</b>                   | <b>1,719</b>                       |
|     | <i>Of which, income from genuine reverse repo transactions booked under</i>   |                                |                                |                                    |
|     | Due from credit institutions and central banks  | -7                             | -7                             | -9                                 |
|     | Loans, advances and other receivables   | -21                            | -13                            | -20                                |
|     | Negative interest income amounts to DKK 28 million (30.09.2017: DKK 20 million, 2017: DKK 30 million) and relates to repo transactions. In the table above, negative interest income is offset against interest income. In the income statement, negative interest income is presented as interest expenses, and negative interest expenses are presented as interest income.                                 |                                |                                |                                    |
| 4.2 | <b>INTEREST EXPENSES</b>  |                                |                                |                                    |
|     | Credit institutions and central banks   | 1                              | -2                             | -3                                 |
|     | Deposits and other payables   | 8                              | 32                             | 37                                 |
|     | Subordinated debt   | 30                             | 39                             | 52                                 |
|     | Other interest expenses   | 1                              | 1                              | 1                                  |
|     | <b>Total interest expenses after offsetting negative interest expenses</b>  | <b>40</b>                      | <b>69</b>                      | <b>87</b>                          |
|     | Negative interest expenses offset against interest expenses   | 25                             | 16                             | 24                                 |
|     | Negative interest income offset against interest income   | 28                             | 20                             | 30                                 |
|     | <b>Total interest expenses before offsetting negative interest expenses</b>   | <b>93</b>                      | <b>106</b>                     | <b>141</b>                         |
|     | <i>Of which, interest expenses from genuine repo transactions booked under</i>  |                                |                                |                                    |
|     | Due to credit institutions and central banks  | -8                             | -7                             | -8                                 |
|     | Negative interest expenses amount to DKK 25 million (30.09.2017: DKK 16 million, 2017: DKK 24 million) and relate partly to deposits, partly to repo transactions. In the table above, negative interest expenses are offset against interest expenses. In the income statement, negative interest expenses are presented as interest income, and negative interest income is presented as interest expenses. |                                |                                |                                    |
| 4.3 | <b>FEES, CHARGES AND COMMISSIONS RECEIVED</b>   |                                |                                |                                    |
|     | Securities trading and custody accounts   | 320                            | 317                            | 439                                |
|     | Payment services  | 130                            | 122                            | 166                                |
|     | Loan transaction fees   | 386                            | 366                            | 493                                |
|     | of which mortgage credit institutions   | 298                            | 284                            | 380                                |
|     | Guarantee commission  | 20                             | 23                             | 30                                 |
|     | Other fees, charges and commissions   | 118                            | 117                            | 138                                |
|     | <b>Total fees, charges and commissions received</b>   | <b>973</b>                     | <b>943</b>                     | <b>1,265</b>                       |
|     | <b>Total fees, charges and commissions paid</b>   | <b>117</b>                     | <b>106</b>                     | <b>149</b>                         |
|     | <b>Total net fees, charges and commissions received</b>   | <b>856</b>                     | <b>837</b>                     | <b>1,116</b>                       |
| 4.4 | <b>MARKET VALUE ADJUSTMENTS</b>   |                                |                                |                                    |
|     | Other loans, advances and receivables at fair value   | -2                             | 1                              | 0                                  |
|     | Bonds   | -7                             | 88                             | 91                                 |
|     | Shares, etc.  | 165                            | 98                             | 165                                |
|     | Foreign currency  | 42                             | 24                             | 36                                 |
|     | Foreign exchange, interest, share, commodity and other contracts and derivative financial instruments   | 9                              | 69                             | 89                                 |
|     | Assets linked to pooled schemes   | 13                             | 570                            | 566                                |
|     | Deposits in pooled schemes  | -13                            | -570                           | -566                               |
|     | <b>Total</b>  | <b>207</b>                     | <b>280</b>                     | <b>381</b>                         |

NOTE

|   | Q1-Q3<br>2018<br>DKKm | Q1-Q3<br>2017<br>DKKm | Full year<br>2017<br>DKKm |
|---|-----------------------|-----------------------|---------------------------|
| <b>4.5 STAFF COSTS AND ADMINISTRATIVE EXPENSES</b>  |                       |                       |                           |
| Staff costs   | 841                   | 850                   | 1,165                     |
| Administrative expenses   | 524                   | 508                   | 698                       |
| <b>Total</b>  | <b>1,366</b>          | <b>1,358</b>          | <b>1,863</b>              |
| <i>Staff costs:</i>   |                       |                       |                           |
| Salaries  | 664                   | 669                   | 930                       |
| Pensions  | 79                    | 81                    | 106                       |
| Social security costs   | 99                    | 100                   | 129                       |
| <b>Total</b>  | <b>841</b>            | <b>850</b>            | <b>1,165</b>              |
| Remuneration to members of the Executive Board and Board of Directors amounts to:   |                       |                       |                           |
| <i>Board of Directors</i>   |                       |                       |                           |
| Number  | 9                     | 9                     | 9                         |
| Fixed pay   | 2.9                   | 2.5                   | 3.5                       |
| Pension   | -                     | -                     | -                         |
| <b>Total remuneration</b>   | <b>2.9</b>            | <b>2.5</b>            | <b>3.5</b>                |
| <i>Executive Board</i>  |                       |                       |                           |
| Number  | 3                     | 3                     | 3                         |
| Base salary *)  | 8.9                   | 8.6                   | 11.4                      |
| - less fees received from directorships   | 0.9                   | 0.8                   | 1.5                       |
| <b>The Bank's expense, base salary</b>  | <b>8.0</b>            | <b>7.8</b>            | <b>9.9</b>                |
| Pension, ordinary contribution  | 1.4                   | 1.2                   | 1.7                       |
| <b>Total remuneration earned and paid</b>   | <b>9.4</b>            | <b>9.0</b>            | <b>11.6</b>               |
| Breakdown of remuneration to Executive Board  |                       |                       |                           |
| <i>Lasse Nyby</i>   |                       |                       |                           |
| Base salary*)   | 3.3                   | 3.2                   | 4.2                       |
| - less fees received from directorships   | 0.3                   | 0.2                   | 0.5                       |
| <b>The Bank's expense, base salary</b>  | <b>3.0</b>            | <b>3.0</b>            | <b>3.7</b>                |
| Pension, ordinary contribution  | 0.5                   | 0.5                   | 0.6                       |
| <b>Total remuneration earned and paid</b>   | <b>3.5</b>            | <b>3.4</b>            | <b>4.3</b>                |
| <i>John Lundsgaard</i>  |                       |                       |                           |
| Base salary   | 2.8                   | 2.7                   | 3.6                       |
| - less fees received from directorships   | 0.2                   | 0.2                   | 0.4                       |
| <b>The Bank's expense, base salary</b>  | <b>2.6</b>            | <b>2.5</b>            | <b>3.2</b>                |
| Pension, ordinary contribution  | 0.4                   | 0.4                   | 0.5                       |
| <b>Total remuneration earned and paid</b>   | <b>3.0</b>            | <b>2.9</b>            | <b>3.7</b>                |
| <i>Lars Møller</i>  |                       |                       |                           |
| Base salary*)   | 2.8                   | 2.7                   | 3.6                       |
| - less fees received from directorships   | 0.4                   | 0.4                   | 0.6                       |
| <b>The Bank's expense, base salary</b>  | <b>2.4</b>            | <b>2.3</b>            | <b>3.0</b>                |
| Pension, ordinary contribution  | 0.4                   | 0.4                   | 0.5                       |
| <b>Total remuneration earned and paid</b>   | <b>2.9</b>            | <b>2.7</b>            | <b>3.5</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.                 |                       |                       |                           |
| <i>Termination rules</i>  |                       |                       |                           |
| 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. |                       |                       |                           |
| <i>Pension obligation</i>   |                       |                       |                           |
| Like the other employees, members of the Executive Board are comprised by defined contribution pension plans.   |                       |                       |                           |
| <i>Number of employees:</i>   |                       |                       |                           |
| <b>The average number of employees converted into full-time equivalents</b>   | <b>1,525</b>          | <b>1,545</b>          | <b>1,546</b>              |

NOTE

| 4.5 | <b>STAFF COSTS AND ADMINISTRATIVE EXPENSES, CONTINUED</b> | <b>Q1-Q3<br/>2018<br/>DKKm</b> | <b>Q1-Q3<br/>2017<br/>DKKm</b> | <b>Full year<br/>2017<br/>DKKm</b> |
|-----|---|--------------------------------|--------------------------------|------------------------------------|
|     | <i>Administrative expenses:</i>                           |                                |                                |                                    |
|     | IT expenses   | 297                            | 252                            | 354                                |
|     | Marketing costs   | 70                             | 79                             | 111                                |
|     | Cost of premises  | 61                             | 76                             | 99                                 |
|     | Staff and travelling expenses                             | 41                             | 41                             | 56                                 |
|     | Office expenses   | 15                             | 16                             | 21                                 |
|     | Other administrative expenses                             | 41                             | 45                             | 57                                 |
|     | <b>Total</b>  | <b>524</b>                     | <b>508</b>                     | <b>698</b>                         |

## 5 Notes to the balance sheet

| 5.1 | <b>OTHER ASSETS</b>                                    |              |              |              |
|-----|--|--------------|--------------|--------------|
|     | Positive fair value of derivative instruments, etc.    | 887          | 1,067        | 1,030        |
|     | Miscellaneous receivables                              | 370          | 309          | 296          |
|     | Interest and commissions receivable                    | 57           | 65           | 51           |
|     | Capital contribution to Bankernes EDB Central a.m.b.a. | 445          | 316          | 316          |
|     | Other assets   | 45           | 63           | 70           |
|     | <b>Total</b>   | <b>1,803</b> | <b>1,820</b> | <b>1,763</b> |

| 5.2 | <b>DEPOSITS AND OTHER PAYABLES</b> |               |               |               |
|-----|------------------------------------|---------------|---------------|---------------|
|     | Demand deposits                    | 44,215        | 41,972        | 43,132        |
|     | Subject to notice                  | 1,279         | 1,702         | 1,456         |
|     | Time deposits                      | 335           | 952           | 896           |
|     | Special types of deposits          | 3,178         | 3,466         | 3,359         |
|     | <b>Total</b>                       | <b>49,007</b> | <b>48,092</b> | <b>48,843</b> |

| 5.3 | <b>OTHER LIABILITIES</b>                                      |              |              |              |
|-----|---|--------------|--------------|--------------|
|     | Miscellaneous payables  | 1,942        | 1,609        | 1,799        |
|     | Negative fair value of derivative financial instruments, etc. | 623          | 683          | 691          |
|     | Interest and commissions payable                              | 32           | 58           | 12           |
|     | Other liabilities   | 316          | 345          | 365          |
|     | <b>Total</b>  | <b>2,912</b> | <b>2,695</b> | <b>2,866</b> |

| 5.4      | <b>SUBORDINATED DEBT</b> |                   |               |          |          |              |              |              |  |
|----------|--------------------------|-------------------|---------------|----------|----------|--------------|--------------|--------------|--|
| Currency | Note                     | Principal<br>DKKm | Interest rate | Received | Maturity |              |              |              |  |
| DKK      | a                        | 400               | 2.535 %       | 2018     | 19.06.28 | 400          | -            | -            |  |
| SEK      | b                        | 600               | Floating      | 2017     | 18.10.27 | 432          | -            | 452          |  |
| DKK      | c                        | 700               | Floating      | 2013     | 18.12.23 | 700          | 699          | 699          |  |
| DKK      | d                        | 400               | 6.043 %       | 2012     | -        | -            | 401          | -            |  |
|          |                          |                   |               |          |          | <b>1,532</b> | <b>1,100</b> | <b>1,151</b> |  |

|  |              |              |              |
|--|--------------|--------------|--------------|
| Portfolio of own bonds relating to subordinated debt | 0            | -13          | -7           |
| <b>Subordinated debt, total</b>                      | <b>1,532</b> | <b>1,086</b> | <b>1,144</b> |
| Interest on subordinated debt                        | 29           | 38           | 50           |
| Costs of raising subordinated debt                   | 1            | 1            | 2            |

- a Redeemable as from 19.06.2023. If the loan is not redeemed, interest will remain fixed at CIBOR3 + a 2.100% margin.  
b Redeemable as from 18.10.2022. If the loan is not redeemed, interest will remain fixed at STIBOR3 + a 2.500% margin.  
c Redeemable as from 18.12.2018. If the loan is not redeemed, interest will remain fixed at CIBOR3 + a 3.900% margin.  
d Redeemed at 28.11.2017.

### Subordinated debt, specification of cash flows

| <b>Beginning of period</b>             | <b>1,144</b> | <b>1,093</b> | <b>1,093</b> |
|--|--------------|--------------|--------------|
| <i>Movement during the period:</i>     |              |              |              |
| New loans                              | 400          | -            | 466          |
| Redeemed                               | -            | -            | -400         |
| Change in exchange rate adjustments    | -20          | -            | -12          |
| Change in interest rate hedging        | 0            | -3           | -4           |
| Change in amortised costs              | 1            | 1            | -1           |
| Change in portfolio of own bonds       | 7            | -5           | 1            |
| <b>Total cash flows for the period</b> | <b>388</b>   | <b>-7</b>    | <b>51</b>    |
| <b>Carrying amount, end of period</b>  | <b>1,532</b> | <b>1,086</b> | <b>1,144</b> |

## NOTE

**5.5 CONTINGENT ASSETS**

Deferred tax assets not recognised in the balance sheet amounted to DKK 15 million at 30.09.2018 (30.09.2017: DKK 8 million, 2017: DKK 13 million).

**5.6 CONTINGENT LIABILITIES**

The Bank and all major wholly-owned subsidiaries are jointly registered for payroll tax and VAT and are jointly and severally liable for the payroll tax and VAT payable.

|   | <b>Q1-Q3<br/>2018<br/>DKKm</b> | <b>Q1-Q3<br/>2017<br/>DKKm</b> | <b>Full year<br/>2017<br/>DKKm</b> |
|---|--------------------------------|--------------------------------|------------------------------------|
| Financial guarantees                    | 4,478                          | 4,197                          | 4,092                              |
| Loss guarantees for mortgage loans      | 5,258                          | 4,879                          | 4,983                              |
| Registration and refinancing guarantees | 1,493                          | 1,707                          | 2,011                              |
| Other contingent liabilities            | 798                            | 960                            | 876                                |
| <b>Total</b>                            | <b>12,028</b>                  | <b>11,742</b>                  | <b>11,961</b>                      |

Reference is made to note 4.5 regarding the Executive Board's notice of termination and the associated compensation.

In addition, the Spar Nord Group has contingent liabilities and other binding agreements corresponding to the relative ownership interest in associates.

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 other jointly taxed companies for the Danish corporate income tax payable. Due to the payment of tax on account, no tax was payable at 30.09.2018 (30.09.2017: DKK 45 million, 2017: DKK 0 million), and corporate income tax receivable within the group of jointly taxed companies amounted to DKK 107 million at 30.09.2018 (30.09.2017: DKK 0 million; 2017: DKK 45 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. For both funds, separate target levels have been set, based on the sector's total deposits that are covered by the guarantee limit of EUR 100,000 (section 9(1) of the Act on a Depositor and Investor Guarantee Scheme).

The Guarantee Fund covers customers' deposits and securities pursuant to the Act on a Depositor and Investor Guarantee Scheme. The Bank's costs for the Guarantee Fund are calculated based on the Bank's pro-rata share. In future, the amount of the contribution will be adjusted by an individual risk factor.

The Resolution Fund is to be used pursuant to the Act on Restructuring and Resolution of Certain Financial Enterprises for the purpose of covering the associated costs.

The Bank's costs for 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 covered deposits. This contribution will also be adjusted by an individually determined risk factor.

The Bank's costs for the Resolution Fund for 2018 have been included as a pro-rata share of the annual contributions. The Bank's costs for the Resolution Fund at 30.09.2018 amounted to DKK 6 million (30.09.2017: DKK 6 million, 2017: DKK 8 million).

The amount of the contingent liabilities and the possible due dates are subject to uncertainty.

|                                      | <b>Q1-Q3<br/>2018<br/>DKKm</b> | <b>Q1-Q3<br/>2017<br/>DKKm</b> | <b>Full year<br/>2017<br/>DKKm</b> |
|--------------------------------------|--------------------------------|--------------------------------|------------------------------------|
| <b>5.7 OTHER BINDING COMMITMENTS</b> |                                |                                |                                    |
| Miscellaneous                        | 567                            | 501                            | 501                                |
| <b>Total</b>                         | <b>567</b>                     | <b>501</b>                     | <b>501</b>                         |

*Miscellaneous 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 leases represent an amount of DKK 115 million until the legal notice of termination.

Data-processing 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. 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

6 **Credit risk**6.1 **IMPAIRMENTS – TRANSITION FROM IAS 39 TO IFRS 9**6.1.1 **IMPAIRMENTS – TRANSITION FROM IAS 39 TO IFRS 9 BY EXPOSURE CATEGORY**

|  | Individual<br>impairments<br>31.12.17<br>DKKkm | Collective<br>impairments<br>31.12.17<br>DKKkm | Total<br>31.12.17<br>DKKkm | Change<br>IAS 39 to<br>IFRS 9<br>01.01.18<br>DKKkm | Total<br>01.01.18<br>DKKkm |
|--|--|--|----------------------------|--|----------------------------|
| Loans and advances at amortised cost           | 1,323  | 251  | 1,575                      | 216  | 1,791                      |
| Due from credit institutions and central banks | 0  | 0  | 0                          | 1  | 1                          |
| Guarantees                                     | 41   | 0  | 41                         | 27   | 68                         |
| Undrawn maximum and loan commitments           | 15   | 0  | 15                         | 7  | 21                         |
| <b>Total</b>                                   | <b>1,379</b>                                   | <b>251</b>                                     | <b>1,631</b>               | <b>250</b>   | <b>1,881</b>               |

The increase in impairments from IAS 39 to IFRS 9 is explained by the fact that impairments under IFRS 9 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 previous rules under IAS 39, impairment losses were not recognised until there was objective evidence of impairment ("incurred loss" model). In future, forward-looking information will be taken into consideration.

6.1.2 **IMPAIRMENTS AT 01.01.18 UNDER IFRS 9 BY STAGES**

|  | Stage 1<br>Lack of<br>significant<br>increase<br>in credit risk<br>01.01.18<br>DKKkm | Stage 2<br>Significant<br>increase<br>in credit risk<br>01.01.18<br>DKKkm | Stage 3<br>Credit-<br>impaired<br>01.01.18<br>DKKkm | Total<br>01.01.18<br>DKKkm |
|--|--|---|---|----------------------------|
| Loans and advances at amortised cost           | 79   | 279   | 1,433   | 1,791                      |
| Due from credit institutions and central banks | 1  | 0   | 0   | 1                          |
| Guarantees                                     | 13   | 7   | 48  | 68                         |
| Undrawn maximum and loan commitments           | 4  | 5   | 12  | 21                         |
| <b>Total</b>                                   | <b>96</b>  | <b>291</b>  | <b>1,494</b>  | <b>1,881</b>               |

6.1.3 **EXPOSURES BEFORE IMPAIRMENTS AT 01.01.18 UNDER IFRS 9 BY STAGES**

|  | Stage 1<br>Lack of<br>significant<br>increase<br>in credit risk<br>01.01.18<br>DKKkm | Stage 2<br>Significant<br>increase<br>in credit risk<br>01.01.18<br>DKKkm | Stage 3<br>Credit-<br>impaired<br>01.01.18<br>DKKkm | Total<br>01.01.18<br>DKKkm |
|--|--|---|---|----------------------------|
| Loans and advances at amortised cost           | 35,592   | 9,667   | 3,078   | 48,337                     |
| Due from credit institutions and central banks | 1,437  | 0   | 0   | 1,437                      |
| Guarantees                                     | 10,978   | 763   | 261   | 12,002                     |
| Undrawn maximum and loan commitments           | 19,472   | 1,159   | 171   | 20,802                     |
| <b>Total</b>                                   | <b>67,479</b>  | <b>11,590</b>   | <b>3,510</b>  | <b>82,579</b>              |

6.2 **EXPOSURES AT 30.09.18**6.2.1 **SUMMARY OF ACCOUNTING VALUE OF EXPOSURES AND RECOGNISED IMPAIRMENTS ETC.**

|   | Exposure<br>before<br>impairments<br>see 6.2.3<br>DKKkm | Impairment<br>see 6.2.2<br>DKKkm | Recognised<br>impair-<br>ments<br>DKKkm |
|---|---|----------------------------------|---|
| Loans and advances at amortised cost (note 6.3)           | 48,395  | 1,760                            | 46                                      |
| Due from credit institutions and central banks (note 6.4) | 1,962   | 1                                | 0                                       |
| Guarantees (note 6.5)                                     | 12,105  | 78                               | 9                                       |
| Drawn maximum and loan commitments (note 6.3)             | 21,856  | 33                               | 12                                      |
| <b>Total</b>  | <b>84,318</b>   | <b>1,871</b>                     | <b>67</b>                               |

Recognised impairments etc. are specified in notes 6.3, 6.4.1 and 6.5.

6.2.2 **IMPAIRMENTS AT 30.09.18 BY STAGES**

|  | Stage 1<br>Lack of<br>significant<br>increase<br>in credit risk<br>30.09.18<br>DKKkm | Stage 2<br>Significant<br>increase<br>in credit risk<br>30.09.18<br>DKKkm | Stage 3<br>Credit-<br>impaired<br>30.09.18<br>DKKkm | Total<br>30.09.18<br>DKKkm |
|--|--|---|---|----------------------------|
| Loans and advances at amortised cost           | 86   | 292   | 1,381   | 1,760                      |
| Due from credit institutions and central banks | 1  | 0   | 0   | 1                          |
| Guarantees                                     | 16   | 6   | 55  | 78                         |
| Undrawn maximum and loan commitments           | 3  | 4   | 26  | 33                         |
| <b>Total</b>                                   | <b>106</b>   | <b>302</b>  | <b>1,463</b>  | <b>1,871</b>               |

NOTE

## 6.2.3 EXPOSURES BEFORE IMPAIRMENTS AT 30.09.18 BY STAGES

|  | Stage 1<br>Lack of<br>significant<br>increase<br>in credit risk<br>30.09.18<br>DKKm | Stage 2<br>Significant<br>increase<br>in credit risk<br>30.09.18<br>DKKm | Stage 3<br>Credit-<br>impaired<br>30.09.18<br>DKKm | Total<br>30.09.18<br>DKKm |
|--|---|--|--|---------------------------|
| Loans and advances at amortised cost           | 33,520  | 11,713   | 3,162  | 48,395                    |
| Due from credit institutions and central banks | 1,962   | 0  | 0  | 1,962                     |
| Guarantees                                     | 11,040  | 726  | 340  | 12,105                    |
| Undrawn maximum and loan commitments           | 19,617  | 2,077  | 162  | 21,856                    |
| <b>Total</b>                                   | <b>66,139</b>   | <b>14,516</b>  | <b>3,664</b>                                       | <b>84,318</b>             |

Spar Nord does not have the categories "Financial assets at fair value through other comprehensive income" and "Loans at fair value through profit or loss".

## 6.3 LOANS AT AMORTISED COST AND UNDRAWN MAXIMUM AND LOAN COMMITMENT IMPAIRMENTS AND PROVISIONS FOR LOSSES

Analysis of changes in impairments for the period broken down by stages and correlated to recognised impairments, etc. Summary of combined recognised impairments, etc. is provided in note 6.2.1.

|   | Stage 1<br>Lack of<br>significant<br>increase<br>in credit risk<br>30.09.18<br>DKKm | Stage 2<br>Significant<br>increase<br>in credit risk<br>30.09.18<br>DKKm | Stage 3<br>Credit-<br>impaired<br>30.09.18<br>DKKm | Total<br>30.09.18<br>DKKm | Recognised<br>impair-<br>ments<br>DKKm |
|---|---|--|--|---------------------------|--|
| Impairments at 01.01.18 under IFRS 9, loans at amortised cost                               | 79  | 279  | 1,433  | 1,791                     | -                                      |
| Impairments at 01.01.18 under IFRS 9, undrawn maximum and loan commitment                   | 4   | 5  | 12   | 21                        | -                                      |
| Impairments re. new exposures during the year, including new accounts to existing customers | 18  | 28   | 64   | 110                       | 110                                    |
| Reversed impairments re. repaid accounts  | -8  | -21  | -62  | -90                       | -90                                    |
| Change in impairments at 1 January, transfer to/from stage 1                                | 126   | -59  | -67  | -                         | -                                      |
| Change in impairments at 1 January, transfer to/from stage 2                                | -15   | 35   | -21  | -                         | -                                      |
| Change in impairments at 1 January, transfer to/from stage 3                                | -8  | -34  | 42   | -                         | -                                      |
| Impairments during the year due to change in credit risk                                    | -106  | 62   | 88   | 44                        | 44                                     |
| Previously impaired, now finally lost   | 0   | 0  | -111   | -111                      | -                                      |
| Other movements (interest rate correction etc.)   | 0   | 0  | 28   | 28                        | -                                      |
| Loss without prior impairment   | -   | -  | -  | -                         | 52                                     |
| Amounts recovered on previously impaired receivables  | -   | -  | -  | -                         | -58                                    |
| <b>Impairments at 30.09.18</b>  | <b>90</b>   | <b>296</b>   | <b>1,407</b>                                       | <b>1,792</b>              | <b>57</b>                              |
| Impairments at 30.09.18 under IFRS 9, loans at amortised cost                               | 86  | 292  | 1,381  | 1,760                     | 46                                     |
| Impairments at 30.09.18 under IFRS 9, undrawn maximum and loan commitment                   | 3   | 4  | 26   | 33                        | 12                                     |
| <b>Impairments at 30.09.18</b>  | <b>90</b>   | <b>296</b>   | <b>1,407</b>                                       | <b>1,792</b>              | <b>57</b>                              |

The change in portfolio impairments was driven by an increase in gross lending and movements between the stages as illustrated in the table, which is the result of a change in customers' credit risk. In addition, impairments are affected by impaired macroeconomic factors.

The figures concerning newly established and repaid accounts may include administrative movements in which the balance is moved between two accounts for the same customer.

NOTE

6.4 **DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS**  
6.4.1 **IMPAIRMENTS**

Analysis of changes in impairments for the period broken down by stages and correlated to recognised impairments, etc. Summary of combined recognised impairments, etc. is provided in note 6.2.1.

|   | Stage 1<br>Lack of<br>significant<br>increase<br>in credit risk<br>30.09.18<br>DKKkm | Stage 2<br>Significant<br>increase<br>in credit risk<br>30.09.18<br>DKKkm | Stage 3<br>Credit-<br>impaired<br>30.09.18<br>DKKkm | Total<br>30.09.18<br>DKKkm | Recognised<br>impair-<br>ments<br>DKKkm |
|---|--|---|---|----------------------------|---|
| Impairments at 1 January 2018 under IFRS 9  | 1  | 0   | 0   | 1                          | -                                       |
| Impairments re. new exposures during the year, including new accounts to existing customers | 0  | 0   | 0   | 0                          | 0                                       |
| Reversed impairments re. repaid accounts  | 0  | 0   | 0   | 0                          | 0                                       |
| Change in impairments at 1 January, transfer to/from stage 1                                | 0  | 0   | 0   | -                          | -                                       |
| Change in impairments at 1 January, transfer to/from stage 2                                | 0  | 0   | 0   | -                          | -                                       |
| Change in impairments at 1 January, transfer to/from stage 3                                | 0  | 0   | 0   | -                          | -                                       |
| Impairments during the year due to change in credit risk                                    | 0  | 0   | 0   | 0                          | 0                                       |
| <b>Impairments at 30.09.18</b>  | <b>1</b>   | <b>0</b>  | <b>0</b>  | <b>1</b>                   | <b>0</b>                                |

|   | Q1-Q3<br>2018<br>DKKkm | Q1-Q3<br>2017<br>DKKkm | Full year<br>2017<br>DKKkm |
|---|------------------------|------------------------|----------------------------|
| 6.4.2 <b>DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS, OTHER SPECIFICATIONS</b> |                        |                        |                            |
| Balances at notice with central banks   | 0                      | 393                    | 0                          |
| Due from credit institutions  | 1,961                  | 1,431                  | 1,437                      |
| <b>Total</b>  | <b>1,961</b>           | <b>1,824</b>           | <b>1,437</b>               |

6.5 **GUARANTEES**  
**PROVISIONS FOR LOSSES**

Analysis of changes in provisions for losses during the period broken down by stages and correlated to recognised impairments, etc. Summary of combined recognised impairments, etc. is provided in note 6.2.1.

|  | Stage 1<br>Lack of<br>significant<br>increase<br>in credit risk<br>30.09.18<br>DKKkm | Stage 2<br>Significant<br>increase<br>in credit risk<br>30.09.18<br>DKKkm | Stage 3<br>Credit-<br>impaired<br>30.09.18<br>DKKkm | Total<br>30.09.18<br>DKKkm | Recognised<br>impair-<br>ments<br>DKKkm |
|--|--|---|---|----------------------------|---|
| Provisions for losses at 1 January 2018 under IFRS 9                   | 13   | 7   | 48  | 68                         | -                                       |
| Provisions for losses re. new exposures during the year                | 11   | 1   | 48  | 61                         | 61                                      |
| Reversed provision for losses re. repaid exposures                     | -5   | -5  | -10   | -20                        | -20                                     |
| Change in provisions for losses at 1 January, transfer to/from stage 1 | 4  | -3  | -1  | 0                          | -                                       |
| Change in provisions for losses at 1 January, transfer to/from stage 2 | -1   | 1   | 0   | 0                          | -                                       |
| Change in provisions for losses at 1 January, transfer to/from stage 3 | -1   | 0   | 1   | 0                          | -                                       |
| Provisions for losses during the year due to change in credit risk     | -5   | 5   | -31   | -31                        | -31                                     |
| <b>Provisions for losses at 30.09.18</b>                               | <b>16</b>  | <b>6</b>  | <b>55</b>   | <b>78</b>                  | <b>9</b>                                |

The change in portfolio impairments was driven by an increase in gross lending and movements between the stages as illustrated in the table, which is the result of a change in customers' credit risk. In addition, impairments are affected by impaired macroeconomic factors.

NOTE

| 6.6 | <b>IMPAIRMENT ACCOUNT AT 30.09.17 AND 31.12.17 (IAS 39)</b>  | <b>Q1-Q3<br/>2018<br/>DKKm</b> | <b>Q1-Q3<br/>2017<br/>DKKm</b> | <b>Full year<br/>2017<br/>DKKm</b> |
|-----|--|--------------------------------|--------------------------------|------------------------------------|
|     | <i>Individual loan impairment charges</i>  |                                |                                |                                    |
|     | Individual impairment, beginning of period   | -                              | 1,686                          | 1,686                              |
|     | New individual impairment charges  | -                              | 230                            | 310                                |
|     | Reversal of individual impairment charges  | -                              | 280                            | 326                                |
|     | Previously impaired, now finally lost  | -                              | 323                            | 383                                |
|     | Other movements  | -                              | 31                             | 36                                 |
|     | <b>Individual impairment, end of period</b>  | <b>-</b>                       | <b>1,345</b>                   | <b>1,323</b>                       |
|     | <i>Collective loan impairment charges</i>  |                                |                                |                                    |
|     | Collective impairment, beginning of period   | -                              | 124                            | 124                                |
|     | New collective impairment charges  | -                              | 133                            | 128                                |
|     | Reversal of collective impairment charges  | -                              | 6                              | 9                                  |
|     | Other movements  | -                              | 6                              | 9                                  |
|     | <b>Collective impairment, end of period</b>  | <b>-</b>                       | <b>257</b>                     | <b>251</b>                         |
|     | <i>Total loan impairment charges, etc.</i>   |                                |                                |                                    |
|     | Impairment, beginning of year  | -                              | 1,810                          | 1,810                              |
|     | New impairment charges   | -                              | 363                            | 438                                |
|     | Reversed impairment charges  | -                              | 286                            | 334                                |
|     | Previously impaired, now finally lost  | -                              | 323                            | 383                                |
|     | Other movements  | -                              | 37                             | 44                                 |
|     | <b>Impairment, end of period</b>   | <b>-</b>                       | <b>1,601</b>                   | <b>1,575</b>                       |
|     | <i>Impairment recognised in the income statement</i>   |                                |                                |                                    |
|     | New impairment charges   | -                              | 363                            | 438                                |
|     | Reversed impairment charges  | -                              | 286                            | 334                                |
|     | Loss without prior impairment  | -                              | 65                             | 96                                 |
|     | Amounts recovered on previously impaired receivables   | -                              | 132                            | 167                                |
|     | <b>Recognised in the income statement</b>  | <b>-</b>                       | <b>10</b>                      | <b>33</b>                          |
|     | <i>Provisions for losses on guarantees</i>   |                                |                                |                                    |
|     | Provisions, beginning of period  | -                              | 67                             | 67                                 |
|     | New provisions   | -                              | 18                             | 19                                 |
|     | Reversed provisions  | -                              | 36                             | 45                                 |
|     | <b>Provisions for losses on guarantees, end of period</b>  | <b>-</b>                       | <b>49</b>                      | <b>41</b>                          |
|     | <i>Provisions for losses on guarantees recognised in the income statement</i>  |                                |                                |                                    |
|     | New provisions   | -                              | 18                             | 19                                 |
|     | Reversed provisions  | -                              | 36                             | 45                                 |
|     | <b>Recognised in the income statement</b>  | <b>-</b>                       | <b>-18</b>                     | <b>-26</b>                         |
|     | <b>Impairment account for loans and provisions for losses on guarantees, total</b>   | <b>-</b>                       | <b>1,651</b>                   | <b>1,616</b>                       |
|     | <i>Impairment, other credit risks</i>  |                                |                                |                                    |
|     | Impairment, other credit risks, beginning of period  | -                              | 14                             | 14                                 |
|     | Reversed impairment charges  | -                              | 14                             | 14                                 |
|     | <b>Impairment, other credit risks, total</b>   | <b>-</b>                       | <b>0</b>                       | <b>0</b>                           |
|     | <b>Impairment account for loans, provisions for losses on guarantees and other credit risks, total</b>                             | <b>-</b>                       | <b>1,651</b>                   | <b>1,616</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> |                                |                                |                                    |
|     | Loan impairment charges etc.   | -                              | 10                             | 33                                 |
|     | Provision for losses on guarantees   | -                              | -18                            | -26                                |
|     | Impairment, credit institutions  | -                              | -14                            | -14                                |
|     | <b>Total impairment of loans and receivables etc.</b>  | <b>-</b>                       | <b>-21</b>                     | <b>-7</b>                          |
|     | <b>Loans with suspended interest payments</b>  | <b>-</b>                       | <b>147</b>                     | <b>143</b>                         |
|     | <i>Interest on impaired receivables is calculated on the impaired balance only.</i>  |                                |                                |                                    |
|     | <b>Recognised interest on impaired loans and receivables</b>   | <b>-</b>                       | <b>37</b>                      | <b>44</b>                          |

## 6.7 CREDIT RISK POLICY

Spar Nord's credit policy is unchanged relative to the description in note 51 in the annual report for 2017.



NOTE

## 7 Notes without reference – Group

### 7.1 FAIR-VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

#### **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 comprise unlisted shares that are not included in the Group's trading portfolio. 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. In addition, fair value adjustments are made of derivative financial instruments based on counter party PD (Probability of Default). 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 credit valuation adjustment (CVA) amounted to DKK 3 million at 30.09.2018 (30.09.2017: DKK 4 million; end-2017: DKK 4 million).

| Breakdown of financial instruments relative to the fair-value hierarchy classification and carrying amount | Quoted prices<br>Level 1<br>DKKm | Observable<br>input<br>Level 2<br>DKKm | Non-<br>observable<br>Input<br>Level 3<br>DKKm | Total<br>DKKm |
|--|----------------------------------|--|--|---------------|
| <b>30.09.18</b>  |                                  |  |  |               |
| <i>Financial assets</i>  |                                  |  |  |               |
| Bonds at fair value  | 12,512                           | 2,646                                  | 0  | 15,158        |
| Shares, etc.   | 192                              | 40                                     | 1,517  | 1,749         |
| Assets linked to pooled schemes  | 12,322                           | 3,047                                  | 327  | 15,696        |
| Positive fair value of derivative financial instruments  | 0                                | 873                                    | 14   | 887           |
| <b>Total</b>   | <b>25,026</b>                    | <b>6,607</b>                           | <b>1,858</b>                                   | <b>33,491</b> |
| <i>Financial liabilities</i>   |                                  |  |  |               |
| Deposits in pooled schemes   | 0                                | 15,696                                 | 0  | 15,696        |
| Other non-derivative financial liabilities at fair value   | 1,143                            | 89                                     | 0  | 1,232         |
| Negative fair value of derivative financial instruments  | 0                                | 623                                    | 0  | 623           |
| <b>Total</b>   | <b>1,143</b>                     | <b>16,408</b>                          | <b>0</b>                                       | <b>17,551</b> |
| <b>30.09.17</b>  |                                  |  |  |               |
| <i>Financial assets</i>  |                                  |  |  |               |
| Bonds at fair value  | 8,864                            | 3,116                                  | 0  | 11,980        |
| Shares, etc.   | 158                              | 17                                     | 1,344  | 1,519         |
| Assets linked to pooled schemes  | 10,243                           | 4,653                                  | 308  | 15,204        |
| Positive fair value of derivative financial instruments  | 0                                | 1,067                                  | 0  | 1,067         |
| <b>Total</b>   | <b>19,265</b>                    | <b>8,853</b>                           | <b>1,652</b>                                   | <b>29,769</b> |
| <i>Financial liabilities</i>   |                                  |  |  |               |
| Deposits in pooled schemes   | 0                                | 15,204                                 | 0  | 15,204        |
| Other non-derivative financial liabilities at fair value   | 839                              | 562                                    | 0  | 1,400         |
| Negative fair value of derivative financial instruments  | 0                                | 683                                    | 0  | 683           |
| <b>Total</b>   | <b>839</b>                       | <b>16,448</b>                          | <b>0</b>                                       | <b>17,287</b> |
| <b>31.12.17</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</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</b>   | <b>476</b>                       | <b>16,571</b>                          | <b>0</b>                                       | <b>17,047</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.

In 2018, assets recognised under positive fair value of derivative financial instruments were transferred observable inputs (Level 2) to non-observable inputs (Level 3). The adjustment to fair value is recognised in market value adjustments.

NOTE

|  | 30.09.18<br>DKKm   | 30.09.18<br>DKKm | 30.09.17<br>DKKm   | 30.09.17<br>DKKm |
|--|--|------------------|--|------------------|
| <b>Level 3</b>   |  |                  |  |                  |
|  | <b>Fair value based on net asset value, cf. shareholders' agreements</b> | <b>Other</b>     | <b>Fair value based on net asset value, cf. shareholders' agreements</b> | <b>Other</b>     |
| Equities   | 1,154  | 363              | 1,016  | 327              |
| Assets linked to pooled schemes  | -  | 327              | -  | 308              |
| Positive fair value of derivative financial instruments  | -  | 14               | -  | -                |
| <b>Sensitivities</b>   |  |                  |  |                  |
| Change in fair value of shares if the profit/loss of the companies changes by 10% (annualised) | 11   | -                | 9  | -                |

A substantial portion of the shares included under "Other" are valued based on the discounting of expected future cash flows from dividends, selling prices or market expectations as to the required rate of return on equity.

|  | Q1-Q3<br>2018<br>DKKm | Q1-Q3<br>2017<br>DKKm | Full year<br>2017<br>DKKm |
|--|-----------------------|-----------------------|---------------------------|
| <b>Financial instruments measured at fair value based on non-observable inputs (Level 3)</b> |                       |                       |                           |
| Carrying amount, beginning of period   | 1,719                 | 1,550                 | 1,550                     |
| Value adjustments through profit or loss   | 152                   | 69                    | 136                       |
| Market value adjustments in other comprehensive income                                       | 0                     | 0                     | 0                         |
| Purchase   | 29                    | 129                   | 131                       |
| Sale   | 74                    | 96                    | 99                        |
| Transferred to/from Level 3  | 35                    | 0                     | 0                         |
| <b>Carrying amount, end of period</b>  | <b>1,860</b>          | <b>1,652</b>          | <b>1,719</b>              |
| Market-value adjustments in the income statement of assets held at the reporting date        | 148                   | 24                    | 91                        |

Dividends on shares are recognised in the income statement and are not included in the above statement.

## 7.2 COLLATERAL PROVIDED

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

|  |              |              |              |
|--|--------------|--------------|--------------|
| Deposits, clearing   | 156          | 103          | 105          |
| Collateral provided for the market value of derivatives transactions | 335          | 427          | 424          |
| Positive market value of derivative contracts subject to netting     | 190          | 196          | 215          |
| Collateral provided as part of repo transactions                     | 2,973        | 1,286        | 729          |
| Other collateral provided  | 0            | 38           | 30           |
| <b>Total</b>   | <b>3,655</b> | <b>2,050</b> | <b>1,503</b> |

| NOTE | 73 | <b>HEDGE ACCOUNTING</b>  | <b>Q1-Q3<br/>2018<br/>DKKm</b> | <b>Q1-Q3<br/>2017<br/>DKKm</b> | <b>Full year<br/>2017<br/>DKKm</b> |
|------|----|--|--------------------------------|--------------------------------|------------------------------------|
|      |    | <b>Assets</b>  |                                |                                |                                    |
|      |    | Loans and advances   |                                |                                |                                    |
|      |    | Carrying amount  | -                              | 78                             | 77                                 |
|      |    | Fair value   | -                              | 78                             | 77                                 |
|      |    | Nominal value  | -                              | 75                             | 75                                 |
|      |    | Interest risk-hedging financial instruments  |                                |                                |                                    |
|      |    | Derivatives (swap contracts)   |                                |                                |                                    |
|      |    | Carrying amount  | -                              | -3                             | -2                                 |
|      |    | Fair value   | -                              | -3                             | -2                                 |
|      |    | Synthetic principal/nominal value  | -                              | 75                             | 75                                 |
|      |    | <b>Liabilities</b>   |                                |                                |                                    |
|      |    | Subordinated debt  |                                |                                |                                    |
|      |    | Carrying amount  | -                              | 393                            | -                                  |
|      |    | Fair value   | -                              | 401                            | -                                  |
|      |    | Nominal value  | -                              | 400                            | -                                  |
|      |    | Interest risk-hedging financial instruments  |                                |                                |                                    |
|      |    | Derivatives (swap contracts)   |                                |                                |                                    |
|      |    | Carrying amount  | -                              | 1                              | -                                  |
|      |    | Fair value   | -                              | 1                              | -                                  |
|      |    | Synthetic principal/nominal value  | -                              | 400                            | -                                  |
|      | 74 | <b>OWNERSHIP AT 30.09.18</b>   |                                |                                |                                    |
|      |    | Spar Nord Fonden, Aalborg, and Nykredit Realkredit A/S, Copenhagen, have disclosed that they each own more than 5% of the share capital of Spar Nord Bank A/S. |                                |                                |                                    |

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