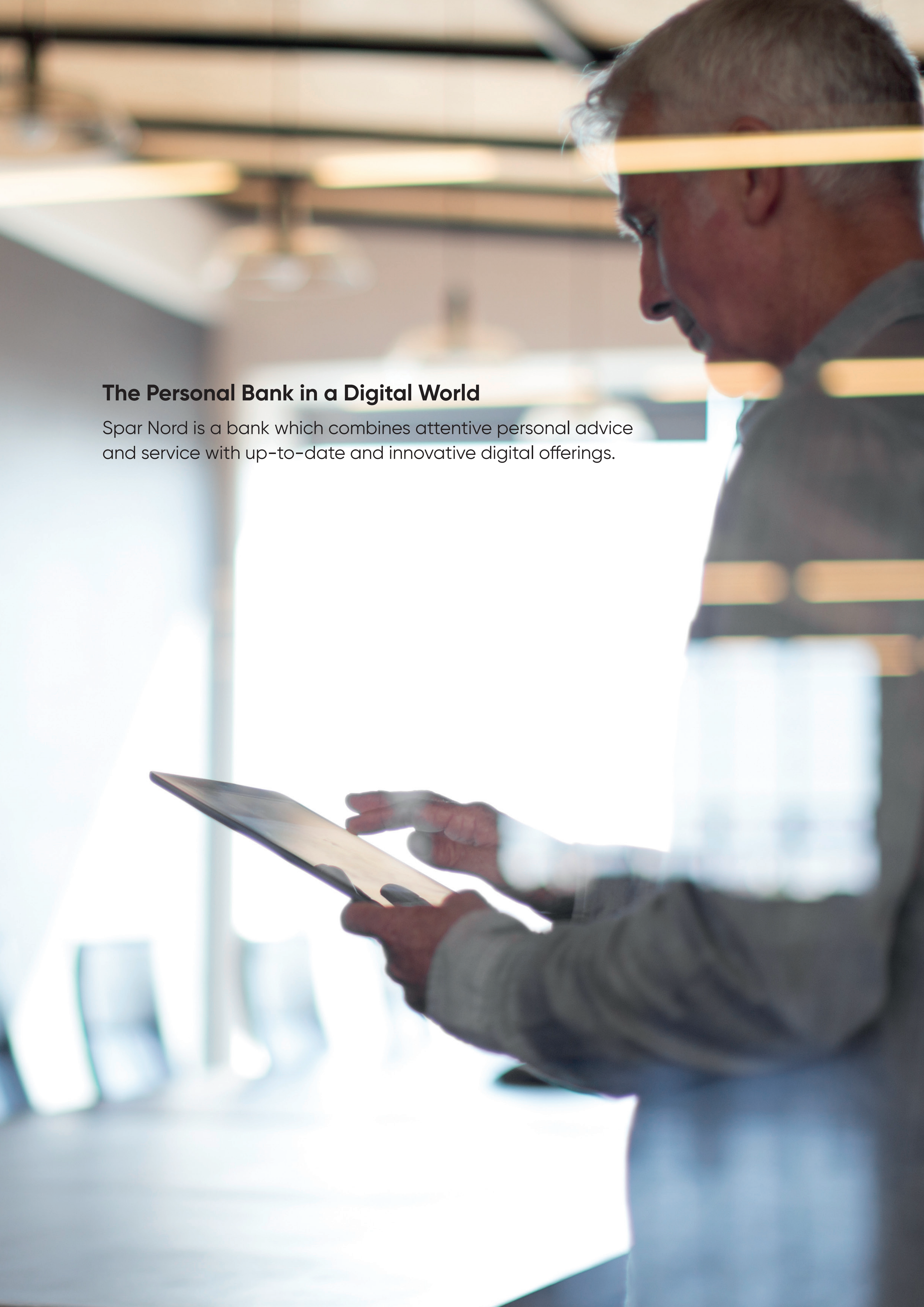
The Personal Bank in a Digital World

Annual Report 2018

The Personal Bank in a Digital World

Spar Nord is a bank which combines attentive personal advice and service with up-to-date and innovative digital offerings.



Annual Report 2018

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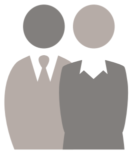
Spar Nord Bank 2018

Overview

Customers

Spar Nord is focused on providing comprehensive counselling to retail customers and small and medium-sized businesses. The Bank serves a total of 352,000 retail customers and 34,000 business customers.



2009-2018

+ 122,000

customers

Customer satisfaction

Spar Nord remains focused on customer satisfaction and regularly follows up on its customers' experience when they have been in contact with us. In 2018, Spar Nord achieved a highly satisfactory NPS score of 65 on average.

65 NPS

Market share

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

Business volume

Spar Nord's total business volume amounted to DKK 244.2 billion. Bank and leasing loans amounted to DKK 39.6 billion, and mortgage loans arranged through the Bank amounted to DKK 80.9 billion. Total deposits stood at DKK 50.8 billion, and customers have DKK 14.8 billion in pooled schemes and DKK 46.1 billion in custody accounts.

Business volume 2017

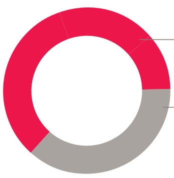
DKK **241.4** billion

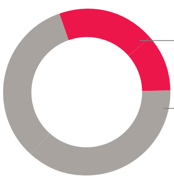
Business volume 2018

DKK **244.2** billion

Breakdown of shareholders

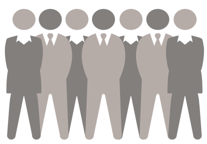
Spar Nord is owned by 103,000 shareholders – approximately 70% of the capital is owned by Danish shareholders and about 30% by shareholders from other countries. Of these, private investors represent 36%, and foundations, institutional investors and other major shareholders represent 64%.





Employees

Spar Nord has 1,518 employees, 1,020 of whom work at the local banks, 74 at Trading, Financial Markets & the International Division, and 424 in the central functions.



2018

1,518

1,538 employees in 2017

Overview

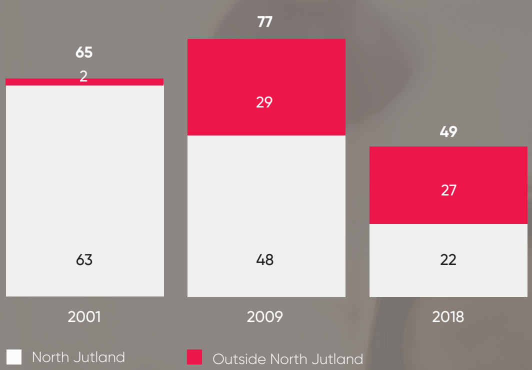
A chain of local banks

Spar Nord was founded in Aalborg in 1824, and North Jutland remains the Bank's home turf. Since 2001, Spar Nord has established itself as a nation-wide chain of local banks.

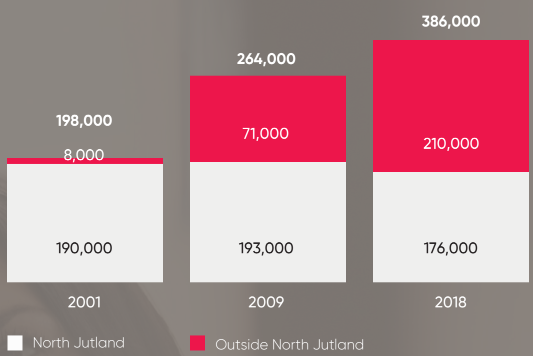
During the years since the growth strategy was initiated, Spar Nord has acquired and established 51 branches outside North Jutland, while 26 branches were closed or merged.

At end-2018, 27 of the Bank's 49 branches, 62% of total credit arranged and 57% of the total business volume were located outside North Jutland.

Number of branches

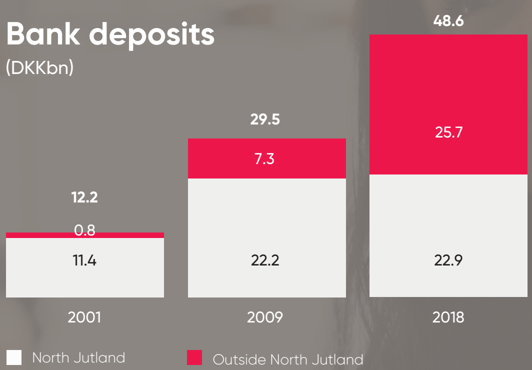


Customers



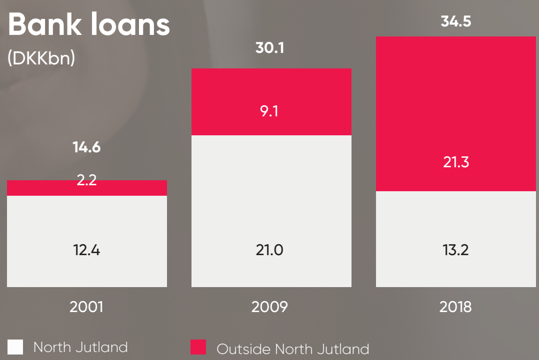
Bank deposits

(DKKbn)

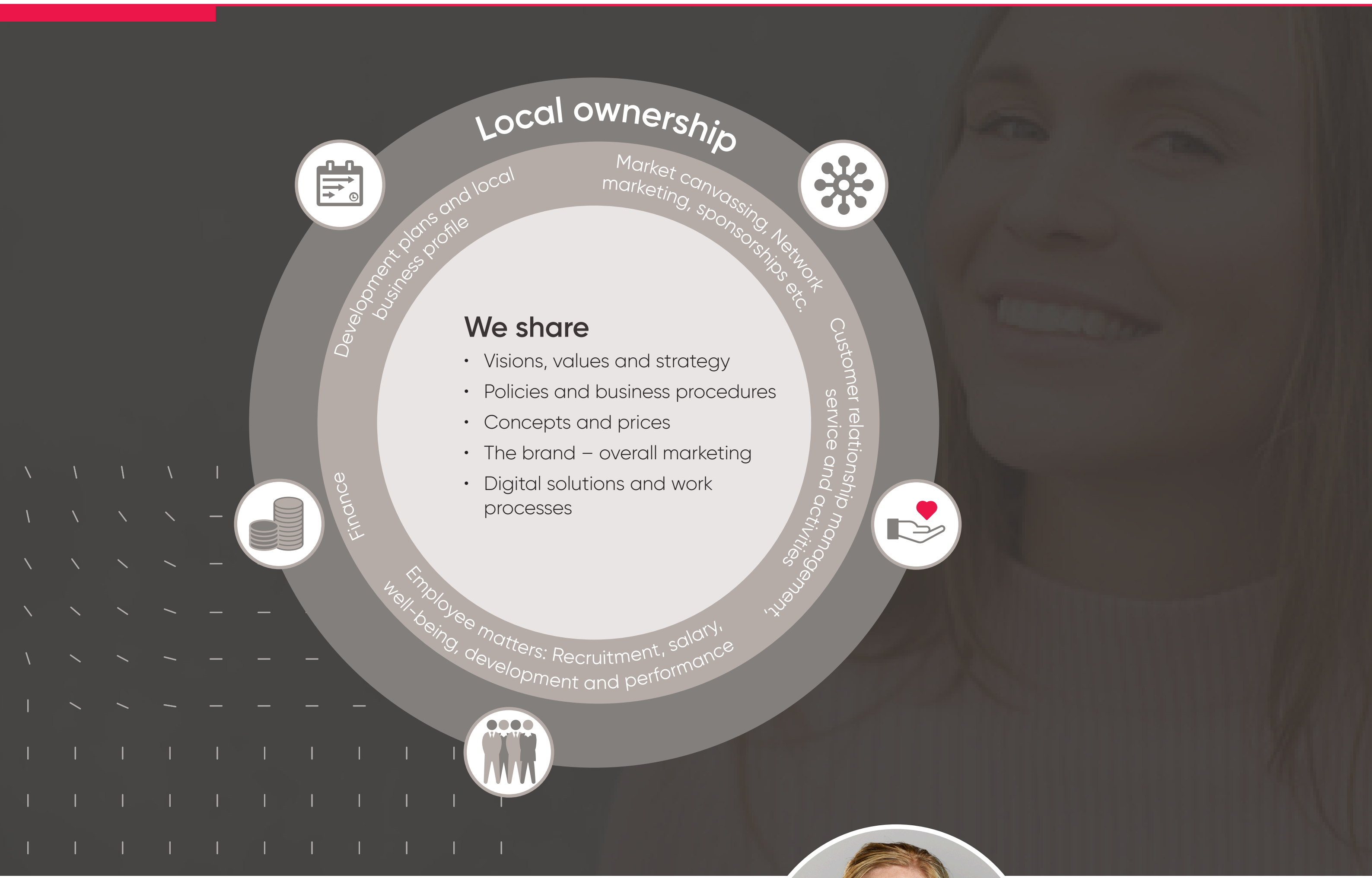


Bank loans

(DKKbn)



Business model



Decentralised ownership

Spar Nord's business model builds on the "out-side-in" approach. Spar Nord consists of local entities each with extensive decision-making powers in areas such as customer service, market canvassing and employee relations. The philosophy underlying the business model is that the work undertaken by the centralised support and development functions should be determined on the basis of customer requirements for the decentralised customer-facing entities.

In the credit area, the Bank applies centralised management and monitoring.

"It is paramount for me as an adviser to local customers from the area where I live myself that I meet them personally at the bank and not only on digital media."

Trine Mølbæk Simonsen
Customer Adviser, Retail, Spar Nord Helsingør

Strategy

The foundation of Spar Nord's strategy is that the Bank's greatest strength, also in an increasingly digital world, should remain the ability to be a personal and attentive bank: No matter what tomorrow brings, people will always need a bank that is close to its customers, and a bank that knows and understands their needs and wants. Therefore, Spar Nord's vision – the landmark which all staff members should steer for – is to become **Denmark's most personal bank**.

As part of its efforts to bring the vision within reach, Spar Nord pursues a strategy that builds on the current trends in the banking market, not least the omnipresent digitalisation, which is handled very differently from one bank to the next. Some are striving to become fully digitised, while others are sticking to traditional banking models.

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

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

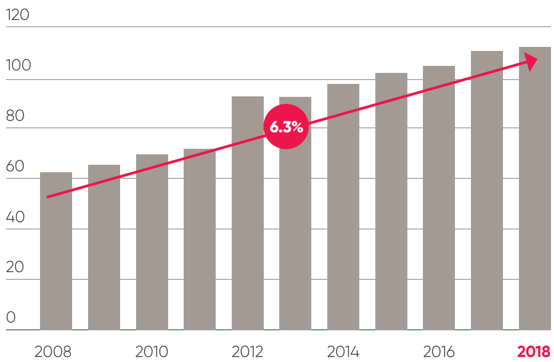
Market share

Spar Nord has won market share in the past ten years

% Average annual growth

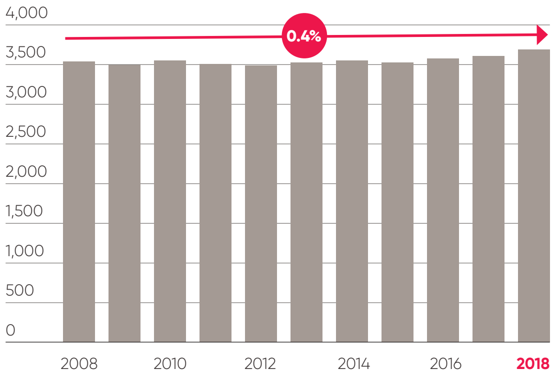
Total credits arranged – Spar Nord

(DKKbn)



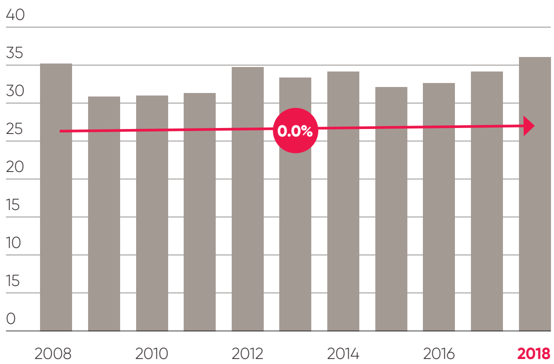
Total credit arranged Sector

(DKKbn)



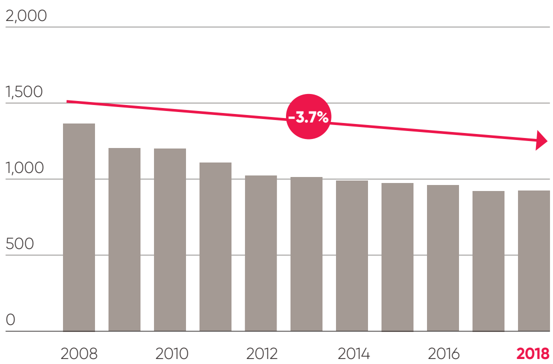
Bank loans – Spar Nord

(DKKbn)



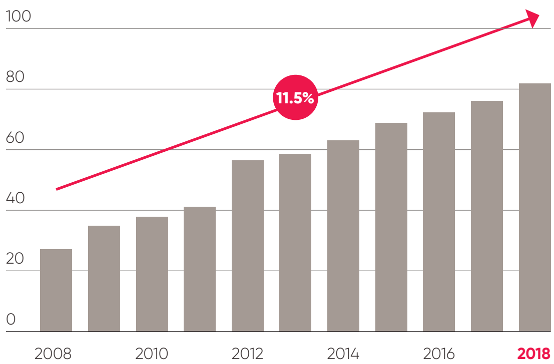
Loans, Sector

(DKKbn)



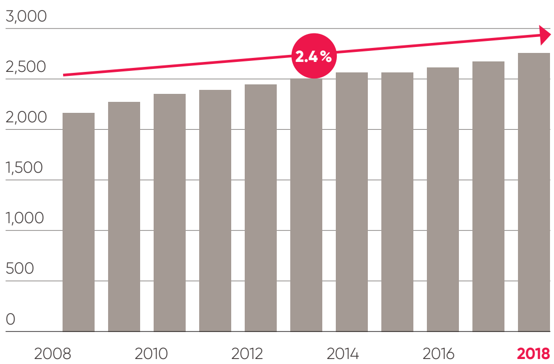
Mortgage loans arranged – Spar Nord

(DKKbn)



Mortgage loans – Sector

(DKKbn)



"To me, being personal means that I can get closer to our customers' dream and wishes, which helps build close relations and create satisfied customers."

Susanne Fogh
Customer Adviser, Retail,
Spar Nord Slagelse

Letter to our shareholders

Spar Nord had an eventful and successful year in 2018. Our core business developed favourably with volume growth and a consistently high level of activity that allowed us to recognise gains on our holdings in Valueinvest and BankInvest. Based on these positives, we achieved a net profit of DKK 920 million and a return on equity of 10.8%.

Strong core business performance
One of the positive components of our 2018 financial statements that we would like to highlight is the increase in bank and leasing loans of 6% and the 5% increase in mortgage loans arranged. Driven by retail and business customers and not least by our lease operations, the improvement reflects our strong market position and that we continue to win market share. Such improvement is in fact necessary in order to deliver satisfactory financial performance in the highly competitive Danish banking market, which is characterised by extremely low interest rates.

In addition to lending growth and the stabilisation of our interest receivable resulting from such growth, we are also pleased with the continuing improvement in our activity-driven earnings. Mortgage lending was once more one of the areas where we recorded a particularly strong increase in 2018, making us one of the largest arrangers of loans from Totalkredit and DLR Kredit.

Poor year for shareholders
Although Spar Nord recorded satisfactory topline and bottomline performance in 2018, unfortunately 2018 was not a very good year for our shareholders. The fact is that 2018 will also be remembered as quite a dramatic year for the equity markets – not least for the Danish banking sector where a combination of factors generally put share prices under heavy pressure. So even though we worked hard to generate strong results, and actually succeeded in doing just that, the Spar Nord share fell 27% in 2018, offering a total negative return of 23% including dividends of DKK 3.5 per share.

One of the main reasons why 2018 turned out to be such a difficult year for Danish and other European bank shares was the persistently low level of interest rates, which triggered concerns about the future earnings capacity in the banking sector. In this interest rate environment, interest income from our deposit and lending operations and not least the interest we receive when placing our excess liquidity in the bond market is under a lot of pressure.

Kjeld Johannesen, Chairman of the Board of Directors

Our topline challenge is aggravated by the fact that growth in the Danish economy remains moderate, which means we should not expect underlying economic growth to compensate for the income we forfeit due to the low interest rates. In addition, we need to acknowledge that our costs are under severe pressure, not least as a result of the many strategic and compliance-related IT projects currently undertaken by Spar Nord and the rest of the sector.

Positioned for growth in a challenging market
In other words, one of the big questions is how it will be possible in this environment to generate sufficient income and earnings to enable us in the years ahead to meet investor demands and expectations. While we make no secret of the fact that it will be difficult to reach our goal of a return on equity of 9-11%, we are confident that Spar Nord is well prepared to face the challenges.

As an example of this, in 2018 a number of independent analyses showed that, across geography and business areas, Spar Nord enjoys a very strong reputation and high customer satisfaction levels. Other things being equal, this provides us with a solid foundation for continuing recent years' growth in market share. In addition to the decent growth opportunities, our leasing operations serve as a specific and strong growth driver, which in 2018 once again produced double-digit growth rates. Lastly, we are well positioned to participate in the M&A activity expected to play out in the Danish banking sector given the difficult market conditions.

Lasse Nyby, Chief Executive Officer

There were no actual M&A transactions in Denmark in 2018, but in September we announced that we had acquired 27% of the shares in Danske Andelskassers Bank. From the perspective of a strategic investment, DAB is attractive to us because there is a strong match between our two banks in a number of areas, including in relation to customer focus, channel strategy, geography and IT platform. Consequently, we make no secret of the fact that we consider our investment the first step on the path to a combination of the two banks.

Whether or not we succeed in these endeavours, we are pleased with the fact that our current ownership interest in DAB of 30.7% constitutes an attractive financial investment.

SIFI and IRB on the cards

At the end of 2018, Spar Nord was included in the so-called Group 1 (the largest Danish banks), and in early January Spar Nord was officially designated a "systemically important financial institution" in Denmark. In addition to the recognition of Spar Nord's position in the Danish banking market and the benefits this may entail, the designation involves a number of stricter requirements. These include capital requirements, and the so-called "minimum requirement for eligible liabilities" means that, after a four-year phasing-in period, our total capital base must be at least 27%.

In order to comply with the new capital requirements in the most expedient manner – and generally to be as competitive as possible – we have launched a strategic project, which over the course of three to four years is to enable us to switch from the standard method to the so-called internal ratings-based (IRB) approach for calculating the risk weights of our loans.

Our preparatory efforts for this project were off to a good start in 2018, and we still expect to be able to achieve quite substantial capital benefits within the indicated time horizon. Such benefits will include more effective use of capital, opening up for a stronger growth potential and/or dividends.

Dividend to shareholders

With respect to dividends, we continued to generate results in 2018 that allow us to comply with our dividend policy of paying out decent dividends to our shareholders. On the basis of our solid capital position – and with due consideration to the challenges we are facing with respect to capital requirements – the Board of Directors recommends to the shareholders at the Annual General Meeting that a dividend of DKK 3.5 per share be distributed, equal to a payout ratio of 47%.

Challenging year ahead

As in the preceding years, we have quite an extensive to-do list going into 2019. Among other things, our efforts to prepare Spar Nord for becoming an IRB bank coupled with the other priority items of our strategy plan will characterise the work schedule throughout the Bank. However, the most important task for all of our 1,500 colleagues is to remain focused on providing competent, personal and professional advice to Spar Nord's retail and business customers when they are in contact with us. This is the foundation for high customer satisfaction, a good reputation and, by extension, continuing growth in our market share and business volume.

With respect to our financial guidance for 2019, we are fully aware that our 2018 profit was well supported by the gain of some DKK 230 million on Valueinvest and BankInvest. Obviously, this income will not be repeated this year. We would welcome an overall increase in interest rates, but as we cannot rely on that to happen, we must be prepared to work hard to generate a solid profit in 2019.

Kjeld Johannesen	Lasse Nyby
Chairman	CEO

Performance indicators and financial ratios – Group

Core earnings – year

Performance indicators

Income statement

DKKm	2018	2017	Change in %	2016	2015	2014
Net interest income *)	1,548	1,546	0	1,621	1,727	1,800
Net fee income	1,127	1,116	1	1,053	1,030	863
Market value adjustments and dividends	268	404	-34	434	507	380
Other income *)	247	83	197	59	66	160
Core income	**3,190**	**3,150**	**1**	**3,167**	**3,331**	**3,202**
Staff costs	1,152	1,165	-1	1,142	1,098	1,053
Operating expenses	771	771	0	755	745	870
Costs and expenses	**1,924**	**1,936**	**-1**	**1,896**	**1,843**	**1,922**
Core earnings before impairment	**1,266**	**1,213**	**4**	**1,270**	**1,488**	**1,280**
Loan impairments etc. *)	173	-38	-	242	316	493
Core earnings	**1,094**	**1,251**	**-13**	**1,028**	**1,172**	**786**
Earnings from investment portfolios	-	-	-	-	-	21
Contributions to sector-wide solutions	-	-	-	-	-99	-102
Profit/loss before tax	**1,094**	**1,251**	**-13**	**1,028**	**1,074**	**705**
Tax	174	262	-34	190	177	91
Profit/loss for the period	**920**	**989**	**-7**	**838**	**897**	**614**
Interest expenses to holders of additional tier 1 (AT1) capital	49	49	0	26	14	-

Balance sheet

DKKm						
Total assets	82,793	80,367	3	78,473	76,357	78,825
Loans and advances	**44,330**	**46,747**	**-5**	**41,346**	**38,039**	**35,948**
Lending, banking and leasing activities	39,551	37,272	6	35,092	33,884	35,484
Lending, reverse repo transactions	4,779	9,475	-50	6,253	4,155	464
Deposits	**65,545**	**64,266**	**2**	**61,006**	**58,116**	**53,090**
Deposits, banking activities	50,773	48,668	4	46,464	44,366	42,236
Deposits, repo transactions	0	175	-	0	370	0
Deposits in pooled schemes	14,772	15,423	-4	14,541	13,380	10,854
Subordinated debt	1,332	1,144	16	1,093	1,089	1,708
Additional tier 1 (AT1) capital	861	861	0	862	412	-
Shareholders' equity	8,380	8,114	3	7,765	7,475	7,033
Guarantees	12,092	11,961	1	12,334	9,585	10,240
Total risk exposure amount	53,858	49,546	9	47,486	46,500	49,005
Tier 1 capital	8,387	7,924	6	7,428	6,946	6,516
Impairment account and discount on commitments taken over **)	1,945	1,616	20	1,994	1,998	2,149
Contractual non-performing loans	476	341	40	443	514	523
Business volume	244,159	241,393	1	230,114	218,457	202,103

*) In the core earnings format in 2017 and earlier years, an amount was reclassified between the items Net interest income, Other income and Loan impairments, etc., which relates to the share of the discount, recognised as income, on commitments taken over. See note 2.1 to the consolidated financial statements.

**) From 2018 onwards, the figure is inclusive of impairment of unutilised credit lines.

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

Own funds		2018	2017	2016	2015	2014
Own funds ratio	%	18.0	18.2	17.7	17.0	15.0
Tier 1 capital ratio	%	15.6	16.0	15.6	14.9	13.3
Common equity tier 1 capital ratio	%	14.0	14.4	14.0	14.4	13.0
Earnings						
Return on equity before tax excl. additional tier 1 (AT1) capital *)	%	12.8	15.1	13.2	14.6	10.4
Return on equity after tax excl. additional tier 1 (AT1) capital *)	%	10.8	12.0	10.7	12.2	9.0
Cost share of core income	DKK	0.60	0.61	0.60	0.55	0.60
Cost share of core income - incl. loan impairments, etc.	DKK	0.66	0.60	0.68	0.65	0.75
Return on assets	%	1.1	1.2	1.1	1.2	0.8
Market risk and liquidity						
Interest rate risk	%	0.2	0.7	1.2	1.8	0.6
Foreign exchange position	%	1.4	3.3	3.2	3.4	2.6
Foreign exchange risk	%	0.1	0.1	0.1	0.1	0.0
Liquidity Coverage Ratio (LCR)	%	174	187	171	145	-
Bank and leasing loans relative to bank deposits	%	77.9	76.6	75.5	76.4	84.0
Credit risk						
Bank and leasing loans relative to shareholders' equity		4.7	4.6	4.5	4.5	5.0
Increase in loans and advances for the year	%	6.7	6.2	3.6	-4.5	-1.1
Sum of large exposures **)	%	79.2	17.2	14.5	16.1	0.0
Impairment ratio	%	0.3	-0.1	0.4	0.6	1.0
Employees and branches						
Number of employees (full-time equivalents, end of period)		1,518	1,538	1,540	1,538	1,507
Number of branches		49	50	58	70	71
Spar Nord share						
DKK per share of DKK 10						
Share price, end of period		52	72	81	61	58
Net asset value (NAV) *)		68	66	63	60	56
Profit/loss for the year *)		7.2	7.8	6.6	7.1	4.9
Dividend	DKK	3.5	3.5	5.0	3.0	1.6
Extraordinary dividend	DKK	-	-	-	2.0	-
Return	%	-23	-5	38	11	20
Price/earnings *)		7	9	12	9	12

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

**) In 2018, the ratio is calculated according to the Danish FSA's new benchmark for large exposures.

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.

The Danish FSA's layout and ratio system is shown in note 6.11 to the consolidated financial statements.

A definition of financial ratios is provided in note 6.11.1 to the consolidated financial statements.

Performance indicators and financial ratios – Group

Core earnings – quarterly

Performance indicators

Income statement

DKKm	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4
Net interest income *)	390	386	384	389	373
Net fee income	271	293	273	290	279
Market value adjustments and dividends	8	77	64	119	102
Other income	27	16	184	20	20
Core income	**695**	**771**	**905**	**818**	**773**
Staff costs	311	252	313	277	316
Operating expenses	195	181	197	198	210
Costs and expenses	**506**	**433**	**510**	**474**	**525**
Core earnings before impairment	**189**	**338**	**395**	**344**	**248**
Loan impairments etc. *)	106	50	39	-23	13
Profit/loss before tax	**83**	**288**	**355**	**367**	**235**
Tax	12	69	37	56	44
Profit/loss for the period	**71**	**219**	**319**	**311**	**190**
Interest expenses to holders of additional tier 1 (AT1) capital	12	12	12	12	12

Balance sheet

DKKm					
Total assets	82,793	85,461	83,561	80,934	80,367
Loans and advances	**44,330**	**46,636**	**45,678**	**44,866**	**46,747**
Lending, banking and leasing activities	39,551	39,154	38,336	37,551	37,272
Lending, reverse repo transactions	4,779	7,482	7,342	7,315	9,475
Deposits	**65,545**	**64,704**	**64,866**	**62,874**	**64,266**
Deposits, banking activities	50,773	49,007	49,514	47,765	48,668
Deposits, repo transactions	0	0	0	0	175
Deposits in pooled schemes	14,772	15,696	15,352	15,110	15,423
Subordinated debt	1,332	1,532	1,522	1,128	1,144
Additional tier 1 (AT1) capital	861	875	860	874	861
Shareholders' equity	8,380	8,310	8,100	8,220	8,114
Guarantees	12,092	12,028	12,095	11,407	11,961
Total risk exposure amount	53,858	52,712	51,493	51,559	49,546
Tier 1 capital	8,387	8,361	8,235	8,055	7,924
Impairment account and discount on commitments taken over**)	1,945	1,871	1,894	1,874	1,616
Contractual non-performing loans	476	415	383	393	341
Business volume	244,159	244,710	242,522	239,196	241,393

*) In the core earnings format in 2017, an amount was reclassified between the items Net interest income and Loan impairments, etc., which relates to the share of the discount, recognised as income, on commitments taken over. See note 2.1 to the consolidated financial statements.

**) In 2018, the figure is inclusive of impairment of unutilised credit lines.

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

Own funds		2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4
Own funds ratio	%	18.0	18.7	18.9	17.8	18.2
Tier 1 capital ratio	%	15.6	15.9	16.0	15.6	16.0
Common equity tier 1 capital ratio	%	14.0	14.3	14.4	14.0	14.4
Earnings						
Return on equity before tax excl. additional tier 1 (AT1) capital *)	%	0.9	3.4	4.3	4.4	2.8
Return on equity after tax excl. additional tier 1 (AT1) capital *)	%	0.8	2.6	3.9	3.7	2.3
Cost share of core income	DKK	0.73	0.56	0.56	0.58	0.68
Cost share of core income - incl. loan impairments, etc.	DKK	0.88	0.63	0.61	0.55	0.70
Return on assets	%	0.1	0.3	0.4	0.4	0.2
Market risk and liquidity						
Interest rate risk	%	0.2	0.9	0.8	0.8	0.7
Foreign exchange position	%	1.4	1.5	1.3	1.4	3.3
Foreign exchange risk	%	0.1	0.1	0.1	0.0	0.1
Liquidity Coverage Ratio (LCR)	%	174	157	176	173	187
Bank and leasing loans relative to bank deposits		77.9	79.9	77.4	78.6	76.6
Credit risk						
Bank and leasing loans relative to shareholders' equity	%	4.7	4.7	4.7	4.6	4.6
Increase in loans and advances for the period	%	1.0	2.1	2.1	1.3	1.8
Sum of large exposures **)	%	79.2	74.4	79.1	74.1	17.2
Impairment ratio	%	0.2	0.1	0.1	0.0	0.0
Employees and branches						
Number of employees (full-time equivalents, end of period)		1,518	1,523	1,527	1,520	1,538
Number of branches		49	49	49	50	50
Spar Nord share						
DKK per share of DKK 10						
Share price, end of period		52	60	68	72	72
Net asset value (NAV), *)		68	68	66	67	66
Profit/loss for the year *)		0.5	1.7	2.5	2.5	1.5

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

**) In 2018, the ratio is calculated according to the Danish FSA's new benchmark for large exposures.

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.

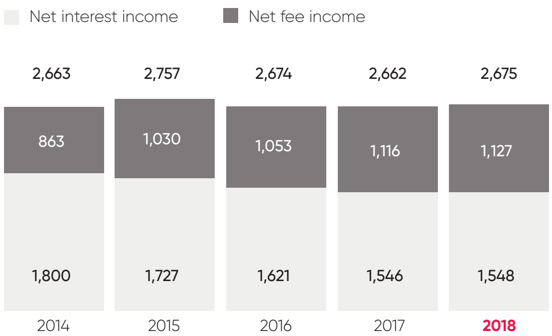
Financial review

Spar Nord achieved a net profit of DKK 920 million in 2018, which corresponds to an annualised return on equity of 10.8%. The profit is DKK 69 million, or 7%, lower than in 2017 and is considered satisfactory by management.

Income

Core income amounted to DKK 3,190 million, which is 1% higher than in 2017.

Net interest income and net fee income
(DKKm)



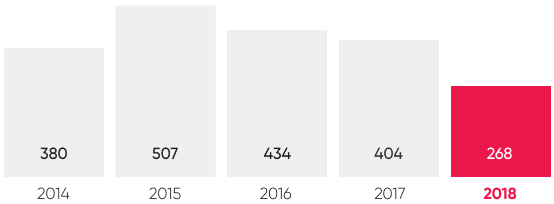
Net interest income was DKK 1,548 million in 2018, against DKK 1,546 million in 2017. Compared with 2017, interest income from loans to customers was DKK 47 million lower, while interest expenses from deposits were reduced by DKK 40 million, and expenses for subordinated debt were reduced by DKK 10 million. Lastly, net interest income from bonds etc. was DKK 18 million lower than in 2017.

The total interest rate margin was 4.01 percentage points in Q4 2018, which was 21 basis points lower than 12 months earlier.

The net fee income for the year was DKK 1,127 million, against DKK 1,116 million the year before. The year-on-year increase was especially attributable to mortgage lending, including the continuing growth in the volume of mortgage loans arranged from Totalkredit. Income from the cooperation with Totalkredit amounted to DKK 348 million (2017: DKK 332 million), while the cooperation with DLR Kredit produced an income of DKK 42 million (2017: DKK 43 million).

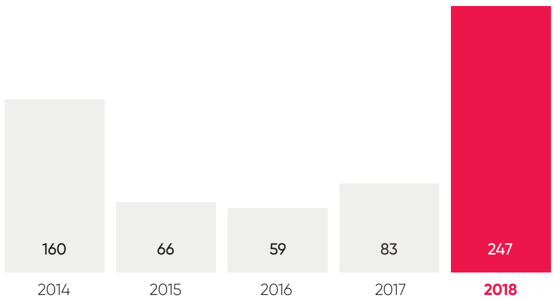
Net fee income from securities trading and asset management was slightly lower than in 2017. The decline was due particularly to lower income from unit trusts, among other things as a result of the new MiFID II rules. Also, trading activity was lower, particularly in Q4.

Market value adjustments and dividends
(DKKm)



Market value adjustments and dividends totalled DKK 268 million in 2018, against DKK 404 million in 2017. Adding to performance was a substantial improvement in market value adjustments and dividends on sector shares, not least BankInvest. Weighing on performance were earnings from shares, bonds and financial instruments, which were notably lower than in 2017, which was due to the low interest rates and periodically unfavourable developments in yield spreads between mortgage and government bonds and declining share prices.

Other income
(DKKm)

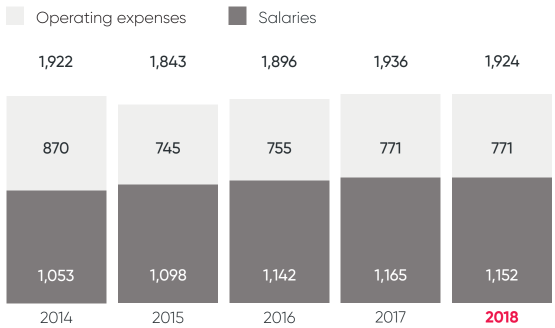


Other income amounted to DKK 247 million against DKK 83 million in 2017 driven by a non-recurring income of DKK 154 million from the sale of Spar Nord's stake in Valueinvest Asset Management SA.

Costs and expenses

The Group's total costs and expenses amounted to DKK 1,924 million, against DKK 1,936 million in 2017.

Total costs
(DKKm)



Wages and salaries accounted for DKK 1,152 million of total costs and expenses. Realised payroll costs were DKK 13 million lower than in 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 2017, although Spar Nord employed 20 employees fewer at 31 December 2018 than one year before.

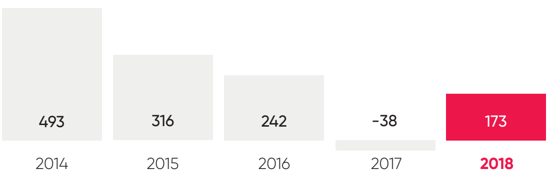
Other operating income for the year amounted to DKK 771 million, which was on a level with 2017. There were higher costs associated with strategic and compliance-related IT projects, both at the BEC data centre and in-house projects at Spar Nord, while costs were reduced in all other areas (premises, marketing, etc.).

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

Loan impairments

Loan impairments etc. was an expense of DKK 173 million, against an income of DKK 38 million in 2017.

Impairment
(DKKm)



Loan impairments were to a wide extent affected by the challenges facing the agricultural sector. Of the total impact on operations of DKK 173 million in 2018, the impact on agriculture alone was DKK 106 million in a year in which particularly pig farmers were severely challenged by low settlement prices. Also, there was an individual impairment on a major plant cultivation exposure.

For the Group's other business customers, there was an impact of DKK 13 million, which includes a loss of DKK 45 million related to fraud at one of the bank's business customers, which was identified in January 2019. In other words, the credit quality of the Bank's business customers has developed favourably.

Impairments on retail customers had an impact on operations of DKK 54 million, DKK 46 million of which was attributable to the consumer loan business SparXpres. The credit quality is thus generally quite good, driven by factors such as developments in employment, property prices and other macroeconomic factors.

Agricultural exposures by production line

31.12.2018 DKKm/%	Loans and guarantees	Non-performing loans	Of which impaired	Share impaired
Cattle farmers	725	17	462	63.7
Pig farmers	586	38	296	50.5
Plant cultivation	697	76	229	32.8
Mink farmers	111	0	46	41.1
Leasing	515	0	26	5.1
Miscellaneous	334	1	18	4.1
Total	**2,969**	**132**	**1,077**	**36.3**

Agricultural impairments by production line

31.12.2018 DKKm/%	Impairment account	Impaired	Impairment for the year	Impairment ratio of exposure	Percentage of impaired
Cattle farmers	249	60	-5	37.3	53.8
Pig farmers	192	6	32	32.7	64.8
Plant cultivation	104	3	59	14.9	45.6
Mink farmers	25	6	14	22.1	53.9
Leasing	13	0	4	2.5	49.4
Miscellaneous	14	2	2	4.2	77.5
Total	**596**	**77**	**106**	**20.1**	**55.4**

Stage 3 impairments at end-2018 were DKK 1,531 million (1 Jan. 2018: DKK 1,494 million), while stage 1 and 2 impairments totalled DKK 414 million (1 Jan. 2018: DKK 387 million).

The Group's loans, advances and guarantees *) Breakdown by industry

Industry %	Loans and guarantees 31.12.2017	Loans and guarantees 31.12.2018	Impairment account 31.12.2018
Agriculture, hunting and forestry	6.1	5.5	30.6
Fisheries	0.2	0.2	0.1
Industry and raw materials extraction	5.3	5.2	4.5
Utilities	3.1	2.7	1.1
Construction and engineering	4.8	4.9	4.5
Trade	7.2	7.4	6.8
Transport, hotels and restaurants	3.8	4.0	5.4
Information and communication	0.4	0.4	0.3
Financing and insurance	6.6	6.4	6.1
Real property	11.2	11.2	10.2
Other industries	5.8	6.6	6.0
Total business customers	**54.5**	**54.8**	**75.6**
Public authorities	0,0	0.1	0.0
Retail customers	45.5	45.1	24.4
Total	**100.0**	**100.0**	**100.0**

*) Excl. reverse repo transactions

Profit/loss

The profit before tax was DKK 1,094 million against DKK 1,251 million in 2017. The Group's effective tax rate was 16%, bringing the net profit to DKK 920 million, against DKK 989 million in 2017. The low effective tax rate was due to tax exemption for income relating to both Valueinvest and BankInvest in 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. In the first half of 2018, Spar Nord twice upgraded its guidance for core earnings to about DKK 1.3 billion and its profit guidance to around the DKK 1.0 billion mark. At the end of January 2019, the net profit guidance was downgraded to around DKK 920 million in connection with a loss on a customer exposure.

Q4 2018 relative to Q3 2018
Spar Nord recorded a net profit of DKK 71 million in Q4 2018, against DKK 219 million in Q3 2018.

Net interest income amounted to DKK 390 million in Q4 2018, against DKK 386 million in Q3. The performance is a reflection of continuing volume growth.

Net fee income amounted to DKK 271 million, which was DKK 22 million, or 8%, lower than in the preceding quarter. The decline was attributable to lower activity in the securities area.

Market value adjustments and dividends amounted to DKK 8 million, up from DKK 77 million in Q3. The negative development in Q4 primarily reflects unfavourable developments in yield spreads between mortgage and government bonds and declining share prices.

Costs and expenses in Q4 were DKK 506 million, up DKK 73 million on the preceding quarter but DKK 19 million lower than in Q4 2017. Payroll costs were DKK 311 million, against DKK 252 million in Q3, which was due to adjustment of holiday pay obligations in Q3, which usually occurs in Q4. Operating expenses amounted to DKK 195 million, against DKK 181 million in Q3.

Loan impairments etc. in Q4 were an expense of DKK 106 million, against an expense of DKK 50 million in Q3. The impairments were affected by a loss of DKK 45 million related to fraud at one of the bank's business customers, which was identified in January 2019.

Satisfactory developments in leasing and SparXpres

Spar Nord's lease operations had another good year in 2018. After the business was restarted in 2014, developments have been highly satisfactory, and in 2018 it recorded 37% growth in leasing loans, which are primarily granted for equipment in transport, construction and agriculture. Leasing loans thus stood at DKK 3.9 billion at end-2018. Core income before impairments was up 37% to DKK 67 million, and profit before tax grew 24% to DKK 63 million.

The consumer loan business SparXpres realised lending growth of 19% to DKK 565 million. Core income before impairments was up 35% to DKK 64 million, and profit before tax grew 16% to DKK 18 million.

Business volume

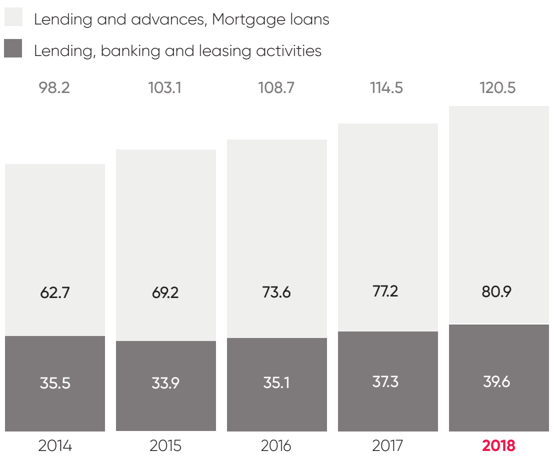
The Group's total business volume (deposits, loans, advances and guarantees, mortgage credits arranged and customers' custodianship accounts) amounted to DKK 244.2 billion at 31 December 2018, which was DKK 2.8 billion higher than at end-2017.

Balance sheet extracts

DKKbn	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Lending, banking and leasing activities	39.6	37.3	35.1	33.9	35.5
Deposits banking activities	50.8	48.7	46.5	44.4	42.2
Lending in pooled schemes	14.8	15.4	14.5	13.4	10.9
Guarantees	12.1	12.0	12.3	9.6	10.2
Loans and advances, mortgage loans	80.9	77.2	73.6	69.2	62.7
Custodianship accounts	46.1	50.9	48.1	48.0	40.6
Total business volume	**244.2**	**241.4**	**230.1**	**218.5**	**202.1**

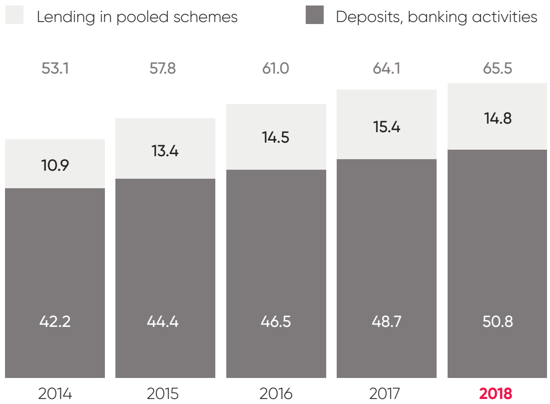
Compared with end-2017, bank and leasing loans rose DKK 2.3 billion, or 6% to DKK 39.6 billion. Based on the volume of bank and leasing loans, Spar Nord has a market share of lending in Denmark of about 4%.

Total credits arranged
(DKKbn)



During 2018, the volume of mortgage-credit loans arranged grew DKK 3.7 billion to DKK 80.9 billion, equal to 5%. In total, the volume of mortgage loans arranged from Totalkredit amounted to DKK 69.8 billion and from DLR Kredit DKK 11.1 billion.

Total deposits
(DKKbn)



Deposits, banking activities increased during the year by DKK 2.1 billion, or 5%, to DKK 50.8 billion, resulting in a market share for Spar Nord in Denmark of about 4%.

Deposits in pooled schemes fell by DKK 0.6 billion, or 4%, to DKK 14.8 billion, while customers' custodianship accounts fell by DKK 4.8 billion, or 9%, to DKK 46.1 billion. In both areas, the decline was mainly due to falling prices.

As a result of developments in deposit and lending volumes, the loan-to-deposit ratio at end-2018 stood at 78.

Capital position

On the capital side, the recent SIFI designation and the requirements resulting therefrom mean that Spar Nord now pursues the goal of having a common equity tier 1 (CET1) ratio of 13.5% (2018: 13.0%) and an own funds ratio of 17.5% (2018: 16.5%).

At 31 December 2018, the common equity tier 1 (CET1) ratio was 14.0%, while the own funds ratio was 18.0%. This should be viewed relative to the individual solvency need calculated by Spar Nord at 9.5% plus the 1.9% combined buffer requirement, as a result of which the total capital requirement is 11.3%. Thus, Spar Nord has an excess capital coverage of 6.6 percentage points, equal to DKK 3.6 billion.

In 2018, Spar Nord issued new tier 2 capital in the amount of DKK 900 million and repaid tier 2 capital for DKK 700 million.

As a newly designated SIFI institution, Spar Nord 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 27% of the total risk exposure amount. Spar Nord's MREL requirements have been determined at twice the solvency need plus twice the combined buffer requirement with the exception of the countercyclical buffer requirement, which will only be included once in the MREL requirement.

Over the coming years, the phasing in of the new requirements is expected to lead to a need for issuing subordinated capital (Non-Preferred Senior) to the tune of DKK 6-7 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 have been fully phased-in.

Liquidity

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	End of year 2018	End of year 2017	End of year 2016	End of year 2015	End of year 2014
Deposits, banking activities	50.8	48.7	46.5	44.4	42.2
Senior loans/bond issues	0.0	0.0	0.0	0.0	0.1
Equity and subordinated debt	10.6	10.1	9.7	9.0	8.8
Liquidity procurement	**61.3**	**58.8**	**56.2**	**53.4**	**51.1**
Lending, banking and leasing activities	39.6	37.3	35.1	33.9	35.5
Maturity, senior issued bonds & subordinated debt <1 year	0.0	0.7	0.4	0.0	0.6
Strategic liquidity, total	**21.8**	**20.8**	**20.7**	**19.5**	**15.0**

*) See note 5.3.2

At the end of 2018, Spar Nord's strategic liquidity amounted to DKK 21.8 billion, up DKK 1.0 billion on end-2017. The increase was primarily attributable to consolidation and lack of subordinated debt falling due within 12 months.

Spar Nord's LCR ratio at 31 December 2018 was 174.

The Supervisory Authority Diamond Test Model

A few years ago, the Danish FSA launched a model, The Supervisory Authority Diamond Test Model, which lists a number of quantitative reference points, stipulating what can be considered a financial institution with an increased risk profile. Failure to comply with the reference points in the Diamond Test Model will trigger a reaction from the Danish FSA.

In 2018, Spar Nord was comfortably within all the reference points, achieving the values shown below:

The Supervisory Authority Diamond Test Model

		Threshold values	2018	2017
Sum of large exposures	%	<175	79.2	76.2
Growth in lending	%	<20	6.7	6.6
Property exposure	%	<25	11.7	10.8
Funding ratio		<1	0.5	0.5
Liquidity indicator *)	%	>100	184	-

*) The liquidity indicator was introduced at 30 June 2018. Consequently, no comparative figures are shown.

Outlook for 2019

Spar Nord expects the Danish economy to continue to expand moderately in 2019. Demand for financing and other financial services is therefore expected to remain subdued, but as a result of the Bank's strong market position, Spar Nord also expects to be able to win market share in 2019, generating growth in lending and business volume above the sector average.

While Spar Nord expects its lending volume to continue to grow above average in 2019, the Bank does not expect such growth to produce more than a modest improvement in net interest income. The reason is that interest rates will remain extremely low amid fierce market competition. Moreover, in H2 2019 Spar Nord expects to make its first issues of Senior Non-Preferred debt in order to comply with the upcoming MREL requirements, and these issues will involve interest expenses.

In terms of fee income, 2019 is expected to be another satisfactory year for Spar Nord, as recent years' growth in market share is expected to lead to further growth in net fee income relative to 2018.

Market value adjustments are expected to be lower than in 2018. Detracting from performance here is the fact that in 2018 there were positive one-off factors related to the Bank's strategic shareholdings (e.g. in BankInvest), while higher income in Trading, Financial Markets & the International Division is expected to add to performance.

Lastly, the "other operating income" items will inherently be much lower than it was in 2018, when it included substantial one-off income from the sale of Valueinvest.

On the cost side, Spar Nord expects pressure on payroll costs and other operating expenses. The upward pressure on payroll costs will especially be driven by the 2% pay rise under collective agreements and the increase in payroll taxes of 0.5 of a percentage point. Operating expenses will still be impacted by large-scale business and compliance-related development projects.

Overall, the above factors lead the Bank to project core earnings before impairment in the DKK 1.0-1.1 billion range, depending mainly on developments in interest rate margins and market value adjustments. Loan impairments are expected to be slightly lower than in 2018. Profit after tax is subsequently expected to be in the DKK 700-800 million range.

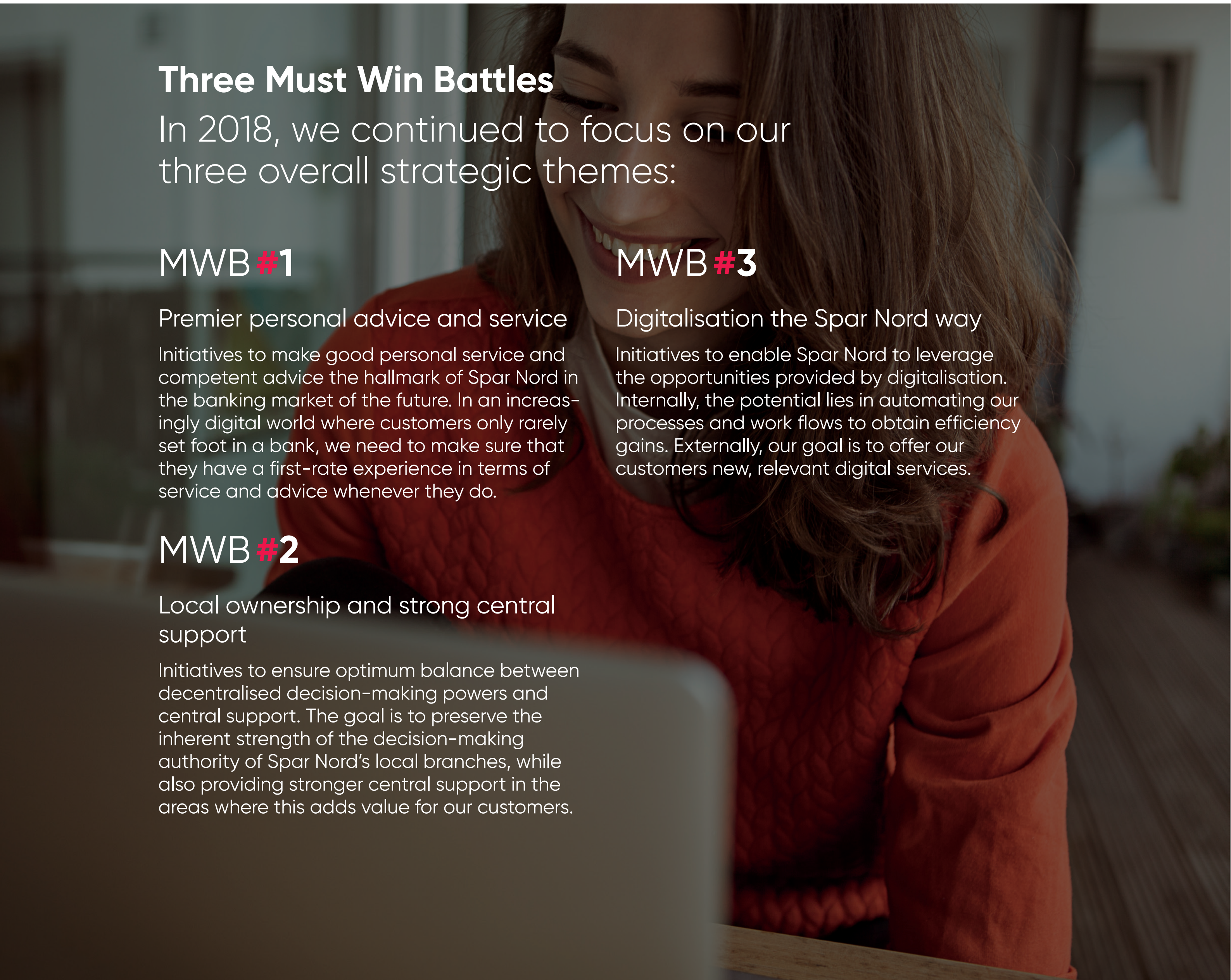
The Personal Bank in a Digital World

The foundation of Spar Nord's strategy is that the Bank's greatest strength, also in an increasingly digital world, should remain the ability to be a personal and attentive bank: No matter what tomorrow brings, people will always need a bank that is close to its customers in every the word, and a bank that knows and understands their needs and wants. Therefore, Spar Nord's vision – the landmark which all staff members should steer for – is to become Denmark's most personal bank.

As part of its efforts to bring the vision within reach, Spar Nord pursues a strategy that builds on the current trends in the banking market, not least the omnipresent digitalisation, which is handled very differently from one bank to the next. Some are striving to become fully digitised, while others are sticking to traditional banking models.

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

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



Three Must Win Battles

In 2018, we continued to focus on our three overall strategic themes:

MWB #1

Premier personal advice and service

Initiatives to make good personal service and competent advice the hallmark of Spar Nord in the banking market of the future. In an increasingly digital world where customers only rarely set foot in a bank, we need to make sure that they have a first-rate experience in terms of service and advice whenever they do.

MWB #2

Local ownership and strong central support

Initiatives to ensure optimum balance between decentralised decision-making powers and central support. The goal is to preserve the inherent strength of the decision-making authority of Spar Nord's local branches, while also providing stronger central support in the areas where this adds value for our customers.

MWB #3

Digitalisation the Spar Nord way

Initiatives to enable Spar Nord to leverage the opportunities provided by digitalisation. Internally, the potential lies in automating our processes and work flows to obtain efficiency gains. Externally, our goal is to offer our customers new, relevant digital services.

The Personal Bank in a Digital World

Results in 2018
Overall, we are happy to report good progress and positive developments in most of the focus areas we have identified.

MWB **#1**

Premier personal advice and service

- Our advisory concept The good customer meeting was rolled out across the Bank and is augmenting the customer experience, as verified by a highly satisfactory NPS score improvement, while also boosting advisory-driven sales with a satisfactory development in activity-driven earnings.

- 40 out of our 49 local banks have been refurbished to ensure that the physical environment provides optimum support for the advisory and service experience we wish to give our customers – another initiative that contributes positively to customers' assessment of Spar Nord.

- In all of our branches, we have maintained the focus on good personal service we introduced in 2017, and these initiatives included continued training of local ambassadors and close follow-up on customer assessments of the quality of our service

MWB **#2**

Local ownership and strong central support

- In 2018, we made good headway in rethinking the interaction between our local branches and the centralised customer service function. As a result, customers generally obtain quicker solutions to their everyday service needs, while our advisers in the local banks have more resources available for advisory services.

- We have launched a number of new business customer and wealth management initiatives, including "All-inclusive advice to local business customers" and the new concept "Wealth Plus", which have contributed to generating satisfactory performance in both areas.

MWB **#3**

Digitalisation the Spar Nord way

- New mobile banking services launched in Q4 – several new versions of both the mobile and web banking solutions are in the pipeline, slated for launch in the upcoming quarters.

- Launch of Digital Investment Platform providing new and up-to-date investment solutions for customers and employees.

- Launch of the investment app Darwin in collaboration with BankInvest

- Fintech company Subaio, which is the result of Spar Nord's innovation efforts, has onboarded Nordea as a large investor and collaboration partner – Subaio's solution for handling subscriptions is expected to be launched as an integral part of Spar Nord's mobile banking service in Q2 2019.

On the flipside of the coin, for several of our largest and most important IT projects (including New Mortgage Platform as part of the Totalkredit alliance and a major CEM project), it is taking longer time to generate the desired results, as was the case last year. Consequently, costs are under severe pressure while we have still to reap the expected benefits of these projects.

Strategy – status

The Personal Bank in a Digital World

40 Refurbished branches

Interaction local/centrally

New digital products

Regional reputation of Danish Banks

Source: Wilke

Strong reputation and high level of customer satisfaction

Over the course of 2018, Spar Nord received independent testimony that the Bank enjoys a strong reputation and that retail and business customers alike consider the Bank as ranking among the most attractive institutions in the Danish market.

Exemplifying this recognition was the "Finansimage" survey conducted by Wilke for Finanswatch, in which Spar Nord was highlighted as being the bank with the best image in the three Danish regions of Northern Denmark, Central Denmark and Southern Denmark, which Spar Nord took third position in the Capital and Zealand Regions. In the business customer segment, a survey undertaken by Aalund showed that Spar Nord achieves the highest ranking among Denmark's eight largest banks when ranked by SME customers.

Acquisition of stake in Danske Andelskassers Bank

Spar Nord has been the largest single shareholder in DAB since 26 September 2018. Spar Nord's decision to acquire a 27% shareholding in DAB was driven mainly by the assessment that considerable value could be generated for the customers, shareholders and employees of both banks by combining DAB and Spar Nord.

This assessment is based on the fact that the two banks share many similarities when it comes to business model, customer focus, culture and values, including their shared primary focus on private customers and small and medium-sized businesses in the local area.

Financial performance relative to expectations

With respect to the overall financial targets, the Bank achieved a return on equity after tax of 10.8% in 2018, while the strategi target is 9-11%, while the Cost/Income Ratio was 0.60, against the strategic target of 0.60.

Strategy as part of everyday life

We launched our strategy The Personal Bank in a Digital World at the beginning of 2017, and the first strategy period runs until the end of 2019. Since launch, we have already learned a lot and made adjustments in an ongoing process in a number of areas. One of the key learnings points has been that dynamic and non-controllable issues in the world around us have a major impact on our focus and ability to execute. One example is the progress we have achieved in the large IT projects at our data centre and in the Totalkredit alliance. Another example is the SIFI designation and the resulting large project aimed at preparing Spar Nord to become an IRB bank. Lastly, market dynamics have developed differently than expected, among other things due to the image challenges facing the banking sector as a whole.

Cognisant of the fact that the world around us will probably remain as dynamic in the future, we have resolved to take a slightly different approach to the strategy work that will lead to a plan for the coming years. Overall, it is our ambition that strategy should be a continuous part of our operations with more direct involvement of the organisation than has previously been the case.

Risk and risk management

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

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

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

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

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

Risk organisation
Risk assumption is a natural and everyday part of Spar Nord's business activities, placing heavy demands on the Bank's risk management organisation and risk management environment.

In accordance with Danish legislation, Spar Nord has established a two-tier management structure consisting of a Board of Directors and an Executive Board.

Moreover, Spar Nord has established segregation of functions between entities entering into business transactions with customers or otherwise assuming risk on behalf of the Bank, and entities in charge of risk management.

The structure of Spar Nord's risk management organisation is shown in the figure on the next page.

Board of Directors
It is the duty of the Board of Directors to handle the overall and strategic management with a view to running a healthy and competitive bank, thus securing long-term value for the Bank's stakeholders.

The Board of Directors has defined a number of risk policies that set out the overall handling and management of the Bank's risks. These policies are reviewed and approved by the Board of Directors at least once a year.

In order to underpin the management structure, the Board of Directors has drafted written guidelines for the Executive Board, specifying the areas of responsibility and scope of action. As required and at least once a year, the Board of Directors must assess and update these guidelines.

Executive Board
In accordance with the guidelines and risk policies issued by the Board of Directors, the Executive Board handles the day-to-day management.

The Executive Board must ensure that the Bank's risk policies and guidelines are implemented in the Bank's day-to-day operations while also ensuring that business procedures or work descriptions have been prepared for all important areas.

The Executive Board delegates specific guidelines and authorisations to selected departments of the Bank with a view to the practical implementation of the guidelines and policies adopted by the Board of Directors.

Board committees
The Board of Directors has set up an Audit Committee, a Nomination and Remuneration Committee and a Risk Committee charged with arranging the preparatory work for the Board of Directors' consideration of matters relating to respective topics.

Establishing these board committees helps ensure a better utilisation of the special competences held by the board members, thus ensuring in-depth dealing with the board material. The sole purpose of the committees is to facilitate the transaction of business by the Board of Directors and they have no independent decision-making powers.

The Audit Committee is responsible for monitoring and controlling accounting and auditing matters and drafting material for the Board of Directors' consideration of matters relating to accounting and auditing. The Audit Committee is composed of three Directors, two of whom are independent members with special expertise in auditing and accounting matters.

Risk and risk management

The principal purpose of the Nomination and Remuneration Committee is to facilitate the decisions to be taken by the Board of Directors with respect to remuneration, including the remuneration policy, and other related decisions that may influence the Bank's risk management. The Committee also serves to facilitate work related to the process of board evaluation, nominating new board candidates, etc. The Nomination and Remuneration Committee consists of three board directors, one of which is a member elected by the employees.

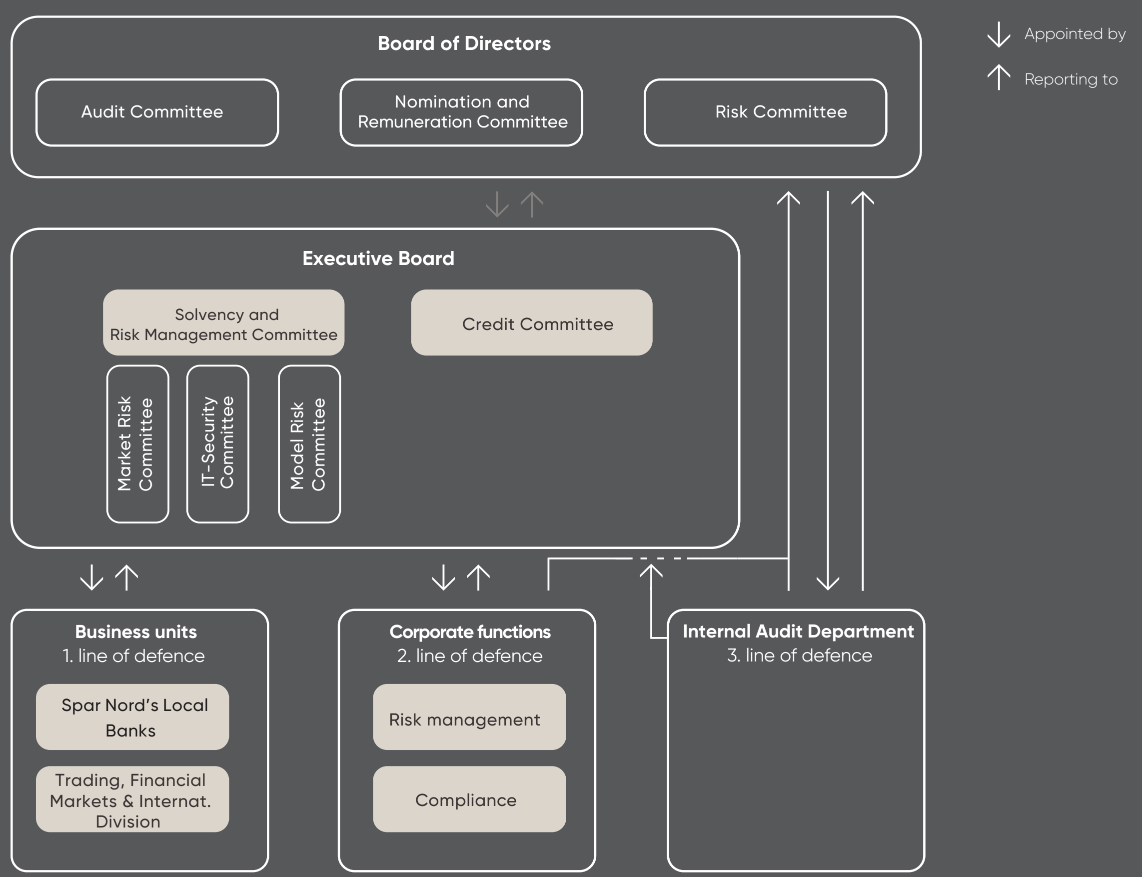
The principal purpose of the Risk Committee is to handle risk-related matters, including the Bank's risk policies, products and services and to assess incentives in the Bank's remuneration structure with respect to capital, liquidity and risks. The Risk Committee also serves to advise the Board of Directors on the Bank's overall risk profile and strategy and to ensure the correct implementation of the risk strategy in the Bank. The Risk Committee consists of three board members.

The terms of reference of the committees are available at https:// www. sparnord.com/committees, which also provides a presentation of the members and their qualifications.

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

The Credit Committee, which is composed of a member of the Executive Board, Credit Rating and Corporate Banking, deals with credit facilities that exceed Credit Rating's authorisation limits or involve a matter of principle. The Committee meets several times a week. Frequently, matters that have been dealt with by the Credit Committee will be prepared for subsequent discussion among all members of the Board of Directors.

The Solvency and Risk Management Committee is composed of a member of the Executive Board, Trading, Financial Markets & the International Division, Credit Rating, Finance & Accounts and Risk Management Function. The Committee meets every quarter and serves to formulate targets and principles for calculating adequate own funds and the individual solvency need. The Solvency and Risk Management Committee prepares a recommendation for the individual solvency need and passes



it on to the Board of Directors for approval. The Committee handles minutes from the Market Risk, IT Security and Model Risk Committees to ensure that any capital consequences are dealt with by the primary capital and solvency authority.

The Market Risk Committee is composed of a member of the Executive Board, Finance & Accounts, the Risk Management Function and Trading, Financial Markets & the International Division. The Committee meets every quarter to review developments in Spar Nord's positions, risks as well as the liquidity situation and expectations regarding market developments and future plans.

The IT Security Committee is composed of a member of the Executive Board, the IT department, the Risk Management Function and selected heads of business areas. The Committee serves to advise on and deal with any issues that may arise in relation to the information policy and related rules, procedures and contingency plans.

The Model Risk Committee consists of a member of the Executive Board, the Risk Management Function, Credit Rating and the IRB department. The Committee meets once every quarter to discuss and monitor Spar Nord's model risk management.

Business units
The business units Spar Nord's Local Banks and Trading, Financial Markets & the International Division own and control the Bank's risk and represent the 1st line of defence. The Bank's day-to-day risk management is handled through risk policies, instructions, limits and a number of internal controls. In order to support the business units in relation to preventing money-laundering and terrorist financing, the Bank has also established an Anti-Money Laundering (AML) function, which is part of the 1st line of defence.

Corporate functions
The Bank's risk management and compliance represent the 2nd line of defence, which has key assignments of monitoring, controlling and reporting the Bank's risks and control environment. The Bank's risk management is anchored in a number of functions across the Bank, including the Risk Management Function.

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

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

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

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

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

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

Internal Audit Department
The Bank's Internal Audit Department serves as the 3rd line of defence and is responsible for planning and performing an audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement. The Internal Audit Department also serves as a secretariat to the Bank's Risk Committee.

It reports directly to the Board of Directors and regularly reports on an ongoing basis to the Executive Board and the Board of Directors. The Internal Audit Department bases its activities on the annual plan adopted by the Board of Directors. These activities include test examinations of business procedures and internal control systems in key areas subject to risk, including in connection with preparing the financial statements.

Dismissal of the Bank's head of internal audit is a matter to be considered by the Board of Directors.

Investor Relations

The overall objective of Spar Nord's communication to investors and analysts is to ensure good and lasting relations. It is Spar Nord's ambition to maintain a high level of information and maximum accessibility, and the Bank constantly endeavours to make relevant and timely information available at all times.

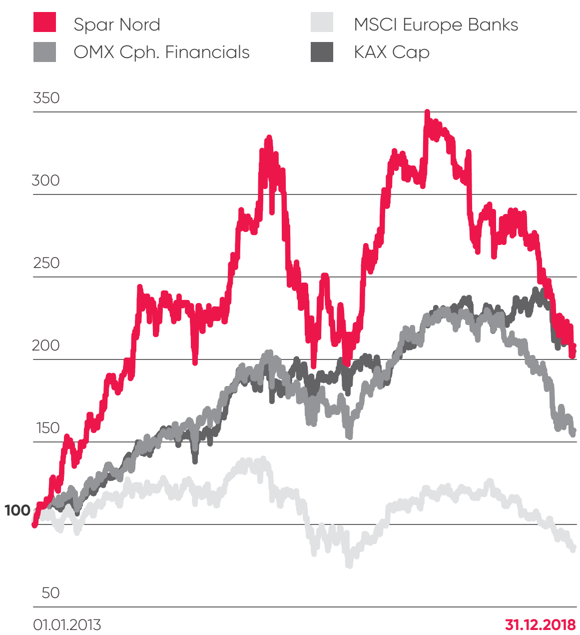
The Bank presents financial reports and other information via its IR website, sparnord.com/ir, and also provides ongoing information to investors and analysts at frequent meetings, conferences and roadshows, among other things after the publication of the Group's annual and interim reports. In total, about 75 meetings were held in 2018 with professional investors from Scandinavia, the rest of Europe and North America, while we maintained a dialogue with our private sharholders through e.g. Spar Nord's 30 local shareholder meetings, which in 2018 were attended by 15,000 shareholders.

In 2018, analysts from six investment banks were covering the Spar Nord share (ABG Sundal Collier, Carnegie, Danske Bank, Handelsbanken, Nordea and SEB).

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

The Spar Nord share fell 27 % from a price of 72 at end-2017 to 52 at end-2018. At the end of the year, the market price was thus DKK 6.4 billion compared with DKK 8.9 billion at end-2017. By comparison, the KAX Cap index fell 10 % in 2018, while the MSCI Europe 600 Bank index was down 27 %.

Price developments for the Spar Nord share 2013-2018
Index-linked - Jan. 2013 = **100**



In 2018, the average daily trading volume amounted to about 103,000 shares compared with 138,000 in 2017.

Spar Nord share	2018	2017
Share capital (DKKm)	1,230	1,230
Market price, year-end	52	72
Market capitalisation (DKKm)	6,396	8,856
Earnings per share for the year (DKK) *)	7.2	7.8
Dividend per share (DKK)	3.5	3.5
Net asset value per share (DKK)	68	66
Market price/net asset value per share (DKK)	0.8	1.1

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

Breakdown of shareholders
At end-2018, Spar Nord Bank had approximately 103,000 shareholders. The ten largest shareholders combined held about 48 % of the share capital. About 64 % of the share capital is held by foundations and institutional investors and other major shareholders, while 36 % of the capital is held by shareholders who each own fewer than 20,000 shares. Geographically speaking, about 70 % of the share capital is owned by Danish investors and about 30 % by foreign investors.

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

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

Spar Nord pursues the following dividend policy:

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

In view of the profits reported for 2018, the Board of Directors recommends to the shareholders at the Annual General Meeting that a cash dividend of DKK 3.50 per share be distributed, equal to a dividend yield of about 7 % and a payout ratio of 47 %.

Financial calendar 2019

10 April	Annual General Meeting
2 May	Interim report for Q1
15 August	Interim report for H1
31 October	Interim report for Q1-Q3

Organisation and corporate governance

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

For that reason, Spar Nord's Management backs the efforts to promote corporate governance and has chosen to comply with the vast majority of the most recent recommendations from the Danish Corporate Governance Committee. The full wording of Spar Nord's position on the recommendations and on Finance Denmark's corporate governance code is available on the bank's website at sparnord.com/governance.

General Meeting

The shareholders in general meeting constitute Spar Nord's supreme governing body. Information about the notice of general meetings, exercise of voting rights etc. is set out in the Bank's articles of association, which are available on sparnord.com/vedtaegter. Only the general meeting can amend the articles of association. Amendments require a two-thirds majority of the votes cast and a two-thirds majority of the share capital represented at the general meeting and entitled to vote.

Pursuant to the Bank's articles of association, the right to vote at general meetings for shareholders holding less than 20,000 shares is exercised through delegates (members of Spar Nord's regional bank committees). Shareholders owning at least 20,000 shares may exercise their voting rights at the general meeting.

Board of Directors

Spar Nord's Board of Directors is composed of nine members, six of whom are elected by the shareholders and the remaining three members by the employees. The Bank's Executive Board is not part of the Board of Directors but takes part in all of its meetings. Board members are elected for terms of two years, and half of the members elected by the general meeting are up for election each year, while members elected by the employees pursuant to the Danish legislation are elected for terms of four years.

Each year, the Spar Nord Board of Directors convenes 11 ordinary meetings and holds a strategy seminar and four meetings with the chairmen of the regional bank committees. In 2018, the Board of Directors held a total of 19 physical meetings and telephone conferences. The total board member attendance rate was 95%. The attendance by each member of the Board of Directors is published on the Bank's website.

Board committees

Spar Nord's Board of Directors has set up three committees: an Audit Committee charged with monitoring and controlling accounting and auditing matters, a Risk Committee charged with responsibility for preparatory work leading up to the Board of Directors' decisions regarding risk management and related issues; and a Nomination and Remuneration Committee is charged with undertaking the preparatory work concerning the annual board evaluation and nomination process.

Executive Board

The Executive Board is appointed by the Board of Directors and is composed of Lasse Nyby, CEO, John Lundsgaard, Managing Director, and Lars Møller, Managing Director. The Executive Board is the supreme decision-making body as concerns the day-to-day affairs of the Bank, in compliance with the guidelines and directions issued by the Board of Directors. The more specific distribution of duties between the Board of Directors and the Executive Board appears from their rules of procedure.

Remuneration of the Board of Directors and the Executive Board

The remuneration of the Board of Directors and the fees and salaries paid to the Executive Board are shown in the notes to the Annual Report. Board members are paid a fixed annual amount and do not participate in any bonus or option programmes.

The Board of Directors finds that the terms of service of Executive Board members, including severance terms, are in line with general practice in the area, and they are regularly reviewed. The Board of Directors also finds that the overall remuneration is competitive and fair in light of the Executive Board's performance and having regard to long-term value generation for shareholders.

According to its remuneration policy, Spar Nord does not operate with incentive schemes for the Board of Directors and the Executive Board.

Policy and targets for the underrepresented gender

Spar Nord's Board of Directors is focused on promoting diversity, including in relation to gender, across all managerial levels in the Group. At the end of 2018, the Board of Directors consisted of four women and five men. The Board of Directors has defined a policy that the share of female Directors is to amount to at least 33%. This target was met at end-2018.

As concerns the Group's other managerial levels, the goal is that there should be at least five qualified applicants for managerial positions in the Bank, and that at least two of these should be women. The long-term objective of the Bank is to shift the gender breakdown at executive and executive mid-level towards a more equal distribution between men and women – from currently about 20% women in the Bank's executive team to 25% women by the end of 2020. As the above-mentioned goals were not fully achieved in 2018, the Bank will focus on HR initiatives to support the intended developments in 2019.

Board of Directors

Kjeld Johannesen

Chairman of the Board of Directors

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

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

Managing Director
CLK 2016 Holding ApS
Kjeld Johannesen Holding ApS

Education
BCom (Marketing)

Chairman of the board of directors
KPC Holding A/S
Hamlet Protein A/S
New Nutrition ApS
New Nutrition Holding ApS

Member of the board of directors
Aktieselskabet Schouw & Co
Direktør Svend Hornsylds Legat
Direktør Hans Hornsylds og hustru Eva Hornsylds legat
Sparekassen Nordjyllands Fond af 29. marts 1976

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

Shares held in Spar Nord
80,000

Independent

Current term expires in 2020

Per Nikolaj Bukh

Deputy Chairman of the Board of Directors

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

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

Professor
Aalborg University

Managing Director
P. N. Bukh ApS

Education
Msc Econ.
PhD
Board of directors training from Bestyrelsesakademiet

Member of the board of directors
Oberst H. Parkovs Mindefond
Professionshøjskolen University College Nordjylland
Jurist- & Økonomforbundets Forlag A/S
Jurist- & Økonomforbundets Forlagsfond
Sparekassen Nordjyllands Fond af 29. marts 1976

Areas of expertise
Finance and risk management
Financial markets
Public enterprises
Utilities

Shares held in Spar Nord
27,200

Independent

Current term expires in 2019

Lene Aaen

Member of the Board of Directors

2018 - Member of the Board of Directors of Spar Nord Bank A/S
1970 - Year of birth

Workplace representative, Spar Nord Bank

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

Member of the board of directors
The Financial Services Union
Spar Nord Kreds
Sparekassen Nordjyllands Fond af 29. marts 1976

Areas of expertise
HR
Organisation

Shares held in Spar Nord
2,997

Current term expires in 2020

Board of Directors

Kaj Christiansen

Member of the Board of Directors

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

Chairman of the Risk Committee

Managing Director
Dokøen A/S

Education
State-Authorised Public Accountant

Member of the board of directors
Frederikshavn Maritime Erhvervspark A/S
Dokøen A/S
Spar Nord Fonden
Sparekassen Nordjyllands Fond af 29. marts 1976

Areas of expertise
Real property
Marketing
Finance and risk management

Shares held in Spar Nord
21,100

Independent

Current term expires in 2019

Morten Bach Gaardboe

Member of the Board of Directors

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

Education
Financial services background

Chairman of the board of directors
Svend Aage Nielsen, autoriseret el-installatør A/S
Slagelse Erhvervscenter A/S

Member of the board of directors
Gefion Group A/S
Rødovre Port Holding A/S
Sparekassen Nordjyllands Fond af 29. marts 1976

Areas of expertise
The SME segment

Shares held in Spar Nord
3,620

Independent

Current term expires in 2020

Laila Mortensen

Member of the Board of Directors

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

Member of the Risk Committee

Managing Director
IndustriPension Holding A/S
Industriens Pensionsforsikring A/S
Managing Director of Industriens Pension Service A/S

Education
Graduate in insurance science
IMD business programme (PED)

Chairman of the board of directors
IP Ejendomme 2013 P/S
IP Infrastruktur P/S
IP Komplementar ApS
IP Infrastruktur Komplementar ApS
IP Sankt Petri P/S
IP Næstved Stråleterapi P/S
IP Europahuset ApS

Member of the board of directors
Kapitalforen. Industriens Pension Portfolio, deputy chairman
Styrelsen for Danmarks Statistik, deputy chairman
IP Alternative Investments Komplementar ApS
IP Finans 1 ApS
Forsikringsorganisationernes Fællessekretariat F.M.B.A
Forsikring og Pension
Mad & Møder, Forsikring og Pension ApS
Sparekassen Nordjyllands Fond af 29. marts 1976

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

Shares held in Spar Nord
0
Independent

Current term expires in 2020

Board of Directors

Jannie Skovsen

Member of the Board of Directors

2008 - Member of the Board of Directors of Spar Nord Bank A/S
1965 - Year of birth

Senior workplace representative, Spar Nord Bank A/S

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

Chairman of the board of directors
The Financial Services Union
Spar Nord Kreds

Board member
The Financial Services Union executive committee
Spar Nord Fonden
Sparekassen Nordjyllands Fond af 29. marts 1976

Areas of expertise
HR
Organisation

Shares held in Spar Nord
8,622

Current term expires in 2020

Gitte Holmgaard Sørensen

Member of the Board of Directors

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

Member of the Nomination and Remuneration Committee

Workplace representative, Spar Nord Bank

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

Chairman of the board of directors
Personalefonden i Spar Nord Bank

Member of the board of directors
The Financial Services Union "Spar Nord Kreds" (deputy chairman)
Sparekassen Nordjyllands Fond af 29. marts 1976

Areas of expertise
HR
Organisation

Shares held in Spar Nord
2,911

Current term expires in 2020

John Sørensen

Member of the Board of Directors

2015 - Member of the Board of Directors of Spar Nord Bank A/S
1957 - Year of birth

Member of the Audit Committee

Managing Director
The Accounts Division of the Ministry of Defence

Education
State-Authorised Public Accountant

Member of the board of directors
Sparekassen Nordjyllands Fond af 29. marts 1976
Sparekassen Sæbys Fond

Areas of expertise
Accounting and auditing

Shares held in Spar Nord
5,160

Independent

Current term expires in 2019

Executive Board

Lasse Nyby

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

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

Chairman of the board of directors
Aktieselskabet Skelagervej 15
Landsdækkende Banker

Member of the board of directors
PRAS A/S, deputy chairman
AP Pension Livsforsikringsaktiesel-skab
AP Pensionsservice A/S
Foreningen AP Pension f.m.b.a.
FR I af 16. september 2015 A/S
Nykredit A/S
FinansDanmark
Totalkredit A/S
Sparekassen Nordjyllands Fond af 29. marts 1976

Shares held in Spar Nord
53,704

John Lundsgaard

Managing Director

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

Education
Financial services background
MBA

Chairman of the board of directors
Factor Insurance Brokers A/S

Member of the board of directors
Aktieselskabet Skelagervej 15 - deputy chairman
Bokis A/S
Bankernes EDB Central a.m.b.a.
Letpension A/S
Kunsten Museum of Modern Art, Aalborg
Utzon Center A/S
Finanssektorens Uddannelsescenter
Sparekassen Nordjyllands Fond af 29. marts 1976

Shares held in Spar Nord
75,319

Lars Møller

Managing Director

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

Education
Financial services background
Executive education from Insead

Chairman of the board of directors
BI Asset Management Fondsmægler-selskab A/S
BI Holding A/S
BI Management A/S

Member of the board of directors
DLR Kredit A/S, deputy chairman
Aktieselskabet Skelagervej 15
Sparekassen Nordjyllands Fond af 29. marts 1976

Shares held in Spar Nord
71,931

Social responsibility

Spar Nord is a nationwide bank with 386,000 customers, 1,518 employees and thousands of small and large suppliers. Spar Nord is also active in Danish associations and cultural life, acting as sponsor and donor across Denmark. As such, Spar Nord plays a role in the life of many people, making it crucial for the Bank to take joint responsibility and play an active part in relations with individuals and society at large.

Sustainable behaviour is a natural precondition for building better relations with customers, developing employees, consolidating our business and contributing to positive developments in society at large. Accordingly, we are dedicated to documenting and optimising our efforts in areas like improvement of employee conditions, reducing the climate impact and identifying risks of financial crime. We will regularly improve our data collection, analyses and distribution to become more and more effective, qualified and transparent.

Spar Nord is such a large business that we are able to affect and impact on many aspects of CSR in our value chain, but we remained focus on two particular areas, which are described below.

Local commitment and cohesion
Spar Nord builds on a locally rooted business model, and throughout its 194-year history, the Bank has been committed to entering into healthy and sustainable relations with the local communities in which we operate. The locally rooted model allows us to build better customer relations, and it facilitates the creation of local cohesion through active participation in and support for local associations, initiatives and institutions outside the Bank. We want to continue and strengthen these initiatives as they contribute both financially and in terms of human value creation in the society and in our bank.

Spar Nord believes that its role in society is to stimulate well-being, education and a sense of community at all of our bank locations. As part of these endeavours, each year in collaboration with the Spar Nord Foundation we grant support and donations for millions of Danish kroner to hundreds of projects.

Digital innovation
The digital revolution and digitalisation of money change not only behaviour, relations, perception of reality and value proposition in society at large. It also changes our individual customer relationships. We react to the challenges of digitalisation by adopting a practical, innovative and strategic approach in order to maintain and extend the good, attentive and personal relationship between customers and advisers. We achieve this through digital innovation and skills development and through a strategic effort, which we have named: The Personal Bank in a Digital World. As part of this effort, we regularly strengthen and extend the good and personal relations, and effective digital solutions are crucial for our ability to enhance our customers' opportunities in life, the local cohesion and our overall business.

We share a joint responsibility for people, climate and the environment
Our banking operations affect the world around us. This applies to the impact our branches have on our employees' physical and psychological working environment. It applies to the environmental impact from building operations and procurement. And it applies to our role as investment manager and the consequences for retail customers, businesses and collaboration partners in and outside of our value chain. Lastly, it applies to the handling of massive legislative requirements with respect to preventing and handling economic crime.

In these areas, we want to regularly improve our standards and practice levels. Consequently, we aim to improve our data collection, analyses and distribution to become more and more effective, qualified and transparent. Through these endeavours, we aim to improve our ability to react responsibly and pro-actively to existing and future risks and opportunities. We want to ensure standard compliance in relation to our industry, ensuring consistent compliance with legislation and a solid foundation for further development.

Corporate social responsibility high on the agenda in 2019
In connection with the strategy process we aim to carry out in 2019, we want to identify how we can take a more systematic approach to the CSR initiatives that have always been a part of Spar Nord's modus operandi, business model and core values. We want to focus on and take a business approach to executing on the responsibility we assume as part of our local commitment. We aim to strengthen attentiveness and the mutual understanding in personal as well as digital relations, and through responsibility and prudence we want to promote our vision of becoming the Personal Bank in a Digital World.

CSR Report 2018
A more detailed description of Spar Nord's policies, activities and results in this area is provided in our CSR Report for 2018, which is available on our website sparnord.com/csr.

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 2.1 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 impairments" 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 impairments, 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 pages 10-13 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. 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. 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 impairments	Total costs plus loan impairments 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
Impairment ratio	Impairment for the year in per cent of loans and advances + guarantees + impairment of loans, advances and receivables etc. plus provisions for unutilised credit lines

Management's statement on the Interim Report

The Board of Directors and Executive Board have today reviewed and adopted the 2018 Annual Report of Spar Nord Bank A/S.

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

We consider the accounting policies applied to be appropriate, and in our opinion the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the 2018 financial year

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

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

Aalborg, 7 February 2019

Executive Board

Lasse Nyby
Chief Executive Officer

John Lundsgaard
Managing Director

Lars Møller
Managing Director

Board of Directors

Kjeld Johannesen
Chairman of the board of directors

Per Nikolaj Bukh
Deputy Chairman of the Board of Directors

Lene Aaen

Kaj Christiansen

Morten Bach Gaardboe

Laila Mortensen

Jannie Skovsen

Gitte Holmgaard Sørensen

John Sørensen

Report by the Internal Audit Department

Report on the consolidated and parent company financial statements

Opinion
In our opinion, the consolidated financial statements and the financial statements of Spar Nord Bank A/S give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed financial institutions in respect of the consolidated financial statements and in accordance with the Danish Financial Business Act in respect of the Parent Company's financial statements.

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

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

Basis for opinion
We have audited the consolidated financial statements and the financial statements of Spar Nord Bank A/S for the financial year 1 January – 31 December 2018. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed financial enterprises. The Parent Company's financial statements have been prepared in accordance with the Danish Financial Business Act.

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

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

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

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

Statement on the Management's review
Management is responsible for the management's review.

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

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

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

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

Aalborg, 7 February 2019

Spar Nord Bank A/S
Internal Audit Department

Margit Nicolajsen
Margit Nicolajsen
Head of Internal Audit Department

Independent auditor's report

To the shareholders of Spar Nord Bank A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Spar Nord Bank A/S for the financial year 1 January – 31 December 2018, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions, and the parent company financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at 31 December 2018 and of the results of the Group's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions.

Further, in our opinion, the parent company financial statements give a true and fair view of the financial position of the Parent Company at 31 December 2018 and of the results of the Parent Companys operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Business Act.

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

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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

Appointment of auditor
We were initially appointed as auditor of the Spar Nord Group on 20 May 1996 and must therefore withdraw from the audit no later than after the presentation of the consolidated financial statements and the parent company financial statements for 2023. We have been reappointed annually by resolution of the general meeting up until the financial year 2018.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent company financial statements for the financial year 2018. These matters were addressed in the context of our audit of the consolidated financial statements and the parent company financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

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

Impairment losses on loans
Audit-related risk assessment:

- A considerable part of the Bank's assets are loans to the Bank's customers, corresponding to 54% of the Group's total assets. Loans to the Bank's customers entail a risk of loss, and the significant estimates that Management makes when identifying impairment losses are deemed to make up key risks in our audit.
- Impairment losses on loans to customers in stage 1 and stage 2 are determined on model-based calculations, whereas impairment losses on customers in stage 3 (customers with objective evidence of credit impairment) are assessed individually.
- The Bank's statement of impairment losses on loans involves significant amounts and a great number of management estimates. This relates to grouping of exposures in stages, assessment of whether objective evidence of

- credit impairment has occurred, risk of default, realisable value of collateral received as well as the customers' ability to pay in case of default. Also, determination of methods and parameters for stating the anticipated losses in the model-based calculations involves management estimates.
- We also refer to note 3.2 regarding material accounting estimates and judgements regarding impairment losses and note 5.1 regarding impairment losses on loans and credit risks.

Audit procedures (audit performed):

- Our audit of impairment losses on loans is performed in cooperation with the Bank's internal auditor and included spot checking of the Bank's procedures for follow-up on loans, staging of exposures and identification of indications of credit impairment.
- By way of analysis and sample testing as well as a review of the Bank's procedures, we tested if impairment for anticipated losses has been recognised in accordance with the Bank's accounting policies.
- Analyses and the sample tests included among others the largest and most high-risk exposures. As for model-based calculated impairment losses, we reviewed the methods and assumptions used. In addition to the individually assessed and model-based calculated impairments, we reviewed the estimates made by the Bank's Management, which among others include exposures to the agricultural sector.
- Furthermore, we reviewed and tested whether note disclosures relating to loans, impairment losses and credit risks in our view meet the relevant accounting rules.

Statement on the Management's review
Management is responsible for the Management's review.

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

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

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Business Act. Based on the work we have performed, we conclude that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the Management's review.

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

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

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

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

Independent auditor's report

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

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

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

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

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

Aalborg, 7 February 2019

Ernst & Young
Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28

Lars Rhod Søndergaard	Anne Tønsberg
State Authorised Public Accountant	State Authorised Public Accountant
mne28632	mne32121

Annual Report 2018

Consolidated financial statements

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Group

Income statement

Note		2018 DKKm	2017 DKKm
2.2 + 2.3.1	Interest income calculated under the effective interest method	1,632	1,690
2.2 + 2.3.1	Other interest income	44	29
	Interest income	**1,676**	**1,719**
2.2 + 2.3.2	Interest expenses	128	141
	Net interest income	**1,548**	**1,577**
2.4	Fees, charges and commissions received	1,285	1,265
	Fees, charges and commissions paid	158	149
2.5	Market value adjustments and dividends	268	404
2.6	Other income	247	83
2.7	Staff costs	1,152	1,165
2.8	Operating expenses	771	771
	Profit/loss before loan impairments (core earnings before impairment)	**1,266**	**1,244**
2.9	Impairment of loans, advances and guarantees etc.	173	-7
	Profit/loss before tax	**1,094**	**1,251**
2.10	Tax	174	262
	Profit/loss for the year	**920**	**989**
	Appropriation:		
	The shareholders of the Parent Company Spar Nord Bank A/S	871	940
	Holders of additional tier 1 (AT1) capital instruments	49	49
	Profit/loss for the year	**920**	**989**
	EARNINGS PER SHARE FOR THE YEAR		
4.5	Earnings per share for the year (DKK)	7.2	7.8
4.5	Diluted earnings per share for the year (DKK)	7.2	7.8
	Proposed dividend per share (DKK)	3.5	3.5

Statement of comprehensive income

	2018	2017
Profit/loss for the year	**920**	**989**
Other comprehensive income		
Items that cannot be reclassified to the income statement		
Net revaluation of domicile property	9	11
Other comprehensive income after tax	**9**	**11**
Total comprehensive income	**929**	**1,000**
Appropriation:		
The shareholders of the Parent Company Spar Nord Bank A/S	880	951
Holders of additional tier 1 (AT1) capital instruments	49	49
Total comprehensive income	**929**	**1,000**

Group
Balance sheet

Note	Assets	2018 DKKm	2017 DKKm
	Cash balances and demand deposits with central banks	1,029	1,298
3.1	Due from credit institutions and central banks	1,400	1,437
3.2	Loans, advances and other receivables at amortised cost	44,330	46,747
3.3.1	Bonds at fair value	16,160	10,838
3.3.2	Shares, etc.	1,768	1,626
3.4	Investments in associates	333	128
3.5	Assets linked to pooled schemes	14,772	15,423
3.6	Intangible assets	178	184
3.7.1	Land and buildings	683	621
3.7.2	Other property, plant and equipment	127	119
	Current tax assets	130	45
3.7.3	Temporary assets	9	21
3.8	Other assets	1,761	1,763
	Prepayments and deferred income	116	115
	Total assets	**82,793**	**80,367**

Equity and liabilities

Note		2018 DKKm	2017 DKKm
	LIABILITIES		
3.9	Due to credit institutions and central banks	2,466	1,964
3.10	Deposits and other payables	50,773	48,843
3.5	Deposits in pooled schemes	14,772	15,423
3.3.3	Other non-derivative financial liabilities at fair value	1,018	934
3.11	Other liabilities	2,838	2,866
	Prepayments and deferred income	20	19
3.12	Deferred tax	173	136
3.13	Provisions	160	63
4.7	Subordinated debt	1,332	1,144
	Total liabilities	**73,552**	**71,392**
	EQUITY		
	Share capital	1,230	1,230
	Revaluation reserves	103	94
	Statutory reserves	0	0
	Proposed dividend	431	431
	Retained earnings	6,616	6,359
	Shareholders' equity	**8,380**	**8,114**
4.6	Holders of additional tier 1 (AT1) capital instruments	861	861
	Total shareholders' equity	**9,241**	**8,975**
	Total equity and liabilities	**82,793**	**80,367**

Group
Statement of changes in equity

	Share capital DKKm	Revaluation reserve DKKm	Statutory reserves DKKm	Proposed dividend DKKm	Retained earnings DKKm	Total DKKm	Additional tier 1 capital DKKm	Total DKKm
Equity at 31.12.2017	1,230	94	0	431	6,359	8,114	861	8,975
Change in accounting policies, IFRS 9. See note 1.1.3	-	-	-	-	-195	-195	0	-195
Equity at 01.01.2018	**1,230**	**94**	**0**	**431**	**6,164**	**7,919**	**861**	**8,780**
Comprehensive income in 2018								
Profit/loss for the year	-	-	36	431	404	871	49	920
Other comprehensive income								
Net revaluation of properties	-	8	-	-	1	9	-	9
Other comprehensive income, total	**0**	**8**	**0**	**0**	**1**	**9**	**0**	**9**
Total comprehensive income	**0**	**8**	**36**	**431**	**405**	**880**	**49**	**929**
Transactions with owners								
Interest paid on additional tier 1 (AT1) capital	-	-	-	-	-	-	-49	-49
Dividends paid	-	-	-	-431	-	-431	-	-431
Dividends received, treasury shares	-	-	-	-	0	0	-	0
Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	-295	-295	-	-295
Addition upon sale of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	294	294	0	295
Other capital movements in associates	-	-	0	-	-	0	-	0
Revaluation reserves, associates	-	-	-30	-	30	0	-	0
Dividends received from associates recognised at net asset value	-	-	-7	-	7	0	-	0
Tax	-	-	-	-	11	11	-	11
Total transactions with owners	**0**	**0**	**-36**	**-431**	**47**	**-419**	**-49**	**-468**
Equity at 31.12.2018	**1,230**	**103**	**0**	**431**	**6,616**	**8,380**	**861**	**9,241**
Equity at 01.01.2017	1,255	91	22	628	5,768	7,765	862	8,627
Comprehensive income in 2017								
Profit/loss for the year	-	-	32	431	478	940	49	989
Other comprehensive income								
Net revaluation of properties	-	3	-	-	8	11	-	11
Other comprehensive income, total	0	3	0	0	8	11	0	11
Total comprehensive income	**0**	**3**	**32**	**431**	**485**	**951**	**49**	**1,000**
Transactions with owners								
Interest paid on additional tier 1 (AT1) capital	-	-	-	-	-	-	-49	-49
Dividends paid	-	-	-	-628	-	-628	-	-628
Dividends received, treasury shares	-	-	-	-	13	13	-	13
Reduction of share capital	-25	-	-	-	25	0	-	0
Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	-454	-454	-1	-456
Addition upon sale of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	457	457	-	457
Revaluation reserves, associates	-	-	-23	-	23	0	-	0
Dividends received from associates recognised at net asset value	-	-	-31	-	31	0	-	0
Tax	-	-	-	-	11	11	-	11
Total transactions with owners	**-25**	**0**	**-54**	**-628**	**105**	**-602**	**-50**	**-652**
Equity at 31.12.2017	**1,230**	**94**	**0**	**431**	**6,359**	**8,114**	**861**	**8,975**

Additional tier 1 (AT1) capital is specified in note 4.6.

Dividends of DKK 431 million have been proposed for 2018 (2017: DKK 431 million), corresponding to DKK 3.50 per share (2017: DKK 3.50 per share).

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

Group

Cash flow statement

	OPERATIONS	2018 DKKm	2017 DKKm
	Profit/loss before tax	1,094	1,251
3.7	Fair value changes, investment properties and temporary assets	0	0
2.8.2	Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	55	61
2.6	Gains and losses on the sale of intangible assets and property, plant and equipment	-3	-1
2.6	Gains and losses on sale of associates	-155	-
5.1.7	Adjustment of loan impairments etc.	64	275
3.13	Provisions	64	-31
3.4	Income from investments in associates	-36	-32
	Corporate income tax paid	-155	-251
	Operating activities, total	**928**	**1,273**
	WORKING CAPITAL		
3.1+3.9	Movement in credit institutions and central banks, net	562	-456
	Movement in loans, advances and other receivables at amortised cost	2,137	-5,677
3.3.1	Movement in bonds at fair value	-5,322	4,099
3.3.2	Movement in equity portfolio	-141	-69
	Movement in other assets and other liabilities, net	60	-965
3.10	Movement in deposits and other payables	1,930	2,379
	Working capital, total	**-774**	**-689**
	Cash generated from operations, total	**154**	**583**
	INVESTMENTS		
3.4	Acquisition of associates	-266	-14
3.4	Sale of associates	247	5
3.6.1	Acquisition of intangible assets	-3	-1
3.6.1	Sale of intangible assets	0	0
3.7	Acquisition of property, plant and equipment	-113	-94
3.7	Sale of property, plant and equipment	22	72
3.4	Dividends from associates	7	31
	Investing activities, total	**-106**	**0**
	FINANCING		
4.7	Subordinated debt	188	51
4.6	Additional tier 1 (AT1) capital included in equity	-49	-50
	Dividends paid, excluding dividends on treasury shares	-430	-615
	Acquisition of treasury shares	-295	-454
	Sale of treasury shares	294	457
	Financing activities, total	**-292**	**-612**
	Movements in cash and cash equivalents for the year	**-244**	**-29**
	Cash and cash equivalents, beginning of year	2,672	2,701
	Movements in cash and cash equivalents for the year	-244	-29
	Cash and cash equivalents, end of year	**2,428**	**2,672**
	Cash and cash equivalents, end of year		
	Cash, cash equivalents and demand deposits with central banks	1,029	1,298
3.1	Due from credit institutions and central banks within less than 3 months	1,400	1,374
	Total	**2,428**	**2,672**

Overview

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Section 1

Basis of preparation

Main items

The financial statements of Spar Nord Bank A/S are presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the Danish Financial Business Act and Danish disclosure requirements for annual reports of listed financial enterprises.

The most important changes to the accounting standards from 2017 to 2018 are:

- IFRS 9 re. Impairment
- IFRS 15 re. Revenue from Contracts with Customers.

The most significant accounting estimates and judgments in these financial statements concern:

- Loan impairments
- Fair value of financial instruments

Section 1

Basis of preparation

§ 1.1 Accounting policies

1.1.1 Basis of preparation of the annual report

Spar Nord Bank A/S is a public limited company with its registered office in Denmark. The annual report for the year ended 31 December 2018 includes both the consolidated financial statements of Spar Nord and its subsidiary and separate financial statements of the Parent Company.

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

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

On 7 February 2019, the Board of Directors and Executive Board reviewed and adopted the 2018 Annual Report of Spar Nord. The Annual Report will be submitted for adoption by the shareholders at the Annual General Meeting on 10 April 2019.

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

The policies regarding recognition and measurement in the Parent Company are compatible with IFRS. The difference between the profit or loss in the Group and in the Parent Company is due to properties being classified as investment properties in subsidiaries and as domicile properties in the Group. The difference consists of net depreciation and impairment on such properties.
Apart from the below-mentioned implementation of new accounting standards, the accounting policies have been applied consistently for the financial year, also with regard to comparative figures, and are thus unchanged compared with last year.

The layout of the description of the accounting policies has been changed in 2018 so the specific accounting policies are incorporated in the relevant notes.

More details are provided below regarding the implementation of new financial reporting standards, including their impact on recognition and measurement in 2018. For standards implemented prospectively, comparative figures are not restated.

Implementation of new accounting standards
Effective 01 January 2018, The Spar Nord Group has implemented the IFRS standards and interpretations taking effect in the EU for 2018.

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

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

Only the implementation of IFRS 9 had an impact on recognition or measurement in the annual report for 2018, including earnings per share, diluted earnings per share and equity. The impact from the transition at 1 January 2018 for IFRS 9 and IFRS 15 is described in note 1.1.3.

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

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

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

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

Control is said to exist if the Group is exposed or has rights to variable returns from its involvement with the company and has the ability to affect those returns through the power over the company. In the assessment of whether the Group has control, de facto control and potential voting rights that are real and of substance at the balance sheet date are taken into account.

The group enterprise Aktieselskabet Skelagervej 15 is fully consolidated.

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

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

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

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

1.1.2 Information about standards not yet effective

The International Accounting Standards Board (IASB) has published a number of new financial reporting standards (IAS and IFRS) and interpretations (IFRIC), which Spar Nord is not required to observe in preparing the 2018 Annual Report. These are IFRS 16 and 17 and amendments to IFRS 3 and 9 and IAS 1, 8, 19 and 28 as well as the annual improvement project to IFRS standards 2015-2017.

Of these, IFRS 16 and amendments to IFRS 9 have been adopted by the EU.

Spar Nord does not expect to implement the new standards and interpretations until they become mandatorily effective. Besides IFRS 16 and amendments to IAS 12, which are a part of the annual improvement projects to IFRS standards 2015-2017, see below, none of other new standards and interpretations are expected to materially affect the Bank's financial reporting.

IFRS 16 Leases

IFRS 16 Leases was published in mid-January 2016. The standard, which becomes effective for financial years beginning on or after 1 January 2019, changes the accounting for those leases which are today treated as operating leases. Under the standard, all leases, regardless of type – with a few exceptions – must be recognised in the group's balance sheet as an asset with a corresponding lease liability.

The consolidated income statement will also be affected as the annual leasing expense will in future consist of two elements: a depreciation charge and an interest expense, unlike today where annual expenses in respect of operating leases are recognised under operating expenses.

Lastly, the cash flow statement will also be affected because existing operating lease payments, which are currently presented as cash flows from operating activities, will henceforth be presented as financing activities with respect to the principal portion and as operating activities with respect to the interest portion.

IFRS 16 requires more information than IAS 17.

Transition to IFRS 16
In 2018, Spar Nord performed a detailed analysis of the effects of the new standard for the Group.

The standard has no impact on the Group's lease activities in which Spar Nord is the lessor.

Spar Nord intends to implement IFRS 16 by recognising the transitional effect in opening equity at 1 January 2019 without restating comparative figures.

In accordance with the transition provisions of IFRS 16, Spar Nord is planning to implement the standard using the following transition provisions:

- Not to recognise leases with a term of less than 12 months or low-value leases.

- To determine a discount rate to a portfolio of leases with similar characteristics.

When assessing the future lease payments, Spar Nord has reviewed the operating leases and identified the lease payments that relate to a lease components and which are fixed or variable. Spar Nord has opted not to recognise payments relating to service components as part of the lease liability.

When assessing the expected lease term, Spar Nord has identified the non-cancellable lease term of the agreement plus periods comprised by an extension option, which management with reasonable probability expects to exercise.

For leases with respect to domicile property, Spar Nord has assessed that the expected lease term represents the non-cancellable lease term in the leases and an extension option on leases with short notice periods so that lease terms for the individual leases are at least three years.

With respect to property leases, in its portfolio Spar Nord only has properties used as domicile property from which the Bank pursues banking activities.

On discounting of the leases to the present value, Spar Nord has applied its alternative borrowing rate, which is the cost of raising external financing for a similar asset with a financing period equal to the term of the lease in the currency in which the lease payments are settled.

Based on an analysis performed, Spar Nord expects to recognise lease assets and a similar liability of about DKK 109 million, equal to approximately 0.1% of the balance sheet total. The expected equity impact at 1 January 2019 is expected to be DKK 0.

When measuring the lease liability, the Group has applied an average alternative borrowing rate to discount future lease payments of 0.5% p.a.

Furthermore, the expected lease payment in 2019 of approximately DKK 26 million (interest and principal) will pursuant to IFRS 16 be presented as a financing activity.

The profit impact for 2019 will, on the basis of the current portfolio of leases, be insignificant compared to the profit forecast for 2019.

Accounting policies after 1 January 2019
A right-of-use asset and a lease liability are recognised in the balance sheet when, in accordance with a lease entered into regarding a specific, identifiable asset, the asset is made available for use by the Group throughout the lease term and when the Group becomes entitled to obtain substantially all of the economic benefits from use of the identified asset and entitled to direct the use of the identified asset..

On initial recognition, the right-of-use asset is measured at cost, corresponding to the value of the lease liability, adjusted for prepaid lease payments, plus any initial direct costs and estimated costs for dismantling, removing and restoring, or similar.

On subsequent recognition, the asset is measured at cost less any accumulated depreciation and impairments. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the asset. Depreciation charges are recognised in the income statement on a straight-line basis.

The right-of-use asset is adjusted for changes in the lease liability following from changes in the lease terms or changes in the contractual cash flows.

On initial recognition, the lease liability is measured at the present value of the future lease payments, discounted using an alternative interest rate.

The following lease payments are recognised as part of the lease liability:

- Fixed payments
- Amounts expected to be payable under a residual value guarantee
- Payments under extension options that the Group is highly likely to exercise

The lease liability is measured at amortised cost using the effective interest rate method The lease liability is remeasured when there is a change in the underlying contractual cash flows or if the Group changes its assessment of whether it is reasonably certain that a purchase option, an extension option or a termination option will be exercised.

The Group presents the right-of-use asset and the lease liability as part of the Bank's other items of property, plant and equipment and other liabilities.

The group has decided not to recognise either right-of-use assets of low value or short-term leases in the balance sheet. Instead, lease payments are recognised in the income statement on a straight-line basis.

IAS 12

IAS 12 Income Taxes has been issued as part of the Annual Improvements to IFRS Standards 2015–2017 Cycle. In Denmark, the amendment to IAS 12 becomes effective for annual reporting periods beginning on 1 January 2019, subject, however, to adoption by the EU.

The amendment concerns the accounting for any tax effects of dividends recognised as well as all tax implications of dividend distributions. The Standard implies a change in the classification of any tax effects of interest on the Group's hybrid core capital that, effective 1 January 2019, must be recognised in the income statement and not in equity as previously.

Any tax effects must be recognised at the time when the obligation to distribute dividends is recognised.

Subject to unchanged tax rules and unchanged hybrid core capital, Spar Nord expects that the tax expense recognised in the income statement will be reduced by DKK 11 million, increasing profit for the year by the same amount. The tax effect which is no longer required to be recognised in equity will be reduced by a corresponding DKK 11 million, meaning that equity at 1 January 2019 and thereafter will not, as such, be affected by the policy change going forward.

The cash flow statement will not be affected by the amendment.

1.1.3 Impact of implementation of IFRS 9 and IFRS 15

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 Amount 31.12.17 DKKm	Effect of changed measurement *) DKKm	IFRS 9 Amount 01.01.18 DKKm
Financial assets			
Cash balances 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
Loans, advances and other receivables at amortised cost, total	**46,747**	**-216**	**46,531**
Non-financial assets			
Current tax assets	45	55	100
Total assets	**49,528**	**-162**	**49,367**
Financial liabilities			
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
Non-financial liabilities			
Provision for losses on guarantees	41	27	68
Other provisions (provision for unutilised credit lines)	15	7	21
Total liabilities	**52,007**	**33**	**52,041**
One-off effect which is recognised in shareholders' equity at 1 January 2018		-195	
Off-balance sheet items			
Guarantees	11,961	-27	11,934
Unutilised credit lines and loan commitments	20,802	-7	20,795
Total off-balance sheet items	**32,763**	**-33**	**32,730**

*) Recognised in retained earnings in shareholders' equity at 1 January 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 1 January 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 1 January 2018.

General provisions in IFRS 9 on classification and measurement

In accordance with IFRS 9, an approach to classification and measurement of financial assets is introduced that takes into consideration 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. 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.

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.

When IFRS 9 entered into force on 1 January 2018, the effect on Spar Nord's own funds was DKK 10 million. The future impact will be a gradual but moderate reduction in own funds as the transitional arrangement is phased out.

Impact of IFRS 15

Effective 2018, Spar Nord Bank A/S has implemented IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts and IAS 18 Revenue. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Based on this core principle, a five-point model is used:

- Identify the contract with the customer
- Identify the performance obligation identified in the contract
- Determine the transaction price
- Allocate the transaction price to the separate performance obligations in the contract
- Recognise revenue when (or as) each performance obligation is satisfied

The Standard does not change the recognition or measurement of Spar Nord's contracts of sale. Consequently, the aggregate effect of implementing IFRS 15 has no impact on equity or the opening balance sheet at 1 January 2018. The most significant portion of Spar Nord's revenue, including net interest income, is not affected by the implementation of IFRS 15.

The accounting policy for revenue from contracts with customers is in accordance with IFRS 15. Under IFRS 15, revenue must be recognised on completion of the transaction.

At contract inception, Spar Nord determines for each identified performance obligation whether the bank satisfies the performance obligation over time or at a point in time and whether the consideration is fixed or variable, including whether the consideration is susceptible to, for instance, factors outside the group's influence. The consideration is then allocated to the identified performance obligation.

Examples of income subject to IFRS 15 include:

- Portfolio management fees
- Credit card transactions
- Document-handling fees and front-end fees
- Stock exchange transaction fees
- Other types of income in the form of, for instance, fee income, property management income and rental income

1.2 Significant accounting estimates and judgments

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

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

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

- Impairment of loans
- Fair value of financial instruments

A specific description of significant accounting estimates and judgments is provided in the relevant notes.

Section 2

Income statement

Note		Page

Main items

Net interest income

DKK **1,548** million

2017: DKK **1,577** million

Impairment of loans and advances, etc.

DKK **173** million

2017: DKK **-7** million

Net fee income

DKK **1,127** million

2017: DKK **1,116** million

Profit/loss before tax

DKK **1,094** million

2017: DKK **1,251** million

Costs and expenses

DKK **1,924** million

2017: DKK **1,936** million

Profit/loss after tax

DKK **920** million

2017: DKK **989** million

Profit/loss before loan impairments

DKK **1,266** million

2017: DKK **1,244** million

C/I ratio

0.60

2017: **0.61**

Section 2

Income statement

2.1 Business segments

Accounting policies

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

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

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

Description of business segments

Based on the nature of the products and services provided, the Group is organised in a number of business areas and resource and support functions. The reporting segments reflect the Group's organisational and management structure as well as internal follow-up.

Spar Nord's Local Banks cater to all types of retail and business customers. Corporate Banking, which is a part of Spar Nord's Local Banks, provides services to large business customers and high-net-worth retail customers. Spar Nord's Local Banks (the retail bank unit) constitute the largest organisational unit in the Spar Nord Group, consisting of 49 local banks throughout the country. Spar Nord Bank's leasing activities form an integral part of Spar Nord's Local Banks.

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

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

Principles for Intra-group settlement

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

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

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

The assets and liabilities of the business segments are the operating assets and operating liabilities that are employed by a segment for its operations and that are either directly attributable to the segment or can reasonably be allocated to the segment. The individual business segment includes allocated capital equal to 13% (2017: 13%) of the average total risk exposure amount of the business area. In the business segment Other areas, the difference between allocated capital and equity is presented.

Information about income broken down by products and services

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

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

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

Business segments

2018

DKKm	Spar Nord's Local Banks	Trading, Financial Markets & the International Division	Other Areas	Core earnings and Group *)
Income statement				
Net interest income	1,411	48	89	1,548
Net fee income	1,128	-2	1	1,127
Market value adjustments and dividends	253	-14	29	268
Other operating income	25	1	185	211
Income from investments in associates	0	0	36	36
Core income/revenue, total	**2,818**	**33**	**340**	**3,190**
Staff costs and operating expenses	1,538	64	321	1,924
Core earnings before impairment	**1,279**	**-32**	**19**	**1,266**
Impairment of loans, advances and receivables etc.	175	1	-3	173
Profit/loss before tax	**1,104**	**-32**	**21**	**1,094**

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

Balance sheet				
Loans, advances and other receivables at amortised cost	39,409	4,919	2	44,330
Investments in associates	0	0	333	333
Intangible assets and property, plant and equipment *)	245	0	741	987
Other assets **)	16,214	19,624	1,304	37,143
Allocated assets, total	**55,868**	**24,543**	**2,381**	**82,793**
Deposits and other payables	49,786	447	540	50,773
Equity (allocated capital)	5,660	1,040	2,541	9,241
Other liabilities	15,257	4,006	3,516	22,779
Allocated equity and liabilities, total	**70,702**	**5,493**	**6,598**	**82,793**

Disclosures – income/revenue, total				
Internal income/revenue	-161	72	613	524
Internal income and eliminations, offset against costs	0	-48	-477	-524
Income/revenue, external customers	2,979	8	203	3,190
Income/revenue, total	**2,818**	**33**	**340**	**3,190**

Information - IFRS 15-revenue				
Net fee income, securities trading and custody accounts	224	71	0	295
Net fee income, payment services	98	-1	0	97
Net fee income, loan fees	100	0	0	100
Other net fees and other operating income	72	6	7	84
IFRS 15 – revenue	**493**	**75**	**7**	**576**
Non-IFRS 15 - revenue	2,324	-42	332	2,614
Income/revenue, total	**2,818**	**33**	**340**	**3,190**

Disclosures, cash flow statement				
Depreciation, amortisation and impairment ***)	25	0	30	55
Additions, intangible assets and property, plant and equipment *)	26	0	89	115
Non-cash operating items excl. depr., amort. and impairment of int. assets and prop., plant & equipment	0	0	-127	-127
Impairment and reversal of loan impairments etc.	64	0	0	64

Financial ratios				
Return on equity, % ****)	27.1	-4.2	-	-
Cost share of core income	0.55	1.96	-	-
Total risk exposure amount, end of period	43,500	8,002	2,357	53,858
Number of employees (full-time equivalents, end of period)	1,020	74	424	1,518

*) All assets are located in Denmark.
**) Temporary assets amount to DKK 9 million, of which DKK 7 million relates to leasing activities and DKK 2 million relates to other areas.
***) No significant impairment writedowns have been made.
****) The rate of return on equity per annum has been calculated on allocated capital, which amounts to 13% of the average total risk exposure amount.

Business segments

2017 DKKm	Spar Nord's Local Banks	Trading, Financial Markets & the International Division	Other Areas	Core earnings *)	Reclassi-fications **)	Group Total
Income statement						
Net interest income	1,442	41	63	1,546	31	1,577
Net fee income	1,119	-4	1	1,116	0	1,116
Market value adjustments and dividends	153	202	49	404	0	404
Other operating income	23	1	27	51	0	51
Income from investments in associates	0	0	32	32	0	32
Core income/revenue, total	**2,737**	**240**	**172**	**3,150**	**31**	**3,181**
Staff costs and operating expenses	1,567	57	312	1,936	0	1,936
Core earnings before impairment	**1,170**	**183**	**-140**	**1,213**	**31**	**1,244**
Impairment of loans, advances and receivables etc.	-22	-14	-2	-38	31	-7
Profit/loss before tax	**1,192**	**197**	**-138**	**1,251**	**0**	**1,251**

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

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

	Spar Nord's Local Banks	Trading, Financial Markets & the International Division	Other Areas	Group Total
Balance sheet				
Loans, advances and other receivables at amortised cost	37,091	9,648	8	46,747
Investments in associates	0	0	128	128
Intangible assets and property, plant and equipment *)	244	0	680	924
Other assets **)	16,836	14,591	1,141	32,568
Allocated assets, total	**54,171**	**24,239**	**1,957**	**80,367**
Deposits and other payables	47,895	437	511	48,843
Equity (allocated capital)	5,248	918	2,809	8,975
Other liabilities	15,811	3,559	3,179	22,549
Allocated equity and liabilities, total	**68,954**	**4,914**	**6,499**	**80,367**
Disclosures – income/revenue, total				
Internal income/revenue	-135	73	589	527
Internal income and eliminations, offset against costs	0	-51	-476	-527
Income/revenue, external customers	2,872	218	91	3,181
Income/revenue, total	**2,737**	**240**	**204**	**3,181**
Disclosures, cash flow statement				
Depreciation, amortisation and impairment ***)	21	0	40	61
Additions, intangible assets and property, plant and equipment *)	36	0	58	94
Non-cash operating items excl. depr., amort. and impairment of int. assets and prop., plant & equipment	0	0	-314	-314
Impairment and reversal of loan impairments etc.	275	0	0	275
Financial ratios				
Return on equity, % ****)	24.1	23.7	-	-
Cost share of core income	0.57	0.24	-	-
Total risk exposure amount, end of period	40,370	7,060	2,116	49,546
Number of employees (full-time equivalents, end of eriod)	1,040	75	423	1,538

*) All assets are located in Denmark.

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

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

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

2.2 Financial items

2018	Interest income DKKm	Interest expenses DKKm	Net interest DKKm	Market value adjustments DKKm	Dividend DKKm	Total DKKm
Net financials at amortised cost						
Due from and due to credit institutions and central banks	10	16	-5	-	-	-5
Lending and deposits, banking activities	1,584	7	1,577	-	-	1,577
Repo and reverse repo transactions	-37	-11	-26	-	-	-26
Subordinated debt	0	42	-42	-	-	-42
Other interest	1	1	0	-	-	0
Total	**1,559**	**54**	**1,504**	**0**	**0**	**1,504**
Net financials at fair value						
Trading book	44	0	44	18	8	71
Other financial investment assets (shares acc. to fair-value option)	0	0	0	195	46	242
Total	**44**	**0**	**44**	**214**	**55**	**312**
Total net income from financials	**1,603**	**54**	**1,548**	**214**	**55**	**1,817**

2017	Interest income DKKm	Interest expenses DKKm	Net interest DKKm	Market value adjustments DKKm	Dividend DKKm	Total DKKm
Net financials at amortised cost						
Due from and due to credit institutions and central banks	12	6	15	-	-	15
Lending and deposits, banking activities	1,632	47	1,576	-	-	1,576
Repo and reverse repo transactions	-30	-9	-21	-	-	-21
Subordinated debt	0	52	-52	-	-	-52
Other interest	31	1	30	-	-	30
Total	**1,645**	**97**	**1,548**	**0**	**0**	**1,548**
Net financials at fair value						
Trading book	29	0	29	244	9	282
Other financial investment assets (shares acc. to fair-value option)	0	0	0	137	14	151
Total	**29**	**0**	**29**	**381**	**23**	**433**
Total net income from financials	**1,674**	**97**	**1,577**	**381**	**23**	**1,982**

In the table above, negative interest rates are offset against interest income and interest expenses, respectively.

The amount of the negative interest rates offset is shown in notes 2.3.1 and 2.3.2.

In the income statement, negative interest income is presented as interest expenses, and negative interest expenses are presented as interest income.

2.3 Net interest

§ **Accounting policies**
Interest income and expenses comprise:

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

2.3.1 Interest income

	2018 DKKm	2017 DKKm
Due from credit institutions and central banks	0	3
Loans, advances and other receivables	1,557	1,611
Bonds	66	84
Foreign-exchange contracts	9	3
Interest-rate contracts	-31	-59
Total derivatives	**-22**	**-56**
Other interest income	1	31
Total interest income after offsetting negative interest income	**1,603**	**1,674**
Negative interest income offset against interest income	37	30
Negative interest expenses offset against interest expenses	36	15
Total interest income before offsetting negative interest income	**1,676**	**1,719**
Of which, interest income from reverse repo transactions booked under		
Due from credit institutions and central banks	-10	-9
Loans, advances and other receivables	-27	-20

Negative interest income amounts to DKK 37 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.

2.3.2 Interest expenses

	2018 DKKm	2017 DKKm
Credit institutions and central banks	5	-3
Deposits and other payables	7	47
Subordinated debt	42	52
Other interest expenses	1	1
Total interest expenses after offsetting negative interest expenses	**54**	**97**
Negative interest expenses offset against interest expenses	36	15
Negative interest income offset against interest income	37	30
Total interest expenses before offsetting negative interest expenses	**128**	**141**
Of which, interest expenses from repo transactions booked under		
Credit institutions and central banks	-11	-8

Negative interest expenses amount to DKK 36 million (2017: DKK 15 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.

2.4 Fees, charges and commissions received

§ **Accounting policies**

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

	2018 DKKm	2017 DKKm
Securities trading and custody accounts	418	439
Payment services	171	166
Loan transaction fees	512	493
of which mortgage credit institutions	394	380
Guarantee commission	27	30
Other fees, charges and commissions	157	138
Total fees, charges and commissions received	**1,285**	**1,265**
Total fees, charges and commissions paid	**158**	**149**
Total net fees, charges and commissions received	**1,127**	**1,116**

For information on revenue from contracts with customers under IFRS 15, see note 2.1 Business segments.

2.5 Market value adjustments and dividends

§ **Accounting policies**

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

	2018 DKKm	2017 DKKm
Other loans, advances and receivables at fair value	-2	0
Bonds	-16	91
Shares, etc.	168	165
Currency	56	36
Foreign exchange, interest, share, commodity and other contracts and derivatives	8	89
Assets linked to pooled schemes	-1,133	566
Deposits in pooled schemes	1,133	-566
Other liabilities	0	0
Total market value adjustments	**214**	**381**
Dividends on shares, etc.	55	23
Market value adjustments and dividends on shares, etc., total	**268**	**404**

§ 2.6 Other income

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

Other operating income also includes the proportionate share of income after tax from investments in associates as well as lease payments from operating leases and rental income from properties after deducting operating expenses.

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

Prepaid income is recognised at amortised cost under deferred income (liabilities).

	2018 DKKm	2017 DKKm
Gain on sale of properties	0	4
Gain on sale of other property, plant and equipment	3	1
Gain on sale of investments in associates	155	-
Payments under operating leases and other rental income	12	9
Other income	25	23
Operation of investment properties	15	14
Total other operating income	**211**	**51**
Income from investments in associates	36	32
Other income, total	**247**	**83**

2.7 Staff costs

§ **Accounting policies**
Staff costs comprise salaries, holiday pay, anniversary lump sums, pension costs, etc. for staff and management.

	2018 DKKm	2017 DKKm
Salaries	919	930
Pensions	106	106
Social security costs	128	129
Total staff costs	**1,152**	**1,165**

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

Board of Directors		
Number	9	9
Fixed pay	3.8	3.5
Pension	-	-
Total remuneration	**3.8**	**3.5**

Breakdown of remuneration to Board of Directors		
Kjeld Johannesen	0.8	0.7
Per Nikolaj Bukh	0.6	0.5
Lene Aaen (took office on 19 April 2018)	0.2	-
Kaj Christiansen	0.4	0.4
Morten Bach Gaardboe	0.3	0.3
Laila Mortensen	0.4	0.3
Ole Skov (retired on 19 April 2018)	0.2	0.4
Jannie Skovsen	0.3	0.3
Gitte Holmgaard Sørensen	0.3	0.3
John Sørensen	0.4	0.4
Total remuneration earned and paid	**3.8**	**3.5**
Of which, committee fees	0.7	0.7

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

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

The Board of Directors receives no variable pay.
The members of the Board of Directors are not covered by any corporate pension schemes.

Material risk takers:		
Number	15	15
Fixed pay *)	18.6	17.6
Variable pay	1.3	0.9
Pension	2.6	2.5
Total remuneration earned and paid	**22.6**	**21.1**

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

In accordance with the Danish Financial Business Act, Spar Nord's remuneration policy defines the group of persons who are material risk takers. No variable remuneration components over and above the statutorily allowed lower threshold limit (DKK 100,000 per year) are paid to material risk takers. Variable pay of DKK 1.3 million in 2018 includes DKK 0.5 of severance payments. The remuneration paid to Group Management (Board of Directors and Executive Board) does not include any variable components or discretionary pension benefits.

The remuneration policy was adopted at the Annual General Meeting on 19.04.2018. The remuneration policy is available at sparnord.com/investor-relations/organisation/governance/.

	2018 DKKm	2017 DKKm
Executive Board		
Number	3	3
Base salary	11.8	11.4
- less fees received from directorships	1.7	1.5
The Bank's expense, base salary	**10.1**	**9.9**
Pension	1.8	1.7
Total remuneration earned and paid	**12.0**	**11.6**
Breakdown of remuneration to Executive Board		
Lasse Nyby		
Base salary *)	4.4	4.2
- less fees received from directorships	0.7	0.5
The Bank's expense, base salary	**3.7**	**3.7**
Pension	0.7	0.6
Total remuneration earned and paid	**4.4**	**4.3**
John Lundsgaard		
Base salary	3.7	3.6
- less fees received from directorships	0.4	0.4
The Bank's expense, base salary	**3.3**	**3.2**
Pension	0.6	0.5
Total remuneration earned and paid	**3.9**	**3.7**
Lars Møller		
Base salary *)	3.7	3.6
- less fees received from directorships	0.6	0.6
The Bank's expense, base salary	**3.1**	**3.0**
Pension	0.6	0.5
Total remuneration earned and paid	**3.7**	**3.5**

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

The members of the Executive Board receive no variable pay. Members of the Executive Board receive remuneration for their Group executive board duties based on the management agreement with the subsidiary.

Termination rules

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

Pension obligation

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

Note 6.7 provides information on the Board of Directors and the Executive Board's loans, advances and loan commitments, deposits, collateral and interest rates.

	2018	2017
Number of employees		
Average number of employees in the financial year converted into full-time equivalents	1,524	1,546

2.8 Operating expenses

Accounting policies
Operating expenses include costs of IT, marketing, premises and office expenses, etc. The other administrative expenses include other operating expenses of a secondary nature relative to Spar Nord's activities such as contributions to the Guarantee Fund and the Resolution Fund.

Prepaid expenses are recognised at amortised cost under prepayments (assets).

	2018 DKKm	2017 DKKm
IT expenses	405	354
Marketing costs	91	111
Cost of premises	86	99
Staff and travelling expenses	60	56
Office expenses	19	21
Other administrative expenses	55	69
Operating expenses	**716**	**710**
Depreciation, amortisation and impairment	**55**	**61**
Total operating expenses	**771**	**771**

2.8.1 Audit fees

	2018 DKKm	2017 DKKm
Fees to the audit firm appointed at the General Meeting	2.3	3.5
Fees to other audit firms for non-audit services	0.7	0.5
Total audit fees	**3.0**	**4.1**
Total fees to the audit firm appointed at the General Meeting break down as follows:		
Statutory audit	0.9	1.0
Other assurance engagements	0.5	0.3
Tax and VAT assistance	0.0	0.3
Non-audit services	0.8	2.1
Total fees to the audit firm appointed at the General Meeting	**2.3**	**3.5**

The fee for non-audit services provided by Ernst & Young, godkendt revisionspartnerselskab to the Group amounted to DKK 0.8 million, consisting of other services which included a review of the quarterly financial statements with a view to recognising the profit for the period in capital and the arrangement of a workshop concerning IRB models.

2.8.2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

	2018 DKKm	2017 DKKm
Intangible assets		
Customer relations, amortisation	6	7
Other intangible assets, amortisation	2	4
Property, plant and equipment		
Domicile properties, depreciation	16	14
Domicile properties, net impairment	-6	4
Temporary property portfolio, impairment	1	1
Other property, plant and equipment, depreciation	36	31
Total amortisation, depreciation and impairment of intangible assets and property, plant and equipment	**55**	**61**

2.9 Impairment of loans and advances, etc.

	2018 DKKm	2017 DKKm
Loans and advances at amortised cost	107	33
Due from credit institutions and central banks	0	-14
Guarantees	12	-26
Unutilised credit lines and loan commitments	55	0
Total	**173**	**-7**

An additional specification of loan impairments etc. is provided in note 5.1 on credit risk.

2.10 Tax

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

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

	2018 DKKm	2017 DKKm
Tax on profit/loss for the year	174	262
Tax on other comprehensive income	0	0
Tax on changes in equity	-66	-11
Total tax	**108**	**251**

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

	2018 DKKm	2017 DKKm
Current tax	133	231
Deferred tax for the year	34	27
Adjustment of deferred tax, prior years	3	0
Adjustment of current tax for prior years	4	4
Tax on profit/loss for the year	**174**	**262**

Specification of the effective tax rate:

	2018	2017
Current tax rate, %	22.0	22.0
Income from investments and market value adjustment of shares, %	-4.1	-1.7
Non-deductible expenses and non-taxable income, %	-2.7	0.3
Adjustment of prior-year taxes, %	0.7	0.3
Total effective tax rate	**15.9**	**20.9**

Tax on other comprehensive income	Before tax 2018 DKKm	Tax income/ expense 2018 DKKm	After tax 2018 DKKm	Before tax 2017 DKKm	Tax income/ expense 2017 DKKm	After tax 2017 DKKm
Adjustment relating to associates	0	0	0	0	0	0
Net revaluation of properties	9	0	9	11	0	11
Tax on other comprehensive income, total	**10**	**0**	**10**	**11**	**0**	**11**

Tax on changes in equity

	Before tax 2018 DKKm	Tax income/ expense 2018 DKKm	After tax 2018 DKKm	Before tax 2017 DKKm	Tax income/ expense 2017 DKKm	After tax 2017 DKKm
Change in accounting policies, IFRS 9	-250	55	-195	-	-	-
Interest, additional tier 1 (AT1) capital	-49	11	-38	-49	11	-38
Costs of issuing additional tier 1 (AT1) capital	0	0	0	0	0	0
Tax on changes in equity	**-299**	**66**	**-233**	**-49**	**11**	**-38**

Section 3

Balance sheet

Main items

Lending, banking and leasing activities

DKK **39,551** million

2017: DKK **37,272** million

Shares in the trading book

DKK **134** million

2017: DKK **144** million

Guarantees

DKK **12,092** million

2017: DKK **11,961** million

Shares outside the trading book

DKK **1,634** million

2017: DKK **1,482** million

Bonds at fair value

DKK **16,160** million

2017: DKK **10,838** million

Deposits

DKK **50,773** million

2017: DKK **48,843** million

Deposits, pooled schemes

DKK **14,772** million

2017: DKK **15,423** million

Section 3

Balance sheet

3.1 Due from credit institutions and central banks

Accounting policies

§ Amounts due from credit institutions and central banks comprise amounts due from other credit institutions and time deposits with central banks, where the counterparty is a credit institution or a central bank.

In reverse repo transactions, that is purchases of securities to be repurchased at a later date, the consideration paid is recognised as an amount due from credit institutions and central banks. The difference between the bid and offered price is recognised as interest in the income statement over the term of the relevant instrument. Reverse repo transactions are measured at amortised cost.

Amounts due from credit institutions and central banks are initially recognised at fair value plus transaction costs and less fees and commissions received that are directly related to the establishment. Subsequently, amounts due from credit institutions and central banks which are not reverse transactions are measured at amortised cost using the effective interest method less write-downs for bad debt losses.

	2018 DKKm	2017 DKKm
Due from credit institutions, reverse repo transactions	931	570
Due from credit institutions, other	469	867
Total due from credit institutions and central banks	**1,400**	**1,437**
Shown by term to maturity		
Demand deposits	172	272
Up to 3 months	1,228	1,102
Over 3 months and up to 1 year	0	63
Between 1 year and 5 years	0	0
Over 5 years	0	0
Total	**1,400**	**1,437**

3.2 Loans, advances and other receivables at amortised cost

Accounting policies

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

In reverse repo transactions, that is purchases of securities to be repurchased at a later date, the consideration paid is recognised as loans, advances and other receivables. The difference between the bid and offered price is recognised as interest in the income statement over the term of the relevant instrument. Reverse repo transactions are measured at amortised cost.

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

Reference is made to note 5.1.1 Credit risk for a description of the accounting policies concerning loan impairment.

Significant accounting estimates and judgments, loan impairment

The measurement of impairments pursuant to both IFRS 9 and IAS 39 across the different categories of financial assets requires estimates, particularly estimates regarding amounts and timing in relation to future cash flows and loan values when determining loss allowances and assessments of significant increases in credit risks. There estimates are based on a number of factors, and changes may result in different levels of loss allowances/provisions.

Under the Bank's expected credit loss model, a loss allowance must be recognised on all credit exposures. The expected credit loss model is based on a complex model involving a number of underlying assumptions concerning choice of variable input and their interdependence. Stage 1 and Stage 2 impairments are made on the basis of a model calculation, whereas the calculation in respect of exposures from the weak part of stage 2 as well as stage 3 is made as a combination of an individual assessment and a modal calculation. The following components of the model are considered accounting estimates and judgments:

- The Bank's internal credit assessment model which allocates PD (probability of default) to the individual levels, thus dividing them into stages.
- The Bank's criteria for assessing whether there has been a substantial increase in credit risks since initial recognition, resulting in stage migration.
- Developing a model, including various formulas and selection of input
- Determining macroeconomic scenarios and economic input such as unemployment levels and loan values and the impact on PD, EAD (exposure at default) and LGD (loss given default).
- Selecting forward-looking macroeconomic scenarios.

Spar Nord has defined a list of risks that constitute objective evidence of credit impairment. Some risks are registered automatically in the systems, while others are registered manually by customer advisers or credit staff members, including credit-quality flagging of customers. Credit-quality flagging is based on important Management estimates, particularly affected by such factors as property prices, unemployment rates and demand for various products and services. Credit-quality flagging has a direct impact on customer impairments as it affects customer PD values.

Individually assessed impairments should be founded on the most likely scenario (base case). In addition, a worst case scenario must be calculated taking a more critical approach to customer exposures, including ability to pay and value of collateral, and a best case scenario based on a more positive approach. A calculation is made for each of the three scenarios, which are then weighted based on the probability of each scenario. The model calculation of the expected losses on inpairments in Stage 1 and 2 includes an add-on/deduction calculated on the basis of a weighting of the various scenarios with different approaches to macroeconomic developments in the coming years.
For loan exposures of less than DKK 250,000, credit-quality flagged customers are automatically assessed based on the customer data and characteristics.

From end-2017 to end-2018, the impairment account rose from DKK 1.6 billion to DKK 1.9 billion.

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

Loans and advances amounted to DKK 44,330 million, corresponding to about 54% of the Group's assets at end-2018.

	2018 DKKm	2017 DKKm
Lending, reverse repo transactions	4,779	9,475
Lending, banking and leasing activities	39,551	37,272
Loans, advances and other receivables at amortised cost, total	**44,330**	**46,747**
Broken down by category		
Loan contracts with access to variable utilisation	21,978	21,056
Lease agreements	3,754	2,725
Other lending	18,598	22,966
Total	**44,330**	**46,747**
Shown by term to maturity		
Demand deposits	1,126	1,191
Up to 3 months	5,731	10,436
Over 3 months and up to 1 year	16,734	16,133
Between 1 year and 5 years	8,048	7,340
Over 5 years	12,691	11,647
Total	**44,330**	**46,747**

3.2.1 Asses held under finance leases

§ **Accounting policies**
Leases are classified as finance leases when all significant risks and rewards of ownership of an asset are transferred to the lessee.

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

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

Lease payments broken down by contractual term to maturity	2018 DKKm	2017 DKKm
Up to 1 year	894	655
1-5 years	2,635	2,005
Over 5 years	421	218
Total gross investments in finance leases	**3,950**	**2,877**
Of which, unearned, future financial income	196	152
Total net investments in finance leases	**3,754**	**2,725**
By maturity		
Up to 1 year	823	599
1-5 years	2,519	1,914
Over 5 years	411	213
Total net investments in finance leases	**3,754**	**2,725**
Accumulated impairment of uncollectible minimum lease payments receivable	82	21
Lease income is recognised in the income statement under the item "Interest income"	83	65
Average remaining term of the lease contracts (years)	3.3 years	3.4 years

The Group's lease contracts consist mainly of finance leases and are recognised in the balance sheet under lending, banking and leasing activities.

Finance lease assets, with the Group as lessor, comprise agricultural equipment, passenger cars and trucks, industrial machinery, contractor's equipment, etc.

The lease contracts are in Danish kroner and foreign currency. The contracts can be terminated during the lease term.

3.3 Securities

Accounting policies

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

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

Strategic shares

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

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

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

Significant accounting estimates and judgments, fair value of financial instruments

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

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

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

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

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

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

Valuations of financial instruments that are only to a limited extent based on observable market data are subject to estimates. This applies for example to unlisted shares and certain bonds for which an active market does not exist.

Financial instruments valued on the basis of non-observable input amounted to DKK 1,891 million, equal to 2% of Spar Nord's assets at year-end 2018.

3.3.1 Bonds at fair value

	2018 DKKm	2017 DKKm
Mortgage bonds	13,762	9,288
Government bonds	716	642
Other bonds	1,681	908
Bonds at fair value, total	**16,160**	**10,838**
Of which, subordinated receivables	47	44

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

3.3.2 Shares, etc.

Shares/unit trust certificates listed on NASDAQ Copenhagen A/S	138	143
Shares/unit trust certificates listed on other stock exchanges	39	54
Unlisted shares at fair value	1,590	1,429
Total shares, etc.	**1,768**	**1,626**
Trading book	134	144
Outside the trading book	89	77
Fair value or fair value option, outside the trading book	1,545	1,405
Total shares, etc.	**1,768**	**1,626**

3.3.3 Other non-derivative financial liabilities at fair value

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

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

	2018 DKKm	2017 DKKm
Balancing item to negative bond portfolios in connection with reverse repo transactions	1,014	932
Balancing item to negative equity portfolios in connection with share loans	4	2
Total other non-derivative financial liabilities at fair value	**1,018**	**934**

3.3.4 Information on fair value of financial instruments

§ **Accounting policies**
Financial instruments are recognised in the balance sheet at fair value or amortised cost.

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

- Trading book, which is measured at fair value;
- Loans, advances and receivables, which are measured at amortised cost;
- Financial assets designated at fair value through profit and loss (fair value option);
- Assets under pooled schemes, which are measured at fair value.

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

- Trading book, which is measured at fair value;
- Liabilities under pooled schemes, which are measured at fair value;
- Other financial liabilities, which are measured at amortised cost.

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

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

- **Level 1 – Quoted market price:**
  Quoted prices (unadjusted) in active markets for identical assets or liabilities.

- **Level 2 – Observable input:**
  Valuation techniques based on inputs other than quoted prices at Level 1, observable either directly (prices) or indirectly (derived from prices).

  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.

- **Level 3 – Non-observable input:**
  Valuation techniques based on inputs for valuing an asset or liability based on unobservable market data. 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.

Bonds, assets linked to pooled schemes, derivatives 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.

continued

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

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

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

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

Recognition of financial assets and financial liabilities

2018	Amortised cost DKKm	Fair value through profit or less DKKm	Fair value through other comprehensive income DKKm
Cash balances and demand deposits with central banks	1,029	0	0
Due from credit institutions and central banks	1,400	0	0
Loans, advances and other receivables at amortised cost	44,330	0	0
Bonds at fair value	0	16,160	0
Shares, etc.	0	1,768	0
Assets linked to pooled schemes	0	14,772	0
Positive fair value of derivatives	0	862	0
Total financial assets	**46,758**	**33,560**	**0**
Due to credit institutions and central banks	2,466	0	0
Deposits and other payables	50,773	0	0
Deposits in pooled schemes	0	14,772	0
Other non-derivative financial liabilities at fair value	0	1,018	0
Negative fair value of derivatives	0	550	0
Subordinated debt	1,332	0	0
Total financial liabilities	**54,571**	**16,339**	**0**

2017	Amortised cost DKKm	Fair value through profit or loss DKKm	Fair value through other comprehensive income DKKm
Cash balances and demand deposits with central banks	1,298	0	0
Due from credit institutions and central banks	1,437	0	0
Loans, advances and other receivables at amortised cost	46,747	0	0
Bonds at fair value	0	10,838	0
Shares, etc.	0	1,626	0
Assets linked to pooled schemes	0	15,423	0
Positive fair value of derivatives	0	1,030	0
Total financial assets	**49,483**	**28,916**	**0**
Due to credit institutions and central banks	1,964	0	0
Deposits and other payables	48,843	0	0
Deposits in pooled schemes	0	15,423	0
Other non-derivative financial liabilities at fair value	0	934	0
Negative fair value of derivatives	0	691	0
Subordinated debt	1,144	0	0
Total financial liabilities	**51,951**	**17,047**	**0**

Day 1 gains

When valuing unlisted derivative instruments, the initial customer margin, etc. is amortised over the remaining term to maturity. At the end of 2018, the customer margin, etc. not yet amortised amounted to DKK 73 million (2017: DKK 72 million).

In Day 1 gains, DKK 9 million (2017: DKK 10 million) was offset from CVA at end-2018, which is the credit value component of derivatives.

	2018 DKKm	2017 DKKm
Unamortised customer margin at 1 January	72	69
Net development in amortisation of customer margin	1	3
Unamortised customer margin at 31 December	**73**	**72**

Breakdown of financial instruments relative to the fair-value hierarchy classification and carrying amount

2018	Quoted prices Level 1 DKKm	Observable inputs Level 2 DKKm	Non-Observable inputs Level 3 DKKm	Total DKKm
Bonds at fair value	14,041	2,118	0	16,160
Shares, etc.	177	43	1,548	1,768
Assets linked to pooled schemes	11,152	3,290	330	14,772
Positive fair value of derivatives	0	848	13	862
Total financial assets	**25,370**	**6,299**	**1,891**	**33,560**
Deposits in pooled schemes	0	14,772	0	14,772
Other non-derivative financial liabilities at fair value	969	49	0	1,018
Negative fair value of derivatives	0	550	0	550
Total financial liabilities	**969**	**15,370**	**0**	**16,339**

2017	Quoted prices Level 1 DKKm	Observable inputs Level 2 DKKm	Non-Observable inputs Level 3 DKKm	Total DKKm
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 derivatives	0	1,030	0	1,030
Total financial assets	**19,534**	**7,663**	**1,719**	**28,916**
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 derivatives	0	691	0	691
Total financial liabilities	**476**	**16,571**	**0**	**17,047**

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

Level 3

	Fair value based on net asset value, cf. shareholders' agreements 2018 DKKm	Other 2018 DKKm	Fair value based on net asset value, cf. shareholders' agreements 2017 DKKm	Other 2017 DKKm
Equities	1,181	367	1,063	345
Assets linked to pooled schemes	-	330	0	310
Positive fair value of derivatives	-	13	-	-
Sensitivities				
Change in the fair value of shares if the results of the companies change by 10%	11	-	11	-

A substantial portion of the shares included under "Other" are valued based on future expected cash, market expectations as to the required rate of return on equity and comparable transactions.

For investment and domicile properties measured at fair value, see note 3.7.1

Financial instruments measured at fair value based on non-observable inputs (Level 3)
In 2018, the Bank recognised unrealised market value adjustments of DKK 176 million (2017: DKK 91 million) in respect of financial assets held on the balance sheet date valued on the basis of non-observable inputs.

	2018 DKKm	2017 DKKm
Carrying amount at 1 January	1,719	1,550
Value adjustments through profit or loss	180	136
Market value adjustments in other comprehensive income	0	0
Purchase	33	131
Sale	75	99
Transferred to/from Level 3	35	0
Carrying amount at 31 December	**1,891**	**1,719**
Market-value adjustments in the income statement of assets held at the reporting date	176	91

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

Financial instruments recognised at amortised cost – information on fair value

	Carrying amount 2018 DKKm	Fair value 2018 DKKm	Carrying amount 2017 DKKm	Fair value 2017 DKKm
Cash balances and demand deposits with central banks	1,029	1,029	1,298	1,298
Due from credit institutions and central banks *)	1,400	1,400	1,437	1,437
Loans, advances and other receivables at amortised cost *)	44,330	44,457	46,747	46,865
Total financial assets	**46,758**	**46,885**	**49,483**	**49,600**
Due to credit institutions and central banks *)	2,466	2,466	1,964	1,964
Deposits and other payables *)	50,773	50,773	48,843	48,842
Subordinated debt **)	1,332	1,329	1,144	1,166
Total financial liabilities	**54,571**	**54,568**	**51,951**	**51,972**

*) Level 3 in the fair value hierarchy
**) Level 1 in the fair value hierarchy amounts to DKK 438 million (2017: DKK 717 million), and Level 3 in the fair value hierarchy amounts to DKK 891 million (2017: DKK 449 million).

The vast majority of amounts due to the Group, loans and advances, and deposits may not be assigned without the prior consent of customers, and an active market does not exist for such financial instruments. Consequently, the Group bases its fair value estimates on data showing changes in market conditions after the initial recognition of the individual instrument that affects the price that would have been fixed if the terms had been agreed at the balance sheet date. Other parties may make other estimates.

The Group discloses information about the fair value of financial instruments recognised at amortised cost on the basis of the following assumptions:

- For a number of the Group's deposits, loans and advances, the interest rate depends on interest developments.
- The fair value of loans and advances is calculated on the basis of a qualified estimate, taking into account that the Bank continuously adapts its loan terms to existing market conditions.
- The fair value of fixed-rate deposits is calculated by using the interest rate for similar deposits, based on an estimated yield curve.
- The fair value of subordinated debt is adjusted for listed debt at the most recent transaction price, while unlisted debt is recorded at an estimated transaction price.

3.4 Investments in associates

Accounting policies

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

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

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

The share of profit/loss for the year after tax is recognised in the income statement under other Income.

In connection with the purchase or sale of associates, the results of such group enterprises or associates are recognised in the income statement from or until the acquisition date, as the case may be. Any gain or loss upon sale is calculated as the difference between the selling price and the carrying amount at the transfer date, including the carrying amount of goodwill, and is recognised under other income/operating expenses.

	2018 DKKm	2017 DKKm
Total cost, beginning of year	86	96
Additions	266	14
Disposals	41	24
Total cost, end of year	**311**	**86**
Revaluations and impairment, beginning of year	42	22
Profit/loss for the period	36	32
Dividend	7	31
Reversal of revaluations and impairments	50	-19
Revaluations and impairment, end of year	**22**	**42**
Carrying amount, end of year	**333**	**128**

In 2018, Spar Nord acquired shares in Danske Andelskassers Bank A/S, which are subsequently considered to be an individual and significant associate of Spar Nord. In 2017, Spar Nord had no equity investments in associates that were individually significant for Spar Nord.

The acquisition of the shares in Danske Andelskassers Bank A/S is a strategic investment, and Spar Nord intends to merge Danske Andelskassers Bank A/S with Spar Nord.

In 2018, Spar Nord sold shares in Valueinvest Asset Management SA, which produced a gain of DKK 154 million.

Income from this investment is recognised in the income statement under other income in note 2.6.

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

	2018 DKKm	2017 DKKm
Spar Nord's share of:		
Profit/loss for the year	30	32
Other comprehensive income	0	0
Total comprehensive income	**30**	**32**

Financial information for associates that are individually significant

Financial information for associates that are individually significant in 2018 adjusted for differences in accounting policies.

The accounting figures below are from the most recently published annual report 2017.

	2018 DKKm Danske Andelskassers Bank A/S
Registered office	Hammershøj
Ownership interest (%)	30.1
Share of votes (%)	30.1
Statement of comprehensive income	
Revenue	577
Profit/loss for the year	84
Other comprehensive income	-2
Total	**82**
Dividends received	0
Balance sheet	
Loans, advances and receivables etc.	6,132
Other assets	4,663
Total assets	**10,795**
Deposits and other payables	8,482
Other liabilities	897
Total liabilities	**9,379**
Equity	**1,416**
Spar Nord's share of equity in Danske Andelskassers Bank according to the most recently published annual report (2017).	426

Investments in associates are measured according to the equity method, which means that Danske Andelskassers Bank is measured at the value of acquired net assets plus profit or loss and share of other comprehensive income after the acquisition date.

Based on the market price, Spar Nord's share of the fair value of Danske Andelskassers Bank A/S (Level 1 in the fair value hierarchy) in 2018 was calculated at DKK 254 million.

Reconciliation of carrying amount at 31 December

	2018 DKKm	2017 DKKm
Carrying amount of equity investments in individually significant associates	268	0
Goodwill relating to associates	0	37
Carrying amount of equity investments in individually non-significant associates	66	91
Total	**333**	**128**

3.5 Pooled schemes

§ **Accounting policies**
Assets forming part of pension pools and customers' contributions to pension pools are presented in separate balance sheet items.

The return on pooled assets and contributions is presented together under market value adjustments and dividends.

Assets and liabilities in pooled schemes are recognised at fair value.

	Pension pools 2018 DKKm	Other pools 2018 DKKm	Total 2018 DKKm	Total 2017 DKKm
Cash deposits	652	7	659	871
Other bonds	5,330	65	5,395	6,821
Other shares, etc.	6,832	80	6,913	7,022
Unit trust certificates	1,741	24	1,765	662
Other assets	40	0	40	46
Total assets	**14,595**	**177**	**14,772**	**15,423**
Total deposits	14,595	177	14,772	15,423
Total liabilities	**14,595**	**177**	**14,772**	**15,423**

3.6 Intangible assets

	2018 DKKm	2017 DKKm
Goodwill	159	159
Customer relations	13	19
Other intangible assets	6	6
Total intangible assets	**178**	**184**

3.6.1 Goodwill

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

Goodwill is not amortised.
Goodwill on associates is recognised in Investments in associates.

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

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

	2018 DKKm	2017 DKKm
Total cost, beginning of year	160	160
Additions	0	0
Disposals	0	0
Total cost, end of year	**160**	**160**
Impairment, beginning of year	2	2
Impairment for the year	0	0
Reversal of impairment on disposals	0	0
Impairment, end of year	**2**	**2**
Carrying amount, end of year	**159**	**159**

	Cost 01.01.18 DKKm	Additions/ disposals 2018 DKKm	Cost 31.12.18 DKKm	Impair-ment 01.01.18 DKKm	Impair-ment 2018 DKKm	Impair-ment on disposals 2018 DKKm	Impair-ment 31.12.18 DKKm	Carrying amount 31.12.18 DKKm
Banking activities, Roskilde Bank branches	87	0	87	0	0	0	0	87
Banking activities, Sparbank	35	0	35	0	0	0	0	35
Banking activities, branches, Other	38	0	38	2	0	0	2	37
Total goodwill	**160**	**0**	**160**	**2**	**0**	**0**	**2**	**159**

	Cost 01.01.17 DKKm	Additions/ disposals 2017 DKKm	Cost 31.12.17 DKKm	Impair-ment 01.01.17 DKKm	Impair-ment 2017 DKKm	Impair-ment on disposals 2017 DKKm	Impair-ment 31.12.17 DKKm	Carrying amount 31.12.17 DKKm
Banking activities, Roskilde Bank branches	87	0	87	0	0	0	0	87
Banking activities, Sparbank	35	0	35	0	0	0	0	35
Banking activities, branches, Other	38	0	38	2	0	0	2	37
Total goodwill	**160**	**0**	**160**	**2**	**0**	**0**	**2**	**159**

3.6.2 Customer relations

§ **Acccounting policies**

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

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

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

	2018 DKKm	2017 DKKm
Total cost, beginning of year	65	65
Additions	0	0
Disposals	0	0
Total cost, end of year	**65**	**65**
Amortisation and impairment, beginning of year	46	39
Impairment for the year	6	7
Amortisation and impairment, end of year	**52**	**46**
Carrying amount, end of year	**13**	**19**

3.6.3 Other intangible assets

§ **Accounting policies**

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

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

Software is subjected to an impairment test when there is evidence of impairment. When there is evidence of impairment, they are written down to the value in use.

	2018 DKKm	2017 DKKm
Total cost, beginning of year	30	61
Additions	3	1
Disposals	3	32
Total cost, end of year	**29**	**30**
Amortisation and impairment, beginning of year	23	51
Depreciation for the year	2	4
Reversal of amortisation on disposals	3	32
Amortisation and impairment, end of year	**23**	**23**
Carrying amount, end of year	**6**	**6**

The remaining amortisation periods are 1-4 years (2017: 1-5 years) for customer relations and 1-5 years (2017: 1-5 years) for other intangible assets. Goodwill had an indefinite useful life in both 2018 and 2017.

§ 3.6.4 Impairment test

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

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

The share of equity has been fixed at 13% (2017: 13%) of the total risk exposure amount.

The impairment test in 2018 did not give rise to any writedowns for impairment of intangible assets.

Goodwill

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

Goodwill is included in the cash-generating business area – Spar Nord's Local Banks – which is the business area comprising the branch network. For a more detailed description of Spar Nord's Local Banks, reference is made to note 2.1.

Principal assumptions

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

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

Growth during the budget period is projected at 1.5% (2017: 1.5%) The average annual growth reflects the targets incorporated into the Bank's outlook for the future.

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

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

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

Net fee income
The expectations for income from fees, charges and commissions are based on historical data, adjusted to reflect the current situation. Fee income is expected to reach a slightly higher level than in 2018.

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

Loan impairments
Expectations as to loan impairments are based on the Bank's estimate for the next few years. The expectations are based on historical data, adjusted to reflect the current situation. Loan impairments are expected to be higher than in 2018, albeit still at a very low level.

Cash flow during the terminal period

Cash flow during the terminal period represents earnings in the preceding years, growing at a constant rate. Growth is projected at 1.5% (2017: 1.5%)

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

Discount rate
The discount rate used to calculate the discounted value of future cash flows is 11.5% (2017:11.5%) before tax at a tax rate of 22%.

After tax, the discount rate is 9.0% (2017: 9.0%)

The discount rate has been fixed on the basis of a CAPM model. The discount rate was unchanged from 2017 to 2018.

Primary assumptions; see above:	2018	2017
Acquired goodwill, DKKm	159	159
Budget period	5 years	5 years
Average annual growth during the budget period	1.5%	1.5%
Average annual growth during the terminal period	1.5%	1.5%
Discount factor before tax	11.5%	11.5%
Discount factor after tax	9.0%	9.0%
Share of equity of total risk exposure amount	13.0%	13.0%

Sensitivity analysis

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

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

	2018 DKKm	2017 DKKm
The following matters do not lead to impairment		
Increase in the discount rate (pre-tax) up to	18%	16%
Reduction in pre-tax profit/loss (change in net interest income, fee income, cost ratio or impairment) up to	38%	27%
Negative growth in balance-sheet items possible	Yes	Yes

Projections for the budget period mean that 70% of the present value of expected cash flows in Spar Nord's Local Banks relates to the terminal period (2017: 69%).

Customer relations

The carrying amount of customer relations recognised in connection with:

- The acquisition of assets and liabilities from FIH Erhvervsbank amounted to DKK 0 million (2017: DKK 1 million)
- The acquisition of banking activities from Roskilde Bank amounted to DKK 0 million (2017: DKK 3 million)
- The merger with Sparbank amounted to DKK 13 million (2017: DKK 16 million)

The assumptions about fee income etc. and the cost ratio used for recognising customer relations have been compared with the corresponding realised results.

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

Other intangible assets

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

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

3.7 Property, plant and equipment

3.7.1 Land and buildings

§ **Accounting policies**

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

The fair value is calculated on the basis of current market data according to an asset return model that includes the property's rental income, operating expenses, as well as management and maintenance, etc.

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

Land is not depreciated.

	2018 DKKm	2017 DKKm
Investment properties	135	135
Domicile property	548	487
Land and buildings, total	**683**	**621**

Investment properties

§ **Accounting policies**

Investment property is real property, including real property let under operating leases and acquired properties, which the Group owns for the purpose of receiving rent and/or obtaining capital gains.

Investment property is not depreciated.

Changes in fair value and rental income are recognised in other income.

	2018 DKKm	2017 DKKm
Fair value, beginning of period	135	135
Additions, incl. improvements	0	0
Disposals	0	0
Unrealised fair value adjustment	0	0
Fair value, end of year	**135**	**135**
Required rate of return used in calculating the fair value, %	5.8 - 9.0	5.8 - 9.0

Unrealised fair value adjustment is recognised in the item other income in the consolidated financial statements.

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

For information regarding return on investment properties, please refer to note 2.6.

	2018	2017
Note 2.6 includes operating expenses relating to investment properties that did not generate any rental income during the year in the amount of:	0	0

Domicile property

Accounting policies

Domicile property is real property occupied by Spar Nord's administrative departments, branches and other service units.

The carrying amount of domicile property is systematically depreciated over the expected useful life of 50 years for buildings.

Special fixtures in buildings are depreciated according to the straight-line method over a useful life of 20 years.

Allowance is made for the expected residual value when calculating depreciation.

The revaluation of domicile property to fair value is recognised in Other comprehensive income and allocated to a special reserve under equity, Revaluation reserves, while depreciation and impairment are recognised in the income statement under Other operating expenses.

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

	2018 DKKm	2017 DKKm
Total cost, beginning of year	631	673
Transferred to/from temporary assets	12	-38
Additions	55	20
Disposals	6	24
Total cost, end of year	**692**	**631**
Value adjustment, beginning of year	144	155
Transferred to/from temporary assets	3	-10
Depreciation for the year	16	14
Net impairment via the income statement	-6	4
Changes in value recognised in other comprehensive income	-10	-5
Depreciation and impairment on disposals	4	14
Value adjustment, end of year	**144**	**144**
Fair value, end of year	**548**	**487**
Required rate of return used in calculating the fair value, %	5.8 - 9.0	5.8 - 10.0
Carrying amount if domicile properties were measured according to the depreciated cost method	445	398
Collateral provided to mortgage credit institutions in the form of mortgages on land and buildings has a carrying amount of	-	65

From the subsidiary Aktieselskabet Skelagervej 15, additions in 2018 include domicile property in the amount of DKK 24 million (2017: DKK 0 million) regarding a property under construction and DKK 0 million (2017: DKK 0 million) regarding refurbishment of properties.

No borrowing costs were recognised in 2018 and 2017.

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

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

The annual review of the Bank's investment and corporate properties did not give rise to any significant changes in the required rates of return. The required rates of return remained within the 5.8-9.0% range (2017: 5.8-10.0%) for domicile properties and the 5.8-9.0% range (2017: 5.8-9.0%) for investment properties.

Required rates of return

	Domicile property		Investment property	
	No. of properties	Fair value end of year	No. of properties	Fair value end of year
2018				
Required rates of return in %				
-> 7.00	11	196	1	16
7.00 - 8.00	13	250	3	90
8.00 - 9.00	7	101	6	29
9.00 ->	0	0	0	0
Total	**31**	**548**	**10**	**135**
2017				
Required rates of return in %				
-> 7.00	9	144	2	21
7.00 - 8.00	13	248	2	85
8.00 - 9.00	6	93	6	29
9.00 ->	1	2	0	0
Total	**29**	**487**	**10**	**135**

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

Sensitivity analyses

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

Other things being equal, an increase of the required rate of return of 0.5 percentage point will reduce the fair value by DKK 44 million (2017: DKK 41 million).

Other things being equal, a decrease of the rental level of 5% will reduce the fair value by DKK 30 million (2017: DKK 28 million).

3.7.2 Other property plant and equipment

Accounting policies

Operating equipment in the form of IT equipment, vehicles, furniture, fixtures and leasehold improvements are recognised at cost less accumulated depreciation and impairment charges. Where Spar Nord is the lessor, operating lease assets are also recognised under property, plant and equipment.

The basis of depreciation for property, plant and equipment is the difference between cost and residual value at the end of its useful life, and the residual value is assessed regularly.

Leasehold improvements are depreciated over the term of the lease, with a maximum of ten years.

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

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

	2018 DKKm	2017 DKKm
Total cost, beginning of year	384	395
Additions	49	67
Disposals	68	78
Total cost, end of year	**365**	**384**
Depreciation and impairment, beginning of year	266	304
Depreciation and impairment for the year	36	31
Reversal of depreciation and impairment for the year	63	70
Depreciation and impairment, end of year	**238**	**266**
Carrying amount, end of year	**127**	**119**

The figures at end-2018 include various fully written-off assets used for the Spar Nord Group's operations. The original purchase price of these assets amounts to DKK 203 million (2017: DKK 184 million).

Operating lease assets

Accounting policies

Where Spar Nord is the lessor, operating lease assets are recognised under Other property, plant and equipment and depreciated as Spar Nord's other property, plant and equipment.

Lease income from operating leases is recognised under other income on a straight-line basis over the current term of the lease.

	2018 DKKm	2017 DKKm
Operating lease assets are recognised in the amount of	17	14

The contracts can be terminated during the lease term.

By maturity	2018 DKKm	2017 DKKm
Up to 1 year	4	4
1-5 years	12	10
Over 5 years	1	0
Total lease payments under operating leases	**17**	**14**
Lease payments from operating lease assets are recognised in the income statement	7	7
Average remaining term of the lease contracts (years)	3.4	3.4

3.7.3 Temporary assets

§ **Accounting policies**

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

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

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

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

	2018 DKKm	2017 DKKm
Total cost, beginning of year	39	73
Transferred from/to domicile properties	-12	38
Additions	8	7
Disposals	14	79
Total cost, end of year	**22**	**39**
Depreciation and impairment, beginning of year	18	39
Transferred from/to domicile properties	-3	10
Movements during the year:	-1	-31
Depreciation and impairment, end of year	**13**	**18**
Carrying amount, end of year	**9**	**21**

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

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

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

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

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

3.8 Other assets

§ **Accounting policies**

Other assets include capital contributions to Bankernes EDB Central a.m.b.a., interest and commissions receivable as well as the positive fair value of derivative instruments.

Fair-value measurement of the positive fair value of derivatives is described in more detail in the section Derivatives in note 3.3.4.

Other items are measured at amortised cost.

	2018 DKKm	2017 DKKm
Positive fair value of derivatives, etc.	862	1,030
Miscellaneous receivables	373	296
Interest and commissions receivable	44	51
Capital contribution to Bankernes EDB Central a.m.b.a.	445	316
Other assets	37	70
Total other assets	**1,761**	**1,763**

3.9 Due to credit institutions and central banks

§ **Accounting policies**

Amounts due to credit institutions and central banks include amounts received under repo transactions where the counterparty is a credit institution or a central bank

In repo transactions (sale of securities which the group agrees to repurchase at a later date), the securities remain in the balance sheet under securities. The amount received is recognised as a liability, and the difference between the offered price and the bid price is recognised as interest in the income statement over the term of the relevant instrument. The return on the securities are recognised in the income statement. Repo transactions are measured at amortised cost.

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

	2018 DKKm	2017 DKKm
Due to central banks	35	31
Due to credit institutions, repo transactions	1,519	555
Due to credit institutions, other	912	1,379
Total due to credit institutions and central banks	**2,466**	**1,964**
Shown by term to maturity		
Demand deposits	288	421
Up to 3 months	2,151	1,512
Over 3 months and up to 1 year	0	0
Between 1 year and 5 years	27	0
Over 5 years	0	30
Total	**2,466**	**1,964**
Mortgage debt on real property	-	30
The carrying amount of the mortgaged properties amounts to	-	65

3.10 Deposits and other payables

§ **Accounting policies**

Deposits include amounts received under repo transactions where the counterparty is not a credit institution or a central bank.

In repo transactions (sale of securities which the group agrees to repurchase at a later date), the securities remain in the balance sheet, and the consideration received is recognised under payables. The amount received is recognised as a liability, and the difference between the offered price and the bid price is recognised as interest in the income statement over the term of the relevant instrument. The return on the securities are recognised in the income statement.

Repo transactions are measured at amortised cost.

Deposits and other payables are recognised at the raising of a loan at fair value corresponding to the consideration received less directly attributable transaction costs. Deposits and other payables not classified as repo transactions are subsequently measured at amortised cost using the effective interest method. Thus, the difference between net proceeds and nominal value is recognised in the income statement under Interest expenses over the loan term.

	2018 DKKm	2017 DKKm
Repo transactions	0	175
Demand deposits	45,851	43,132
Subject to notice	1,418	1,456
Time deposits, excluding repo business	299	721
Special types of deposits	3,204	3,359
Total deposits and other payables	**50,773**	**48,843**
Shown by term to maturity		
Demand deposits	45,851	43,132
Up to 3 months	1,380	1,959
Over 3 months and up to 1 year	89	303
Between 1 year and 5 years	79	91
Over 5 years	3,374	3,359
Total	**50,773**	**48,843**

3.11 Other liabilities

§ Accounting policies

Other liabilities include various creditors, the negative fair value of derivatives, interest payable and employee benefits payable.

Fair-value measurement of the negative fair value of derivatives is described in more detail in the section Derivatives in note 3.3.4. Other items are measured at amortised cost.

	2018 DKKm	2017 DKKm
Miscellaneous payables	1,943	1,799
Negative fair value of derivatives, etc.	550	691
Interest and commissions payable	18	12
Other liabilities	327	365
Total other liabilities	**2,838**	**2,866**

3.12 Deferred tax

Accounting policies

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

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

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

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

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

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

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

	2018 DKKm	2017 DKKm
Beginning of period	136	109
Deferred tax for the year recognised in profit/loss for the year	37	27
Deferred tax for the year recognised in other comprehensive income	0	0
Deferred tax, end of year	**173**	**136**

Changes in deferred tax in 2018	Beginning of period DKKm	Recognised in profit/loss for the year DKKm	Recognised in other comprehensive income DKKm	End of year DKKm
Intangible assets	29	1	0	29
Property, plant and equipment, incl. leased assets	130	45	0	176
Loans, advances and other receivables at amortised cost	-18	1	0	-17
Payables and subordinated debt	15	-13	0	3
Provisions	-17	4	0	-13
Claw-back loss	4	0	0	4
Miscellaneous	-7	-1	0	-8
Total	**136**	**37**	**0**	**173**

Changes in deferred tax in 2017				
Intangible assets	29	0	0	29
Property, plant and equipment, incl. leased assets	103	28	0	130
Loans, advances and other receivables at amortised cost	-19	1	0	-18
Payables and subordinated debt	14	1	0	15
Provisions	-18	1	0	-17
Claw-back loss	4	0	0	4
Miscellaneous	-4	-3	0	-7
Total	**109**	**27**	**0**	**136**

	2018 DKKm	2017 DKKm
Shown by term to maturity		
Up to 3 months	0	0
Over 3 months and up to 1 year	8	5
Between 1 year and 5 years	-10	-13
Over 5 years	175	144
Total	**173**	**136**

Deferred tax assets not recognised in the balance sheet

2018	Beginning of period DKKm	Recognised in profit/loss for the year DKKm	Additions and disposals DKKm	End of year DKKm
Deferred tax assets not recognised relate to:				
Losses on properties with deductibility restricted to gains from the same source	9	0	2	11
Tax loss abroad	5	0	0	4
Deferred tax assets not recognised, total	13	**0**	**2**	**15**

2017				
Deferred tax assets not recognised relate to:				
Losses on properties with deductibility restricted to gains from the same source	3	0	5	9
Tax loss abroad	4	0	1	5
Deferred tax assets not recognised, total	**7**	**0**	**6**	**13**

3.13 Provisions

§ Accounting policies

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

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

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

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

	2018 DKKm	2017 DKKm
Provision for losses on guarantees	80	41
Provisions for losses in connection with legal proceedings	0	0
Other provisions	4	7
Provisions for unutilised credit lines	76	15
Total provisions	**160**	**63**

Provisions recognised in the income statement

New provisions	109	28
Reversed provisions	44	57
Total provisions recognised in the income statement	**65**	**-28**

Provision for losses on guarantees

Beginning of period	41	67
Amendments IAS 39 to IFRS 9	27	-
New provisions	39	19
Reversed provisions	28	45
End of year	**80**	**41**

Losses on guarantees recognised in the income statement		
New provisions	39	19
Reversed provisions	28	45
Recognised in the income statement	**12**	**-26**

Provisions for losses in connection with legal proceedings

	2018 DKKm	2017 DKKm
Beginning of period	0	1
New provisions	0	0
Reversed provisions	0	1
End of year	**0**	**0**

	2018 DKKm	2017 DKKm
Provisions for losses in connection with legal proceedings recognised in the income statement		
New provisions	0	0
Reversed provisions	0	1
Recognised in the income statement	**0**	**-1**

Other provisions

	2018 DKKm	2017 DKKm
Beginning of period	7	11
New provisions	0	1
Reversed provisions	2	3
Applied to cover liabilities	0	2
End of year	**4**	**7**

	2018 DKKm	2017 DKKm
Other provisions recognised in the income statement		
New provisions	0	1
Reversed provisions	2	3
Recognised in the income statement	**-2**	**-2**

Provisions for unutilised credit lines

	2018 DKKm	2017 DKKm
Beginning of period	15	15
Amendments IAS 39 to IFRS 9	7	-
New provisions	69	8
Reversed provisions	15	8
End of year	**76**	**15**

	2018 DKKm	2017 DKKm
Provisions for unutilised credit lines recognised in the income statement		
New provisions	69	8
Reversed provisions	15	8
Recognised in the income statement	**55**	**0**

See note 5.1 for an explanation and specification of provision for losses on guarantees and unutilised credit lines.

Provisions by term to maturity, per category

2018	Up to 3 months DKKm	3 months up to 1 year DKKm	Over 1 year and up to 5 years DKKm	Over 5 years DKKm	Total DKKm
Provision for losses on guarantees	6	12	44	18	80
Other provisions	0	0	2	3	4
Provisions for unutilised credit lines	76	0	0	0	76
Total provisions	**82**	**12**	**46**	**20**	**160**
2017					
Provision for losses on guarantees	4	3	29	6	41
Other provisions	0	1	2	3	7
Provisions for unutilised credit lines	15	0	0	0	15
Total provisions	**19**	**4**	**31**	**9**	**63**

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

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

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

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

3.14 Off-balance sheet items

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

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

Contingent liabilities are disclosed when an outflow of economic resources from Spar Nord is possible but not probable.

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

3.14.1 Contingent assets

	2018 DKKm	2017 DKKm
Unrecognised deferred tax assets	15	13

For further information, see note 3.12.
Spar Nord is party to pending legal proceedings regarding tax and duties. If Spar Nord is successful in these proceedings, it will have a positive profit impact.

3.14.2 Contingent liabilities

	2018 DKKm	2017 DKKm
Guarantees	12,092	11,961
Other binding commitments	551	501
Total contingent liabilities	**12,643**	**12,462**

Guarantees

	2018 DKKm	2017 DKKm
Financial guarantees	4,184	4,092
Loss guarantees for mortgage loans	5,388	4,983
Registration and refinancing guarantees	1,708	2,011
Other contingent liabilities	812	876
Total guarantees	**12,092**	**11,961**

Financial guarantees largely consist of payment guarantees.

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

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

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

Reference is made to note 2.7 regarding the Executive Board's notice of termination and the associated compensation.

Spar Nord is taxed jointly with its Danish subsidiary in the Spar Nord Group. As management company, Spar Nord has unlimited, joint and several liability together with the subsidiary for the Danish corporate income tax payable. Due to the payment of tax on account, no tax was payable at 31.12.2018 and 31.12.2017. The corporate income tax receivable within the tax pool amounted to DKK 130 million at 31 December 2018 (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.

The Guarantee Fund covers depositors' eligible deposits in the Bank under EUR 100,000 (see section 9(1) of the Danish Act on a Depositor and Investor Guarantee Scheme). The Bank made no contributions to the Guarantee Fund in 2018, as the Guarantee Fund's assets exceed its target level of 0.8% of the covered deposits in the sector. The Bank may be required to pay contributions in future if the Guarantee Fund's assets fall below 0.8% of the covered deposits in the sector.

The Resolution Fund covers the costs associated with the possible winding-up of financial institutions under the auspices of Finansiel Stabilitet (the Winding-Up Company). The Bank's contributions to the Resolution Fund are calculated based on the Bank's pro-rata share of the sector's total equity and liabilities less own funds and the deposits covered by the Guarantee Fund, adjusted by a risk factor. The Bank's contribution to the Resolution Fund for 2018 amounted to DKK 8 million (2017: DKK 8 million).

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

Other binding commitments

	2018 DKKm	2017 DKKm
Data-processing centre	452	386
Lease liabilities, Spar Nord as lessee	98	115
Other binding commitments, total	**551**	**501**

Data-processing centre

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

Spar Nord's membership of Bankernes EDB Central 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 Bankernes EDB Central a.m.b.a. has been recognized under Other assets.

The Spar Nord Group has no other significant binding agreements.

Lease liabilities, Spar Nord 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. The leases are not recognised in the balance sheet.

The minimum lease payments are broken down by lease term below:

	2018 DKKm	2017 DKKm
Up to 1 year	23	23
1-5 years	47	55
Over 5 years	28	37
Total operating lease obligations	**98**	**115**
Lease payments recognised under operating expenses	23	25

Spar Nord has not entered into finance leases as a lessee.

SECTION 4

Capital

Main items

Earnings per share for the year

DKK **7.2**

2017: DKK **7.8**

Dividend per share

DKK **3.5**

2017: DKK **3.5**

Target:
Common equity tier 1 capital ratio

13.0%

2017: **13.0**%

Common equity tier 1 capital ratio

14.0%

2017: **14.4**%

Target:
Own funds ratio

16.5%

2017: **16.5**%

Own funds ratio

18.0%

2017: **18.2**%

Section 4

Capital

4.1 Capital management

§ Spar Nord's objectives of capital management are:

- To comply with the statutory requirements regarding Spar Nord's capital adequacy;
- To ensure that Spar Nord will at all times have adequate capital to support future activities and growth;
- To maintain a relatively high common equity tier 1 (CET1) ratio and thus keep the dependency on subordinated debt at a moderate level.

During the year under review, Spar Nord met all statutory capital adequacy ratios.

Since mid-2017, Spar Nord has pursued the following internal capital targets:

- A common equity tier 1 capital ratio of 13.0%
- An own funds ratio of 16.5%

In connection with Spar Nord's designation in early 2019 as a systemically important financial institution (SIFI), the Bank raised its capital targets as follows:

- A common equity tier 1 capital ratio of 13.5%
- An own funds ratio of 17.5%

Under its dividend policy, Spar Nord aims to distribute 40-50% of the net profit for the year as dividends.

Among other things, the capital targets have been fixed to ensure that the Bank maintains adequate own funds to be able to continue its lending operations during periods of difficult market conditions (such as deep economic recession or unexpectedly heavy credit losses).

During the year under review, Spar Nord's common equity tier 1 (CET1) ratio ranged from 14.0-14.4% (2017: 13.2-14.4%) and thus exceeded Spar Nord's internal target for the period of 13.0% (2017: 13.0%). Correspondingly, the internal target of an own funds ratio of 16.5% (2017: 16.5%) has been met, as it remained within the 17.8-18.9% range during the year (2017: 16.9-18.2%).

Capital management is based on the methods of accounting and financial ratios developed by the Basel Committee, which have been incorporated into Danish legislation. Management currently monitors the Bank's capital adequacy. The figures calculated at the end of each quarter for Spar Nord's own funds, total risk exposure amount and capital adequacy ratios, including the calculation of the Bank's solvency need ratio, are reported to the Danish FSA in accordance with existing rules.

Spar Nord's individual solvency need is an expression of its own assessment as to how high the total capital ratio should be to safeguard depositors against losses. Since the end of 2012, Spar Nord has based the calculation of its individual solvency need on the so-called 8+ approach. This approach is based on the statutory minimum requirement of 8.0% of the total risk exposure amount (Pillar I) plus add-ons for risks and matters not fully reflected in the calculation of total risk exposure amount. Thus, it is assumed that ordinary risks are covered by the 8% requirement, and that it must therefore be determined which additional risks Spar Nord may have that warrant an add-on to the capital requirement (Pillar II); see the guidelines from the Danish FSA in this respect.

Spar Nord's common equity tier 1 capital consists of its share capital, proposed dividends and retained earnings. Additional tier 1 (AT1) capital and tier 2 capital (T2) in the form of subordinated debt are included in the calculation of Spar Nord's own funds. A number of deductions are made in connection with calculating Spar Nord's common equity tier 1 capital, tier 1 capital and own funds. Such deductions consist primarily of proposed dividends, intangible assets and equity investments in other credit institutions as well as tier 2 capital provided to other credit institutions.

The total risk exposure is the calculated risk associated with Spar Nord's business areas. Total risk exposure is calculated as follows: assets, items subject to a market risk, and exposures in the form of guarantees are weighted on the basis of standard weights that depend on the type of the individual items and counterparty, with due provision being made for any collateral provided. To this should be added a supplement to cover Spar Nord's operational risks.

Note 4.2 provides more details about the capital requirement.

The maturity profile for Spar Nord's subordinated debt is shown in note 4.7.

Spar Nord continuously assesses the need for adapting the capital structure, including its goals, policies and processes.

For more details, please refer to the unaudited Risk Report at www.sparnord.com/risk.

4.2. Own funds

	2018 DKKm	2017 DKKm
Equity	9,241	8,975
Phasing in of IFRS 9	206	-
Additional tier 1 (AT1) capital included in equity	861	861
Proposed dividend	431	431
Intangible assets, incl. share recognised in investments in associates	146	188
Other primary deductions	48	41
Deduction for the sum of equity investments < 10%	376	331
Deduction for the sum of equity investments > 10%	35	-
Common equity tier 1 capital	**7,549**	**7,123**
Additional tier 1 (AT1) capital *)	843	843
Other deductions	5	41
Tier 1 capital	**8,387**	**7,924**
Subordinated debt, excl. additional tier 1 (AT1) capital *)	1,314	1,133
Other deductions	10	41
Own funds	**9,691**	**9,016**
Weighted risk exposure amount, credit risk etc.	44,029	40,658
Weighted risk exposure amount, market risk	4,125	3,196
Weighted risk exposure amount, operational risk	5,705	5,692
Total risk exposure amount	**53,858**	**49,546**
Common equity tier 1 capital ratio	14.0	14.4
Tier 1 capital ratio	15.6	16.0
Own funds ratio	18.0	18.2

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

4.3 Equity

§ Accounting policies

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

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

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

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

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

4.4 Shares

	Number of shares		Nominal value (DKKm)	
Issued shares	2018	2017	2018	2017
1 January	123,002,526	125,529,918	1,230	1,255
Share buyback programme	-	2,527,392	-	25
31 December – fully paid	**123,002,526**	**123,002,526**	**1,230**	**1,230**

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

	2018	2017
Number of shares in circulation		
Beginning of period	122,964,478	122,938,583
Acquisition/sale of treasury shares, trading book	483	25,895
End of year	**122,964,961**	**122,964,478**
Shares issued, end of year	123,002,526	123,002,526
Group's portfolio of treasury shares, trading book	37,565	38,048
Outstanding shares in circulation	**122,964,961**	**122,964,478**
Treasury share portfolio		
Number of shares	37,565	38,048
Nominal value, DKKm	0	0
Fair value, DKKm	2	3
Percentage of share capital	**0.0**	**0.0**
Treasury share portfolio, fair value, DKKm		
Portfolio, beginning of year	3	210
Share buyback programme	-	-150
Acquisition of treasury shares	295	454
Sale of treasury shares	294	457
Market value adjustments	-1	-55
Portfolio, end of year	**2**	**3**
Treasury shares deposited as collateral		
Number of shares	1,165,696	1,124,804
Nominal value, DKKm	12	11
Fair value, DKKm	61	81
Percentage of share capital	**0.9**	**0.9**

Treasury shares deposited as collateral comprise collateral provided by customers in the form of Spar Nord shares.

The Bank uses treasury shares for trading with customers.

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

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

4.5 Earnings per share for the year

	2018 DKKm	2017 DKKm
The profit/loss of shareholders of the Parent Company, Spar Nord Bank A/S	872	942
Tax effect of interest on additional tier 1 (AT1) capital (see note 2.10)	11	11
Total	**883**	**953**
Number of shares, beginning of year	123,002,526	125,529,918
Reduction of share capital (Share buyback programme 2016), no.	-	2,527,392
Average number of treasury shares	37,807	50,996
Average number of shares in circulation	**122,964,719**	**122,951,531**
Average dilutive effect of outstanding share options	0	0
Average number of outstanding shares (diluted)	**122,964,719**	**122,951,531**
Earnings per share for the year (DKK)	7.2	7.8
Diluted earnings per share for the year (DKK)	7.2	7.8

The issued share capital is divided into shares with a nominal value of DKK 10. The Bank has only one share class.

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

4.6 Additional tier 1 (AT1) capital

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

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

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

Currency	Note	Principal DKKm	Interest rate	Received	Maturity	2018 DKKm	2017 DKKm
DKK	a	400	6.052%	2015	Perpetual	413	411
DKK	b	450	5.50%	2016	Perpetual	449	450
Additional tier 1 (AT1) capital issued under CRR, total						**861**	**861**

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

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

Additional Tier 1 (AT1) capital, specification of cash flows	2018 DKKm	2017 DKKm
Issue of additional tier 1 (AT1) capital	-	-
Net transaction costs	-	-
Change in portfolio of own bonds	0	-1
Interest paid	-49	-49
Total cash flows for the year	**-49**	**-50**

4.7 Subordinated debt

Accounting policies

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

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

Premature redemption of subordinated debt is subject to the approval of the Danish FSA. Subordinated debt is included in own funds, etc. pursuant to the Danish Financial Business Act.

The issuance of additional tier 1 capital under CRR with a perpetual term and with voluntary payment of interest and repayments of principal is treated as equity for accounting purposes. For additional information, see note 4.6.

Supplementary capital contributions

Currency	Note	Principal DKKm	Interest rate	Received	Maturity	2018 DKKm	2017 DKKm
DKK	a	350	Floating	2018	29.05.2029	348	-
DKK	b	150	2.9298%	2018	29.05.2029	149	-
DKK	c	400	2.5348%	2018	19.06.2028	400	-
SEK	d	600	Floating	2017	18.10.2027	434	452
DKK	e	700	Floating	2013	-	-	699
Supplementary capital contributions, total						**1,332**	**1,151**
Portfolio of own bonds relating to subordinated debt						0	-7
Subordinated debt, total						**1,332**	**1,144**
Interest on subordinated debt						40	50
Costs of raising subordinated debt						1	2

a Redeemable as from 29.05.2024. If the loan is not redeemed, interest will be fixed at CIBOR6 + a 2.40% margin.
b Redeemable as from 29.05.2024. If the loan is not redeemed, interest will be fixed at CIBOR6 + a 2.40% margin.
c Redeemable as from 19.06.2023. If the loan is not redeemed, interest will be fixed at CIBOR3 + a 2.10% margin.
d Redeemable as from 18.10.2022. If the loan is not redeemed, interest will be fixed at STIBOR3 + a 2.50% margin.
e Redeemed at 18.12.2018.

Subordinated debt, specification of cash flows

	2018 DKKm	2017 DKKm
Beginning of period	**1,144**	**1,093**
Movement during the period		
New loans	900	466
Redeemed	-700	-400
Change in exchange rate adjustments	-18	-12
Change in interest rate hedging	0	-4
Change in amortised costs	-1	-1
Change in portfolio of own bonds	7	1
Total cash flows for the year	**188**	**51**
Carrying amount, end of period	**1,332**	**1,144**

Section 5

Risk management

Main items

Credit exposure - loans, advances and guarantees excl. reverse repo transactions

DKK **53,511** million

2017: **DKK 50,849** million

Interest rate risk

DKK **9** million

2017: **DKK 55** million

Credit exposure - financial credit risk

DKK **17,763** million

2017: **DKK 12,505** million

Foreign exchange risk

DKK **1.2** million

2017: DKK 0.8 million

Credit exposure - retail/business

45.1% / **54.9**%

2017: **45.5**% / **54.5**%

Short-term liquidity LCR

174%

2017: **187%**

Total impairment account

DKK **1,945** million

2017: **DKK 1,616** million

(One-off effect IFRS 9: DKK 250 million)
Recognised in equity

Long-term liquidity Strategic liquidity

DKK **21,796** million

2017: **DKK 20,845** million

5 Risk management

Spar Nord is exposed to a number of risks in various categories.

The most important categories of risks are as follows:

- **Credit risk:** The risk of losses because counterparties fail to meet all or part of their payment obligations.
- **Market risk:** The risk of loss because the fair value of Spar Nord's assets and liabilities varies with changes in market conditions.
- **Liquidity risk:** The risk of loss because Spar Nord cannot meet its payment obligations via the ordinary liquidity reserves.
- **Operational risk:** The risk of financial loss owing to deficient or erroneous internal procedures and processes, human or system errors, or losses as a result of external events.

The following notes to the Annual Report contain the quantitative information regarding Spar Nord's credit, market, liquidity and operational risks.

For more details, please refer to the unaudited Risk Report at www.sparnord.com/risk.

5.1 Credit risk

Credit risk note – contents

Section 5
Risk management

Credit risk is the risk of loss as a result of borrowers or other counterparties defaulting on their payment obligations, including the risks attaching to customers in financial difficulty, risks relating to large exposures, concentration risks and risks attaching to granted, unutilised credit lines.

Other than the effect of IFRS 9 implementation as described in note 1.1.3 to the consolidated financial statements, in 2018, Spar Nord made no major changes in assumptions, objectives, policies, exposures and calculation methods, etc. as compared to the year before.

Overview of principal figures in the credit risk note

	2018 DKKm	2017 DKKm
Credit exposure for financial reporting purposes		
Loans and guarantees	58,290	60,324
Loans and guarantees excl. reverse repo transactions	53,511	50,849
Loans and advances excl. reverse repo transactions	41,340	38,847
Lending growth (excl. reverse repo transactions)	6.7%	6.2%
Credit exposure to loans, advances and guarantees excl. reverse repo transactions		
Retail customers	45.1%	45.5%
Business customers	54.9%	54.5%
Agriculture, hunting, forestry and fisheries	5.8%	6.3%
Recognised impairments		
Retail customers	54	78
Business customers excl. agriculture	13	-47
Agriculture	106	-38
Total (positive amounts indicate a negative profit impact)	**173**	**-7**
Impairment ratio, loans, advances and guarantees (impact on operations)	0.3%	-0.1%
Impairments etc. at 31.12.2018		
Stage 1, credit risk has not increased significantly	106	-
Stage 2, credit risk has increased significantly	308	-
Stage 3, credit-impaired	1,531	-
Total	**1,945**	**1,616**
Effect of transition to new impairment rules at 01.01.2018 (IFRS 9), recognised in equity	250	-
Total impairments in % of loans, advances and guarantees (excl. reverse repo transactions)	3.6%	3.2%

5.1.1 Accounting policies, credit policy, management, monitoring and reporting

§ **Accounting policies**

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. On unutilised credit lines and loan commitments and financial guarantee 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).

Under the new expected loss model, on initial recognition, 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 exposure (stage 2). Where it is established that the exposure is credit-impaired (stage 3), a loss allowance will be recognised in an amount equivalent to the lifetime expected credit losses of the exposure, 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 customer groups with total exposures exceeding DKK 250,000, the Bank performs an individual assessment of the expected credit losses and the pertaining probabilities. For customer groups with total exposures 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 customers 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 of the individual exposure in the following situations:

- A 100% increase in the PD for the expected remaining life of the exposure and a 0.5% point increase in the 12-month PD where the 12-month PD was below 1.0% on initial recognition.

- A 100% increase in the PD for the expected remaining life of the exposure or a 2.0% point increase in the 12-month PD where the 12-month PD was 1.0% or higher on initial recognition.

- If the exposure 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.

If the exposure that has been in arrears for more than 30 days ceases to exist or the customers' PD level is subsequently improved to the effect that there is no longer any significant credit risk; see above regarding time of initial recognition, the exposure will be transferred back to stage 1.

The credit quality department oversees changes in the credit quality of customers 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.

Transition to stage 3 (credit impairment)
If one of the customer's exposures are believed to be in default, all exposures of the customer in question will be transferred from stage 1 or 2 to stage 3. A customer's exposure is considered to be in default if:

- The customer's exposures are credit-impaired, and the customer is not considered to be able to settle its credit liabilities as agreed in the most likely scenario.
- The customer's liabilities have been put on hold, or significantly relaxed terms have been granted with respect to interest rate, repayment profile or respite due to the customer's critical financial situation.
- The customer'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.

If none of the customer's exposures are considered to be in default any longer, each exposure will again be considered individually. Subsequently, the increase in credit risk is assessed in order to relevantly categorise exposures in stages 1 and 2.

Prospective information
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.

The calculation of expected losses is based on the most likely scenario (base case), and worst and best case scenarios are also set up applying a more critical and a more positive approach, respectively, to macroeconomic developments in the coming years than in the base case scenario. A calculation is made for each of the three scenarios and subsequently a total weighted calculation of the expected loss based on an assessment of the probability of each scenario. The assessment of the probability for each scenario is approved by the Credit Committee in consultation with the relevant specialists.

Credit losses
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.

Impairment policy
In accordance with its credit policy, Spar Nord secures the potential collateral when entering into exposures.

When an exposure is considered lost, Spar Nord will make an impairment/interim impairment, also if no collateral has been realised.

Spar Nord pursues the following impairment principles:

- For retail customers, impairment will be made before the exposure is transferred to the central debt collection department.
- For business customers, impairment will typically await the commencement or completion of active realisation.
- Non-performing loans where the interest rate has been reduced to zero are normally written off immediately.

Regardless of this, the Bank's debt collection department will still seek to collect the full exposures. In certain customer relationships, an agreement will be made on partial repayment of the exposures, and remaining exposures will be forfeited in connection with bankruptcy proceedings and agreements on debt rescheduling.

Credit policy

Spar Nord's overall credit risk is controlled on the basis of its credit policy, which the Board of Directors determines in conjunction with the general policies and frameworks for risk assumption. The pivotal objective of Spar Nord's credit policy is to ensure that earnings and risks are balanced, and that the assumption of risk is always quantified.

It is Spar Nord's policy that credit must always be granted on the basis of insight into the customer's financial position and that credit quality – the customer's ability and intention to meet current and future obligations – is a key parameter in all customer relations.

Spar Nord aims to develop long-term relationships with customers and does not want to use risk appetite as a competitive parameter.

Spar Nord only wants to conclude transactions that conform to good banking practice and do not jeopardise the Bank's reputation and professional profile.

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

In its endeavours to ensure sound risk diversification of its credit exposure, Spar Nord has introduced a number of internal targets.

In order not to lose its freedom of action towards a customer, the Bank generally aims not to increase its exposure towards a customer to such an extent that the customer would not be creditworthy in other banks. Consequently, Spar Nord has introduced a cap on individual exposures of DKK 500 million, of which the unsecured share of credit exposure may not exceed DKK 250 million in respect of any facility.

Exposures to financial institutions under supervision and repo and reverse repo transactions are not comprised by this restriction.

In determining the amount of exposure, generally accepted credit risk adjustments are made, as appears from the section regarding Large exposures in the CRR Regulation. The statutory limitations apply to trading partners in the financial sector with an external credit rating at investment grade level. For trading partners in the financial sector, an internally-fixed cap of DKK 700 million applies.

Spar Nord has set targets for the industry diversification of loans, advances and guarantees, which means that brackets have been fixed for the desired share of total exposure that major lines of industry may represent.

Targets for industry diversification

%	Maximum share of total exposure*)
Agricultural sector	10
Property sector	15
of which speculative**) property financing	5
Financing and insurance	10
Industry and raw materials development	10
Trade	15
Utilities	8

* Excl. reverse repo transactions
** CRR 575/2013 Article 4(79)

Finally, in its credit policy Spar Nord has stipulated that it wants insight into any commitments that its customers may have towards other financial institutions.

Management, monitoring and reporting

Although Spar Nord's business model is characterised by decentralised decision-making powers, the credit process is managed centrally.

As concerns new customers, the facility authorisation right is generally half of that for existing customers. The powers of authority in the credit area are governed by two factors: The individual local managers' ability and requirements and the wish that a certain share of authorisations from the local banks is dealt with by Credit Rating. Decentralised facility authorisation rights are maximised at DKK 10 million for existing customers.

Customer advisers, in consultation with local managers, handle the day-to-day management of Spar Nord's credit risks. If a credit facility exceeds the local loan approval limits, it will be passed on and dealt with by Credit Rating, the Credit Committee or the Board of Directors. Credit Rating may authorise credit lines up to DKK 50 million for existing customers and DKK 25 million for new customers. The Credit Committee may authorise exposures up to DKK 100 million, and up to DKK 50 million for new facilities. Exposures exceeding DKK 100 million and new exposures exceeding DKK 50 million are subject to approval by the Board of Directors. However, the Credit Committee may authorise credit facility extensions of up to DKK 50 million relative to the most recent authorisation given by the Board of Directors.

Overall monitoring of Spar Nord's credit risk exposure is managed by the Credit Quality Department. The department oversees changes in the credit quality of exposures and undertakes systematic credit quality control of the credit portfolio.

New retail customer exposures in excess of DKK 100,000 and business customer exposures in excess of DKK 300,000 are systematically screened with a view to being selected for a manual credit quality assessment. The selection is made on the basis of a combination of risk parameters, which combined, or separately, indicate an increased level of risk. New customers with weak credit quality are registered on an ongoing basis.

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

Every month a statistically-based rating of both retail and business customers is performed. Rating systems are used at the local level to grant credit facilities. Thus, customers in the rating groups accorded the least risk exposure are more likely to be given higher credit limits or extensions than those with the greatest risk exposure. The systems are also used for managing overdrafts and for pricing purposes to help ensure a correlation between the risk assumed by the customer and the price paid.

Risk classification – rating groups

As a component of Spar Nord's credit processing, all non-defaulting customers are risk-classified according to the probability that the individual customer defaults within the next 12 months. Customers are divided into groups 1 to 9, with group 9 containing customers subject to the highest risk. The probability of default is estimated statistically by means of Spar Nord's rating systems which are based on various models for the different customer segments.

The model applied to business customers employs three components: An accounting component used to risk-classify the customer based on its most recent financial statements. A behavioural component that classifies the customer based on its account behaviour and credit authorisation history. The third component is a cyclical component used to adjust the classification based on cyclical trends.

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

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

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

In addition to the above-mentioned models, Spar Nord applies a qualitative risk classification, in which the Spar Nord adviser flags the credit quality as weak if a customer shows signs of default risk. For retail customers, these signs of default risk may for instance be divorce, unemployment, etc., and for business customers they could be marketing difficulties, the loss of key employees or suppliers, etc.

If a retail customer is flagged as having a weak credit quality but is not in default, the customer will be downgraded by one rating group; it should be noted that a customer flagged as having a weak credit quality does not qualify for rating in the best rating groups (1 and 2).

Business customers are rated based on two categories, customers flagged as having a weak credit quality and customers not flagged, using two different models. However, both models are based on the same components.

For more details, please refer to the unaudited Risk Report at www.sparnord.com/risk.

5.1.2 Credit exposure

Credit risk, loans, advances and guarantees

	2018 DKKm	2017 DKKm
Balance sheet items		
Loans, advances and other receivables at amortised cost	44,330	46,747
Impairment account for loans and other receivables	1,789	1,575
Off-balance sheet items		
Guarantees, etc.	12,092	11,961
Provisions for guarantees	80	41
Total credit exposure for financial reporting purposes, loans, advances and guarantees	**58,290**	**60,324**
Unutilised credit lines and loan commitments	22,251	-
Impairment account for unutilised credit lines and loan commitments	76	-
Total credit exposure for financial reporting purposes, loans, advances and guarantees, incl. unutilised credit lines and loan commitments	**80,618**	**-**

Financial credit risk

	2018 DKKm	2017 DKKm
Bonds at fair value	16,160	10,838
Due from credit institutions and central banks	1,400	1,437
Impairment account for amounts due from credit institutions and central banks	0	0
Positive fair value of derivative instruments, financial enterprises	203	231
Total credit exposure for financial reporting purposes	**17,763**	**12,505**

Credit exposure relating to loans, advances and guarantees, gross, and impairment account by industry

	2018				2017			
	Loans and guarantees		Total impairments and provisions *)		Loans and guarantees		Total impairments and provisions	
Business customers	DKKm	%	DKKm	%	DKKm	%	DKKm	%
Public authorities	43	0.1	0	0.0	9	0.0	0	0.0
Agriculture, hunting, forestry and fisheries	3,094	5.3	597	30.7	3,209	5.3	522	32.3
Industry and raw materials extraction	2,795	4.8	88	4.5	2,679	4.5	65	4.1
Utilities	1,577	2.7	21	1.1	1,642	2.7	17	1.1
Building and construction	2,618	4.5	87	4.5	2,463	4.1	64	4.0
Trade	3,978	6.8	132	6.8	3,682	6.1	51	3.1
Transport, hotels and restaurants	2,156	3.7	106	5.4	1,920	3.2	95	5.9
Information and communication	227	0.4	6	0.3	200	0.3	2	0.1
Financing and insurance	8,042	13.8	119	6.1	12,735	21.1	85	5.3
Real property	6,019	10.3	198	10.2	5,703	9.5	203	12.5
Other industries	3,551	6.1	117	6.0	2,951	4.9	89	5.5
Total business customers	**34,099**	**58.5**	**1,471**	**75.6**	**37,194**	**61.7**	**1,194**	**73.9**
Total retail customers	**24,191**	**41.5**	**474**	**24.4**	**23,130**	**38.3**	**422**	**26.1**
Total loans and guarantees	**58,290**	**100.0**	**1,945**	**100.0**	**60,324**	**100.0**	**1,616**	**100.0**

*) incl. provisions for unutilised credit lines and loan commitments of DKK 76 million.

Spar Nord's impairment balance amounted to DKK 1.9 billion, equal to 3.3% of Spar Nord's total loans, advances and guarantees at end-2018. The impairment balance increased by DKK 0.3 billion relative to end-2017. The increase was primarily attributable to the opening impact from transition to IFRS 9.

Impairment of exposures to customers in the agricultural sector etc. rose by DKK 75 million in 2018, ending at DKK 597 million, equal to 20% of exposures against 17% at the beginning of the year.

Gross credit exposure relating to loans, advances and guarantees, gross, by industry without reverse repo transactions

	2018				2017			
	Loans and guarantees		Total impairments and provisions *)		Loans and guarantees		Total impairments and provisions	
Business customers	**DKKm**	**%**	**DKKm**	**%**	**DKKm**	**%**	**DKKm**	**%**
Public authorities	43	0.1	0	0.0	9	0.0	0	0.0
Agriculture, hunting, forestry and fisheries	3,094	5.8	597	30.7	3,209	6.3	522	32.3
Industry and raw materials extraction	2,795	5.2	88	4.5	2,679	5.3	65	4.1
Utilities	1,470	2.7	21	1.1	1,642	3.2	17	1.1
Building and construction	2,618	4.9	87	4.5	2,463	4.8	64	4.0
Trade	3,978	7.4	132	6.8	3,682	7.2	51	3.1
Transport, hotels and restaurants	2,156	4.0	106	5.4	1,920	3.8	95	5.9
Information and communication	227	0.4	6	0.3	200	0.4	2	0.1
Financing and insurance	3,451	6.4	119	6.1	3,260	6.4	85	5.3
Real property	6,019	11.2	198	10.2	5,703	11.2	203	12.5
Other industries	3,551	6.6	117	6.0	2,951	5.8	89	5.5
Total business customers	**29,401**	**54.9**	**1,471**	**75.6**	**27,719**	**54.5**	**1,194**	**73.9**
Total retail customers	**24,111**	**45.1**	**474**	**24.4**	**23,130**	**45.5**	**422**	**26.1**
Total loans and guarantees	**53,511**	**100.0**	**1,944**	**100.0**	**50,849**	**100.0**	**1,616**	**100.0**

*) incl. provisions for unutilised credit lines and loan commitments of DKK 76 million.

Gross credit exposure relating to loans, advances and guarantees by exposure size

Loans, advances and guarantees by exposure size *)

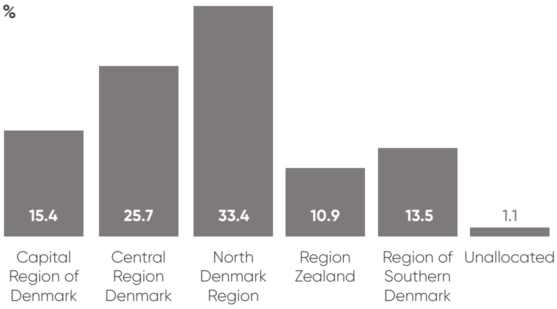
DKKm/%	Number 2018	Number 2017	Share 2018	Share 2017
0 - 0.1	53,178	51,286	1.1	1.2
0.1 - 0.5	35,747	35,594	10.9	11.2
0.5 - 1.0	13,985	13,334	12.6	12.6
1.0 - 5.0	8,304	8,033	24.7	25.0
5.0 - 10.0	931	913	9.4	9.6
10.0 - 20.0	419	414	8.7	8.9
20.0 - 50.0	238	227	11.4	10.8
50.0 - 100.0	86	78	9.1	8.4
100.0 ->	47	48	12.1	12.3
Total	**112,935**	**109,927**	**100.0**	**100.0**

*) Exclusive of reverse repo transactions and SparXpres.

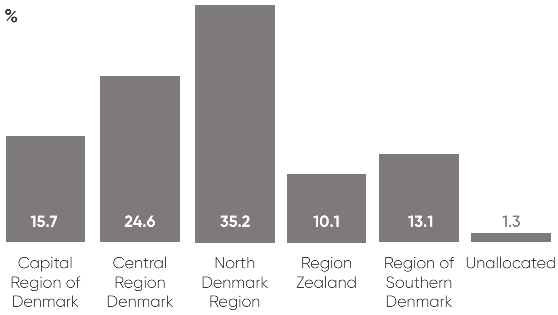
As concerns size of exposures, Spar Nord's credit portfolio is considered to be well-diversified, for one thing because 58.7 % of the total exposure is attributable to exposures below DKK 10 million each, and because Spar Nord only has 47 exposures that exceed DKK 100 million.

Credit exposure to loans, advances and guarantees, gross, excl. reverse repo transactions and SparXpres by geography

Loans, advances and guarantees broken down by region 2018 *)



Loans, advances and guarantees broken down by region 2017 *)



*) Excl. reverse repo transactions and SparXpres

Spar Nord's credit portfolio is considered to have an excellent geographical spread. At end-2018, the North Denmark Region accounted for 33.4% of Spar Nord's total loans, advances and guarantees, while the balance is spread over the other regions in the country.

5.1.3 Spar Nord's exposure by customer portfolios

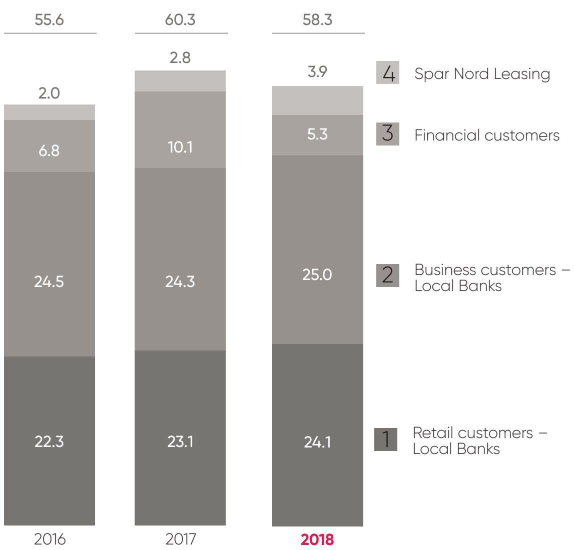
Spar Nord's total loans, advances and guarantees before offsetting impairments were DKK 58.3 billion at end-2018, which is DKK 2 billion lower than in 2017. The decline covers two opposite trends: Reverse repo loans fell by DKK 4.7 billion to DKK 4.8 billion at end-2018. In addition, the Bank's loans and advances rose DKK 2.5 billion to DKK 41.3 billion at end-2018, corresponding to lending growth of 6.4% in 2018. Furthermore, guarantees rose by DKK 0.2 billion to stand at DKK 12.2 billion at 31 December 2018.

Customers are categorised into four groups as part of the ongoing risk monitoring: 1) Retail customers – Local Banks, 2) Business customers – Local Banks, 3) financial customers and 4) Spar Nord Leasing.

The development in these customer groups appears from the figure below.

Exposures by category

(DKKbn)



Retail customers with Spar Nord's Local Banks

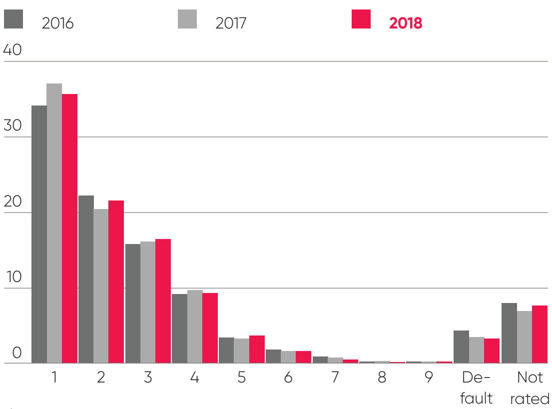
The total credit exposure to business customers at Spar Nord's Local Banks amounted to DKK 24.1 billion at end-2018 compared with DKK 23.1 billion at end-2017. The credit exposure to retail customers amounts to 41.3% of Spar Nord's total credit exposure. As appears from the figure below, the average credit quality of retail customers has developed favourably over the past few years and is currently at a very satisfactory level.

Retail customers' unauthorised overdrafts and past due exposures were at a low level from 2016-2018, showing a declining trend.

In the period from 2016 to 2018, there was a small improvement in retail customer credit quality.

Exposures to retail customers by rating groups *)

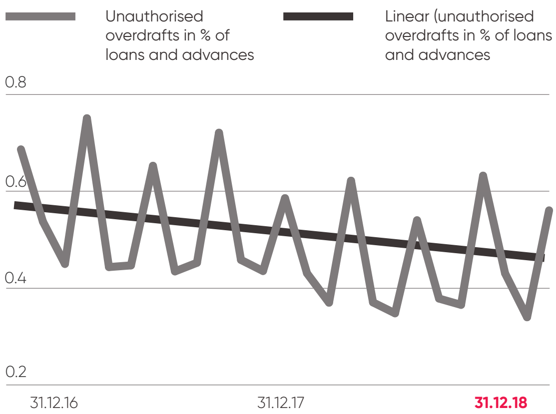
%



*) Excl. SparXpres.

Retail customers - Local Banks - Development in unauthorised overdrafts/arrears

%



Average rating group

	2016	2017	2018
Average rating group	2.7	2.6	2.6

Business customers with Spar Nord's Local Banks

The total credit exposure to business customers at Spar Nord's Local Banks amounted to DKK 25.0 billion at end-2018 compared with DKK 24.3 billion at end-2017. The DKK 0.7 billion improvement is attributable to a DKK 0.6 billion increase in lending and a DKK 0.1 billion increase in guarantees.

The credit exposure to business customers amounted to 42.9% of Spar Nord's total credit exposure.

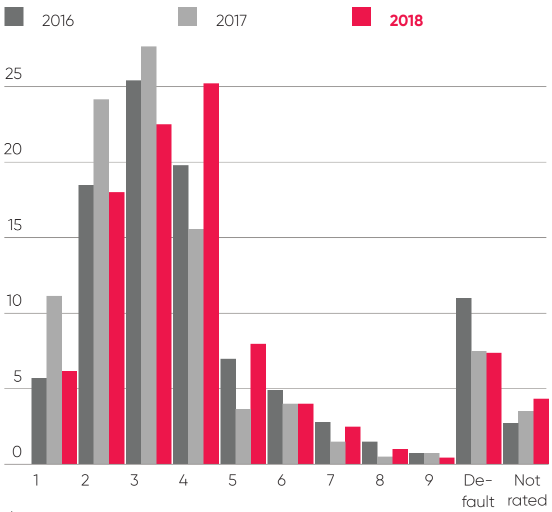
Spar Nord's credit models for business customers have shown relatively large risk level fluctuations over the past two years, particularly because the cyclical model has had a substantial impact on the rating. More specifically, the cyclical model's sub-component for consumption expectations, which in 2017 showed a clearly positive trend which thus had a positive effect on the rating, whereas in 2018 the trend was negative, causing a more negative rating.

The underlying behaviour scoring and accounting rating show a stable development for the period.

Business customers' unauthorised overdrafts and past due exposures remained at a stable, low level of 0.4% in the period from 2016 to 2018.

Exposures to business customers by rating groups *)

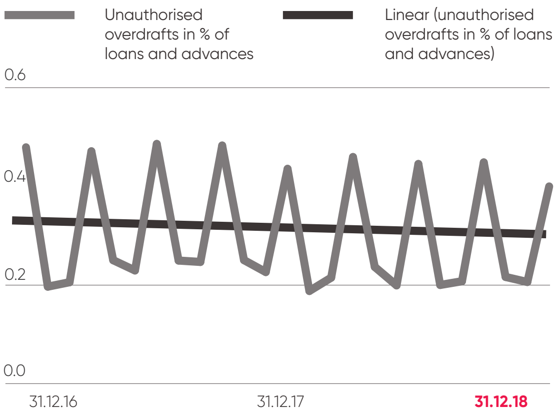
%



*) Excl. public-sector customers

Non-agricultural business customers - Local Banks - Development in unauthorised overdrafts/arrears

%



Average rating group *)

	2016	2017	2018
Average rating group	4.1	3.4	3.8

*) Exposure after impairments excl. public-sector customers.

Leasing, by industry

	Loans and advances		Impairment account	
%	2018	2017	2018	2017
Public authorities	0.0	0.0	0	0
Agriculture, hunting and forestry	13.1	16.0	15.9	20.5
Fisheries	0.0	0.0	0.0	0.0
Industry and raw materials extraction	14.3	15.1	21.0	26.3
Utilities	9.3	6.5	7.0	2.4
Building and construction	13.4	13.2	11.0	8.0
Trade	9.6	7.3	7.5	2.0
Transport, hotels and restaurants	22.7	20.6	20.8	18.2
Information and communication	0.3	0.7	0.3	0.3
Financing and insurance	1.2	1.1	0.8	0.1
Real property	2.3	2.6	1.8	1.0
Other industries	13.3	16.7	13.5	20.0
Total business customers	**99.7**	**99.8**	**99.5**	**98.8**
Total retail customers	**0.3**	**0.2**	**0.5**	**1.2**
Total	**100.0**	**100.0**	**100.0**	**100.0**

Leasing activities

Spar Nord's total credit exposure in the leasing area amounted to DKK 3.9 billion at end-2018, which is DKK 1.1 billion, or 39.3%, more than at end-2017. Credit exposure in the leasing area equals 6.7% of Spar Nord's total loans, advances and guarantees.

Developments in the volume of repossessed leasing equipment, remains at a very low level below 0.2% of leasing loans.

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

Repossessed equipment

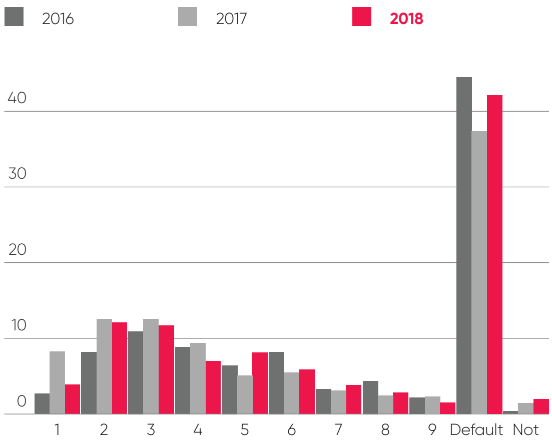
DKKm	2018	2017
Repossessed equipment, total	7	2

Agriculture

Loans, advances and guarantees to agricultural customers amounted to DKK 3.0 billion, equal to 5.1%. Of this amount, leasing loans account for DKK 0.5 billion and guarantees for DKK 0.2 billion.

Agricultural exposures by rating group *)

%



*) Excl. leasing

Average rating group – agriculture *)

	2016	2017	2018
Average rating group	6.3	5.6	5.9

*) Exposures after impairments

As appears from the figures, the average credit quality of agricultural customers deteriorated in 2018. The downward trend was ascribable to an increase in the "Default" exposure category.

The impact on profits from impairment of agricultural loans amounted to a loss of DKK 106 million in 2018 compared with an income of DKK 38 million in 2017.

In the agricultural segment, both dairy farmers and especially pig farmers were hit by unfavourable conditions in 2018. Both production lines were challenged by the severe drought that high Denmark and most of Europe in the early summer period, and which made it difficult for these customers to obtain satisfactory ratio of milk and pork prices to feed prices.

The pig farmers were particularly hard hit in 2018 because settlement prices of pork were at an unusually low level, among other things because of a large supply in the global market and unfavourable exchange rate developments for the Danish producers. Also, there was an individual impairment on a major plant cultivation exposure.

Spar Nord's total impairment of agricultural loans amounted to DKK 596 million at end-2018, equal to 20.1% of Spar Nord's total loans, advances and guarantees to the industry. At 31 December 2017, the corresponding figures were DKK 522 billion and 16.9%.

The figures show Spar Nord's agricultural loans and impairment related to agricultural exposures, broken down by production lines.

Agricultural impairment by production line

2018 DKKm/%	Impairment account	Written off	Impairment for the year	Impairment ratio of exposure	Percentage impaired
Cattle farmers	249	60	-5	34.3	53.8
Pig farmers	192	6	32	32.7	64.8
Plant cultivation	104	3	59	14.9	45.6
Mink farmers	25	6	14	22.1	53.9
Leasing	13	0	4	2.5	49.4
Miscellaneous	14	2	2	4.2	77.5
Total	**596**	**77**	**106**	**20.1**	**55.4**

2017 DKKm/%	Impairment account	Written off	Impairment for the year	Impairment ration of exposure	Percentage impaired
Cattle farmers	326	88	-26	37.2	62.0
Pig farmers	144	88	-23	24.4	54.9
Plant cultivation	27	30	9	3.7	47.6
Mink farmers	14	2	1	13.9	36.0
Leasing	4	1	2	0.9	17.9
Miscellaneous	5	9	-1	1.6	69.2
Total	**522**	**218**	**-38**	**16.9**	**56.8**

Agricultural exposures by production line

2018 DKKm/%	Loans and guarantees	Non-performing loans	Of which impaired	Share impaired
Cattle farmers	725	17	462	63.7
Pig farmers	586	38	296	50.5
Plant cultivation	697	76	229	32.8
Mink farmers	111	0	46	41.1
Leasing	515	0	26	5.1
Miscellaneous	334	1	18	5.4
Total	**2,969**	**132**	**1,077**	**36.3**

2017 DKKm/%	Loans and guarantees	Non-performing loans	Of which impaired	Share impaired
Cattle farmers	875	45	526	60.1
Pig farmers	595	7	264	44.3
Plant cultivation	738	4	57	7.7
Mink farmers	106	0	41	38.6
Leasing	452	0	24	5.2
Miscellaneous	330	3	8	2.4
Total	**3,096**	**59**	**919**	**29.7**

Spar Nord's total exposure to dairy and pig farmers was reduced by DKK 0.2 billion in 2018, equal to a reduction of 10.2%.

Spar Nord pursues the principle that if agricultural customers fail to deliver positive returns at the breakeven prices fixed by Spar Nord of DKK 9.50/kg (without supplementary payment) for pork, and DKK 2.20/kg for milk (without supplementary payment), this is defined as OEI. Breakeven prices are calculated based on financing at a 4% average interest rate for all the interest-bearing debt, regardless of the concrete financing chosen. If realistic budgets cannot be drawn up on these conditions, the exposure will be subjected to an impairment calculation.

Spar Nord expects more favourable conditions for Danish pig farmers in 2019 on account of rising settlement prices compared with 2018. Dairy farmers are also expected to have more favourable conditions than in 2018 based on expectations of more or less unchanged settlement prices combined with a year without a drought.

Spar Nord's calculation of collateral values of agricultural properties is in accordance with the Danish Financial Supervisory Authority's most recent guidelines, which means that the land values in Spar Nord's market area range between DKK 125,000 and DKK 160,000 per hectare.

Farm buildings are assessed in relation to their age, condition, etc. Farm buildings are measured at their fair value, which means that obsolete buildings are measured at DKK 0.

Other agricultural assets such as livestock, stocks, equipment, etc. are recognised at 80% of their carrying amount.

A 5% haircut is applied to all of the above-mentioned values.

5.1.4 Collateral

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

For a description of collateral with reverse repo transactions, see note 6.2 and for collateral provided through clearing systems with central banks and other infrastructure institutions see note 6.3.

The credit quality of the individual exposure categories broken down by Spar Nord's internal credit rating is shown in notes 5.1.8 and 5.1.10.

Collateral accepted and type

Spar Nord wants to reduce the risk attaching to individual exposures by accepting collateral such as mortgages and charges over physical assets, securities and guarantees, etc. whenever possible. Mortgages on real property are by far the most important collateral type provided to Spar Nord. Mortgages on real property consist mainly of mortgages on private housing.

In the event that Spar Nord calls up collateral that cannot easily be converted to cash, Spar Nord pursues the policy of attempting to dispose of such assets as soon as possible.

In 2018, the Group repossessed equipment and took over properties worth DKK 7 million (2017: DKK 5 million).

The leased assets are valued and depreciated on an ongoing basis. Thus, in periods of declining prices for leased assets, the collateral calculated for the Bank's leasing activities is reduced.

The property value under mortgages broken down by property type is calculated at DKK 25.8 billion, while only DKK 15.7 billion is recorded as security on properties in the table above. This is because the former amount represents the amount mortgaged to Spar Nord and is recorded as collateral accepted, while the latter amount is the share actually used for calculating collateral regarding a specific exposure. Some exposures are smaller than the collateral value, and collateral has also been provided by customers who do not currently have any facilities.

Collateral accepted	**2018 DKKm**	**2017 DKKm**
Credit exposure on loan, advances and guarantees for financial reporting purposes	58,290	60,324
Value of collateral	35,661	39,243
Unsecured, total	**22,629**	**21,082**
Types of collateral		
Real property	15,701	14,970
Custody accounts/securities	6,118	10,823
Guarantees/sureties	449	494
Vehicles	658	656
Cash	389	441
Other collateral	4,380	4,449
Collateral used, total	**27,695**	**31,833**
Specially secured transactions (mortgage credit institution guarantees)	4,790	5,077
Total collateral accepted, excl. leasing activities	**32,485**	**36,910**
Collateral accepted, leasing activities	3,177	2,333
Total	**35,661**	**39,243**

Collateral accepted and type for stage 3

Collateral accepted	2018 DKKm	2017 DKKm
Carrying amount of loans, advances and guarantees	2,155	-
Value of collateral	1,895	-
Unsecured, total	**260**	**-**
Types of collateral		
Real property	956	-
Custody accounts/securities	8	-
Guarantees/sureties	90	-
Vehicles	14	-
Cash	20	-
Other collateral	472	-
Collateral used, total	**1,560**	-
Specially secured transactions (mortgage credit institution guarantees)	213	-
Total collateral accepted, excl. leasing activities	**1,773**	-
Collateral accepted, leasing activities	122	-
Total	**1,895**	-

Mortgage on real property

Geographical breakdown of mortgages

%	2018 Share in %	2017 Share in %
The Capital Region	15.9	15.8
Central Jutland Region	22.4	20.2
Northern Jutland region	36.4	38.3
Zealand region	11.4	11.3
Southern Denmark region	12.6	12.8
Unallocated	1.3	1.6
Total	**100.0**	**100.0**

Spar Nord monitors the value of collateral provided on an on-going basis. If the risk exposure to a counterparty increases, the collateral is subjected to a particularly critical review. The value is assessed based on the expected price to be fetched in a compulsory sale of the collateral, less any expenses arising from its realisation.

Mortgages broken down by property type

%	2018 DKKm	2018 %	2017 DKKm	2017 %
Private housing	14,741	57.2	14,014	56.8
Holiday homes	1,000	3.9	980	4.0
Offices and businesses	3,890	15.4	3,618	14.7
Agriculture	2,130	8.3	2,353	9.5
Other	4,003	15.3	3,710	15.0
Total	**25,763**	**100.0**	**24,675**	**100.0**

Spar Nord's evaluation of mortgages on rental properties is based on the capacity of the properties to generate a return. Various requirements are made with regard to the rate of return, depending on the use of the property, the condition of the buildings and the physical location in Denmark. Residential rental property is valued on the basis of a required rate of return in the 4.25% to 10.0% range (2017: 4.25% to 10.0% range).

Unsecured shares

The table below show that the total unsecured share at end-2018 was 38.8%. Net of reverse repo transactions, the total unsecured share at end-2018 amounted to 42.3%. At end-2017, the unsecured share without reverse repo transactions was 41.5%.

Unsecured share of exposure

%	2018	2017
<10	42.1	47.8
10-50	21.0	18.9
50-75	9.2	8.8
>75	27.8	24.4
Average unsecured share	**38.8**	**34.9**

The group's unsecured share of credit exposure

	2018		2017	
	DKKm	%	DKKm	%
Industry				
Public authorities	43	99.8	9	98.8
Agriculture, hunting and forestry	884	29.8	873	28.2
Fisheries	44	35.2	32	28.8
Industry and raw materials extraction	912	32.6	819	30.6
Utilities	614	38.9	499	30.4
Construction and engineering	828	31.6	647	26.3
Trade	1,547	38.9	1,586	43.0
Transport, hotels and restaurants	596	27.7	431	22.4
Information and communication	110	48.7	94	46.8
Financing and insurance	2,152	26.8	2,214	17.4
Real property	2,471	41.1	2,390	41.9
Other business customers	1,654	46.6	1,338	45.3
Total business customers	**11,857**	**34.8**	**10,932**	**29.4**
Total retail customers	**10,772**	**44.5**	**10,150**	**43.9**
Total	**22,629**	**38.8**	**21,082**	**34.9**

5.1.5 Forbearance

A loan facility is defined as being subject to forbearance if the conditions regarding interest payments and/or repayments have been relaxed on account of the borrower's financial difficulty or if the loan has been refinanced on more lenient terms.

At Spar Nord, forbearance is considered objective evidence of impairment (OEI), and the terms are deemed to have been relaxed if business customers with OEI are granted an interest rate of less than 3%. For retail customers, the terms are considered to have been relaxed if they are granted an interest rate of less than 3.5%. Moreover, repayment terms for retail customers that lead to terms to maturity exceeding 20 years are considered relaxed terms. The terms of a home loan will typically have been fixed prior to any OEI and will therefore not be included for the purpose of identifying facilities with relaxed terms, regardless of whether the above criteria have been met.

Non-performing loans (NPL) are defined as the category of exposures that are in default (in terms of the Basel criteria) and/or impaired, i.e. exposures towards customers whose balances have been written off, written down or are past due by 90 days.

At end-2018, the impairment account amounted to DKK 1,945 million, equal to 3.3% of loans, advances and guarantees, compared with 2.7% at end-2017.

Loans and advances subject to forbearance

2018 DKKm	Business customers	Agriculture	Retail customers	Total
Non-performing	531	407	237	1,175
Performing	17	1	14	33
Total	**549**	**409**	**251**	**1,208**

2017 DKKm	Business customers	Agriculture	Retail customers	Total
Non-performing	459	398	204	1,061
Performing	28	4	10	43
Total	**487**	**402**	**214**	**1,103**

Claims due, but not impaired

	2018		2017	
DKKm	Unauthorised overdrafts	Collateral	Unauthorised overdrafts	Collateral
0-30 days	207	129	197	167
31-60 days	11	2	7	7
61-90 days	4	0	2	2
> 90 days	6	3	4	3
Total	**227**	**135**	**210**	**179**

Collateral amounts are calculated on the basis of the Bank's collateral registration system. The collateral registration is based on a prudent valuation of all pledged/mortgaged assets.

5.1.6 Impairments – Transition from IAS 39 to IFRS 9

Impairments – transition from IAS 39 to IFRS 9 by exposure category	Individual impairments 31.12.2017 DKKm	Collective impairments 31.12.2017 DKKm	Total 31.12.2017 DKKm	Change IAS 39 to IFRS 9 01.01.2018 DKKm	Total 01.01.2018 DKKm
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**
Unutilised credit lines and loan commitments	15	0	**15**	7	**21**
Total	**1,379**	**251**	**1,631**	**250**	**1,881**

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.

Impairments at 01.01.2018 under IFRS 9 by stages	Stage 1 01.01.2018 DKKm	Stage 2 01.01.2018 DKKm	Stage 3 01.01.2018 DKKm	Total 01.01.2018 DKKm
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**
Unutilised credit lines and loan commitments	4	5	12	**21**
Total	**96**	**291**	**1,494**	**1,881**

Exposures before impairments etc. 01.01.2018 under IFRS 9 by stages	Stage 1 01.01.2018 DKKm	Stage 2 01.01.2018 DKKm	Stage 3 01.01.2018 DKKm	Total 01.01.2018 DKKm
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**
Unutilised credit lines and loan commitments	19,472	1,159	171	**20,802**
Total	**67,479**	**11,590**	**3,510**	**82,579**

5.1.7 Exposures and impairments etc. 31.12.2018

For a description of principles for loan impairments, see note 5.1.1.

Spar Nord's impairment account broken down by industry is shown in section 5.1.2.

Summary, carrying amount of exposures	Exposure before impairments 2018 DKKm	Im-pairments 2018 DKKm	Carrying amount 2018 DKKm	Recognised impairments etc. Total DKKm
Loans and advances at amortised cost (note 5.1.8)	46,118	1,789	**44,330**	107
Due from credit institutions and central banks (note 5.1.9)	1,400	0	**1,400**	0
Guarantees (note 5.1.10)	12,172	80	**12,092**	12
Unutilised credit lines and loan commitments (note 5.1.8)	22,327	76	**22,251**	55
Total	**82,018**	**1,945**	**80,073**	**173**

Recognised impairments etc. are specified in notes 5.1.7, 5.1.8, 5.1.9 and 5.1.10.

Profit impact from losses and impairment of loans, advances and guarantees – by industry

DKKm	2018	2017
Public authorities	0	0
Agriculture, hunting and forestry	106	-38
Fisheries	0	-2
Industry and raw materials extraction	-14	32
Utilities	-10	-1
Building and construction	2	15
Trade	62	-5
Transport, hotels and restaurants	-7	46
Information and communication	2	0
Financing and insurance	14	-87
Real property	-52	-53
Other business customers	17	9
Total business customers	**119**	**-85**
Total retail customers	**54**	**78**
Total	**173**	**-7**

The impact on Spar Nord's profits from impairment amounted to an expense of DKK 173 million in 2018, equal to 0.3% of total loans, advances and guarantees.

The impact on operations was strongly affected by the challenges facing the agricultural sector. The total impact on operations of DKK 173 million in 2018 should thus be compared with an impact on agriculture alone of DKK 106 million in a year in which particularly pig farmers were severely challenged by low settlement prices. Also, there was an individual impairment on a major plant cultivation exposure.

For the Group's other business customers, there was an impact of DKK 13 million, which includes a loss of DKK 45 million related to fraud at one of the bank's business customers, which was identified in January 2019. Retail customers had an impact on operations of DKK 54 million, of which SparXpres accounted for DKK 46 million.

Exposures for which interest accrual has been suspended rose from DKK 341 million at end-2017 to DKK 476 million at end-2018.

Exposures before impairments and provisions by stages

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm
Loans and advances at amortised cost	30,773	12,100	3,245	**46,118**
Due from credit institutions and central banks	1,400	0	0	**1,400**
Guarantees	11,028	772	373	**12,172**
Unutilised credit lines and loan commitments	19,970	2,180	178	**22,327**
Total	**63,170**	**15,052**	**3,796**	**82,018**

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".

Exposures before impairments and provisions by industry

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	Recognised impairments etc. total DKKm
Public authorities	607	0	0	**607**	0
Agriculture, hunting and forestry	1,289	1,347	1,117	**3,753**	106
Fisheries	108	43	0	**151**	0
Industry and raw materials extraction	2,156	1,510	259	**3,925**	-14
Utilities	1,429	522	22	**1,973**	-10
Construction and engineering	2,704	1,122	197	**4,023**	2
Trade	4,172	1,886	208	**6,266**	62
Transport, hotels and restaurants	1,199	1,302	268	**2,769**	-7
Information and communication	263	79	10	**352**	2
Financing and insurance	8,817	722	228	**9,767**	14
Real property	6,004	1,342	462	**7,808**	-52
Other business customers	3,435	1,630	150	**5,216**	17
Total business	**32,184**	**11,506**	**2,920**	**46,610**	**119**
Total retail customers	**29,586**	**3,545**	**876**	**34,007**	**54**
Total	**61,770**	**15,052**	**3,796**	**80,618**	**173**
Total due from credit institutions	**1,400**	**0**	**0**	**1,400**	**0**
Total	**63,170**	**15,052**	**3,796**	**82,018**	**173**

Impairments and provisions by stages

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm
Loans and advances at amortised cost	89	298	1,402	**1,789**
Due from credit institutions and central banks	0	0	0	**0**
Guarantees	14	6	60	**80**
Unutilised credit lines and loan commitments	4	4	69	**76**
Total	**106**	**308**	**1,531**	**1,945**

Individually impaired loans at amortised cost and guarantees

	2018 DKKm	2017 DKKm
Loans, advances and receivables		
Sum total of loans, advances and receivables for which individual impairment has been recognised	3,086	2,912
Individual impairment of loans and advances, receivables	1,373	1,323
Carrying amount	**1,713**	**1,588**
Guarantees		
Sum total of guarantees for which individual provisions have been made	338	218
Individual provisions for guarantees	59	41
Carrying amount	**280**	**177**
Model-calculated loans, advances and receivables		
Sum total of loans, advances and guarantees for which model-calculated impairment has been recognised	194	-
Model-based impairments and provisions	31	-
Carrying amount	**163**	**-**

Individually impaired loans at amortised cost and guarantees, by cause of impairment

	2018 Credit exposure before impairment *) DKKm	2018 Impairment *) DKKm	2017 Credit exposure before impairment DKKm	2017 Impairment DKKm
Insolvent liquidation and bankruptcy	66	48	38	32
Collection or suspension of payments	179	85	100	44
Other financial difficulty	3,179	1,367	2,991	1,288
Individual impairment of loans and advances, receivables and guarantees, total	**3,424**	**1,500**	**3,130**	**1,365**

*) Individually impaired loans at amortised cost and guarantees in Stage 3.

Individual impairments at 31.12.2018 of DKK 1,500 million includes DKK 69 million in provisions for losses on unutilised credit lines and loan commitments.

In 2018, Spar Nord recorded an increase in credit exposure to customers with individual impairment of DKK 294 million.

At end-2018, the credit-impaired claims represented 5.9% of total credit exposure compared with 5.2% in 2017.

The total impairment account rose by DKK 329 million in 2018, covering an increase of DKK 250 million from the transition to IFRS 9, while the remaining DKK 79 million was due to changes during the year.

Virtually all cases of insolvent liquidation and bankruptcy are attributable to business facilities.

The collateral for individually credit-impaired loans and for overdue loans that have not been individually impaired does not differ significantly from the Bank's other collateral.

Contractually outstanding amounts for financial assets written off during the accounting period and for which collection efforts are still pursued

In the financial year 2018, DKK 213 was written off, of which DKK 179 million is still the object of collection efforts.

5.1.8 Loans at amortised cost and unutilised credit lines and loan commitments

	2018 DKKm	2017 DKKm
Loans and advances at amortised cost before impairments	46,118	-
Unutilised credit lines and loan commitments before impairments	22,327	-
Impairments and provisions on unutilised credit lines	1,865	-
Total	**66,581**	**-**

Loans at amortised cost before impairments, by rating group

The table below shows the credit quality and exposures before impairments based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating groups and impairment model is provided in note 5.1.1.

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	2017 DKKm
Rating category 1	5,816	23	0	**5,839**	-
Rating category 2	6,826	151	1	**6,978**	-
Rating category 3	5,517	1,834	1	**7,352**	-
Rating category 4	4,170	2,522	2	**6,694**	-
Rating category 5	1,357	1,204	0	**2,560**	-
Rating category 6	360	847	1	**1,208**	-
Rating category 7	73	659	0	**731**	-
Rating category 8	75	230	2	**307**	-
Rating category 9	2	165	11	**179**	-
Default	2	86	2,934	**3,022**	-
Unrated	1,796	33	0	**1,830**	-
Reverse repo transactions	4,779	0	0	**4,779**	
SparXpres	0	558	142	**700**	-
Leasing	0	3,788	150	**3,938**	-
Total	**30,773**	**12,100**	**3,245**	**46,118**	**-**

Loans and advances at amortised cost before impairments, by stages

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	2017 DKKm
Gross exposure 01.01.2018	35,592	9,667	3,078	**48,337**	-
New exposures and extension of existing exposures in the year	14,809	4,299	465	**19,573**	-
Repayments and reduction of existing exposures	-18,173	-2,734	-672	**-21,579**	-
Change in gross exposure, transfer to/from stage 1	-3,204	2,901	303	**-**	-
Change in gross exposure, transfer to/from stage 2	1,636	-2,147	511	**-**	-
Change in gross exposure, transfer to/from stage 3	142	122	-263	**-**	-
Gross exposure expensed	-28	-8	-177	**-213**	-
Gross exposure 31.12.2018	**30,773**	**12,100**	**3,245**	**46,118**	**-**

The figures concerning new exposures and extension and repayment and reduction include administrative movements in which the balance is moved between two accounts for the same customer.

Unutilised credit lines and loan commitments before impairments and provisions, by rating group

The rating breakdown of Spar Nord's unutilised credit lines and loan commitments before impairments and provisions generally follow the rating breakdown for loans at amortised cost before impairments shown above.

Unutilised credit lines and loan commitments before impairments and provisions, by stages

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	2017 DKKm
Gross exposure 01.01.2018	19,472	1,159	171	**20,802**	-
New exposures and extension of existing exposures in the year	2,584	169	9	**2,763**	-
Repayments and reduction of existing exposures	-1,255	45	-28	**-1,237**	-
Change in gross exposure, transfer to/from stage 1	-1,305	1,275	30	**-**	-
Change in gross exposure, transfer to/from stage 2	439	-477	37	**-**	-
Change in gross exposure, transfer to/from stage 3	34	7	-41	**-**	-
Gross exposure 31.12.2018	**19,970**	**2,180**	**178**	**22,327**	**-**

The figures concerning new exposures and extension and repayment and reduction include administrative movements in which the balance is moved between two accounts for the same customer.

Impairments and provisions for losses

Analysis of changes in impairments for the year broken down by stages and correlated to recognised impairments, etc. Summary of combined recognised impairments, etc. is provided in note 5.1.7.	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	Recognised impairments etc. DKKm
Impairments at 01.01.2018 under IFRS 9, loans at amortised cost	79	279	1,433	**1,791**	-
Provisions at 01.01.2018 under IFRS 9, unutilised credit lines and loan commitment	4	5	12	**21**	-
Impairments re. new exposures during the year, including new accounts to existing customers	28	37	92	**157**	157
Reversed impairments re. repaid accounts	-10	-29	-82	**-121**	-121
Change in impairments at 1 January, transfer to/from stage 1	139	-63	-76	**-**	-
Change in impairments at 1 January, transfer to/from stage 2	-16	45	-28	**-**	-
Change in impairments at 1 January, transfer to/from stage 3	-9	-37	46	**-**	-
Impairments during the year due to change in credit risk	-122	65	181	**124**	124
Previously impaired, now finally lost	0	0	-139	**-139**	-
Other movements (interest rate correction etc.)	0	0	33	**33**	-
Loss without prior impairment	-	-	-	**-**	80
Amounts recovered on previously impaired receivables	-	-	-	**-**	-77
Impairments at 31.12.2018	**92**	**302**	**1,470**	**1,865**	**162**
Impairments at 31.12.2018 under IFRS 9, loans at amortised cost	89	298	1,402	**1,789**	107
Provisions at 31.12.2018 under IFRS 9, unutilised credit lines and loan commitment	4	4	69	**76**	55
Impairments at 31.12.2018	**92**	**302**	**1,470**	**1,865**	**162**

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 impairments re. new exposures and reversed impairments re. repaid accounts include administrative movements in which the balance is moved between two accounts for the same customer.

Loss without prior impairment expresses Spar Nord's recognised loans for which the loss is greater than impairments at the beginning of the year.

5.1.9 Due from credit institutions and central banks

	2018 DKKm	2017 DKKm
Due from credit institutions and central banks before impairments	1,400	-
Impairment	0	-
Carrying amount	**1,400**	**-**

Due from credit institutions and central banks before impairments

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	2017 DKKm
Credit institutions	1,400	0	0	**1,400**	-
Central banks	0	0	0	**0**	-
Total	**1,400**	**0**	**0**	**1,400**	**-**

A breakdown by product type and rating category is shown in note 5.1.12.

Due from credit institutions and central banks before impairments, by stages

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	2017 DKKm
Gross exposure 01.01.2018	1,437	0	0	**1,437**	-
New exposures and extension of existing exposures in the year	981	0	0	**981**	-
Repayments and reduction of existing exposures	-1,018	0	0	**-1,018**	-
Change in gross exposure, transfer to/from stage 1	0	0	0	**-**	-
Change in gross exposure, transfer to/from stage 2	0	0	0	**-**	-
Change in gross exposure, transfer to/from stage 3	0	0	0	**-**	-
Gross exposure 31.12.2018	**1,400**	**0**	**0**	**1,400**	**-**

The figures concerning new exposures and extension and repayment and reduction include administrative movements in which the balance is moved between two accounts for the same customer.

Impairment

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 5.1.7.	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	Recognised impairments etc. DKKm
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	1	0	0	**1**	1
Reversed impairments re. repaid accounts	-1	0	0	**-1**	-1
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	-1	0	0	**-1**	-1
Impairments at 31.12.2018	**0**	**0**	**0**	**0**	**0**

5.1.10 Guarantees

	2018 DKKm	2017 DKKm
Guarantees before provisions for losses	12,172	-
Provisions for losses	80	-
Carrying amount	**12,092**	**-**

Guarantees before provisions, by rating category

The table below shows the credit quality and exposures before impairments based on Spar Nord's internal rating system divided into stages. A description of Spar Nord's internal rating groups and impairment model is provided in note 5.1.1.	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	2017 DKKm
Rating category 1	4,198	2	0	**4,200**	-
Rating category 2	2,334	43	4	**2,382**	-
Rating category 3	1,643	157	2	**1,802**	-
Rating category 4	962	294	0	**1,256**	-
Rating category 5	158	125	0	**283**	-
Rating category 6	105	94	0	**199**	-
Rating category 7	28	28	0	**56**	-
Rating category 8	4	6	0	**10**	-
Rating category 9	2	10	1	**13**	-
Default	0	6	366	**372**	-
Unrated	1,592	7	0	**1,600**	-
Total	**11,028**	**772**	**373**	**12,172**	**-**

Guarantees, by stages

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	2017 DKKm
Gross exposure 01.01.2018	10,978	763	261	**12,002**	-
New exposures during the year	5,828	355	121	**6,304**	-
Reversed re. repaid exposures	-5,590	-457	-88	**-6,135**	-
Change in gross exposure, transfer to/from stage 1	-359	287	73	**-**	-
Change in gross exposure, transfer to/from stage 2	157	-182	26	**-**	-
Change in gross exposure, transfer to/from stage 3	15	6	-21	**-**	-
Gross exposure 31.12.2018	**11,028**	**772**	**373**	**12,172**	**-**

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 5.1.7.

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	Recognised impairments etc. DKKm
Provisions for losses at 1 January 2018 under IFRS 9	13	7	48	**68**	-
Provisions for losses re. new exposures during the year	15	2	50	**66**	66
Reversed provisions for losses re. repaid exposures	-7	-7	-13	**-27**	-27
Change in provisions for losses at 1 January, transfer to/from stage 1	4	-3	-1	**-**	-
Change in provisions for losses at 1 January, transfer to/from stage 2	-1	1	0	**-**	-
Change in provisions for losses at 1 January, transfer to/from stage 3	-1	0	2	**-**	-
Provisions for losses during the year due to change in credit risk	-8	5	-25	**-28**	-28
Provisions for losses at 31.12.2018	**14**	**6**	**60**	**80**	**12**

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.

§ 5.1.11 Impairment account 31.12.2017 (IAS 39)

Accounting policies according to IAS 39
This item comprises loans, advances and receivables, including mortgage deeds, finance leases (see separate section below) and reverse repo transactions where the counterparty is not a credit institution or a central bank.

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

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

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

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

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

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

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

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

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

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

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

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

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

	2018 DKKm	2017 DKKm
Individual impairment, beginning of period	–	1,686
New individual impairments	–	310
Reversal of individual impairments	–	326
Previously impaired, now finally lost	–	383
Other movements	–	36
Individual impairment, end of period	**-**	**1,323**
Collective impairment, beginning of period	–	124
New collective impairments	–	128
Reversal of collective impairments	–	9
Other movements	–	9
Collective impairment, end of period	**-**	**251**
Impairment, beginning of period	–	1,810
New impairments	–	438
Reversed impairments	–	334
Previously impaired, now finally lost	–	383
Other movements	–	44
Impairment, end of period	**-**	**1,575**
New impairments	–	438
Reversed impairments	–	334
Loss without prior impairment	–	96
Amounts recovered on previously impaired receivables	–	167
Recognised in the income statement	**-**	**33**
Provisions, beginning of period	–	67
New provisions	–	19
Reversed provisions	–	45
Provisions for losses on guarantees, end of period	**-**	**41**
New provisions	–	19
Reversed provisions	–	45
Provisions for losses on guarantees recognised in the income statement	**-**	**-26**
Impairment account for loans and provisions for losses on guarantees, total	**-**	**1,616**
Impairment, other credit risks, beginning of period	–	14
Reversed impairments	–	14
Other movements	–	–
Impairment, other credit risks, total	–	**0**
Impairment account for loans and provisions for losses on guarantees and other credit risks, total	**-**	**1,616**
The total recognition in the income statement under impairment of loans and receivables etc. can be broken down as follows:		
Impairment of loans, advances and receivables etc.	–	33
Provision for losses on guarantees	–	-26
Impairment, credit institutions	–	-14
Total impairment of loans and receivables etc.	–	**-7**
Loans with suspended interest payments	**-**	**143**
Interest on impaired receivables is calculated on the impaired balance only		
Recognised interest on impaired loans and receivables	**-**	**44**

5.1.12 Financial credit risk

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

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

Total financial credit risk	2018 Carrying amount DKKm	2017 Carrying amount DKKm	2018 Risk portfolio DKKm	2017 Risk portfolio DKKm
AAA	14,575	9,874	14,343	9,777
AA	586	474	586	474
A	1,577	1,636	1,577	1,636
BBB	795	215	795	215
BB	66	77	66	77
B	12	10	12	10
CCC	0	1	0	1
Not rated	151	219	150	218
Total	**17,762**	**12,505**	**17,530**	**12,409**

Overall, Management's assessment is that Spar Nord's credit risk exposure to financial counterparties remains at a moderate level, as 94.2% (2017: 95.8%) of the financial credit risk is attributable to counterparties with a rating of A or higher.

Bond portfolio

The Group's bond portfolio is the most significant source of financial credit risk.

	2018 Carrying amount DKKm	2017 Carrying amount DKKm	2018 Risk portfolio DKKm	2017 Risk portfolio DKKm
Bond portfolio broken down by issuer type				
Mortgage-credit institutions	13,762	9,288	13,598	9,339
Financial issuers	1,422	637	1,422	637
Credit bonds	259	271	259	271
Government bonds	716	642	648	494
Total	**16,160**	**10,838**	**15,928**	**10,741**
Bond portfolio broken down by rating				
AAA	13,644	9,304	13,412	9,207
AA	439	232	439	232
A	1,151	984	1,151	984
BBB	713	97	713	97
BB	66	76	66	76
B	12	10	12	10
CCC	0	1	0	1
Not rated	135	134	134	133
Total	**16,160**	**10,838**	**15,928**	**10,741**

Due from credit institutions

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

Due from credit institutions by product type	2018 Carrying amount DKKm	2017 Carrying amount DKKm	2018 Risk portfolio DKKm	2017 Risk portfolio DKKm
Reverse repo transactions	931	570	931	570
Unlisted CDO	0	0	0	0
Deposits and unlisted bonds	0	175	0	175
Subordinated loans	0	0	0	0
Current accounts	172	272	172	272
CSA accounts, etc.	297	420	297	420
Commercial foreign business	0	0	0	0
Undisclosed	0	0	0	0
Total	**1,400**	**1,437**	**1,400**	**1,437**
Positive fair value of derivative instruments, financial enterprises	203	231	203	231
Total	**1,603**	**1,668**	**1,603**	**1,668**

Due from credit institutions by rating				
AAA	931	570	931	570
AA	148	242	148	242
A	426	652	426	652
BBB	82	117	82	117
BB	0	1	0	1
Not rated	16	85	16	85
Unallocated	0	0	0	0
Total	**1,603**	**1,668**	**1,603**	**1,668**

93.9% (2017: 87.8%) of Spar Nord's amounts due from credit institutions concerns institutions with an A rating or higher. Of the total receivables from credit institutions in the amount of DKK 1.6 billion (2017: 1.7 billion), 58.1% (2017: 34.2%) is attributable to institutions with an AAA rating.

Balances with unrated credit institutions are attributable primarily to Danish credit institutions.

A breakdown by stage and rating category is shown in note 5.1.9.

5.2 Market risk

Market risk is an umbrella heading for the risk of loss caused by changes in the value of a portfolio of financial instruments due to fluctuations in exchange rates or prices in financial markets.

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

In 2018, Spar Nord made no major changes in assumptions, objectives, policies, exposures and calculation methods, etc. as compared to the year before.

Spar Nord's interest rate risk, foreign exchange risk and equity risk are described below.

Market risk policy
The market risk policy determines Spar Nord's overall risk profile for market risk, as well as the overall organisational delegation of responsibilities in the market risk area with a view to profitably supporting Spar Nord's business model.

The policy identifies and sets limits for the various types of market risk, setting out specific limits for how much risk Spar Nord is prepared to assume. The principal market risks for Spar Nord are the credit spread risk on the Bank's bond portfolio and the Bank's interest rate risk, followed by equity risk in and outside the trading book and, lastly, very limited foreign exchange, option and commodity risks. The policy establishes the methods to be used in calculating the various risk targets.

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

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

- Daily follow-up on individual business units, both intraday and end of day
- Regular reporting to the Executive Board and the Board of Directors
- Reporting of regulatory capital

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

5.2.1 Interest rate risk

The interest rate risk is the risk of loss due to interest rate fluctuations. Most of Spar Nord's interest rate risks in the banking book derive from bank activities like deposits and lending, leases, repo and reverse repo transactions, strategic loans and possibly hedge operations in relation thereto. Interest rate risks in the trading book occur in connection with trading and position-taking in bonds and fixed-income derivatives like interest rate swaps, bonds, futures and standard interest rate options.

Spar Nord's interest-rate risk both within and outside the trading book is calculated on the basis of the duration and agreed cash flow. For managing its portfolio of callable Danish mortgage bonds, Spar Nord uses model-based key risk indicators that provide for the inherent option component. As concerns interest rate options, the above-mentioned key indicators are supplemented by the most important risk factors expressing sensitivity of the option premium on changes in the underlying parameters.

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

Shown below is the interest rate risk relative to duration and exchange rates. This shows the risk of changes for a given time interval on the yield curve. The table shows the interest rate risk broken down on the individual time intervals, given a 1 percentage point increase in interest rates.

Interest-rate risk shown by duration and currency (DKKM)

2018	Less than 3 months	3 months – 1 years	1-3 years	3-7 years	Over 7 years	Total
DKK	10	3	23	22	18	75
EUR	8	4	-20	-34	-32	-74
Other	3	3	1	1	0	7
Total	**20**	**9**	**4**	**-11**	**-14**	**9**
2017						
DKK	8	6	19	30	14	77
EUR	-1	-1	-6	-10	-10	-28
Other	2	1	1	1	0	5
Total	**10**	**6**	**14**	**21**	**4**	**55**

At end-2018 Spar Nord is exposed to a rising interest rate in DKK and a falling interest rate in EUR (2017: rising interest rate in DKK and falling interest rate EUR). The interest rate risk amounted to DKK 9 million, which is a DKK 46 million reduction of the positive net interest rate risk compared with end-2017.

5.2.2 Foreign exchange risk

Foreign exchange risk is the risk of loss on positions in foreign currency due to exchange rate fluctuations. Currency options are included in the calculation at the Delta-adjusted position.

The foreign exchange risk is illustrated by the table below. The calculation is based on the assumption that all exchange rates develop unfavourably for Spar Nord by 2%.

Foreign exchange risk

DKKm	2018	2017
Assets denominated in foreign currencies, total	10,061	9,338
Liabilities denominated in foreign currencies, total	2,451	1,492

	Foreign exchange position		Foreign exchange risk	
Currency	2018 DKKm	2017 DKKm	2018 DKKm	2017 DKKm
EUR	37	15	0.7	0.3
SEK	2	0	0.0	0.0
USD	1	2	0.0	0.0
GBP	3	2	0.1	0.0
CHF	0	1	0.0	0.0
NOK	7	7	0.1	0.1
JPY	1	4	0.0	0.1
Other currencies	9	7	0.2	0.1
Foreign-exchange risk regarding financial instruments, etc., total	**59**	**38**	**1.2**	**0.8**

As appears from the table, the overall foreign exchange risk for Spar Nord was DKK 1.2 million at end-2018, representing an increase in risk of DKK 0.4 million compared with end-2017.

The change was caused by an increase in EUR.

5.2.3 Equity risk

Equity risk is the risk of losses caused by changes in equity prices. Equity positions are the calculated net value of long and short equity positions and equity-related instruments. The calculation of equity positions is broken down by positions in and outside the trading book.

Equity risk in the trading book

	2018 DKKm	2017 DKKm
Listed shares forming part of the trading book	106	124
Unlisted shares forming part of the trading book	28	20
Total shares in the trading book	**134**	**144**

Shares in the trading book are held for trading purposes.

Equity risk outside the trading book

	2018 DKKm	2017 DKKm
Shares in credit and financing institutions	1,285	1,251
Shares in unit trust management companies	197	88
Shares in pension institutions	2	2
Shares in data supplier	0	0
Other shares	60	65
Total shares in strategic business partners	**1,545**	**1,405**
Realised gains	4	46
Unrealised gains	186	91
Total associates	**333**	**128**
Other shares outside the trading book	**89**	**77**
Total shares not forming part of the trading book	**1,967**	**1,611**

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

Spar Nord's most significant equity investment recognised in associated at end-2018 was Danske Andelskassers Bank A/S (2017: Valueinvest Asset Management SA).

Shares in strategic partners in the financial sector are shares in companies whose purpose is to support financial institutions' transactions in the fields of mortgage credit, payment services, unit trusts, etc. Participation in the companies in question is considered a prerequisite for Spar Nord's operations.

In several of the sector companies, the shares are reallocated to the effect that the ownership interest of the respective institution will reflect its business volume with the sector company. The shares are typically reallocated on the basis of the sector company's equity value. In light of this, Spar Nord adjusts the recognised value of these shares when new information is available that warrants a change of fair value measurement. In other sector companies, the shares are not reallocated, but are measured based on a fair value corresponding to the net asset value or another recognised valuation method (including discounting of cash flows and market expectations with respect to equity return requirements). The adjustments of the values of the shares in these companies are also recognised in the income statement.

Shares in the trading book	2018 DKKm	2017 DKKm
Long positions	134	144
Short positions	4	2
Gross holding	**137**	**146**

5.2.4 Sensitivity analysis

The sensitivity information shows how Spar Nord's income statement will be impacted if interest rates change, if share prices drop or if all exchange rates develop unfavourably.

	Impact on equity		Impact on operating profit	
	End-2018 %	End-2017 %	End-2018 DKKm	End-2017 DKKm
Interest rate increase of 1 %-point	-0.1	-0.4	-6	-32
Interest rate decrease of 1 %-point	0.1	0.4	6	32
Share price decrease of 10% in the trading book	-0.1	-0.1	-10	-11
A fair value decrease of 10% for shares outside the trading book	-1.8	-1.5	-153	-126
Unfavourable 2% exchange rate fluctuation	0.0	0.0	-1	-1

The sensitivity information shows the impact of isolated changes in interest rates in the trading book, while the impact of changes in exchange rates and the share portfolio is shown for positions both in and outside the trading book. The impact on the operating profit and the impact on equity are calculated after tax.

It appears from the table that the impact of an interest rate increase will be a loss equal to 0.1% of shareholders' equity. Furthermore, the effect of a 10% decline in the value of the share portfolio both in and outside the trading book will be a loss equal to 1.9% of shareholders' equity.

5.3 Liquidity risk

In 2018, Spar Nord made no major changes in calculation methods, policies and exposures etc. as compared to the year before.

Spar Nord Bank is generally exposed to liquidity risks when lending, investment and funding activities result in a cash flow mismatch.

Liquidity risk means that Spar Nord cannot meet its payment obligations while also meeting the statutory liquidity requirements. Moreover, a liquidity risk exists if the lack of financing/funding prevents Spar Nord from adhering to the adopted business model, or if Spar Nord's costs for procurement of liquidity rise disproportionately.

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

The aim of the liquidity policy is to ensure that Spar Nord has a liquidity risk that at all times bears a natural relation to Spar Nord's overall risk profile. In addition, the liquidity policy is intended to ensure that Spar Nord continuously handles and manages its liquidity appropriately and is capable of meeting its payment obligations as and when due while complying with applicable legislation and supporting future activities and growth. Finally, the policy is intended to ensure a financing structure that is optimised in relation to risk and price.

Spar Nord's objective is for the LCR to amount to at least 125%. In addition, Spar Nord aims to stay below the funding ratio and liquidity benchmark threshold values in the Diamond Test Model.

Management, monitoring and reporting
On the basis of the policies and objectives defined by the Board of Directors, the Executive Board has defined operational frameworks and specific limits for Trading, Financial Markets & the International Division, which is responsible for managing Spar Nord's short-term liquidity. The Finance & Accounts Department is responsible for managing and monitoring Spar Nord's long-term funding.

The Finance & Accounts Department is responsible for calculating, monitoring and checking that Spar Nord's liquidity risk does not exceed the allocated limits. The department regularly reports to the Executive Board, the Board of Directors and the Danish FSA.

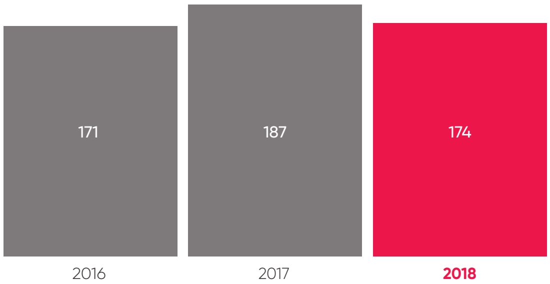
5.3.1 Short-term liquidity

Spar Nord employs fixed models to monitor and manage the Bank's short-term liquidity, including the daily management of LCR and intraday liquidity and ongoing preparation of stress tests.

At end-2018, LCR was calculated at 174% (2017: 187%), which is comfortably above Spar Nord's target LCR of at least 125% (2017: 125%). The excess coverage of 49 percentage points (2017: 62) corresponds to excess liquidity of DKK 4.7 billion (2017: DKK 5.7 billion). Calculated relative to the statutory requirement of 100%, the excess liquidity amounted to DKK 7.0 billion.

The liquidity reserve according to LCR basically consists of central bank reserves and government debt (Level 1A assets) and mortgage bonds offering particularly high liquidity and very high credit quality (Level 1B assets).

Liquidity coverage ratio (LCR)
%



Liquidity coverage ratio

DKKm	2018	2017
Liquidity resources	16,513	17,342
Liquidity requirement	9,471	9,282
LCR (%)	**174**	**187**

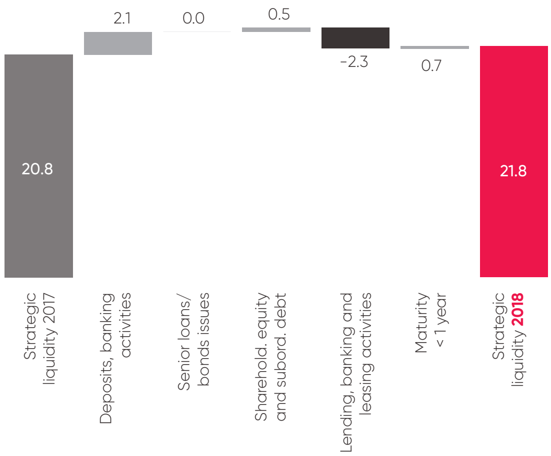
5.3.2 Long-term liquidity

Spar Nord calculates its strategic liquidity as deposits excl. repo transactions, senior loans, issued bonds, subordinated debt and equity less lending excl. reverse repo transactions. On the other hand, subordinated debt, senior loans and issued bonds due within 12 months are not included in the calculation of strategic liquidity.

At end-2018, Spar Nord had strategic liquidity of DKK 21.8 billion. This level reflects strengthened liquidity relative to end-2017, when strategic liquidity was calculated at DKK 20.8 billion.

Compared with 2017, Spar Nord increased its loans and advances by DKK 2.3 billion, which is more or less matched by an increase in deposits of DKK 2.1 billion. In mid-December 2018, Spar Nord repaid a tier 2 loan for DKK 700 million issued in 2013, and subordinated debt with a term to maturity of less than 12 months therefore no longer weigh on Spar Nord's strategic liquidity. Lastly, the raising of new subordinated debt and a positive consolidation overall contribute to the improved strategic liquidity.

Strategic liquidity
DKKbn



	2018 DKKm	2017 DKKm
Deposits, banking activities	50,773	48,668
Senior loans	0	30
Subordinated debt	1,332	1,144
Equity	9,241	8,975
Liquidity procurement	**61,346**	**58,817**
Lending, banking and leasing activities	**39,551**	**37,272**
Senior loans and subordinated debt with a term to maturity of less than 12 months	0	700
Strategic liquidity	**21,796**	**20,845**

5.3.3 Stress test

In accordance with the Executive Order on Management and Control of Banks etc., Spar Nord prepares internal liquidity stress tests based on LCR. The stress tests span a 12-month period and are calculated using three permanently defined scenarios: a business-specific, a market-specific and a mixed scenario, all of which are calculated without any management intervention. The stress tests prepared have lived up to Spar Nord's internal targets throughout the period.

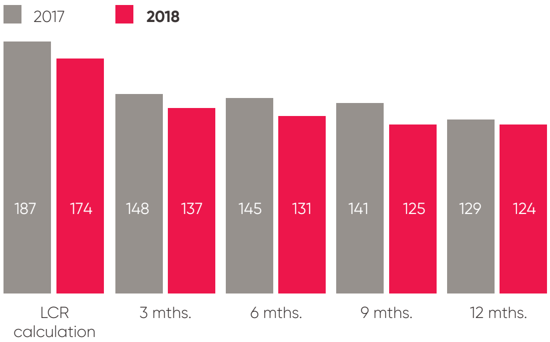
The table and figure below show the result of a liquidity projection in a severe stress scenario, in which Spar Nord operates with a 3-month survival period in its liquidity management. In addition to money and capital market funding falling due, the stress scenario includes a massive stress on the deposit base, continued lending growth and stress on the bond portfolio.

At end-2018, the projection shows that Spar Nord's liquidity resources will be reduced by DKK 6.7 billion over the 12-month projection period, but also that in a severe stress scenario Spar Nord complies with the LCR statutory requirement in the full 12-month projection period.

Run-off of liquidity resources in a severe stress scenario

	Liquidity resources		Accumulated run-off	
DKKm/%	2018	2017	2018	2017
Calculation period	16,513	17,342		
3 months	12,414	13,614	-25	-22
6 months	11,507	12,832	-30	-26
9 months	10,668	12,081	-35	-30
12 months	9,863	10,690	-40	-38

LCR projected in a severe stress scenario
%

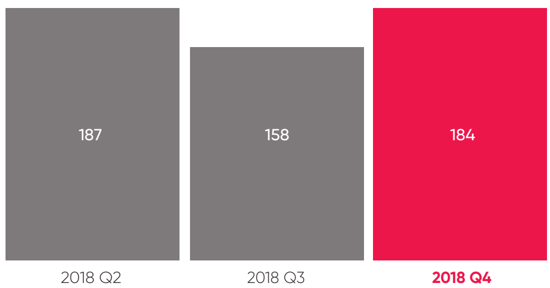


5.3.4 Liquidity benchmark

The FSA's updated liquidity benchmark entered into force on 30 June 2018. The liquidity benchmark is based on a projected version of LCR using a more lenient calculation of the numerator, while the time horizon for the denominator is extended to cover the period up to 3 months inclusive.

Since the liquidity benchmark was implemented in the Supervisory Diamond, Spar Nord has realised a level notably above the 100% requirement.

Liquidity indicator
%



5.3.5 Funding structure

Spar Nord's operations are predominantly funded through four funding sources:

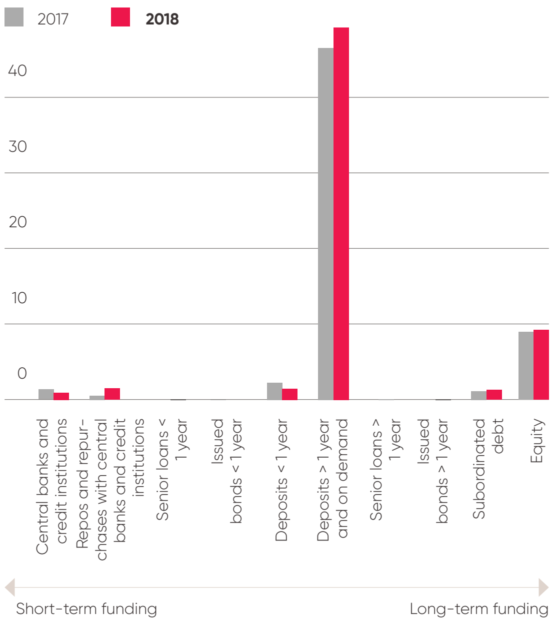
- Customer deposits
- Loans or repo transactions from other credit institutions and Danmarks Nationalbank (the central bank)
- Issued bonds and senior loans
- Subordinated debt and equity

Going forward, the issuance of Non-Preferred Senior debt will also be a substantial funding source for Spar Nord.

From an overall perspective, Spar Nord's funding at end-2018 increased by DKK 2.9 billion to DKK 63.8 billion compared with 2017. The principal change in Spar Nord's funding is a DKK 1.9 billion increase in deposits incl. repo, which was primarily driven by deposits on demand. A net increase in the use of repos and repurchases and debt to central banks and credit institutions combined with consolidation and the raising of new subordinated debt have also affected the Bank's total funding at the end of 2018. Deposits remain Spar Nord's largest source of funding, and at end-2018 it represented 79.6% (2017: 80.2%) of total funding.

At end-2018 Spar Nord's total long-term funding (deposits on demand and funding with a term to maturity of more than 12 months) amounts to 93.8%, which is 0.7 percentage points up on end-2017.

Funding structure
(DKKbn)



Funding structure

DKKm/%	2018	2017	2018	2017
Central banks and credit institutions	947	1,377	1.5	2.3
Repos and repurchases with central banks and credit institutions	1,519	555	2.4	0.9
Senior loans < 1 year	0	2	0.0	0.0
Issued bonds < 1 year	0	0	0.0	0.0
Deposits < 1 year	1,469	2,262	2.3	3.7
Deposits > 1 year and on demand	49,304	46,582	77.3	76.5
Senior loans > 1 year	0	30	0.0	0.0
Issued bonds > 1 year	0	0	0.0	0.0
Subordinated debt	1,332	1,144	2.1	1.9
Equity	9,241	8,975	14.5	14.7
Total	**63,812**	**60,926**	**100.0**	**100.0**

5.3.6 Liquidity contingency plan

Spar Nord has prepared a liquidity contingency plan pursuant to the Danish Executive Order on Management and Control of Banks. This plan contains a catalogue of possible courses of action for strengthening Spar Nord's liquidity in a critical situation. The catalogue contains a more detailed description of the expected impact and time span of the individual actions.

The liquidity contingency plan is applied if Spar Nord can only meet the predetermined liquidity instructions with difficulty and with resulting sharply increased funding costs.

5.3.7 Balance sheet breakdown

Breakdown of balance sheet items expected to be recovered or repaid after more than or within 12 months.

	2018		2017	
	< 1 year DKKm	> 1 year DKKm	< 1 year DKKm	> 1 year DKKm
Assets				
Cash balances and demand deposits with central banks	1,029	0	1,298	0
Due from credit institutions and central banks	1,400	0	1,437	0
Loans, advances and other receivables at amortised cost	23,591	20,739	27,760	18,987
Bonds at fair value	1,282	14,878	1,311	9,526
Shares, etc.	177	1,590	197	1,429
Investments in associates	0	333	0	128
Assets linked to pooled schemes	1,586	13,186	1,499	13,924
Intangible assets	9	169	11	173
Land and buildings	14	669	14	608
Other property, plant and equipment	36	90	31	88
Current tax assets	130	0	45	0
Temporary assets	9	0	21	0
Other assets	644	1,117	672	1,091
Prepayments and deferred income	116	0	115	0
Total	**30,022**	**52,771**	**34,414**	**45,953**
Liabilities				
Due to credit institutions and central banks	2,439	27	1,934	30
Deposits and other payables	47,321	3,453	45,393	3,450
Deposits in pooled schemes	1,586	13,186	1,499	13,924
Other non-derivative financial liabilities at fair value	1,018	0	934	0
Other liabilities	2,276	562	2,275	591
Prepayments and deferred income	20	0	19	0
Deferred tax	8	165	5	131
Provisions	94	66	23	40
Subordinated debt	0	1,332	696	448
Total	**54,761**	**18,791**	**52,777**	**18,614**

Deposits comprise fixed-term deposits and demand deposits, etc. Fixed-term deposits are recognised at the maturity date. Contractually, demand deposits have ultra-short maturity and are therefore shown above with a term to maturity of less than 12 months.

Bonds are broken down by duration.

5.3.8 Contractual term to maturity of financial liabilities

2018	Carrying amount DKKm	Contractual cash flows DKKm	Within 1 years DKKm	1– 5 years DKKm	Over 5 years DKKm
Non-derivative instruments					
Due to credit institutions and central banks	2,466	2,466	2,439	27	0
Deposits and other payables	50,773	50,813	47,321	79	3,413
Deposits in pooled schemes	14,772	14,772	1,586	3,481	9,705
Other non-derivative instruments	1,018	1,018	1,018	0	0
Other liabilities, excl. derivative instruments	2,288	2,288	2,208	80	0
Subordinated debt	1,332	1,482	33	950	500
Guarantees	12,092	12,092	4,543	3,126	4,424
Derivatives					
Fair value of derivatives	550	467	65	137	265
Total	**85,291**	**85,398**	**59,212**	**7,879**	**18,307**

2017	Carrying amount DKKm	Contractual cash flows DKKm	Within 1 years DKKm	1– 5 years DKKm	Over 5 years DKKm
Non-derivative instruments					
Due to credit institutions and central banks	1,964	1,966	1,934	1	32
Deposits and other payables	48,843	48,923	45,403	120	3,400
Deposits in pooled schemes	15,423	15,423	1,499	3,723	10,200
Other non-derivative instruments	934	934	934	0	0
Other liabilities, excl. derivative instruments	2,176	2,176	2,110	65	0
Subordinated debt	1,144	1,216	730	485	0
Guarantees	11,961	11,961	4,503	3,448	4,010
Derivatives					
Fair value of derivatives	691	608	163	149	296
Total	**83,135**	**83,206**	**57,277**	**7,991**	**17,939**

The maturity analysis shows the contractual, undiscounted cash flows and comprises agreed payments, including principal and interest.

For liabilities with variable cash flow, such as floating-rate financial liabilities, the information is based on the conditions existing at the balance sheet date.

Subordinated debt is deemed to fall due at the time when the Spar Nord Group may choose between redeeming the debt or paying an increased interest rate/increased redemption price. If Spar Nord instead chooses to extend the loans, interest of DKK 33 million (2017: DKK 34 million) falls due for payment within 1 year, DKK 131 million (2017: DKK 137 million) within 1-5 years, and DKK 1,487 million including repayments of DKK 1,336 million (2017: DKK 1,216 million including repayments of DKK 1,147 million) after 5 years.

As regards deposits in pension pools, only the customers' deposits in the pension pools are allocated, as future yields for pension pool participants depend on the return on pooled assets. The dates when the obligations fall due are correlated to the assets in the pension pools.

Payments regarding irrevocable credit commitments and guarantees fall due if a number of predetermined conditions have been met. Such payment obligations have been recognised at the time when the agreements expire.

Under the agreements made, customers can usually demand repayment of their deposits at short notice. However, in practice they are considered a stable funding source, as amounts disbursed largely equal deposits received.

The above-mentioned breakdown by term to maturity has been based on the earliest date when a demand for payment can be made.

5.4 Operational risk

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

Model risk, which is the risk of loss as a consequence of decisions based mainly on output from internal models and occurring due to errors in the development, implementation or use of such models, is also defined as operational risk.

Operational risks are categorised on the basis of the seven event types defined by Basel III: employment practices and workplace safety; external fraud; business disruption and systems failures; internal fraud; clients, products and business practice; execution/delivery and process management; and damage to physical assets.

Operational risk policy
Spar Nord's Board of Directors has defined a policy for operational risk, the aim of which is to provide an overview of Spar Nord's operational risk and thus to minimise the number of errors and losses.

To ensure that operational risk is kept at an acceptable level, Spar Nord's Board of Directors has defined the Group's risk appetite. If risks are identified that exceed the defined risk appetite, scenario analyses are conducted and used to draw up risk mitigation proposals.

Management, monitoring and reporting
All of Spar Nord's activities are subject to operational risk, and therefore a key task is to limit the operational risk level as much as possible.

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

The handling of operational risk, including the role as risk facilitator, is anchored with Spar Nord's Risk Management Function, while the unit responsible for the relevant business activities and, the risk owners, are responsible for handling the risks.

Throughout Spar Nord, events that result in a loss of more than DKK 10,000 are recorded and categorised, and identified risks are recorded on an ongoing basis, followed up by reporting to the Risk Review Officer, the Executive Board and the Board of Directors.

Scenarios are prepared for risks that may result in potential losses of more than DKK 10 million.

Reports are submitted quarterly to the Executive Board and the risk owners, and an annual risk report is submitted to the Board of Directors. In 2019, the reporting frequency will be increased to semi-annual reports to the Board of Directors. Actual and potential loss events exceeding DKK 5 million are reported on an ongoing basis to both the Executive Board and the Board of Directors.

In the quarterly reports, the risk owners are informed about the loss events and new risks identified for the relevant business area during the period under review.

The systematic registration and categorisation of loss events provide an overview of sources of loss and the experience base which the Bank uses proactively in its management of operational risks.

5.4.1 Loss events and fraud

Spar Nord's operational loss events are primarily break down on the risk types "external fraud", "order execution and process management" and "customers, products and business practice".

It appears from the figure showing no. of operational loss events broken down by risk type that external fraud in 2018 accounted for 55% of the events (2017: 49%), products and business practice 12% (2017: 18%), while order execution and process management accounted for 32% (2017: 33%).

The majority of loss events consist of events with a minor financial impact – primarily events like card abuse and online banking fraud.

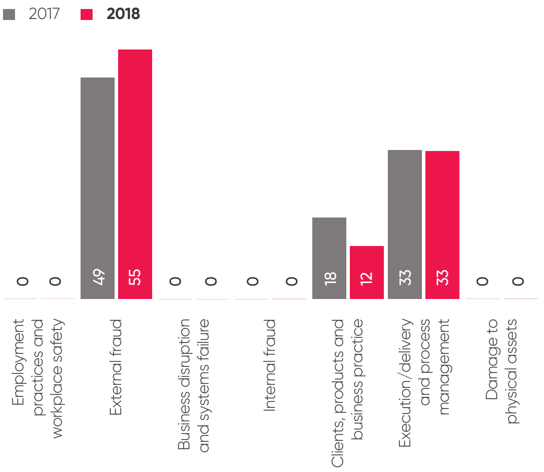
Operational loss events in 2018 by amounts break down as follows: external fraud accounted for 86% (2017: 34%), business disruption and system errors 5% (2017: 0%), internal fraud 1% (2017: 0%), customers, products and business practice 5 % (2017: 31%) and order execution and process management 3% (2017: 35%).

There was a large increase in losses related to external fraud, which was due to a single loss event which resulted in a loss of approximately DKK 45 million, which was identified in January 2019 and has been recognised in the income statement under impairment of loans, advances and receivables, etc.

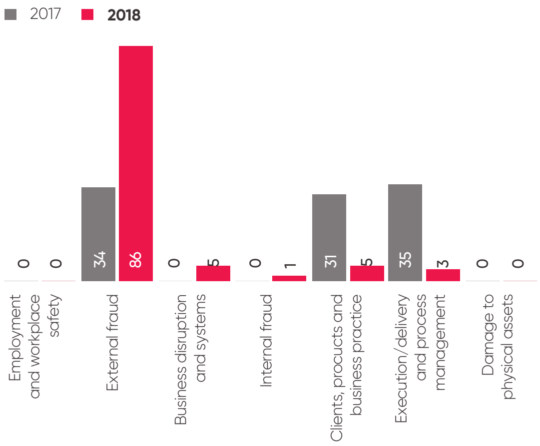
The total loss in 2018 amounted to DKK 57 million (2017: DKK 8 million), of which external fraud accounts for DKK 49 million (2017: DKK 3 million).

In view of the regular reporting provided to Spar Nord's Board of Directors and Executive Board, Management believes that Spar Nord has satisfactory measures to counter the risk of being exposed to operational loss events.

No. of operational loss events broken down by risk type
%



Operational loss amounts broken down by risk type
%



5.4.2 IT security

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

The work of the IT security function is based on a defined security and risk level aimed at ensuring that the Bank's day-to-day business and activities are consistently supported by a secure and reliable IT infrastructure. The IT security function is responsible for complying with the adopted IT security level and the Spar Nord Group's IT contingency plan. The IT security function contributes to ensuring and controlling that Spar Nord's IT activities to the best possible extent are protected against internal and external threats. The IT security function is thus charged with ensuring compliance with legislative and sector-specific requirements, Spar Nord's own requirements and customer expectations in terms of Spar Nord's availability, confidentiality and integrity.

Spar Nord's activity in the area of IT security is based on regulatory requirements as well as considerations for day-to-day operations. All IT installations running at Spar Nord and its service providers must operate according to documented schedules and guidelines. The operation must be secure and stable, a requirement ensured through the highest possible degree of automation and ongoing capacity adjustments. IT services run by external service providers must be based on written agreements. The Bank's IT security efforts include the preparation of contingency plans and recovery procedures and periodic test of such measures aimed to ensure continued operation at a satisfactory level in the case of extraordinary events.

The IT security function also promotes in-house knowledge of IT security by regularly arranging awareness activities. In 2018, the function performed awareness activities focusing on GDPR and information security. Furthermore, the Bank remained focus on the growing threat against cybersecurity.

5.4.3 Compliance risk

Operational risks also includes compliance risks identified via the compliance function.

The compliance function is an independent function which serves to assess and report on any non-compliance with applicable legislation, practice and market standards in the Bank. This helps mitigate the risk of sanctions being imposed on the Bank, a risk of loss of reputation or that the Bank or its customers suffer material financial losses.

The compliance function applies a risk-based approach to identifying areas to review. In 2018, the function focused on areas such as compliance with anti-money-laundering (AML) measures and MiFID II.

5.4.4 Money-laundering risk

The Bank retains a strong focus on anti-money-laundering (AML) measures, including the risk-mitigating measures that must be implemented to prevent the Bank from being used for money-laundering activities and terrorism financing purposes. The prevention of money-laundering and terrorist financing is a high-priority area at Spar Nord, and the Bank shares a joint responsibility for ensuring that money-laundering and terrorist financing is prevented. As a result, Spar Nord also supports the measures taken by the legislators.

The Bank's AML function is charged with ensuring that the Bank complies with the Danish Act on Measures to Prevent Money Laundering and Financing of Terrorism, EU Funds Transfer Regulation and EU anti-terrorism regulations.

In 2018, the AML function focused on optimising the Bank's existing processes and thus onboarded new staff.

As a result of the sharpened focus and new initiatives, reports to the Public Prosecution for Serious Economic and International Crimes ("SØIK") were at a historically high level, as is the case in the rest of the financial sector.

In 2018, Spar Nord had 1,071 filings with SØIK as compared with 411 cases in 2017.

The AML function is anchored in the Legal Department and reports directly to the Executive Board and Board of Directors.

5.4.5 GDPR

In 2018, the Bank focused on implementing the General Data Protection Regulation (GDPR). The GDPR entered into effect on 25 May 2018.

The Bank has recruited a data protection adviser to ensure compliance with data protection legislation.

The data protection adviser is to advise the Bank and monitor compliance with relevant data protection rules.

The data protection adviser function is anchored in the Legal Department and reports directly to the Executive Board and Board of Directors.

5.4.6 Capital requirement

The capital requirement needed to cover Spar Nord's operational risks is calculated using the basic indicator approach.

In 2018, the operational risk amounted to 10.6% (2017: 11.5%) of the total risk exposure amount, ending at DKK 5,705 million at end-2018 (2017: DKK 5,692 million), which results in a capital requirement of DKK 456 million (2017: DKK 455 million).

Section 6

Other notes

6.1 Transfer of financial assets

Spar Nord has transferred the following financial assets, which are still recognised in the balance sheet.

	2018 DKKm	2017 DKKm
Carrying amount of transferred financial assets		
Bonds in repo transactions	1,526	729
Carrying amount of related financial liabilities		
Due to credit institutions, repo transactions	1,519	555
Deposits and other payables, repo transactions	0	175
Interest payable	0	0
Total	**1,519**	**730**
Net position	**-6**	**1**

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

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

6.2 Collateral accepted

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

	2018 DKKm	2017 DKKm
Reverse repo transactions		
Collateral accepted that can be repledged or sold	5,705	10,037
Of which, repledged or sold	1,677	1,105
Agreements regarding securities lending		
Collateral accepted that can be repledged or sold	7	15
Of which, repledged or sold	4	2

6.3 Collateral provided and encumbered assets

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

	2018 DKKm	2017 DKKm
Bonds	0	0
Deposits, clearing	169	105
Collateral provided for the market value of derivatives transactions	296	424
Positive market value of derivative contracts subject to netting	193	215
Collateral provided as part of repo transactions	1,526	729
Other collateral provided	0	30
Total	**2,184**	**1,503**

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

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

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

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

6.4 Offsetting financial assets and financial liabilities

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

				Related amounts not offset in the balance sheet		
2018	**Recognised gross DKKm**	**Offset DKKm**	**Net amount for liabilities presented in the balance sheet DKKm**	**Financial collateral DKKm**	**Cash collateral DKKm**	**Net amount DKKm**
Financial assets						
Derivatives	930	69	862	193	31	637
Reverse repo transactions	5,710	0	5,710	5,705	-	5
Total	**6,641**	**69**	**6,572**	**5,898**	**31**	**643**
Financial liabilities						
Derivatives	817	267	550	193	288	68
Repo transactions	1,519	0	1,519	1,526	-	-7
Total	**2,336**	**267**	**2,069**	**1,719**	**288**	**62**
2017						
Financial assets						
Derivatives	1,125	96	1,030	215	43	771
Reverse repo transactions	10,045	0	10,045	10,037	-	8
Total	**11,170**	**96**	**11,075**	**10,252**	**43**	**779**
Financial liabilities						
Derivatives	1,066	375	691	215	407	68
Repo transactions	730	0	730	729	-	1
Total	**1,796**	**375**	**1,421**	**944**	**407**	**69**

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

Repo transactions and reverse repo transactions are recognised in the balance sheet on a gross basis; see notes 6.1 and 6.2.

6.5 Hedge accounting

§ **Accounting policies**
Spar Nord uses derivative financial instruments to hedge the interest rate risk on fixed-rate assets and liabilities (fair value hedge) measured at amortised cost. Such hedging derivatives are measured at fair value through profit or loss.

When the hedge accounting criteria are fulfilled, the carrying amount of the hedged assets and liabilities is adjusted for changes in fair value regarding the hedged risks (fair value hedge). If the hedge criteria cease to be met, the accumulated value adjustments of the hedged items are amortised over the term to maturity.

	Carrying amount DKKm	Fair value DKKm	Nominal value DKKm
2018			
Assets			
Loans and advances	-	-	-
Interest risk-hedging financial instruments			
Derivatives (swap contracts)	-	-	-
2017			
Assets			
Loans and advances	77	77	75
Interest risk-hedging financial instruments			
Derivatives (swap contracts)	-2	-2	75

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

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

	2018 DKKm	2017 DKKm
Hedging of fixed-interest assets		
Hedged loans and advances	-	-3
Hedging derivatives	-	3
Impact on profit/loss	-	**0**

6.6 Retssager

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

6.7 Related parties

	Parties with significant influence		Associates		Board of Directors		Executive Board	
	2018 DKKm	2017 DKKm	2018 DKKm	2017 DKKm	2018 DKKm	2017 DKKm	2018 DKKm	2017 DKKm
Loans, advances and loan commitments	0	-	15	16	44	46	3	14
Deposits	70	47	32	27	26	36	6	8
Guarantees issued	-	-	-	-	4	5	-	0
Other binding commitments	-	-	-	-	15	5	0	0
Collateral accepted	-	-	-	-	10	20	-	4
Interest income	-	-	0	0	0	0	0	0
Interest expenses	0	0	0	0	0	0	0	0
Fees, charges and commissions received	0	0	0	0	2	1	0	0
Dividends received from equity investments	-	-	7	31	-	-	-	-
Other income	3	3	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-	-	-

Related parties with significant influence are shareholders with holdings exceeding 20% of Spar Nord Bank A/S, or where significant influence is otherwise considered to exist.

There were no balances with associates in 2018. In 2017, interest on loans ranged between 4.35 and 6.00%.

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

	Board of Directors		Executive Board	
	2018 DKKm	2017 DKKm	2018 DKKm	2017 DKKm
Loans and advances	27	31	3	3
Unutilised loan and guarantee commitments	16	15	0	10
Guarantees issued	4	5	-	0
Total loans and advances, loan commitments and guarantees	**48**	**51**	**3**	**14**
Interest rate, loans	1.00-4.75	0.65-4.75	2.25-2.50	1.00-2.25

No transactions were concluded during the year with members of the Board of Directors, the Executive Board or executive staff members, other than transactions involving salary, remuneration, etc., securities trading and loans and provision of collateral. More details regarding the remuneration of the Board of Directors, the Executive Board and executive staff members appear from note 2.7.

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

The respective shareholdings of the Executive Board and the Board of Directors are shown in note 6.8.

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

There are no credit-impaired exposures with related parties.

Related parties holding at least 5% of the Bank's share capital at end-2018 comprised the Spar Nord Foundation, Aalborg, with a holding of 18.9% (2017: 18.9%) and Nykredit Realkredit A/S, Copenhagen, with a holding of 11.4% (2017: 11.4%)

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

6.8 Spar Nord shares held by management

	2018 No. of shares	2017 No. of shares
Board of Directors		
Kjeld Johannesen	80,000	60,000
Per Nikolaj Bukh	27,200	27,200
Lene Aaen (took office on 19 April 2018)	2,997	-
Kaj Christiansen	21,100	21,100
Morten Bach Gaardboe	3,620	3,620
Laila Mortensen	0	0
Ole Skov (retired on 19 April 2018)	-	7,533
Jannie Skovsen	8,622	7,770
Gitte Holmgaard Sørensen	2,911	1,970
John Sørensen	5,160	5,160
Executive Board		
Lasse Nyby	53,704	49,100
John Lundsgaard	75,319	71,926
Lars Møller	71,931	67,404

6.9 Events after the balance sheet date

No significant events have occurred after 31.12.2018.

6.10 Group overview

	Activity	Share capital year-end DKKm	Equity year-end DKKm	Profit/loss for the year DKKm	Ownership interest %
Spar Nord Bank A/S	Bank	1,230	9,241	920	-
Subsidiary					
Aktieselskabet Skelagervej 15, Aalborg	Real property	27	317	14	100

6.11 Performance indicators and financial ratios

Accounting policies

The Group's performance indicators and financial ratios (core earnings) appearing from the Management's review may differ from the layout below. The relationship between Core earnings and the format below is shown in note 2.1, Business segments.

Ratio definitions are set out in note 6.11.1.

Performance indicators

DKKm		2018	2017	2016	2015	2014
Income statement						
Net interest and fee income		2,730	2,716	2,771	2,861	2,810
Market-value adjustments		214	381	386	452	363
Staff costs and administrative expenses		1,859	1,863	1,789	1,768	1,838
Impairment of loans, advances and receivables etc.		173	-7	292	373	603
Income from investments in associates		36	32	30	28	104
Profit/loss for the year		920	989	838	897	614
Balance sheet						
Loans and advances		44,330	46,747	41,346	38,039	35,948
Equity		9,241	8,975	8,627	7,887	7,033
Total assets		82,793	80,367	78,473	76,357	78,825

Financial ratios

		2018	2017	2016	2015	2014
Own funds						
Own funds ratio	%	18.0	18.2	17.7	17.0	15.0
Tier 1 capital ratio	%	15.6	16.0	15.6	14.9	13.3
Earnings						
Return on equity before tax	%	12.1	14.2	12.5	14.4	10.4
Return on equity after tax	%	10.2	11.2	10.2	12.0	9.0
Income/cost ratio		1.52	1.65	1.47	1.46	1.27
Return on assets	%	1.1	1.2	1.1	1.2	0.8
Market risk and liquidity						
Interest rate risk	%	0.2	0.7	1.2	1.8	0.6
Foreign exchange position	%	1.4	3.3	3.2	3.4	2.6
Foreign exchange risk	%	0.1	0.1	0.1	0.1	0.0
Excess coverage relative to statutory liquidity requirement	%	-	326.4	308.3	296.1	186.0
Loans and advances as % of deposits	%	67.6	72.7	67.8	65.5	67.7
Credit risk						
Loans and advances relative to equity		4.8	5.2	4.8	4.8	5.1
Increase in loans and advances for the year	%	6.7	6.2	3.6	-4.5	-1.1
Sum of large exposures	%	79.2	17.2	14.5	16.1	0.0
Impairment ratio for the year	%	0.2	0.0	0.5	0.8	1.3

Spar Nord Bank share

DKK per share of DKK 10

	2018	2017	2016	2015	2014
Profit/loss for the year	7.5	8.1	6.8	7.2	4.9
Net asset value (NAV)	68	66	63	60	56
Dividend	3.5	3.5	5.0	5.0	1.6
Share price/profit/loss for the period	6.9	9.0	11.9	8.5	11.8
Share price/NAV	0.8	1.1	1.3	1.0	1.0

6.11.1 Definition of financial ratios

Own funds ratio *)	Own funds in per cent of total risk exposure amount
Tier 1 capital ratio *)	Tier 1 capital in per cent of total risk exposure amount
Common equity tier 1 capital ratio *)	Common equity tier 1 capital in per cent of total risk exposure amount
Return on equity before tax *)	Profit/loss before tax in per cent of average equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year.
Return on equity after tax *)	Profit/loss after tax in per cent of average equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year.
Income/cost ratio *)	Net interest and fee income, Market value adjustments, Other operating income and Profit/loss on equity investments in associates and group enterprises / Staff costs and administrative expenses, Depreciation, amortisation and impairment of intangible assets and property, plant and equipment, Other operating expenses and Impairment of loans, advances and receivables.
Return on assets *)	Profit/loss after tax in per cent of total assets.
Interest rate risk *)	Interest rate risk in per cent of tier 1 capital
Foreign exchange position *)	Foreign exchange indicator 1 in per cent of tier 1 capital
Foreign exchange risk *)	Foreign exchange indicator 2 in per cent of tier 1 capital
Loans and advances as % of deposits *)	Loans and advances in per cent of deposits.
Excess coverage relative to statutory liquidity requirement *)	Cash balances, Demand deposits with Danmarks Nationalbank (the central bank), Absolutely secure and liquid demand deposits with credit institutions and insurance companies, Uncollateralised certificates of deposit issued by Danmarks Nationalbank and Secure and marketable (listed) uncollateralised securities in per cent of 10% of Reduced payables and guarantee commitments
Liquidity Coverage Ratio (LCR)	Liquid assets in per cent of the net value of cash inflows and cash outflows viewed over a 30-day period of heightened corporate financial stress.
Sum of large exposures *) (2017 and earlier years)	Sum of large exposures in per cent of own funds, adjusted for exposures to credit institutions, etc. below EUR 150 million after making allowance for credit risk reduction and exceptions, etc.
Sum of large exposures *) (from 2018)	Sum of large exposures (20 largest exposures below 175% of common equity tier 1 capital)
Impairment ratio for the year *)	Impairment of loans, advances and guarantees for the year in per cent of loans and advances + guarantees + impairment of loans, advances and receivables etc.
Increase in loans and advances for the year *)	Increase in loans and advances from the beginning of the year to the end of the year, excl. repos, in per cent.
Loans and advances relative to equity *)	Loans and advances/equity
Earnings per share for the year *)	Profit/loss for the year after tax/average number of shares in circulation excl. treasury shares. The average number of shares is calculated as a simple average of the shares at the beginning of the year and at the end of the year.
Net asset value per share *)	Shareholders' equity/number of shares excl. treasury shares. Shareholders' equity is calculated as if the additional tier 1 (AT1) capital were treated as a liability
Dividend per share *)	Proposed dividend/number of shares.
Share price relative to earnings per share for the year *)	Share price/earnings per share for the year.
Share price relative to net asset value (NAV) *)	Share price/NAV per share.
Return, %	Year-end price – year-end price the year before + dividend the year before + extraordinary dividend for the year in per cent of the year-end price the year before.
Price/earnings	Year-end price/Earnings per share for the year. Profit/loss for the year is calculated as if the additional tier 1 (AT1) capital were treated as a liability.
Earnings per share for the period/year	Profit/loss for the year/period after tax/average number of shares in circulation excl. treasury shares. The average number of shares is calculated as a simple average of the shares at the beginning of the year and at the end of the year. Profit/loss for the year/period after tax is calculated as if the additional tier 1 (AT1) capital were treated as a liability.
Diluted earnings per share for the year	Profit/loss for the year after tax/average number of shares in circulation incl. dilutive impact of share options and conditional shares.

*) Danish FSA's ratio definitions.
A definition of alternative performance measures is shown on page 32 of the consolidated financial statements.

Financial statements Parent Company

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Income statement

Note		2018 DKKm	2017 DKKm
7.2	Interest income	1,676	1,713
7.3	Interest expenses	128	141
	Net interest income	**1,548**	**1,572**
	Dividends on shares, etc.	55	23
7.4	Fees, charges and commissions received	1,285	1,265
	Fees, charges and commissions paid	158	149
	Net interest and fee income	**2,730**	**2,711**
7.5	Market-value adjustments	214	379
	Other operating income	202	42
7.6	Staff costs and administrative expenses	1,865	1,869
	Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	57	59
	Other operating expenses	9	13
	Income from investments in associates and group enterprises	50	51
7.22	Impairment of loans, advances and receivables etc.	173	-7
	Profit/loss before tax	**1,092**	**1,249**
7.7	Tax	171	258
	Profit/loss for the year	**921**	**991**
	Appropriation:		
	The shareholders of the Parent Company Spar Nord Bank A/S	872	942
	Holders of additional tier 1 (AT1) capital instruments	49	49
	Profit/loss for the year	**921**	**991**
	Dividend distribution DKK 3.50 per share (2017: DKK 3.50 per share)	431	431
	Reserve for net revaluation according to the equity method	50	51
	Retained earnings	391	461
	Total distribution	**872**	**942**

Statement of comprehensive income

	2018 DKKm	2017 DKKm
Profit/loss for the year	**921**	**991**
Other comprehensive income		
Items that cannot be reclassified to the income statement:		
Net revaluation of domicile property	8	9
Other comprehensive income after tax	**8**	**9**
Total comprehensive income	**929**	**1,000**
Appropriation:		
The shareholders of the Parent Company Spar Nord Bank A/S	880	951
Holders of additional tier 1 (AT1) capital instruments	49	49
Total comprehensive income	**929**	**1,000**

Parent Company
Balance sheet

Assets

Note		2018 DKKm	2017 DKKm
	Cash balances and demand deposits with central banks	1,029	1,298
7.8	Due from credit institutions and central banks	1,400	1,435
7.9	Loans, advances and other receivables at amortised cost	44,330	46,747
7.10	Bonds at fair value	16,160	10,838
7.11	Shares, etc.	1,768	1,626
	Investments in associates	333	128
	Investments in group enterprises	317	402
7.14	Assets linked to pooled schemes	14,772	15,423
	Intangible assets	178	184
	Investment properties	70	70
	Domicile property	418	384
7.12	**Land and buildings, total**	**489**	**454**
7.13	Other property, plant and equipment	127	119
	Current tax assets	132	50
	Temporary assets	9	21
	Other assets	1,754	1,756
	Prepayments and deferred income	121	116
	Total assets	**82,917**	**80,597**

Equity and liabilities

Note		2018 DKKm	2017 DKKm
7.15	Due to credit institutions and central banks	2,466	1,934
7.16	Deposits and other payables	50,897	49,105
	Deposits in pooled schemes	14,772	15,423
	Other non-derivative financial liabilities at fair value	1,018	934
	Other liabilities	2,837	2,864
	Prepayments and deferred income	20	19
	Total payables	**72,010**	**70,278**
7.17	Provisions for deferred tax	173	137
	Provision for losses on guarantees	80	41
	Other provisions	81	21
	Total provisions	**334**	**199**
7.18	Subordinated debt	1,332	1,144
	Total liabilities	**73,676**	**71,622**
	Share capital	1,230	1,230
	Revaluation reserves	97	90
	Statutory reserves	0	0
	Proposed dividend	431	431
	Retained earnings	6,622	6,364
	Shareholders' equity	**8,380**	**8,114**
	Holders of additional tier 1 (AT1) capital instruments	861	861
	Total shareholders' equity	**9,241**	**8,975**
	Total equity and liabilities	**82,917**	**80,597**
	Off-balance sheet items		
	Contingent assets	13	11
7.19	Contingent liabilities	12,092	11,961
7.20	Other binding commitments	578	518

Capital position

Statement of changes in equity

	Share capital DKKm	Revaluation reserve DKKm	Statutory reserves DKKm	Proposed dividend DKKm	Retained earnings DKKm	Total DKKm	Additional tier 1 (AT1) capital DKKm	Total DKKm
Equity at 31.12.2017	1,230	90	0	431	6,364	8,114	861	8,975
Change in accounting policies, IFRS 9. See note 1.1.3 to the consolidated financial statements	-	-	-	-	-195	-195	0	-195
Equity at 01.01.2018	**1,230**	**90**	**0**	**431**	**6,169**	**7,919**	**861**	**8,780**
Comprehensive income in 2018								
Profit/loss for the year	-	-	50	431	391	872	49	921
Other comprehensive income								
Net revaluation of properties	-	7	-	-	1	8	-	8
Other comprehensive income, total	**0**	**7**	**0**	**0**	**1**	**8**	**0**	**8**
Total comprehensive income	**0**	**7**	**50**	**431**	**392**	**880**	**49**	**929**
Transactions with owners								
Interest paid on additional tier 1 (AT1) capital	-	-	-	-	-	-	-49	-49
Dividends paid	-	-	-	-431	-	-431	-	-431
Dividends received, treasury shares	-	-	-	-	0	0	-	0
Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	-295	-295	-	-295
Addition upon sale of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	294	294	0	295
Other capital movements in associates	-	-	0	-	-	0	-	0
Revaluation reserves, associates	-	-	56	-	-56	0	-	0
Dividends received from group enterprises	-	-	-100		100	0	-	0
Dividends received from associates recognised at net asset value	-	-	-7	-	7	0	-	0
Tax	-	-	-	-	11	11	-	11
Total transactions with owners	**0**	**0**	**-50**	**-431**	**61**	**-419**	**-49**	**-468**
Equity at 31.12.2018	**1,230**	**97**	**0**	**431**	**6,622**	**8,380**	**861**	**9,241**
Equity at 01.01.2017	**1,255**	**89**	**386**	**628**	**5,407**	**7,765**	**862**	**8,627**
Comprehensive income in 2017								
Profit/loss for the year	-	-	51	431	461	942	49	991
Other comprehensive income								
Net revaluation of properties	-	1	-	-	8	9	-	9
Other comprehensive income, total	**0**	**1**	**0**	**0**	**8**	**9**	**0**	**9**
Total comprehensive income	**0**	**1**	**51**	**431**	**469**	**951**	**49**	**1,000**
Transactions with owners								
Interest paid on additional tier 1 (AT1) capital	-	-	-	-	-	-	-49	-49
Dividends paid	-	-	-	-628	-	-628	-	-628
Dividends received, treasury shares	-	-	-	-	13	13	-	13
Reduction of share capital	-25	-	-	-	25	0	-	0
Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	-454	-454	-1	-456
Addition upon sale of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	457	457	-	457
Revaluation reserves in in associates and group enterprises	-	-	794	-	-794	0	-	0
Dividends received from group enterprises	-	-	-1,200		1,200	0	-	0
Dividends received from associates recognised at net asset value	-	-	-31	-	31	0	-	0
Tax	-	-	-	-	11	11	-	11
Total transactions with owners	**-25**	**0**	**-437**	**-628**	**488**	**-602**	**-50**	**-652**
Equity at 31.12.2017	**1,230**	**90**	**0**	**431**	**6,364**	**8,114**	**861**	**8,975**

At the end of 2018, the share capital was made up of 123,002,526 shares of DKK 10 each (2017: 123,002,526 shares of DKK 10 each). The Bank has only one share class.

No shares carry any special rights. No shares are subject to restrictions on transferability or voting rights.

Parent Company
Capital position

Treasury shares

	2018 DKKm	2017 DKKm
Treasury share portfolio		
Number of shares	37,565	38,048
Nominal value, DKKm	0	0
Fair value, DKKm	2	3
Percentage of share capital	0.0	0.0
Treasury share portfolio, fair value, DKKm		
Portfolio, beginning of year	3	210
Share buyback programme	-	-150
Acquisition of treasury shares	295	454
Sale of treasury shares	294	457
Market value adjustments	-1	-55
Portfolio, end of year	**2**	**3**

The Bank uses treasury shares for trading with customers.

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

Own funds

	2018 DKKm	2017 DKKm
Equity	9,241	8,975
Phasing in of IFRS 9	206	-
Additional tier 1 (AT1) capital included in equity	861	861
Proposed dividend	431	431
Intangible assets, incl. share recognised in investments in associates	146	188
Other primary deductions	48	41
Deduction for the sum of equity investments < 10%	376	331
Deduction for the sum of equity investments > 10%	35	-
Common equity tier 1 capital	**7,549**	**7,123**
Additional tier 1 (AT1) capital *)	843	843
Other deductions	5	41
Tier 1 capital	**8,387**	**7,924**
Subordinated debt, excl. additional tier 1 (AT1) capital *)	1,314	1,133
Other deductions	10	41
Own funds	**9,691**	**9,016**
Weighted risk exposure amount, credit risk etc.	44,155	40,886
Weighted risk exposure amount, market risk	4,125	3,196
Weighted risk exposure amount, operational risk	5,639	5,605
Total risk exposure amount	**53,919**	**49,687**
Common equity tier 1 capital ratio	14.0	14.3
Tier 1 capital ratio	15.6	15.9
Own funds ratio	18.0	18.1

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

Section 7
Notes Parent Company

§ 7.1 Accounting policies

The financial statements of the Parent Company Spar Nord Bank A/S have been prepared in accordance with the provisions of the Danish Financial Business Act, including the Danish FSA's Executive Order on financial reports presented by credit institutions and investment companies.

The Parent Company's accounting policies are identical to those of the Group.

A description of the accounting practice and changes thereto is provided in accounting policies in the notes to the consolidated financial statements, including the effect in connection with the transition to IFRS 9 at 1 January 2018 in note 1.1.3.

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

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

	Profit/loss		Equity	
	2018 DKKm	2017 DKKm	2018 DKKm	2017 DKKm
Spar Nord Group	920	989	9,241	8,975
Net depreciation and impairment, Group domicile properties	1	2	0	0
Spar Nord Parent Company	**921**	**991**	**9,241**	**8,975**

7.2 Interest income

	2018 DKKm	2017 DKKm
Due from credit institutions and central banks	0	3
Loans, advances and other receivables	1,557	1,606
Bonds	66	84
Foreign-exchange contracts	9	3
Interest-rate contracts	-31	-59
Total derivatives	**-22**	**-56**
Other interest income	1	31
Total interest income after offsetting negative interest income	**1,603**	**1,669**
Negative interest income offset against interest income	37	30
Negative interest expenses offset against interest expenses	36	15
Total interest income before offsetting negative interest income	**1,676**	**1,713**

Of which, interest income from reverse repo transactions booked under		
Due from credit institutions and central banks	-10	-9
Loans, advances and other receivables	-27	-20

Negative interest income amounts to DKK 37 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.

7.3 Interest expenses

	2018 DKKm	2017 DKKm
Credit institutions and central banks	5	-3
Deposits and other payables	7	47
Subordinated debt	42	52
Other interest expenses	1	1
Total interest expenses after offsetting negative interest expenses	**54**	**97**
Negative interest expenses offset against interest expenses	36	15
Negative interest income offset against interest income	37	30
Total interest expenses before offsetting negative interest expenses	**128**	**141**

Of which, interest expenses from repo transactions booked under		
Credit institutions and central banks	-11	-8

Negative interest expenses amount to DKK 36 million (2017: DKK 15 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.

7.4 Fees, charges and commissions received

	2018 DKKm	2017 DKKm
Securities trading and custody accounts	418	439
Payment services	171	166
Loan transaction fees	512	493
of which mortgage credit institutions	394	380
Guarantee commission	27	30
Other fees, charges and commissions	157	138
Total fees, charges and commissions received	**1,285**	**1,265**
Total fees, charges and commissions paid	**158**	**149**
Total net fees, charges and commissions received	**1,127**	**1,116**

7.5 Market value adjustments

	2018 DKKm	2017 DKKm
Other loans, advances and receivables at fair value	-2	0
Bonds	-16	91
Shares, etc.	168	163
Currency	56	36
Foreign exchange, interest, share, commodity and other contracts and derivatives	8	89
Assets linked to pooled schemes	-1,133	566
Deposits in pooled schemes	1,133	-566
Other liabilities	0	0
Total market value adjustments	**214**	**379**

7.6 Staff costs and administrative expenses

	2018 DKKm	2017 DKKm
Staff costs	1,152	1,165
Administrative expenses	712	704
Total staff costs and administrative expenses	**1,865**	**1,869**

Salaries	918	930
Pensions	106	106
Social security costs	128	129
Total staff costs	**1,152**	**1,165**

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

Board of Directors	3.8	3.5
Executive Board	12.0	11.6
Total remuneration	**15.8**	**15.1**

For additional information on remuneration to members of the Board of Directors, Executive Board and material risk takers, see note 2.7 to the consolidated financial statements.

Number of employees

Average number of employees in the financial year converted into full-time equivalents	1,524	1,546

7.6.1 Audit fees

	2018 DKKm	2017 DKKm
Fees to the audit firm appointed at the General Meeting	2.2	3.5
Fees to other audit firms for non-audit services	0.7	0.5
Total audit fees	**3.0**	**4.0**

Total fees to the audit firm appointed at the General Meeting can be specified as follows:

Statutory audit	0.9	0.9
Other assurance engagements	0.5	0.3
Tax and VAT assistance	0.0	0.3
Non-audit services	0.8	2.1
Total fees to the audit firm appointed at the General Meeting	**2.2**	**3.5**

7.7 Tax

	2018 DKKm	2017 DKKm
Tax on profit/loss for the year	171	258
Tax on other comprehensive income	0	0
Tax on changes in equity	-66	-11
Total tax	**105**	**247**

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

Current tax	130	226
Deferred tax for the year	34	27
Adjustment of deferred tax, prior years	3	0
Adjustment of current tax for prior years	4	4
Tax on profit/loss for the year	**171**	**258**

Specification of the effective tax rate:

Current tax rate, %	22.0	22.0
Income from investments and market value adjustment of shares, %	-4.4	-2.0
Non-deductible expenses and non-taxable income, %	-2.7	0.3
Adjustment of prior-year taxes, %	0.7	0.3
Total effective tax rate	**15.6**	**20.6**

7.8 Due from credit institutions and central banks

	2018 DKKm	2017 DKKm
Due from credit institutions	1,400	1,435
Total due from credit institutions and central banks	**1,400**	**1,435**

Shown by term to maturity		
Demand deposits	172	270
Up to 3 months	1,228	1,102
Over 3 months and up to 1 year	0	63
Between 1 year and 5 years	0	0
Over 5 years	0	0
Total	**1,400**	**1,435**
Repo transactions hereof	931	570

7.9 Loans, advances and other receivables at amortised cost

	2018 DKKm	2017 DKKm
Lending, reverse repo transactions	4,779	9,475
Lending, banking and leasing activities	39,551	37,272
Loans, advances and other receivables at amortised cost, total	**44,330**	**46,747**
Shown by term to maturity		
Demand deposits	1,126	1,191
Up to 3 months	5,731	10,436
Over 3 months and up to 1 year	16,734	16,133
Between 1 year and 5 years	8,048	7,340
Over 5 years	12,691	11,647
Total	**44,330**	**46,747**
Gross loans, advances and guarantees broken down by sectors and industries, %		
Public authorities	**0.1**	**0.0**
Business customers		
Agriculture, hunting, forestry and fisheries	5.3	5.3
Industry and raw materials extraction	4.8	4.5
Utilities	2.7	2.7
Building and construction	4.5	4.1
Trade	6.8	6.1
Transport, hotels and restaurants	3.7	3.2
Information and communication	0.4	0.3
Financing and insurance	13.8	21.1
Real property	10.3	9.5
Other industries	6.1	4.9
Total business customers	**58.4**	**61.7**
Retail customers	**41.5**	**38.3**
Total	**100.0**	**100.0**

7.10 Bonds at fair value

	2018 DKKm	2017 DKKm
Mortgage bonds	13,762	9,288
Government bonds	716	642
Other bonds	1,681	908
Bonds at fair value, total	**16,160**	**10,838**
Of which, subordinated receivables	47	44

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

7.11 Shares

	2018 DKKm	2017 DKKm
Shares/unit trust certificates listed on NASDAQ Copenhagen A/S	138	143
Shares/unit trust certificates listed on other stock exchanges	39	54
Unlisted shares at fair value	1,590	1,429
Total shares, etc.	**1,768**	**1,626**

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

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

7.12 Land and buildings

7.12.1 Investment properties

	2018 DKKm	2017 DKKm
Fair value, beginning of period	70	70
Additions during the year, including improvements	0	0
Disposals during the year	0	0
Unrealised fair value adjustment	0	0
Fair value, end of year	**70**	**70**
Required rate of return used in calculating the fair value, %	5.8 - 9.0	5.8 - 9.0

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

7.12.2 Domicile properties

	2018 DKKm	2017 DKKm
Restated value beginning of year	384	417
Additions during the year, including improvements	31	20
Disposals during the year	6	38
Depreciation	14	14
Changes in value recognised in other comprehensive income	8	3
Changes in value recognised in the income statement	2	-2
Other changes, incl. properties transferred to temporary assets	13	-1
Restated value, year-end	**418**	**384**
Required rate of return used in calculating the fair value, %	5.8-9.0	5.8 - 10.0

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

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

7.13 Other property, plant and equipment

	2018 DKKm	2017 DKKm
Total cost, beginning of year	384	395
Additions	49	67
Disposals	68	78
Total cost, end of year	**365**	**384**
Depreciation and impairment, beginning of year	266	304
Depreciation and impairment for the year	36	31
Reversal of depreciation and impairment for the year	63	70
Depreciation and impairment, end of year	**238**	**266**
Carrying amount, end of year	**127**	**119**

7.14 Pooled schemes

	Pension pools 2018 DKKm	Other pools 2018 DKKm	Total 2018 DKKm	2017 DKKm
Assets				
Cash deposits	652	7	659	871
Other bonds	5,330	65	5,395	6,821
Other shares, etc.	6,832	80	6,913	7,022
Unit trust certificates	1,741	24	1,765	662
Other assets	40	0	40	46
Total assets	**14,595**	**177**	**14,772**	**15,423**
Equity and liabilities				
Total deposits	14,595	177	14,772	15,423
Total equity and liabilities	**14,595**	**177**	**14,772**	**15,423**

7.15 Due to credit institutions and central banks

	2018 DKKm	2017 DKKm
Due to central banks	35	31
Due to credit institutions	2,431	1,903
Total due to credit institutions and central banks	**2,466**	**1,934**
Shown by term to maturity		
Demand deposits	288	421
Up to 3 months	2,151	1,512
Over 3 months and up to 1 year	0	0
Between 1 year and 5 years	27	0
Over 5 years	0	0
Total	**2,466**	**1,934**
Repo transactions hereof	1,519	555

7.16 Deposits and other payables

	2018 DKKm	2017 DKKm
Demand deposits	45,975	43,393
Subject to notice	1,418	1,456
Time deposits	299	896
Special types of deposits	3,204	3,359
Total deposits and other payables	**50,897**	**49,105**
Shown by term to maturity		
Demand deposits	45,975	43,393
Up to 3 months	1,380	1,959
Over 3 months and up to 1 year	89	303
Between 1 year and 5 years	79	91
Over 5 years	3,374	3,359
Total	**50,897**	**49,105**
Repo transactions hereof	0	175

7.17 Provisions for deferred tax

	2018 DKKm	2017 DKKm
Beginning of period	137	109
Deferred tax for the year recognised in profit/loss for the year	37	27
Deferred tax for the year recognised in other comprehensive income	0	0
End of year	**173**	**137**

Changes in deferred tax	**Beginning of period DKKm**	**Recognised in profit/loss for the year DKKm**	**Recognised in other comprehensive income DKKm**	**End of year DKKm**
2018				
Intangible assets	29	1	0	29
Property, plant and equipment, incl. leased assets	131	45	0	176
Loans, advances and other receivables at amortised cost	-18	1	0	-17
Payables and subordinated debt	15	-13	0	3
Provisions	-17	4	0	-13
Claw-back loss	4	0	0	4
Miscellaneous	-7	-1	0	-8
Total	**137**	**37**	**0**	**173**
2017				
Intangible assets	29	0	0	29
Property, plant and equipment, incl. leased assets	104	28	0	131
Loans, advances and other receivables at amortised cost	-19	1	0	-18
Payables and subordinated debt	14	1	0	15
Provisions	-18	1	0	-17
Claw-back loss	4	0	0	4
Miscellaneous	-4	-3	0	-7
Total	**109**	**27**	**0**	**137**

All deferred tax liabilities are recognised in the balance sheet.

The temporary differences in 2018 and 2017 relating to losses on properties with deductibility restricted to gains from the same source arose on the sale of properties.

7.18 Subordinated debt

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

The issuance of additional tier 1 capital under CRR with a perpetual term and with voluntary payment of interest and repayments of principal is treated as equity for accounting purposes. For further details, please see note 4.6 to the consolidated financial statements.

Spar Nord is the borrower with respect to all loans.

Currency	Note	Principal DKKm	Interest rate	Received	Maturity	2018 DKKm	2017 DKKm
DKK	a	350	Floating	2018	29.05.2029	348	-
DKK	b	150	2.9298%	2018	29.05.2029	149	-
DKK	c	400	2.5348%	2018	19.06.2028	400	-
SEK	d	600	Floating	2017	18.10.2027	434	452
DKK	e	700	Floating	2013	-	0	699
Supplementary capital contributions, total						**1,332**	**1,151**
Portfolio of own bonds relating to subordinated debt						0	-7
Subordinated debt, total						**1,332**	**1,144**
Interest on subordinated debt						40	50
Costs of raising subordinated debt						1	2

a Redeemable as from 29.05.2024. If the loan is not redeemed, interest will be fixed at CIBOR6 + a 2.40% margin.
b Redeemable as from 29.05.2024. If the loan is not redeemed, interest will be fixed at CIBOR6 + a 2.40% margin.
c Redeemable as from 19.06.2023. If the loan is not redeemed, interest will be fixed at CIBOR3 + a 2.10% margin.
d Redeemable as from 18.10.2022. If the loan is not redeemed, interest will be fixed at STIBOR3 + a 2.50% margin.
e Redeemed at 18.12.2018

7.19 Contingent liabilities

	2018 DKKm	2017 DKKm
Financial guarantees	4,184	4,092
Loss guarantees for mortgage loans	5,388	4,983
Registration and refinancing guarantees	1,708	2,011
Other contingent liabilities	812	876
Total contingent liabilities	**12,092**	**11,961**

Financial guarantees largely consist of payment guarantees.

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

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

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

Reference is made to note 2.7 to the consolidated financial statements regarding the Executive Board's notice of termination and the associated compensation.

Spar Nord is taxed jointly with its Danish subsidiary in the Spar Nord Group. As management company, Spar Nord has unlimited, joint and several liability together with the subsidiary for the Danish corporate income tax payable. Due to the payment of tax on account, no tax was payable at 31.12.2018 and 31.12.2017. The corporate income tax receivable within the tax pool amounted to DKK 130 million at 31 December 2018 (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.

The Guarantee Fund covers depositors' eligible deposits in the Bank under EUR 100,000 (see section 9(1) of the Danish Act on a Depositor and Investor Guarantee Scheme). The Bank made no contributions to the Guarantee Fund in 2018, as the Guarantee Fund's assets exceed its target level of 0.8% of the covered deposits in the sector. The Bank may be required to pay contributions in future if the Guarantee Fund's assets fall below 0.8% of the covered deposits in the sector.

The Resolution Fund covers the costs associated with the possible winding-up of financial institutions under the auspices of Finansiel Stabilitet (the Winding-Up Company). The Bank's contributions to the Resolution Fund are calculated based on the Bank's pro-rata share of the sector's total equity and liabilities less own funds and the deposits covered by the Guarantee Fund, adjusted by a risk factor. The Bank's contribution to the Resolution Fund for 2018 amounted to DKK 8 million (2017: DKK 8 million).

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

7.20 Other binding commitments

Other binding commitments of DKK 578 million (2017: DKK 518 million) consist of lease obligations in which Spar Nord Bank is lessee, and the liability to pay a withdrawal fee on potential withdrawal from BEC. See note 3.14.2 to the consolidated financial statements for a description hereof.

7.21 Risk management

Spar Nord is exposed to a number of risks in various categories, the most important one being:

- **Credit risk:** The risk of losses because counterparties fail to meet all or part of their payment obligations.
- **Market risk.** The risk of loss because the fair value of Spar Nord's assets and liabilities varies with changes in market conditions.
- **Liquidity risk:** The risk of loss because Spar Nord cannot meet its payment obligations via the ordinary liquidity reserves.
- **Operational risk:** The risk of financial loss owing to deficient or erroneous internal procedures and processes, human or system errors, or losses as a result of external events.

Notes 5.1, 5.2, 5.3 and 5.4 to the consolidated financial statements provide a description of the financial risks and policies and targets for managing credit, market, liquidity and operational risks.

7.22 Credit risk

7.22.1 Loans at amortised cost and unutilised credit lines and loan commitments

	2018 DKKm	2017 DKKm
Loans and advances at amortised cost before impairments	46,118	-
Unutilised credit lines and loan commitments before impairments	22,327	-
Impairments and provisions on unutilised credit lines	1,865	-
Carrying amount	**66,581**	**-**

The following tables show the credit quality and exposures before impairments based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating groups and impairment model is provided in accounting policies note 5.1.1 to the consolidated financial statements.

Loans at amortised cost before impairments, by rating group

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	2017 DKKm
Rating category 1	5,816	23	0	**5,839**	-
Rating category 2	6,826	151	1	**6,978**	-
Rating category 3	5,517	1,834	1	**7,352**	-
Rating category 4	4,170	2,522	2	**6,694**	-
Rating category 5	1,357	1,204	0	**2,560**	-
Rating category 6	360	847	1	**1,208**	-
Rating category 7	73	659	0	**731**	-
Rating category 8	75	230	2	**307**	-
Rating category 9	2	165	11	**179**	-
Default	2	86	2,934	**3,022**	-
Unrated	1,796	33	0	**1,830**	-
Reverse repo transactions	4,779	0	0	**4,779**	-
SparXpres	0	558	142	**700**	-
Leasing	0	3,788	150	**3,938**	-
Total	**30,773**	**12,100**	**3,245**	**46,118**	**-**

Unutilised credit lines and loan commitments before impairments and provisions, by rating group

The rating breakdown of Spar Nord's unutilised credit lines and loan commitments before impairments and provisions generally follow the rating breakdown for loans at amortised cost before impairments shown above.

Impairments and provisions for losses

Analysis of changes in impairments for the period broken down by stages and correlated to recognised impairments, etc. A summary of combined recognised impairments, etc. is provided in note 2.9 to the consolidated financial statements.

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	Recognised impairments etc. DKKm
Impairments at 01.01.2018 under IFRS 9, loans at amortised cost	79	279	1,433	**1,791**	-
Impairments at 01.01.18 under IFRS 9, unutilised credit lines and loan commitment	4	5	12	**21**	-
Impairments re. new exposures during the year, including new accounts to existing customers	28	37	92	**157**	157
Reversed impairments re. repaid accounts	-10	-29	-82	**-121**	-121
Change in impairments at 1 January, transfer to/from stage 1	139	-63	-76	**-**	-
Change in impairments at 1 January, transfer to/from stage 2	-16	45	-28	**-**	-
Change in impairments at 1 January, transfer to/from stage 3	-9	-37	46	**-**	-
Impairments during the year due to change in credit risk	-122	65	181	**124**	124
Previously impaired, now finally lost	0	0	-139	**-139**	-
Other movements (interest rate correction etc.)	0	0	33	**33**	-
Loss without prior impairment	-	-	-	**-**	80
Amounts recovered on previously impaired receivables	-	-	-	**-**	-77
Impairments at 31.12.2018	**92**	**302**	**1,470**	**1,865**	**162**
Impairments at 31.12.2018 under IFRS 9, loans at amortised cost	89	298	1,402	**1,789**	107
Impairments at 31.12.2018 under IFRS 9, unutilised credit lines and loan commitment	4	4	69	**76**	55
Impairments at 31.12.2018	**92**	**302**	**1,470**	**1,865**	**162**

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.

7.22.2 Due from credit institutions and central banks

	2018 DKKm	2017 DKKm
Total due from credit institutions and central banks before impairments	1,400	-
Impairments	0	-
Carrying amount	**1,400**	**-**

The following tables show the credit quality and exposures before impairments based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating groups and impairment model is provided in accounting policies note 5.1.1 to the consolidated financial statements.

Due from credit institutions and central banks before impairments

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	2017 DKKm
Credit institutions	1,400	0	0	1,400	-
Central banks	0	0	0	0	-
Total	**1,400**	**0**	**0**	**1,400**	**-**

Impairment

Analysis of changes in impairments for the period broken down by stages and correlated to recognised impairments, etc. A summary of combined recognised impairments, etc. is provided in note 2.9 to the consolidated financial statements.

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	Recognised impairments etc. DKKm
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	1	0	0	1	1
Reversed impairments re. repaid accounts	-1	0	0	-1	-1
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	-1	0	0	-1	-1
Impairments at 31.12.2018	**0**	**0**	**0**	**0**	**0**

7.22.3 Guarantees

	2018 DKKm	2017 DKKm
Guarantees before provisions for losses	12,172	-
Provisions for losses	80	-
Carrying amount	**12,092**	**-**

The following tables show the credit quality and exposures before impairments based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating groups and impairment model is provided in accounting policies note 5.1.1 to the consolidated financial statements.

Guarantees before provisions, by rating category

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	2017 DKKm
Rating category 1	4,198	2	0	**4,200**	-
Rating category 2	2,334	43	4	**2,382**	-
Rating category 3	1,643	157	2	**1,802**	-
Rating category 4	962	294	0	**1,256**	-
Rating category 5	158	125	0	**283**	-
Rating category 6	105	94	0	**199**	-
Rating category 7	28	28	0	**56**	-
Rating category 8	4	6	0	**10**	-
Rating category 9	2	10	1	**13**	-
Default	0	6	366	**372**	-
Unrated	1,592	7	0	**1,600**	-
Total	**11,028**	**772**	**373**	**12,172**	**-**

Provisions for losses

Analysis of changes in impairments for the period broken down by stages and correlated to recognised impairments, etc. A summary of combined recognised impairments, etc. is provided in note 2.9 to the consolidated financial statements.

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	Recognised impairments etc. DKKm
Provisions for losses at 1 January 2018 under IFRS 9	13	7	48	**68**	-
Provisions for losses re. new exposures during the year	15	2	50	**66**	66
Reversed provisions for losses re. repaid exposures	-7	-7	-13	**-27**	-27
Change in provisions for losses at 1 January, transfer to/from stage 1	4	-3	-1	**-**	-
Change in provisions for losses at 1 January, transfer to/from stage 2	-1	1	0	**-**	-
Change in provisions for losses at 1 January, transfer to/from stage 3	-1	0	2	**-**	-
Provisions for losses during the year due to change in credit risk	-8	5	-25	**-28**	-28
Provisions for losses at 31.12.2018	**14**	**6**	**60**	**80**	**12**

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.

7.22.4 Impairment account 31.12.2017 (IAS 39)

	2018 DKKm	2017 DKKm
Individual impairment, beginning of period	-	1,686
New individual impairments	-	310
Reversal of individual impairments	-	326
Previously impaired, now finally lost	-	383
Other additions and disposals	-	0
Other movements	-	36
Individual impairment, end of period	**-**	**1,323**
Collective impairment, beginning of period	-	124
New collective impairments	-	128
Reversal of collective impairments	-	9
Other movements	-	9
Other additions and disposals	-	0
Collective impairment, end of period	**-**	**251**
Impairment, beginning of year	-	1,810
New impairments	-	438
Reversed impairments	-	334
Previously impaired, now finally lost	-	383
Other movements	-	44
Impairment, end of period	**-**	**1,575**
New impairments	-	438
Reversed impairments	-	334
Loss without prior impairment	-	96
Amounts recovered on previously impaired receivables	-	167
Recognised in the income statement	**-**	**33**
Provisions, beginning of period	-	67
New provisions	-	19
Reversed provisions	-	45
Previously provided for, now finally lost	-	0
Provisions for losses on guarantees, end of period	**-**	**41**
New provisions	-	19
Reversed provisions	-	45
Loss without prior provisions	-	0
Provisions for losses on guarantees recognised in the income statement	-	**-26**
Impairment account for loans, advances and provisions on guarantees, total	**-**	**1,616**
Impairment, other credit risks, beginning of period	-	14
New impairments	-	0
Reversed impairments	-	14
Other movements	-	0
Impairment, other credit risks, total	-	**0**
Impairment account for loans, advances, provisions on guarantees and other credit risks, total	**-**	**1,616**

	2018 DKKm	2017 DKKm
The total recognition in the income statement under impairment of loans and receivables etc. can be broken down as follows:		
Impairment of loans, advances and receivables etc.	-	33
Provision for losses on guarantees	-	-26
Impairment, credit institutions	-	-14
Total impairment of loans and receivables etc.	**-**	**-7**
Loans with suspended interest payments	**-**	**143**
Interest on impaired receivables is calculated on the impaired balance only		
Recognised interest on impaired loans and receivables	**-**	**44**

7.23 Hedge accounting

2018	Carrying amount DKKm	Fair value DKKm	Nominal value DKKm
Assets			
Loans and advances	-	-	-
Interest risk-hedging financial instruments			
Derivatives (swap contracts)	-	-	-
2017			
Assets			
Loans and advances	77	77	75
Interest risk-hedging financial instruments			
Derivatives (swap contracts)	-2	-2	75

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

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

	2018 DKKm	2017 DKKm
Hedging of fixed-interest assets		
Hedged loans and advances	-	-3
Hedging derivatives	-	3
Impact on profit/loss	-	0

7.24 Related parties

	Parties with significant influence		Associates		Group enterprises		Board of Directors		Executive Board	
	2018 DKKm	2017 DKKm	2018 DKKm	2017 DKKm	2018 DKKm	2017 DKKm	2018 DKKm	2017 DKKm	2018 DKKm	2017 DKKm
Loans, advances and loan commitments	0	-	15	16	-	-	44	46	3	14
Deposits	70	47	32	27	124	264	26	36	6	8
Guarantees issued	-	-	-	-	4	-	4	5	-	0
Other binding commitments	-	-	-	-	-	-	15	5	0	0
Collateral accepted	-	-	-	-	65	65	10	20	-	4
Interest income	-	-	0	0	0	-	0	0	0	0
Interest expenses	0	0	0	0	-	-	0	0	0	0
Fees, charges and commissions received	0	0	0	0	0	0	2	1	0	0
Dividends received from equity investments	-	-	7	31	100	1.200	-	-	-	-
Other income	3	3	-	-	0	-	-	-	-	-
Other expenses	-	-	-	-	6	6	-	-	-	-

Related parties with significant influence are shareholders with holdings exceeding 20% of Spar Nord Bank A/S, or where significant influence is otherwise considered to exist.

Note 6.10 to the consolidated financial statements contains a list of group enterprises.

The Danish companies in the Group are jointly taxed, which means that the Parent Company is liable for the payment of Danish corporate income tax. In 2018, joint tax contributions in the amount of DKK 4 million (2017: DKK 3 million) were transferred between the companies.

There were no balances with associates in 2018. In 2017, interest on loans ranged between 4.35 and 6.00%.

A demand balance exists between Aktieselskabet Skelagervej 15 and the Spar Nord Parent Company, carrying interest at the market rate.

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

	Board of Directors		Executive Board	
	2018 DKKm	2017 DKKm	2018 DKKm	2017 DKKm
Loans and advances	27	31	3	3
Unutilised loan and guarantee commitments	16	15	0	10
Guarantees issued	4	5	-	0
Total loans and advances, loan commitments and guarantees	**48**	**51**	**3**	**14**
Interest rate, loans	1.00 - 4.75	0.65 - 4.75	2.25 - 2.50	1.00 - 2.25

No transactions were concluded during the year with members of the Board of Directors, the Executive Board or executive staff members, other than transactions involving salary, remuneration, etc., securities trading and loans and provision of collateral. More details regarding the remuneration of the Board of Directors, the Executive Board and executive staff members appear from note 2.7.

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

The respective shareholdings of the Executive Board and the Board of Directors are shown in note 6.8 to the consolidated financial statements.

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

Related parties holding at least 5% of the Bank's share capital at end-2018 comprised the Spar Nord Foundation, Aalborg, with a holding of 18.9% (2017: 18.9%) and Nykredit Realkredit A/S, Copenhagen, with a holding of 11.4% (2017: 11.4%).

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

7.25 Performance indicators and financial ratios

Performance indicators

DKKm		2018	2017	2016	2015	2014
Income statement						
Net interest and fee income		2,730	2,711	2,736	2,810	2,770
Market-value adjustments		214	379	340	450	183
Staff costs and administrative expenses		1,865	1,869	1,795	1,776	1,844
Impairment of loans, advances and receivables etc.		173	-7	292	373	603
Income from investments in associates and group enterprises		50	51	105	79	332
Profit/loss for the year		921	991	839	897	613
Balance sheet						
Loans and advances		44,330	46,747	41,219	37,912	35,821
Equity		9,241	8,975	8,627	7,887	7,033
Total assets		82,917	80,597	79,758	77,498	79,950

Financial ratios

		2018	2017	2016	2015	2014
Own funds						
Own funds ratio	%	18.0	18.1	17.3	16.8	14.8
Tier 1 capital ratio	%	15.6	15.9	15.3	14.8	13.1
Earnings						
Return on equity before tax	%	12.1	14.2	12.3	14.2	10.3
Return on equity after tax	%	10.2	11.3	10.2	12.0	9.0
Income/cost ratio		1.52	1.65	1.46	1.46	1.27
Return on assets	%	1.1	1.2	1.1	1.2	0.8
Market risk and liquidity						
Interest rate risk	%	0.2	0.7	1.1	1.6	0.3
Foreign exchange position	%	1.4	3.3	3.2	3.4	2.6
Foreign exchange risk	%	0.1	0.1	0.1	0.1	0.1
Excess coverage relative to statutory liquidity requirement	%	-	325.2	301.9	290.4	182.1
Loans and advances as % of deposits	%	67.5	72.4	66.1	63.9	66.0
Credit risk						
Loans and advances relative to equity		4.8	5.2	4.8	4.8	5.1
Increase in loans and advances for the year	%	6.7	6.6	3.6	-4.5	-1.4
Sum of large exposures	%	79.2	17.2	0.0	14.8	0.0
Impairment ratio for the year	%	0.2	0.0	0.5	0.8	1.3

Spar Nord Bank aktien

DKK per share of DKK 10

	2018	2017	2016	2015	2014
Profit/loss for the year	7.5	8.1	6.8	7.2	4.9
Net asset value (NAV)	68	66	63	60	56
Dividend	3.5	3.5	5.0	5.0	1.6
Share price/profit/loss for the period	6.9	8.9	11.9	8.5	11.8
Share price/NAV	0.8	1.1	1.3	1.0	1.0

A definition of financial ratios is provided in note 6.11.1 to the consolidated financial statements.

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

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