
Risk Report 2018

The Risk Report has been prepared in accordance with the legal disclosure requirements in articles 431 to 455 of the Capital Requirements Regulation (CRR), and the Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need. References regarding the disclosure obligations appear from Appendix A.

The rules regarding the capital adequacy of credit institutions are laid down in European Parliament and Council Directive 2013/36/ EU (CRD) and Regulation no. 575/2013 (CRR), including the associated delegated regulations and guidelines. The rules originate from the Basel III rules and determine the rules for the disclosure of capital adequacy requirements and risk management.

Spar Nord's disclosure of information pursuant to the regulatory framework relate to Spar Nord Bank A/S, CVR no. 13737584, and the subsidiary Aktieselskabet Skelagervej 15, which is fully consolidated in the Group. Unless otherwise explicitly stated in the report, figures express consolidated figures.

Figures in the risk report are presented in millions of Danish kroner, unless otherwise stated. Consequently, rounding differences may occur because grand totals are rounded and the underlying decimal places are now shown.

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

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Section 1
Introduction

The moderate, but broadly founded economic recovery in Denmark continued in 2018 with GDP growth, which is expected to read to the tune of 1%.

2018 was another year of historically low interest rates. The Danish central bank's rate of interest on certificates of deposit has remained negative since 2014, and since the beginning of 2016 it has been minus 0.65%.

In the current situation of growing but still relatively modest demand for financing and with banks generally having substantial excess liquidity to be placed, the extremely low interest rate levels weigh on the Banks' net interest income.

Lastly, 2018 in general and Q4 in particular was marked by financial market volatility, which caused declining trading income in the banking sector.

On the credit side, developments were quite positive with favourable macroeconomic conditions, including low interest rates and low unemployment, resulting in historically high credit quality among the Bank's retail and business customers and an overall low level of loan impairments.

The reason that Spar Nord, in spite of strong overall credit quality, realised higher impairments in 2018 than in 2017 was not least the challenges faced by agricultural customers, among which especially the pig farmers were challenged by falling settlement prices. Also, there was an individual impairment on a major plant cultivation exposure. Moreover, impairments on the Group's other business customers were impacted by a loss of DKK 45 million related to fraud. Overall, the credit quality of the Bank's retail and business customers has developed favourably.

Spar Nord well prepared to new SIFI status
As expected, on 2 January 2019, Spar Nord was designated a systemically important financial institution (SIFI) in Denmark. The SIFI designation results in a number of stricter requirements for the Bank's risk management processes and especially its capital requirements. The SIFI designation thus entails a SIFI buffer requirement of 1.0%, which will apply from the end of 2020.

Spar Nord is entering 2019 with a solid capital position and is thus well-positioned to comply with the stricter requirements. The Bank's common equity tier 1 (CET1) ratio at 31 December 2018 was 14.0%, and the own funds ratio was 18.0%, corresponding to an excess capital coverage of DKK 3.6 billion or 6.6 percentage points relative to the calculated capital requirement.

In connection with the SIFI designation, the Bank raised its strategic capital targets so that the target for the common equity tier 1 ratio is now 13.5% (previously 13.0%), while the target for the own funds ratio is now 17.5% (previously 16.5%).

Over the course of the past ten years, Spar Nord has substantially strengthened its capital position, raising the common equity tier 1 ratio from 8.9% in 2008 to 14.0% in 2018, corresponding to an increase of around 60%. The consolidation was made primarily by increasing the Bank's equity by about 100%, as a result of which equity relative to assets increased from about 6% in 2008 to about 10% in 2018.

This makes the Bank well positioned to face the stricter future capital requirements, which in addition to requirements triggered by the assigned SIFI status also include a fully phased-in capital conservation buffer and a countercyclical buffer. The former will be phased in from Q1 2019 at a rate of 0.5% and will be raised to 1.0% at the end of September 2019.

New minimum requirement for eligible liabilities
In addition to stricter capital requirements, Spar Nord must in future comply with the minimum requirement for eligible liabilities, also known as MREL, which applies to SIFIs. The MREL requirement will for Spar Nord be phased in over the course of four years starting in January 2019. Fully phased-in, the requirement will amount to around 27% of the Bank's risk exposure amount (REA).

As a result of the MREL requirement, from H2 2019 and two years onwards Spar Nord expects to issue non-preferred senior debt in the amount of approximately DKK 6-7 billion.

The Bank currently has very strong liquidity, and future issuances of non-preferred senior bonds will generally further strengthen its liquidity position.

IRB on the cards
In order to comply with the new capital requirements in the most expedient manner – and generally to achieve the optimum capital application and thus increase the Bank's competitive strength – Spar Nord has launched a strategic project, which over the course of three to four years is to enable the Bank to switch from the standard method to the internal ratings-based (IRB) approach for calculating the risk weight of the Bank's loans and guarantees. By using IRB models, the Bank may attain lower risk weights for its assets and thus ensure more optimum capital application and provide greater capacity for growth and/or dividend payments.

Section 1
Introduction

Enhanced focus on non-financial risks
In recent years, and particularly in 2018, focus has increasingly centred on non-financial risks, including compliance risk, risk of money-laundering and terrorist financing, IT security, other operational risks and, not least, reputational risk. This trend entails that banks need to adapt to factors such as a new approach to risk taking and risk management.

For a number of years, Spar Nord has focused on managing non-financial risks, and the Bank has therefore dedicated substantial resources to on-boarding new staff and implementing new systems and strengthened procedures in the various risk areas. In the years ahead, the Bank expects to intensify its focus and investments in this area.

Outlook
In the years ahead, economic growth in Denmark is expected to rise from a little over 1% in 2018 to just under the 2% mark. As export markets account for a substantial part of demand in the Danish economy, it is still expected that exports will normalise following a disappointing year, and barring any (further) significant negative effects from the global economy such as a US recession, a severe escalation of the US/China trade war or a hard Brexit.

Overall, developments in key macroeconomic conditions, including interest rate levels, employment, property prices, etc. are still expected to be favourable for the credit quality of Danish banks, while they will continue to put earnings on the traditional deposit and lending business under pressure.

Section 2

Business model

Founded in Aalborg, Denmark, in 1824, Spar Nord has historically been rooted in northern Jutland, and continues to be a market leader in this region.

In the period from 2002 to 2010 Spar Nord established and acquired 27 local banks (branches) outside northern Jutland, and in 2012 the Bank merged with Sparbank, which had 23 branches. Concurrently with these developments, Spar Nord adjusted the branch network and now has a nationwide distribution network comprising 49 local banks.

Spar Nord offers all types of financial services, consultancy and products, focusing its business on retail customers and SMEs in the local areas in which the Bank is represented.

The Spar Nord Group consists of two earnings entities: Spar Nord's Local Banks and Trading, Financial Markets & the International Division. The Group also has a number of staff and support divisions at its Aalborg headquarters.

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

Spar Nord's starting point is that the Bank's greatest strength, also in an increasingly digital world, remains its 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, including digitalisation, low interest rate levels and stricter requirements resulting from new regulation.

Spar Nord bases its strategy on an increasingly digital world and banking market, but a market in which many future customers will still wish to speak personally with an adviser about their financial affairs. At the same time, having strong digital offerings in the future will be paramount for Spar Nord. This is the foundation for Spar Nord's strategic ambition of being "The personal bank in a digital world".

Customers
Spar Nord's primary target groups are retail customers and small and medium-sized businesses in the local areas where the Bank has a presence. In special cases, we offer asset financing abroad (primarily in Germany). Leasing products are offered to business customers in addition to traditional bank financing options.

As an entity, Trading, Financial Markets & the International Division serves customers from Spar Nord's Local Banks as well as large retail customers and institutional clients in the field of equities, bonds, fixed income, forex products, asset management and international transactions.

Finally, under the umbrella concept SparXpress, the Bank offers consumer financing through retail stores, gift voucher solutions via shopping centres and shopping centre associations and direct loans on the website, sparxpres.dk.

In its retail segment, Spar Nord gives priority to full-service customers in the sense that it wants to be a banker for financially sound customers and their entire families, thus catering to all their banking needs. The Bank focuses its day-to-day operations on retaining existing full-service customers, turning existing non-regular customers into full-service customers and attracting new customers with good potential.

In the business customer segment, Spar Nord focuses on sound businesses across industry sectors. In other words, it is to a large degree the structure of a local business community and the local focus that determine the distribution of industry sectors in the individual banking areas.

Spar Nord's credit exposure at Group level is characterised by an exposure to retail customers that is higher than the sector average and generally good sector diversification in its business customer portfolio.

Spar Nord generally aims to be the customer's primary banker and that customers conduct their basic banking business with the Bank. However, after a concrete assessment Spar Bank may accept that the customer also banks with another one or two institutions, provided the Bank knows the extent of credit facilities granted by these institutions.

Distribution
The 49 local banks throughout Denmark constitute the backbone of Spar Nord's distribution network. Spar Nord gives very high priority to personalised advisory services in its physical branches, supplementing them with self-service solutions such as well-functioning online banking and mobile platforms.

Section 3
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.

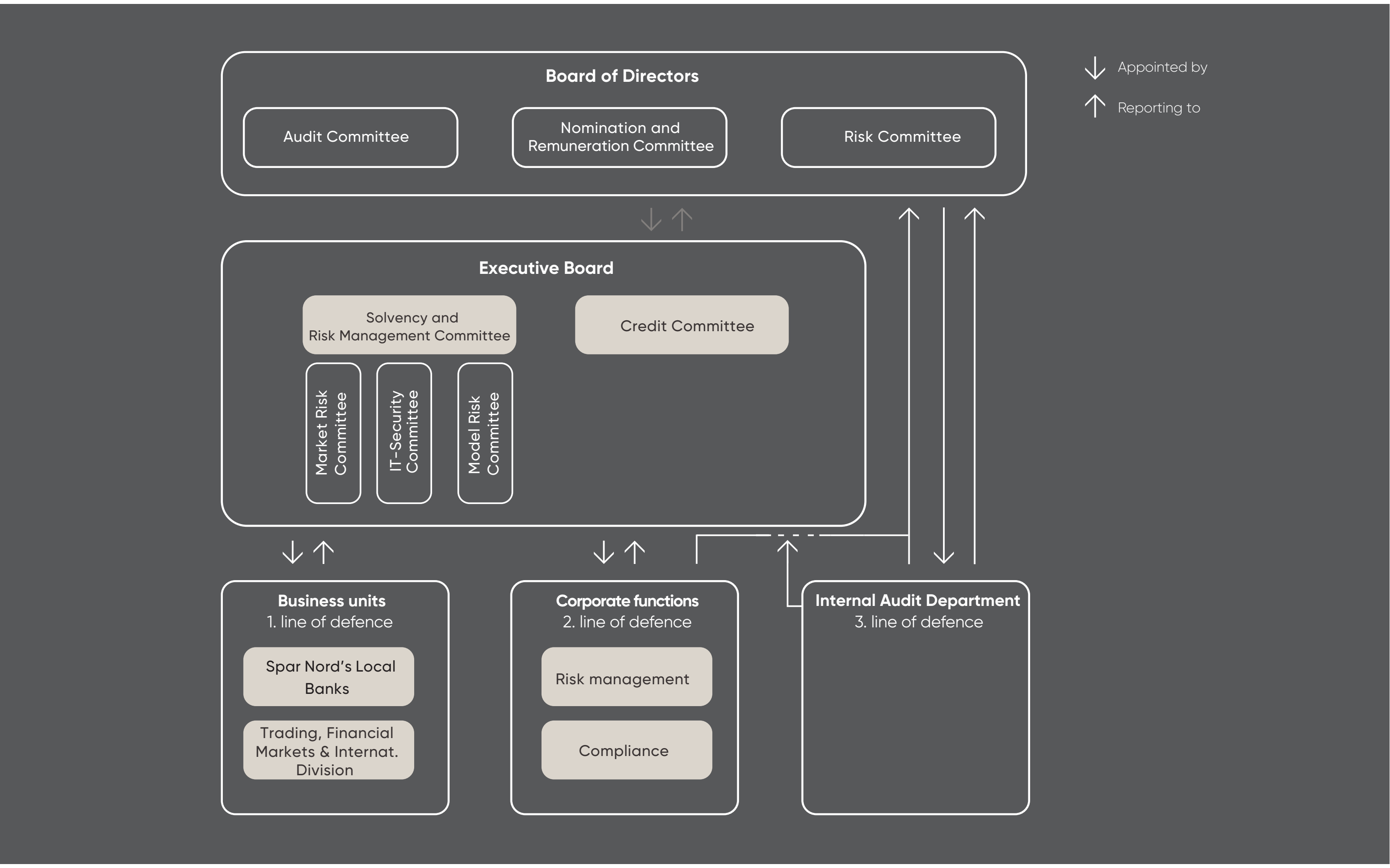
Risk organisation
Risk assumption is a natural and everyday part of Spar Nord's business activities, placing heavy demands on the Bank's risk management organisation and risk management environment.

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 figure 3.1.

Figure 3.1



Section 3
Risk management

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.

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 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 Comittee 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 Chief Risk 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.

The 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 Head of Compliance 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.

Reporting
The Bank deploys substantial resources to ensure appropriate risk reporting on an ongoing basis, including follow-up on legislative and managerial risk frameworks.

Reporting to Spar Nord's Management and relevant stakeholders is performed according to fixed guidelines. The Board of Directors receives continual reports covering all important risk areas, which appears from figure 3.2.

Figure 3.2

Overview of significant risk reports

	Report	Frequency	Contents
General risk reporting	Selected audit reports	On an ongoing basis	The Internal Audit Department prepares various reports pertaining to the Bank's risk areas.
	Individual solvency need (ICAAP)	Quarterly	Assessment of the risk profile and calculation of adequate own funds. The report contains conclusions reached in Spar Nord's stress test and an assessment of the capital needs in respect of the individual risks. Once a year, an extended version of the report is prepared.
	Forecast	Quarterly	The forecast is updated regularly with a view to ensuring ongoing follow-up on the business results and projections for profits, balance sheet, liquidity and capital matters.
	Follow-up on recovery indicators	Semi-annually	Follow-up on the indicators set out in the recovery plan, viewed in relation to the threshold values fixed.
	Reporting from the Risk Management Function	Semi-annually	Complete overview of Spar Nord's principal risks and monitoring of Spar Nord's risk profile.
	Reporting from the Compliance Function	Semi-annually	Review of the most significant compliance controls and status on ongoing tasks. Once a year, an extended version of the report is prepared.
	Reporting from the data protection officer.	Semi-annually	Review of the most important controls relative to compliance with the GDPR and the Danish Data Protection Act and current status of ongoing tasks. Once a year, an extended version of the report is prepared.
	Budget	Annually	The budget is prepared with a view to identifying the business risks for the coming year.
	Credit and balance sheet report	Annually	Review and analysis of Spar Nord's assets, including a specific review of individual exposures and an analysis and assessment of future trends for important lines of business and asset areas.
Credit risk	Credit facility extensions in excess of DKK 10 million	Monthly	Reporting on all credit facility extensions in excess of DKK 10 million that have not been considered by the Board of Directors.
	Unauthorised overdrafts in excess of DKK 1 million	Monthly	Reporting on all individual unauthorised overdrafts in excess of DKK 1 million.
	Statistics on unauthorised overdrafts	Monthly	Reporting on unauthorised overdraft statistics in all banking areas.
	Credit quality report	Quarterly	Analysis of trends in exposures, impairment and losses, including portfolio analyses broken down by rating groups, volume, geography, etc.
	Losses on loans, advances and guarantees	Quarterly	Reporting on the heaviest losses during the past quarter.
	Weak exposures	Semi-annually	Reporting on all credit-weak exposures larger than DKK 50 million, reviewed individually.
Market risk	Risk report	Monthly	Review and analysis of Spar Nord's current interest, equity and foreign-exchange risks, including the historical trend in utilisation of the frameworks and instructions defined by the Board of Directors. An extended version of the report is prepared quarterly.
Operational risk	Reporting from the IT Department	Semi-annually	Review of and follow-up on Spar Nord's IT security and stability of Spar Nord's IT systems, including follow-up on outsourced development projects.
	Risk review of operational risk	Annually	Review of Spar Nord's operational risks and measures to counter such risks.
Liquidity risk	Risk report	Monthly	Review and analysis of Spar Nord's short-term and long-term liquidity risks, including Spar Nord's liquidity stress test and trends in the historical utilisation of the frameworks and instructions laid down by legislation and by the Board of Directors. An extended version of the report is prepared quarterly.
	Calculation and assessment of liquidity position and liquidity risks – internal liquidity adequacy assessment process (ILAAP)	Annually	Combined calculation and assessment of Spar Nord's liquidity position and liquidity risks. The assessment supports Spar Nord's liquidity management and is a component of the statement of the individual solvency need.

Section 4

Capital and solvency need

Developments in 2018

At the end of 2018, Spar Nord maintained a strong capital position recording capital ratios at the same level as at end-2017.

The excess capital coverage fell from 7.9 to 6.6 percentage points due to higher add-ons to the solvency need and the phasing in of capital conservation buffer requirements.

At the same time, solid profit performance helped the Bank to increase its own funds by DKK 0.7 billion.

The Board of Directors has proposed dividend payment for 2018 of DKK 3.5 per share, for a total amount of DKK 0.4 billion.

Spar Nord implemented IFRS 9 in 2018, including the new impairment method. Spar Nord has opted to apply the transitional arrangement relative to both the static and the dynamic component in connection with the calculation of own funds. IFRS 9 has therefore only had a marginal effect on own funds in 2018. The effect will gradually increase until the transition scheme is fully implemented after five years.

TOTAL RISK EXPOSURE AMOUNT

DKK 53.9 billion

2017: DKK 49.5 billion

COMMON EQUITY TIER 1 CAPITAL RATIO

14.0%

2017: 14.4%

OWN FUNDS RATIO

18.0%

2017: 18.2%

INDIVIDUAL SOLVENCY NEED

9.5%

2017: 9.0%

EXCESS CAPITAL COVERAGE IN PERCENTAGE POINTS

6.6

2017: 7.9

LEVERAGE RATIO

8.7%

2017: 8.5%

Definition of capital requirements

The regulatory capital requirements express the amount of capital a bank must reserve to cover the risk it undertakes in the course of its operations in the fields of credit risk, market risk and operational risk.

Spar Nord must ensure that it has access to sufficient capital to support its future business activities and growth. At the same time, Spar Nord must be able to overcome cyclical downturns and absorb unexpected substantial credit losses and substantial negative changes in the value of market-risk-related positions.

Section 4
Capital and solvency need

4.1 Capital policy

The capital policy forms the foundation of Spar Nord's risk profile in terms of capital. The capital policy aims to ensure that Spar Nord consistently complies with applicable legislation in respect of the following three areas:

- Calculation of risk exposure, own funds and capital requirement
- Individual solvency need and supervision procedures
- Market discipline through a number of disclosure obligations

The capital policy defines targets for the common equity tier 1 ratio and the own funds ratio, which should be viewed relative to the capital requirements that apply to Spar Nord. Spar Nord's capital targets at the beginning of 2019 are:

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

The targets have been raised compared with 2018, when the targets were a common equity tier 1 capital ratio of 13.0% and an own funds ratio of 16.5%. Spar Nord revised its targets because the Bank was designated as systemically important (SIFI) in January 2019, which will entail stricter capital requirements in the form of SIFI buffer of 1.0%, which must be complied with by end-2020.

In its endeavours to comply with the described targets, Spar Nord has adopted a number of guidelines intended to ensure that the management of Spar Nord's capital matters is appropriate and adequate and in compliance with applicable legislation.

In its capital policy, Spar Nord has also defined a target for its leverage ratio. It has been assessed that based on the overall risk profile Spar Nord should have a leverage ratio of at least 6%.

Lastly, the capital policy covers Spar Nord's dividend policy, which expresses an intention to distribute 40-50% of the net profit for the year as ordinary dividends.

4.2 Development in capital ratios

Applying the IFRS 9 transitional arrangements, at year-end 2018 Spar Nord had a common equity tier 1 capital ratio of 14.0%, an own fund ratio of 18.0% and an individual solvency need ratio of 9.5%. The excess coverage is 6.6 percentage points compared to Spar Nord's capital requirement. The excess coverage is specified in figure 4.13. Capital ratios and the relevant excess coverage are shown in figure 4.1

Figure 4.1

Capital adequacy and excess coverage using the IFRS 9 transitional arrangement

%	2018	2017
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
Individual solvency need	9.5	9.0
Percentage points		
Excess coverage, common equity tier 1 capital ratio	6.6	7.9
Excess coverage, own funds ratio	6.6	7.9

Figure 4.2

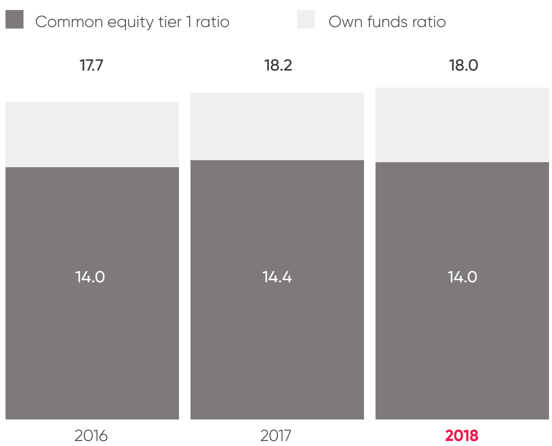
Capital adequacy and excess coverage on full phasing-in of IFRS 9

%	2018	2017
Common equity tier 1 capital ratio	13.6	14.4
Tier 1 capital ratio	15.2	16.0
Own funds ratio	17.6	18.2
Individual solvency need	9.4	9.0
Percentage points		
Excess coverage, common equity tier 1 capital ratio	6.2	7.9
Excess coverage, own funds ratio	6.2	7.9

Figure 4.3

Common equity tier 1 ratio and own funds ratio 2016 - 2018

%



Capital and solvency need

4.3 Own funds

Own funds are composed of common equity tier 1, additional tier 1 capital and tier 2 capital.

Common equity tier 1 capital, tier 1 capital and own funds are calculated with a view to calculating the capital ratios to show Spar Nord's capital resources to comply with Spar Nord's targets as per the capital policy as well as the regulatory requirements.

4.3.1 IFRS 9

Spar Nord implemented IFRS 9 in 2018. The new accounting rules resulted in an increase in the total allowance account from 31 December 2017 to 1 January 2018. Developments in the allowance account resulted in a reduction of Spar Nord's equity at 1 January 2018 of DKK 195 million after tax.

As a result of the new accounting rules, a transitional arrangement in relation to the IFRS 9 effect has been incorporated in CRR. The transitional arrangement may be applied in order to phase-in the effect of IFRS 9 when calculating own funds. The transitional arrangement is divided into two components:

- The static component: The initial cost of changing accounting rules
- The dynamic component: Costs caused by any deterioration of the macroeconomic outlook. The dynamic component is calculated as current developments in the allowance account for stages 1 and 2 between 1 January 2018 and a given future reporting date.

For capital adequacy purposes, Spar Nord has opted to apply the transitional arrangement relative to both the static and the dynamic component.

Using the transitional arrangement means that the effect of IFRS 9 is recognised in own funds over a five-year period.

The transitional arrangement is shown in figure 4.4. The figure shows that in 2018 Spar Nord can, by using the IFRS 9 transitional arrangement, recognise 95% of the current cost related to IFRS 9 as an increase in the common equity tier 1 capital.

Figure 4.4

IFRS 9 transitional arrangement

	2018	2019	2020	2021	2022	2023
Transitional arrangement in %	95	85	70	50	25	0
Static component in DKKm after tax	185	166	137	98	49	0
Dynamic component in DKKm after tax	21	-	-	-	-	-
Total effect of IFRS 9 transitional arrangement	206	-	-	-	-	-

The positive effect of the selected transitional arrangement is shown in figure 4.4, which shows that the common equity tier 1 capital increased by DKK 206 million at end-2018. Reference is made to Appendix J regarding the IFRS 9 effect.

4.3.2 Issued capital instruments

Spar Nord has issued additional tier 1 capital with a total principal of DKK 850 million, distributed on two loans of DKK 400 million and DKK 450 million, respectively.

Spar Nord has issued tier 2 capital with a total principal of DKK 1,336 million, distributed on four issues of DKK 436 million (SEK 600 million), DKK 400 million, DKK 350 million and DKK 150 million, respectively, of which DKK 900 million was issued in 2018.

In 2018, tier 2 capital with a principal of DKK 700 million was repaid. The issued loan was repaid at first call.

Spar Nord's additional tier 1 (AT1) capital and tier 2 capital (T2) was issued on terms that meet the requirements for inclusion in own funds under CRR. Capital issues are therefore recognised in own funds with the principal adjusted for the permitted treasury holding of AT1 and T2 instruments issued by the bank itself and any related expenses not incurred.

Figure 4.5 provides an overview of Spar Nord's capital issues.

Figure 4.5

Additional tier 1 capital and tier 2 capital issued

DKKm	Principal	Date of issuance	First call date
Additional tier 1 capital - DK0030362512	400	10.06.2015	10.06.2020
Additional tier 1 capital - DK0030386297	450	06.12.2016	06.12.2021
Tier 2 capital - NO0010808033	436	18.10.2017	18.10.2022
Tier 2 capital - DK0030422357	400	19.06.2018	19.06.2023
Tier 2 capital - DK0030431341	150	29.11.2018	29.05.2024
Tier 2 capital - DK0030432075	350	29.11.2018	29.05.2024

See Appendix C for further information about Spar Nord's issued capital instruments.

4.3.3 Calculated own funds

In 2018, own funds grew by DKK 675 million. Own funds are mainly impacted by developments in the following three areas:

- Profit for the year after tax
- Provision for expected dividends for 2018
- Repayment and new issuance of tier 2 capital

Profit for the year after tax and before interest on additional tier 1 capital added DKK 920 million. Of this amount, a DKK 431 million provision has been made covering proposed dividends for 2018, equal to DKK 3.5 per share. In 2018, DKK 49 million was paid on issued additional tier 1 capital.

Capital and solvency need

Tier 2 capital of DKK 700 million was repaid in 2018, and new tier 2 capital with a principal of DKK 900 million was issued. The net impact of DKK 200 million makes a positive contribution to developments in own funds.

Figure 4.6

Calculation of own funds

DKKm	2018	2017
Share capital	1,230	1,230
Other reserves	0	0
Retained earnings	7,043	6,789
IFRS 9 transitional arrangement	206	0
Revaluation reserves	103	94
Proposed dividend	-431	-431
Intangible assets	-146	-151
Goodwill in associates	0	-37
Deduction - Holdings of insignificant CET1 instruments	-376	-331
Deduction - Holdings of significant CET1 instruments	-35	0
Prudent valuation	-21	-16
Adjustment, permitted holding of treasury shares	-23	-25
Customer holdings of Spar Nord shares based on loan financing	-1	-1
Common equity tier 1 capital after primary deductions	**7,549**	**7,123**
Additional tier 1 (AT1) capital	843	843
Deduction - Holdings of insignificant AT1 capital	-5	-41
Tier 1 capital (incl. additional tier 1 capital) after deductions	**8,387**	**7,924**
Tier 2 capital	1,314	1,133
Deduction - Holdings of insignificant T2 capital	-10	-41
Own funds after deductions	**9,691**	**9,016**

In September 2018, Spar Nord acquired 27% of the shares in Danske Andelskassers Bank (DAB) and another 3% in the period until 31 December. Spar Nord's acquisition of shares in DAB contributed to a deduction of DKK 35 million, as the total portfolio of significant investments in the financial sector at end-2018 exceeded the capital deduction threshold.

Goodwill in associates has been reduced to zero because the shares in Valueinvest was sold in 2018.

4.4 Total risk exposure amount

The total risk exposure amount (REA) is used for determining the minimum capital requirement and also for calculating capital ratios, buffer requirements and the individual solvency need. The risk exposure represents the basis for determining the capital that must be reserved relative to the risk undertaken by Spar Nord in activities involving credit and market risk. Finally, operational risk is a component of the total risk exposure amount.

Spar Nord calculates the total risk exposure amount for credit and market risk using the standardised approach under CRR (Basel III). The market value approach is used for calculating counterparty risk, while the exposure to operational risk is calculated using the basic indicator approach. In addition, Spar Nord uses the comprehensive approach for financial collateral.

Figure 4.7 shows Spar Nord's use of capital models.

Figure 4.7

Spar Nord's use of capital models

Credit risk	Standardised approach
Counterparty risk	Market value approach
Valuation of collateral security	Comprehensive method
Market risk	Standardised approach
Operational risk	Basic indicator approach
CVA – Credit Value Adjustment	Standardised approach

4.4.1 Calculated risk exposure

In 2018, Spar Nord's total risk exposure amount rose by DKK 4.3 billion to stand at DKK 53.9 billion at end-2018.

In 2018, the total risk exposure amount for credit risk increased by DKK 3.4 billion to stand at DKK 44.0 billion at end-2018. Of this amount, risk exposure from OTC derivatives with financial counterparties (CVA risk) accounted for DKK 112 million.

The amounts take into consideration the fact that the IFRS 9 transitional arrangement results in higher risk exposure. The effect was calculated at DKK 211 million at end-2018.

Risk exposure amount for market risk rose by DKK 929 million to DKK 4.1 billion in 2018, primarily because of higher exposure to debt instruments.

The gross interest rate risk is higher despite a fall in net interest rate risk. The reason is an increase in hedging of interest rate risk in DKK which was made using EUR-based instruments.

Furthermore, an increase in the bond portfolio has caused an increase in the REA due to both general risk and specific risk.

Figure 4.8 shows a decline in currency exposure in 2018.

The risk exposure amount for operational risk rose by DKK 13 million to DKK 5.7 billion.

The total risk exposure amount is shown in figure 4.8.

Figure 4.8
Total risk exposure amount

	Risk exposure	
DKKm	2018	2017
Total credit risk, incl. CVA		
- Central governments or central banks	0	0
- Regional or local authorities	0	1
- Public-sector entities	39	34
- Institutions	406	489
- Corporates	17,949	16,440
- Retail	14,833	14,061
- Exp. secured by mortgage on immovable property	2,215	2,262
- Exposures in default	2,586	2,385
- High-risk exposures	1,400	1,420
- Exposures in units or CIU	10	1
- Equity exposures	2,728	1,843
- Other items	1,751	1,601
CVA risk	112	121
Total credit risk, incl. CVA	**44,029**	**40,658**
Market risk		
- Debt instruments	3,683	2,616
- Shares etc.	324	313
- Foreign-exchange risk	115	265
- Commodity risk	3	2
Total market risk	**4,125**	**3,196**
Total operational risk	**5,705**	**5,692**
Total	**53,858**	**49,546**

4.5 Individual solvency need

The Danish Financial Business Act stipulates requirements for the individual solvency need any additional capital requirements. These requirements are to cover the risks not sufficiently covered by the minimum requirement of 8% pursuant to CRR. Such risks include business risks and special credit risks.

Spar Nord uses the so-called 8+ approach recommended by the Danish Financial Supervisory Authority in its guidelines. The 8+ approach is based on the statutory minimum capital requirement of 8.0% of the total risk exposure amount (Pillar 1) plus add-ons for risks and matters not fully reflected in the calculation of the total risk exposure amount. In other words, ordinary risks are assumed to be covered by the 8% requirement, and, consequently a position has to be taken on the extent to which an institution has additional risks that necessitate an add-on to the calculated solvency need (Pillar 2).

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

Based on the guidelines issued by the Danish Financial Supervisory Authority, the Board of Directors determines Spar Nord's adequate own funds and individual solvency need based on the recommendation of the Solvency and Risk Management Committee.

Spar Nord's calculation method follows the guidelines issued by the Danish Financial Supervisory Authority and is based on an assessment of risks within the following nine key areas:

1. Earnings
2. Growth in lending
3. Credit risks
   - Credit risk attaching to large customers in financial difficulty
   - Concentration risk: Individual customers
   - Concentration risk: Industries
   - Concentration, collateral
   - Concentration, geography
   - Other credit risks
4. Market risks
   - Interest rate risk
   - Equity risk
   - Foreign exchange risk
   - Credit spread risk
5. Liquidity risk
6. Operational risk
7. Leverage
8. Regulatory maturity of capital instruments
9. Other risks
   - The Bank's business profile
   - Strategic risks
   - Reputational risks
   - Properties
   - Other

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

In Spar Nord's opinion, the risk factors applied in the model cover all risk areas required by legislation.
At end-2018, the adequate own funds amounted to DKK 5,091 million, which is DKK 612 million up on end-2017. The increase was driven by factors such as a higher premium for credit spread risk and developments in the total risk exposure amount.

Spar Nord's total risk exposure amount rose from DKK 49.5 billion at end-2017 to DKK 53.9 billion at end-2018. At end 2018, the solvency need ratio amounted to 9.5% (2017: 9.0%)

Capital and solvency need

Figure 4.9 shows the adequate own funds broken down by risk area.

Figure 4.9

Adequate own funds by risk area

DKKm	2018	% of REA *)	2017	% of REA *)
Minimum 8% requirement				
Credit risk, incl. CVA	3,522	6.5	3,253	6.6
Market risk	330	0.6	256	0.5
Operational risk	456	0.8	455	0.9
Total	**4,309**	**8.0**	**3,964**	**8.0**
Add-on to solvency need				
Credit risk	334	0.6	341	0.7
Market risk	328	0.6	165	0.3
Other risks	120	0.2	9	0.0
Total add-on	**782**	**1.5**	**515**	**1.0**
Total	**5,091**	**9.5**	**4,479**	**9.0**

* REA = Risk Exposure Amount

4.6 Capital buffers

By virtue of the implementation of the Capital Requirements Directive, CRD IV, into the Danish Financial Business Act, Danish financial institutions must comply with a number of buffer requirements. A common feature of all buffer requirements is that only common equity tier 1 (CET1) capital may be used for meeting a bank's capital requirement. If a financial institution fails to meet the capital buffer requirements, it would face restrictions in terms of making dividend payments and other distributions.

The combined capital buffer requirement consists of a countercyclical capital buffer, a capital conservation buffer and a systemic buffer. In addition, a buffer requirement applies to banks designated as SIFIs.

The Minister for Industry, Business and Financial Affairs may determine the countercyclical buffer requirement if financial matters are considered to result in higher socio-economic risks. In 2018, the Minister for Industry, Business and Financial Affairs resolved to determine a countercyclical buffer requirement on recommendation from the Systemic Risk Council. The countercyclical buffer requirement has been set at 1%, of which 0.5%-point will be introduced from 31 March 2019 and another 0.5%-point at 30 September 2019.

The capital conservation buffer serves to ensure a more robust financial sector in terms of a strengthened common equity tier 1 capital ratio. Phasing in of the buffer requirement commenced in 2016, and it will be fully phased-in in 2019, when banks must reserve 2.5% of their total risk exposure amount.

The SIFI buffer requirement depends on the individual bank's systemic importance, and the requirement will be phased in like the other buffer requirements. However, a SIFI will not be subject to both a SIFI buffer requirement and a systemic buffer requirement but only the higher of the two in case a systemic buffer requirement is determined.

After being designated a SIFI institution, Spar Nord is subject to a 1.0% SIFI buffer requirement, which must be complied with by the end of 2020.

The Minister for Industry, Business and Financial Affairs may determine a systemic buffer requirement to counteract and limit long-term non-cyclical systemic or macro-prudential risks that are not comprised by CRR. No systemic buffer has been implemented that will affect Spar Nord.

4.6.1 The combined buffer requirement

The institution-specific countercyclical buffer requirement was DKK 8.3 million at end-2018. The buffer was calculated on the basis of the geographic distribution of Spar Nord's credit exposure. The breakdown of credit exposures relevant for calculating the countercyclical buffer is shown in figure 4.10.

Figure 4.10

Credit exposure, geographical breakdown

	2018		2017	
%	Exposure	Buffer rate	Exposure	Buffer rate
Denmark	97.8	0.0	97.4	0.0
Germany	0.5	0.0	0.3	0.0
Sweden	0.3	2.0	0.7	2.0
Norway	0.4	2.0	0.2	2.0
United Kingdom	0.1	1.0	0.3	0.0
Luxembourg	0.0	0.0	0.3	0.0
USA	0.1	0.0	0.2	0.0
Other countries	0.8	-	0.6	-

In addition to the countercyclical buffer requirement, Spar Nord also needs to reserve capital for the so-called capital conservation buffer. The requirement is calculated on the basis of the total risk exposure amount, and at end-2018 it stood at 1.875% of the total risk exposure amount.

Consequently, at end-2018 Spar Nord's combined buffer requirement consisted of the institution-specific countercyclical buffer and the capital conservation buffer. The calculated combined buffer requirement is shown in figure 4.11.

Figure 4.11

Combined buffer requirement

	2018	2017
Total risk exposure amount (DKKm)	53,858	49,546
Institution-specific counter-cyclical buffer requirement (%)	0.0	0.0
Capital conservation buffer requirement (%)	1.9	1.3
Institution-specific countercyclical buffer requirement (DKKm)	8	9
Capital conservation buffer requirement (DKKm)	1,010	619
Combined buffer requirement (DKKm)	**1,018**	**628**

In 2018, the combined buffer requirement in Spar Nord increased by DKK 390 million. This was driven primarily by an increase in the capital conservation buffer requirement from 1.25% to 1.875%. Secondly, there is an increase of the total risk exposure amount.

The standard layout to be used for publishing information regarding the requirement as to compliance with the requirement as to a countercyclical capital buffer appears from Appendix E.

4.7 Excess capital coverage relative to statutory requirement

Figure 4.12 shows that Spar Nord's common equity tier 1 capital at end-2018 was 14.0%, which equates to an excess coverage of 6.6 percentage points relative to the CET 1 capital requirement.

Figure 4.12
Excess coverage relative to common equity tier 1 (CET1) requirement

DKKm/%	2018		2017	
Basic requirement of 4.5%	2,424	4.5	2,230	4.5
Add-on to solvency need	440	0.8	290	0.6
Combined buffer requirement	1,018	1.9	628	1.3
Capital requirement for additional tier 1 (AT1) capital	117	0.2	38	0.1
Capital requirement for tier 2 capital	0	0.0	28	0.1
Capital requirement	**3,999**	**7.4**	**3,213**	**6.5**
Common equity tier 1 capital	7,549	14.0	7,123	14.4
Excess coverage	**3,551**	**6.6**	**3,909**	**7.9**

At end-2018, Spar Nord's total own funds ratio stood at 18.0%, corresponding to an excess coverage of 6.6 percentage points relative to the total capital requirement.

Figure 4.13
Excess coverage relative to capital requirement

DKKm/%	2018		2017	
Minimum 8% requirement	4,309	8.0	3,964	8.0
Add-on to solvency need	782	1.5	515	1.0
Combined buffer requirement	1,018	1.9	628	1.3
Capital requirement	**6,109**	**11.3**	**5,107**	**10.3**
Own funds	9,691	18.0	9,016	18.2
Excess tier 2 capital	31	0.1	0	0.0
Excess coverage	**3,551**	**6.6**	**3,909**	**7.9**

4.8 Leverage ratio

The leverage ratio is calculated as Spar Nord's tier 1 capital relative to its total exposure. Spar Nord has put in place procedures intended to counter the risk of excess leverage exposure and to ensure identification, management and monitoring of Spar Nord's leverage exposure. In addition, methodologies have been developed to measure risks connected with excess leverage and other methodologies designed for assessing significant changes in leverage ratio.

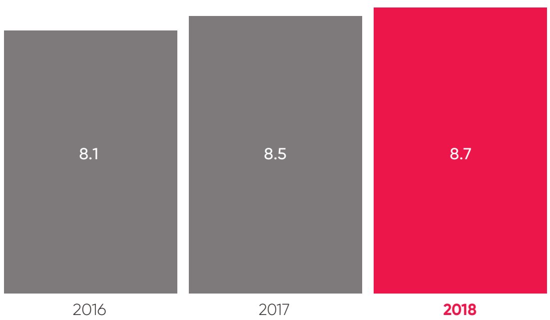
A threshold value for the leverage ratio may be has not yet been introduced by legislation. However, it has been decided that the implementation of CRR II contains a 3.0% threshold, corresponding to a maximum leverage of about 33 times the tier 1 capital. Spar Nord complies with this target and with its own minimum target of 6% by a fair margin, as Spar Nord's leverage ratio was calculated at 8.7% at end-2018. This calculation was made based on the calculated own funds, which complies with the rules for a transitional IFRS 9 arrangement. Using a core capital calculated relative to a fully phased-in set of rules, the leverage ratio would be calculated at 8.4%.

Figure 4.14
Leverage ratio

%	2018	2017
Leverage ratio – Transitional arrangement IFRS 9/CRR	8.7	8.5
Leverage ratio – fully phased-in IFRS 9/CRR	8.4	8.4

Figure 4.15 shows a rising leverage ratio in Spar Nord for the period 2016-2018.

Figure 4.15
Leverage ratio
%



4.9 Systemically important financial institution (SIFI)

On 2 January 2019, Spar Nord was designated as systemically important financial institution (SIFI). Being assigned SIFI status will result in stricter capital requirements and generally stricter requirements on the Bank's risk management process. Spar Nord will thus be subject to a SIFI buffer requirement of 1%, which must be complied with by end-2020.

Section 4
Capital and solvency need

Spar Nord was designated SIFI on the basis of a decision by the Danish Ministry of Industry, Business and Financial Affairs that the model for identifying systemically important financial institutions needed to be adjusted. One of the results hereof was that the threshold value for deposits was lowered from 5.0% to 3.0% of the sector's total deposits. The adjustment was made to ensure that institutions in Denmark that are considered systemically important are designated as such.

4.10 MREL
Pursuant to the Danish Financial Business Act, plans for winding up distressed banks are prepared by the Danish FSA and Finansiel Stabilitet. In connection with such plans, minimum requirements for eligible liabilities (MREL) must be defined.

The general resolution principle for SIFIs is that it should be possible to restructure them so they can return them to the market with adequate capitalisation to ensure market confidence.

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.

The MREL requirements for Spar Nord will be phased in by 25% a year during the period from early 2019 to late 2022.

The MREL requirement for Spar Nord is shown in figure 4.16.

Figure 4.16
MREL requirements

%	Phase-in arrangement 01.01.2019
Solvency ratio	9.5
Capital conservation buffer requirement	2.5
SIFI buffer requirement	0.0
Countercyclical buffer requirement	0.0
Capital requirement	**12.0**
MREL add-on	3.0
Total MREL requirement	**15.0**

It is expected that the MREL will have to be met with convertible instruments ("contractual bail-in"), including tier 1, additional tier 1 and tier -2 capital, with a term to maturity of more than 12 months. In addition, SIFIs will be able to apply a new type of capital referred to as Non Preferred Senior (NPS). NPS ranks ahead of the existing capital instruments. Common equity tier 1 (CET1) capital, tier 1 and tier 2 capital must also have a term to maturity of more than 12 months. During the period 2019-2021, Spar Nord is planning to issue Non Preferred Senior bonds for about DKK 6-7 billion, of which approximately DKK 2 billion will be issued in H2 2019.

4.11 Internal ratings-based models
In light of the upcoming MREL requirements and stricter capital requirements following the SIFI status assignment, Spar Nord has resolved to prepare an application for permission to switch to the use of internal ratings-based models (IRB) for calculating capital risk.

The Bank currently employs the standard method for calculating its risk exposure. By using internal ratings-based models, Spar Nord may achieve lower risk weights for its assets, thus attaining a more optimum capital application.

Spar Nord expects the preparatory work to take three years, allowing it to apply for switching to IRB by the end of 2021.

4.12 Basel IV – the rules of the future
In December 2018, recommendations were agreed with respect to revised rules for calculating capital ratios and capital requirements, designated Basel IV/CRR II. The proposal is expected to be considered by the EU at the beginning of 2019 and to enter into force on 1 January 2022.

Preparatory work for CRR III has also been initiated. An effective date remains to be fixed.

CRR II and CRR III are expected overall to lead to changed regulation in the following areas:

- Credit risk, including counterparty risk
- New calculation method for market risk
- Operational risk
- Leverage ratio requirements for SIFI institutions
- Handling of IRB modelling

Section 5
Liquidity risk

LCR

174%

2017: 187%

STRATEGIC LIQUIDITY

DKK 21.8 billion

2017: DKK 20.8 billion

SHARE OF ENCUMBERED ASSETS

3.0%

2017: 2.2%

Developments in 2018

Compared with end-2017, Spar Nord's liquidity situation remains at a strong level at end-2018. At 31 December 2018, Spar Nord's LCR ratio was thus calculated at 174% compared with 187% at end-2017. Spar Nord's strategic liquidity is calculated at DKK 21.8 billion, which is an increase of DKK 1.0 billion compared with 2017.

Definition of liquidity risk

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.

5.1 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. Lastly, the policy is intended to ensure a financing structure that is optimised in relation to risk and price.

Spar Nord's objective is for the LCR to amount to at least 125% in compliance with the regulation on LCR. In addition, Spar Nord aims to stay below the funding ratio and liquidity indicator threshold values in the Diamond Test Model.

Liquidity risk

Figure 5.1

Liquidity management at Spar Nord

	Short-term: Liquidity management		Liquidity stress test	Management of funding sources and needs	Long-term liquidity management
Objective	Ensuring that, in the short operational term, Spar Nord will be able to meet its obligations at all times Ensuring compliance with intraday liquidity	Ensuring that, on a 30-day horizon, the Bank has adequate high-quality liquid assets to withstand a tough stress scenario Ensuring compliance with Liquidity Coverage Ratio (LCR), cf. CRR	Ensuring that Spar Nord becomes aware in due time of future liquidity and refinancing risks Stress tests are prepared for a 12-month term	Ensuring that Spar Nord has a diversified and balanced funding structure Ensuring that Spar Nord has an overview of future funding needs broken down on funding sources	Ensuring that Spar Nord had hedged any long-term mismatch between deposits and lending Ensuring compliance with Danish FSA's Funding Ratio, cf. Supervisory Diamond and Net Stable Funding Ratio, cf. CRR
Management tool	Decentralised instruction target	Decentralised instruction target	Central instruction target	Central instruction target	Central instruction target
Monitoring/ control	Liquidity management function	Liquidity management function	Funding	Funding	Funding
Report recipient	Head of Trading, Financial Markets & the International Division, Executive Board and Board of Directors	Head of Trading, Financial Markets & the International Division, Executive Board and Board of Directors	Executive Board and Board of Directors	Executive Board and Board of Directors	Executive Board and Board of Directors
Model	Management of intraday liquidity	GAP analysis/ Simulation tool	GAP analysis/ projection	GAP analysis/ projection	GAP analysis
Ratios/model for follow-up	Intraday liquidity requirement	Liquidity Coverage Ratio 30-day rule	Liquidity stress test	Liquidity projection	Strategic liquidity

5.2 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 liquidity.

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 Short-term liquidity

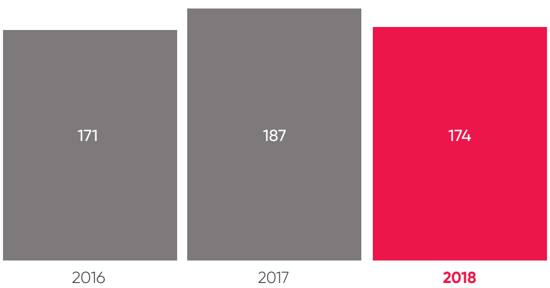
Spar Nord employs fixed models to monitor and manage its short-term liquidity, including the daily management of LCR and intraday liquidity and ongoing preparation of stress tests.

At end-2018, LCR was calculated at 174%, which is comfortably above Spar Nord's target LCR of at least 125%. The excess coverage of 49 percentage points relative to Spar Nord's target corresponds to DKK 4.7 billion in excess liquidity. Calculated relative to the statutory requirement of 100%, the excess liquidity amounted to DKK 7.0 billion. At end-2017, LCR was calculated at 187%.

Figure 5.2

Liquidity coverage ratio (LCR)

%



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).

Figure 5.3

Liquidity coverage ratio

DKKm	2018	2017
Liquidity resources	16,513	17,342
Liquidity requirement	9,471	9,282
LCR (%)	**174**	**187**

The specifications regarding Liquidity Coverage Ratio are set out in Appendix G.

Liquidity risk

5.4 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 of DKK 1.0 billion 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.

5.5 Stress testing

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.

Figures 5.6 and 5.7 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.

Figure 5.4

Strategic liquidity
DKKbn

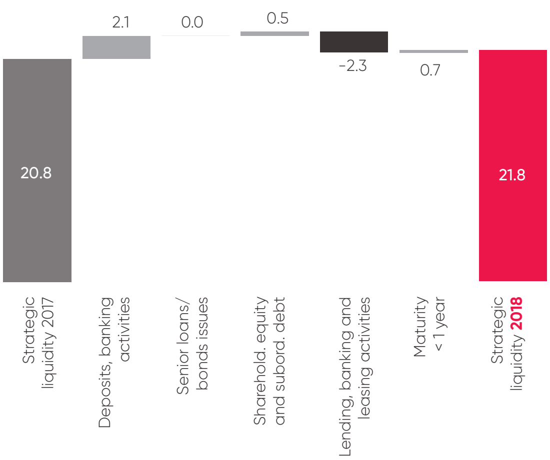


Figure 5.5

Strategic liquidity
DKKbn

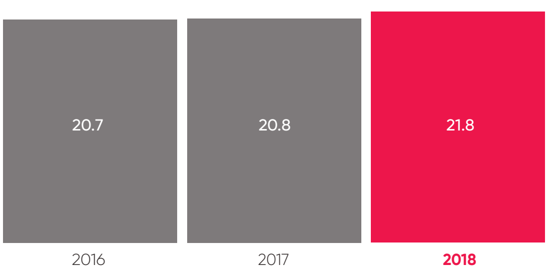


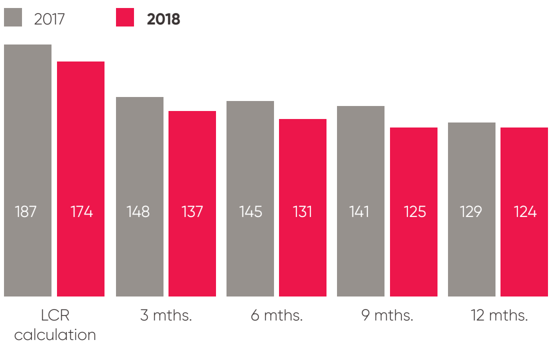
Figure 5.6

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

Figure 5.7

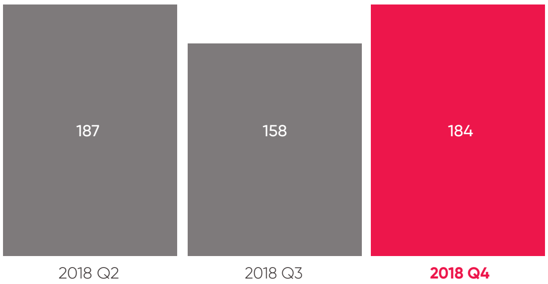
LCR projected in a severe stress scenario
%



5.6 Liquidity indicator

The FSA's updated liquidity indicator 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.

Figure 5.8
Liquidity indicator
%



Since the liquidity indicator was implemented in the Supervisory Diamond Test Model, Spar Nord has realised a level notably above the 100% requirement.

5.7 Funding and maturity 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 end-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.

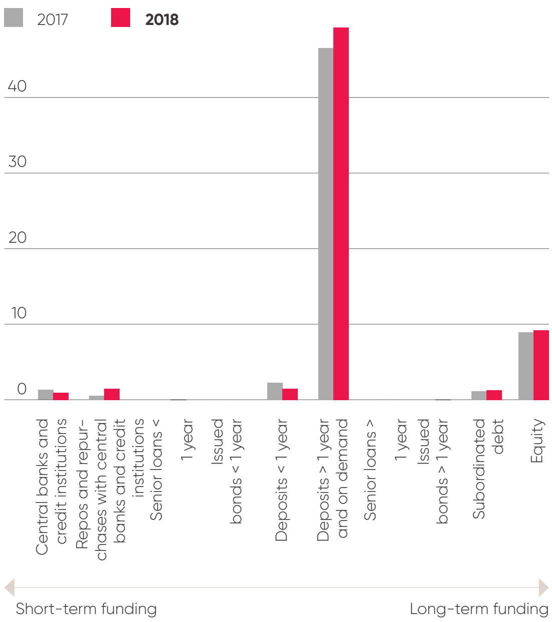
A net increase in the use of repos and repurchases and debt to central banks and credit institutions combined with consolidation and the raising of new subordinated debt have also affected Spar Nord's total funding at the end of 2018. Deposits remain Spar Nord's largest source of funding, and at end-2018 it represented 79.6% of Spar Nord's 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.

Figure 5.9
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**

Figure 5.10
Funding structure
(DKKbn)



5.8 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.

5.9 Encumbered assets

Assets encumbrance may constitute a funding risk if Spar Nord has many encumbered assets relative to its balance sheet total. Extensive asset encumbrance may also have a negative impact on the potential for procuring unsecured financing, as increased asset encumbrance contributes to deteriorate the position of this type of creditors.

As part of its business model, Spar Nord has been active in the money and derivatives market for many years, for which reason a proportion of Spar Nord's assets will regularly be encumbered. They may serve as collateral on procurement of funding through repo transactions or as collateral for market values related to interbank derivatives transactions. Moreover, Spar Nord provides collateral for numerous other purposes, including clearing activities.

The primary sources of asset encumbrance are:

Encumbrance triggered by activities in the securities market:

- Repo and reverse repo transactions
- Repurchase transactions with Danmarks Nationalbank
- Securities lending

Collateral for derivative transactions:

- CSA collateral for the market value of derivative transactions
- CSA collateral for the clearing of derivative transactions
- Collateral for stock lending

Other assets:

- Collateral furnished with clearing systems
- Paid-in margins and default funds
- Offsetting, cf. netting agreements
- Security provided for mortgage loans

The primary collateral received derives from reverse repo transactions.

Figure 5.11

Share of encumbered assets

	End of year		Average	
DKKm	2018	2017	2018	2017
Encumbered assets	2,184	1,503	2,746	1,954
Assets and collateral	88,506	90,430	91,060	88,525
Share of encumbered assets (%)	**2.5**	**1.7**	**3.0**	**2.2**

The average share of Spar Nord's total encumbered assets amounts to 3.0% of the total assets plus collateral received that can form the basis for encumbrance in 2018. This is an increase of 0.8 percentage points from 2.2% in 2017.

The specifications regarding encumbered assets are set out in Appendix H.

5.10 Future legislation regarding liquidity

The European Commission's proposal for CRR II is expected to be finally adopted in H1 2019, after which time the liquidity requirement in the form of the Net Stable Funding Ratio (NSFR) is expected to apply from mid-2021. NSFR seeks to ensure stable funding profiles for the individual banks, the focus being the relationship between the term of individual assets and funding. The NSFR ratio is to be calculated for a 12-month horizon.

On the basis of preliminary calculations and assessments of the principles underlying the calculation of NSFR, Spar Nord is believed to be ready for a future NSFR liquidity requirement of 100%.

Section 6

Credit risk

Developments in 2018

In 2018, Spar Nord generally experienced satisfactory developments in loan portfolio quality. In recent years, the credit quality of retail and business customers has been historically strong, and the overall positive trend continued in 2018. However, the Bank recorded a higher risk level for its agricultural customers in 2018, among other things due to difficult market conditions for pig farmers and the severe drought during the summer period.

In 2018, the Bank saw growth in both the retail and the business customer segment. Lending growth, which stood at DKK 2.5 billion or 6 %, was driven by growth in lending types such as mortgage loans to retail customers and leases for business customers. The Bank continued recent years' positive trend of arranging mortgage loans for retail and business customers, recording an increase in 2018 of DKK 3.7 billion, or 5%.

Definition of credit risk

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

Credit risk also includes settlement and counterparty risk. Settlement risk is the risk arising when payments are settled, such as payments in respect of currency transactions and transactions in financial instruments. The risk arises when Spar Nord transfers payments before it has attained full assurance that the counterparty has met all its obligations.

Counterparty risk is the risk of loss resulting from a customer's default on over-the counter derivatives and securities financing instruments.

TOTAL RISK EXPOSURE AMOUNT

DKK 44.0 billion

2017: DKK 40.7 billion

LOANS EXCL. REVERSE (GROSS)

DKK 41.3 billion

2017: DKK 38.8 billion

IMPAIRMENT RATIO (IMPACT ON OPERATIONS)

0.3%

2017: -0.1%

TOTAL IMPAIRMENTS

3.3%

2017: 2.7%

PERCENTAGE IMPAIRED (GROSS)

5.9%

2017: 5.2%

NON-PERFORMING LOANS

0.8%

2017: 0.6

UNSECURED SHARE (WITHOUT REVERSE)

42.3%

2017: 41.5%

Section 6
Credit risk

6.1 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 Spar Nord'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 other 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.

Figure 6.1
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 pursues a principle that it wants insight into any exposures that its customers may have towards other financial institutions.

6.2 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.

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.

6.3 Credit exposure

Spar Nord's total credit exposure is attributable partly to activities related to loans and guarantees, partly to trading activities involving bonds and financial instruments, etc.

Figure 6.2 shows Spar Nord's total credit exposure (carrying amount) at end-2018 and end-2017.

Figure 6.2

Credit exposure on provisions and fair value adjustment for financial reporting purposes

DKKm	2018	2017
Reverse repo transactions with customers	4,779	9,475
Loans and advances at amortised cost	39,551	37,272
Loans, advances and other receivables at amortised cost	**44,330**	**46,747**
Contingent liabilities	12,092	11,961
Net credit exposure relating to loans, advances and guarantees	**56,422**	**58,708**
Impairments of loans and provisions against guarantees, etc.	1,868	1,616
Gross credit exposure relating to loans, advances and guarantees	**58,290**	**60,324**
Net credit exposure relating to loans, advances and guarantees	**56,422**	**58,708**
Cash balances and demand deposits with central banks	1,029	1,298
Reverse repo transactions	931	570
Due from credit institutions and central banks	469	867
Credit exposure for financial reporting purposes lending activities	**58,850**	**61,444**
Positive fair value of derivatives, etc.	862	1,030
Credit exposure relating to assets in the trading book	16,382	11,059
Assets in strategic business partners	1,545	1,405
Associates	333	128
Credit exposure for financial reporting purposes	**77,972**	**75,066**

Section 6
Credit risk

Spar Nord's impairment account amounted to a total of DKK 1,945 million at 31 December 2018. Of this amount, provisions for unutilised credit lines accounted for DKK 76 million.

Figure 6.3

Impairment account for loans, advances and guarantees

	Impairment account	
DKKm	**2018**	**2017**
Spar Nord	1,945	1,616

6.4 Loans, advances and guarantees

Spar Nord's total loans, advances and guarantees before impairments were DKK 58.3 billion at end-2018, which is DKK 2 billion lower than at end-2017. The development reflects a DKK 4.7 billion reduction in reverse lending to a total of DKK 4.8 billion at end-2018, while bank lending rose DKK 2.5 billion to DKK 41.3 billion at end-2018, corresponding to lending growth of 6% in 2018. Furthermore, guarantees rose by DKK 0.2 billion to stand at DKK 12.2 billion at 31 December 2018.

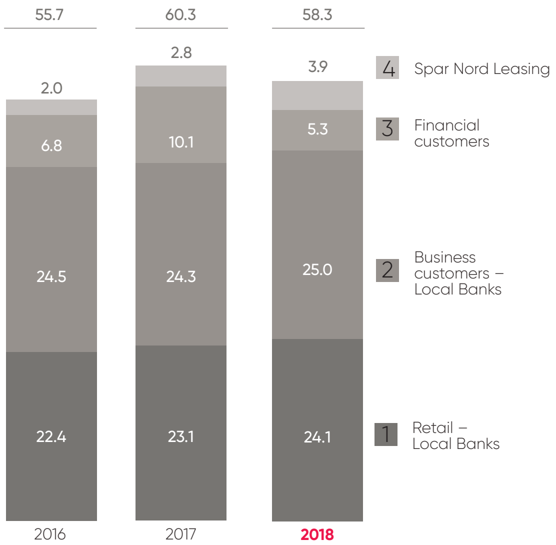
Customers are categorised into four groups as part of the ongoing risk monitoring: 1) Retail customers – Local Banks, 2) Business customers – Local Banks, 3) financial customers and 4) Spar Nord Leasing.

The development in these customer groups appears from figure 6.4.

Figure 6.4

Exposures by category

(DKKbn)



The credit exposure to retail customers at Spar Nord's Local Banks rose DKK 1.0 billion during 2018, equal to 4%, while the credit exposure to business customers rose DKK 0.7 billion, or 3%. Finally, the credit exposure to leasing customers increased 39% to DKK 1.1 billion.

The credit exposure to financial customers was reduced by DKK 4.7 billion during 2018 due to a decline in reverse repo transactions.

6.4.1 Breakdown by industry

As appears from figure 6.5, retail customers account for a large share of Spar Nord's loans, advances and guarantees, and the distribution of loans to business customers is not notably different from the sector as a whole.

Figure 6.5

Breakdown by industry

		Loans and guarantees		Loans and advances	Loans, advances and guarantees The Sector
DKKm/%	**2018**	**2018**	**2017**	**2018**	**2017**
Public authorities	43	0.1	0.0	0.1	3.3
Agriculture, hunting and forestry	2,969	5.1	5.1	6.0	3.6
Fisheries	125	0.2	0.2	0.2	na
Industry and raw materials extraction	2,795	4.8	4.5	5.2	7.2
Utilities	1,577	2.7	2.7	3.2	1.8
Construction and engineering	2,618	4.5	4.1	4.8	2.4
Trade	3,978	6.8	6.1	7.7	5.3
Transport, hotels and restaurants	2,156	3.7	3.2	4.3	3.2
Information and communication	227	0.4	0.3	0.4	0.9
Financing and insurance	8,042	13.8	21.1	16.1	22.3
Real property	6,019	10.3	9.5	10.7	12.5
Other industries	3,551	6.1	4.9	6.9	4.4
Total business customers	**34,099**	**58.5**	**61.7**	**65.6**	**66.8**
Total retail customers	**24,191**	**41.5**	**38.3**	**34.4**	**33.2**
Total	**58,290**	**100.0**	**100.0**	**100.0**	**100.0**

Figure 6.6

Customers by industry net of reverse repo transactions

		Loans and guarantees	
DKKm/%	**2018**	**2018**	**2017**
Public authorities	43	0.1	0.0
Agriculture, hunting and forestry	2,969	5.5	6.1
Fisheries	125	0.2	0.2
Industry and raw materials extraction	2,795	5.2	5.3
Utilities	1,470	2.7	3.1
Construction and engineering	2,618	4.9	4.8
Trade	3,978	7.4	7.2
Transport, hotels and restaurants	2,156	4.0	3.8
Information and communication	227	0.4	0.4
Financing and insurance	3,451	6.4	6.6
Real property	6,019	11.2	11.2
Other industries	3,551	6.6	5.8
Total business customers	**29,401**	**54.9**	**54.5**
Total retail customers	**24,111**	**45.1**	**45.5**
Total	**53,511**	**100.0**	**100.0**

As shown in figure 6.7, 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.

Credit risk

The total impairment account rose by DKK 0.3 billion in 2018, primarily driven by the implementation of IFRS 9 in early 2018.

The industry breakdown of impairments in 2018 relative to impairments at the beginning of the year is shown in figure 6.8.

Figure 6.7

Impairments – by industry

DKKm/%	2018	2017	2018	2017	The Sector 2017
Public authorities	0	0	0.0	0.0	0.0
Agriculture, hunting and forestry	596	522	30.7	32.3	24.0
Fisheries	1	0	0.1	0.0	0.0
Industry and raw materials extraction	88	65	4.5	4.1	5.7
Utilities	21	17	1.1	1.1	1.8
Construction and engineering	87	64	4.5	4.0	3.9
Trade	132	51	6.8	3.1	5.8
Transport, hotels and restaurants	106	95	5.4	5.9	6.5
Information and communication	6	2	0.3	0.1	0.7
Financing and insurance	119	85	6.1	5.3	5.4
Real property	198	203	10.2	12.5	12.1
Other industries	117	89	6.0	5.5	5.2
Total business customers	**1,471**	**1,194**	**75.6**	**73.9**	**71.0**
Total retail customers	**474**	**422**	**24.4**	**26.1**	**29.0**
Total	**1,945**	**1,616**	**100.0**	**100.0**	**100.0**

Figure 6.8

Impairments – by industry

DKKm/%	2018	Beginning 2018 after IFRS 9	2017
Public authorities	0	0	0
Agriculture, hunting and forestry	596	557	522
Fisheries	1	1	0
Industry and raw materials extraction	88	105	65
Utilities	21	28	17
Construction and engineering	87	90	64
Trade	132	82	51
Transport, hotels and restaurants	106	114	95
Information and communication	6	4	2
Financing and insurance	119	108	85
Real property	198	238	203
Other industries	117	115	89
Total business customers	**1,471**	**1,439**	**1,194**
Total retail customers	**474**	**441**	**422**
Total	**1,945**	**1,881**	**1,616**
Provisions for unutilised credit lines			**15**
Total	**1,945**	**1,881**	**1,631**

Figure 6.9

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
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**

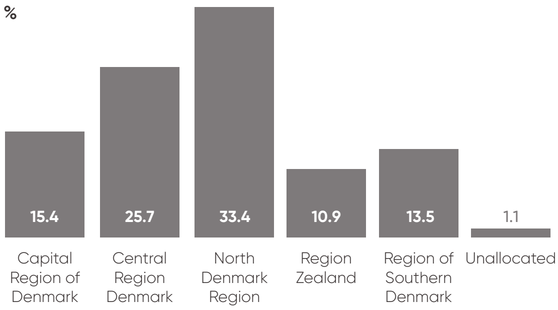
*) Excl. reverse repo transactions and SparXpres

Impairment of exposures to customers in the agricultural sector rose by DKK 74.2 million in 2018, ending at DKK 596 million, equal to 20% of exposures against 17% at the beginning of the year.

As concerns size of exposures, Spar Nord's credit portfolio is considered to be well-diversified, 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.

Figure 6.10

Loans, advances and guarantees broken down by region 2018 *)



Loans, advances and guarantees broken down by region 2017 *)

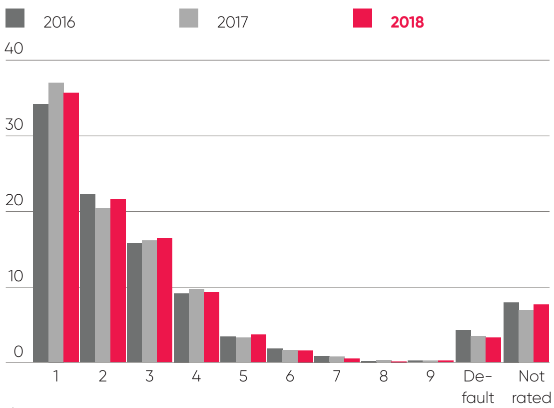
*) Excl. reverse repo transactions and SparXpres

Spar Nord's credit portfolio is also 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.

6.4.2 Retail customers at 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 41.5% of Spar Nord's total credit exposure. As appears from figure 6.12, the average credit quality of retail customers has developed favourably over the past few years and is currently at a very satisfactory level.

Figure 6.11
Exposures to retail customers by rating groups *)
%



*) Excl. SparXpres.

Figure 6.12
Average rating group *)

	2016	2017	2018
Average rating group	2.7	2.6	2.6

*) Exposures after impairments

The figures show the share of retail customers who migrated into better rating groups, the share of retail customers with unchanged credit quality and the share of retail customers who migrated into higher-risk rating groups during 2018 and 2017.

Figure 6.13
Migration – number retail customers 2017-2018 / **Migration – number retail customers 2016-2017**
%

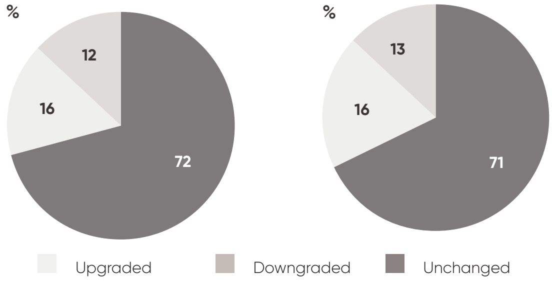
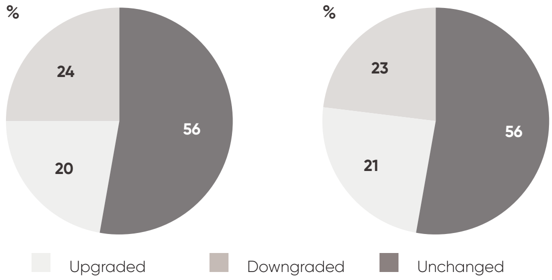


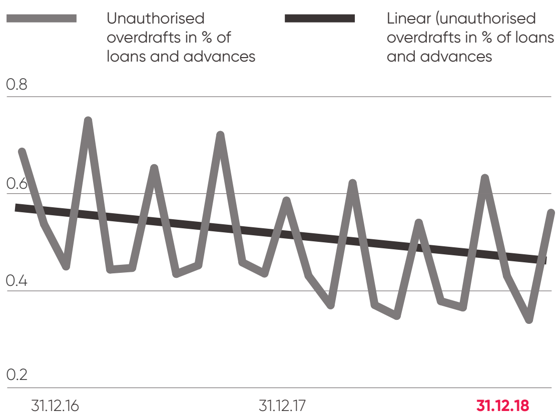
Figure 6.14
Migration - exposure retail customers 2017-2018 / **Migration - exposure retail customers 2016**
%



As appears from the figures, more customers migrated towards stronger rating groups in 2018 than customers who migrated to weaker rating groups.

As shown in the figures, there are more migrating towards weaker risk rating groups than vice versa. The fact that overall credit quality remains unchanged is due to a reduction in exposure to the "default" group and that new customers are better rated than existing customers. Lastly, lending growth among customers who have not migrated between the groups was higher among better rated than weaker rated customers.

Figure 6.15
Retail customers - Local Banks - Development in unauthorised overdrafts/arrears
%



The overall positive development in the retail customer portfolio is corroborated by the trend in retail customers' unauthorised overdrafts. Retail customers' unauthorised overdrafts have remained at a low level in recent years, averaging less than 0.6%.

6.4.3 Business customers at the local banks

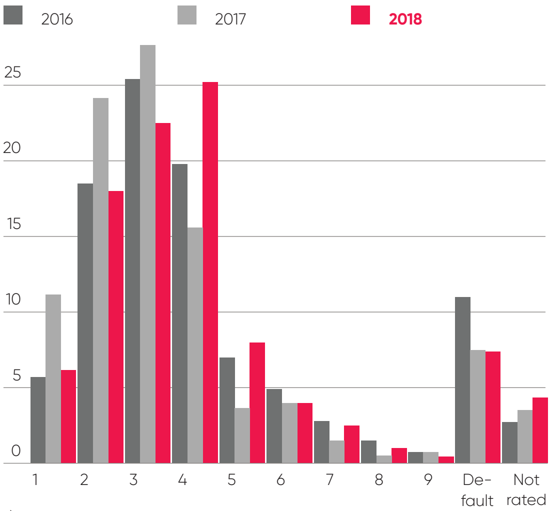
The total credit exposure to business customers at Spar Nord's Local Banks amounted to DKK 25.0 billion at end-2018 compared with DKK 24.3 billion at end-2017. The DKK 0.7 billion increase is attributable to a DKK 0.7 billion increase in lending and an unchanged level of guarantees of DKK 3.8 billion.

The credit exposure to business customers amounted to 42.9% of Spar Nord's total credit exposure.

Figure 6.16

Exposures to business customers by rating groups *)

%



*) Excl. public-sector customers

Figure 6.17

Average rating group *)

	2016	2017	2018
Average rating group	4.1	3.4	3.8

*) Exposure after impairment and excl. public-sector customers.

Figure 6.18

Migration – number business customers 2017-2018 / **Migration – number business customers 2016-2017**

%

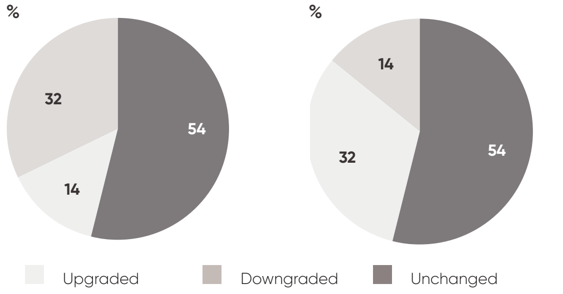
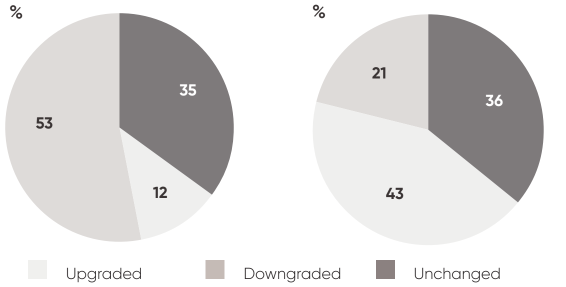


Figure 6.19

Migration - exposure business customers 2017-2018 / **Migration - exposure business customers 2016-2017**

%



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.

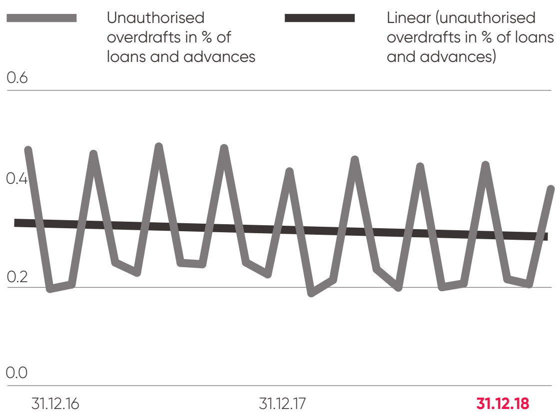
The underlying behaviour scoring and accounting rating show a stable development for the period.

Comments on developments in the agricultural segment are shown in section 6.7.1 below.

Figure 6.20

Non-agricultural business customers - Local Banks - Development in unauthorised overdrafts/arrears

%



As was the case for retail customers, business customers' unauthorised overdrafts and past due exposures remained at a stable, low level of 0.4% during 2016 and 2018.

6.4.4 Mortgage loans arranged

In addition to lending on Spar Nord's own books, a major part of Spar Nord's business consists of arranging mortgage loans on behalf of Totalkredit and DLR Kredit.

At end-2018, Spar Nord had arranged mortgage loans for a total of DKK 80.9 billion to its customers. Of this amount, mortgage loans arranged from Totalkredit amounted to DKK 69.8 billion and from DLR Kredit DKK 11.1 billion.

The cooperation with Totalkredit and DLR Kredit is based on the principle that in case of losses on the loans arranged by Spar Nord, a setoff will be made against the commission paid to Spar Nord for its loan-arranging services, or that – for some exposure categories – Spar Nord will be asked to provide a direct guarantee.

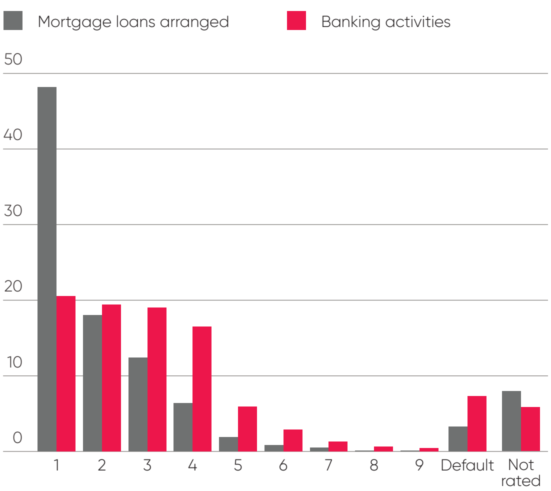
Spar Nord pursues a practice of recording losses arisen on an ongoing basis, recognising them in the Bank's impairments,etc., so no losses are offset against future commission.

Figure 6.21 shows the breakdown on rating groups for customers who have taken out mortgage loans with Totalkredit and DLR Kredit. As appears, mortgage loans arranged for customers in the best rating groups represent the bulk of the group.

Figure 6.21

Mortgage loans arranged DLR and Totalkredit and bank exposure, by rating category

%



6.4.5 Lease 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%, more than at end-2017. Credit exposure in the leasing area equals 6.7% of Spar Nord's total loans, advances and guarantees.

Figure 6.22 shows the breakdown by industry of Spar Nord's leasing loans.

Figure 6.22

Leasing

%	Loans and advances 2018	Loans and advances 2017	Impairment account 2018	Impairment account 2017
Public authorities	0.0	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
Construction and engineering	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**

Figure 6.23

Repossessed equipment

DKKm	2018	2017
Repossessed equipment, total	7	2

Figure 6.23 shows developments in the volume of repossessed leasing equipment, which remains at a very low level.

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.

6.4.6 Financial customers

Spar Nord's credit exposure to financial customers was DKK 5.3 billion at end-2018, equivalent to 9.1% of Spar Nord's total loans, advances and guarantees. The exposure consists primarily of reverse repo transactions of DKK 4.8 billion and own liabilities, etc.

Figure 6.24 shows Spar Nord's credit exposure to financial customers.

Figure 6.24

Credit exposure to financial customers

DKKm	2018	2017
Reverse repo transactions	4,779	9,475
Spar Nord's own commitments and key customers, etc.	523	669
Total financial customers	**5,302**	**10,144**

6.5 Credit quality

Figure 6.25 shows a breakdown of Spar Nord's customers by the credit quality categories used by the Danish Financial Supervisory Authority. Categories 2a and 3 comprise low-risk customers, categories 2c and 2b comprise heightened-risk customers while customers in financial difficulty are placed in category 1 (OEI).

Figure 6.25

Credit quality 2018

%	1	2c	2b	2a/3	Exposure
Public authorities	0.0	0.0	0.0	0.1	0.1
Agriculture, hunting and forestry	2.2	0.1	0.4	2.4	5.1
Fisheries	0.0	0.0	0.0	0.2	0.2
Industry and raw materials extraction	0.5	0.0	0.6	3.7	4.8
Utilities	0.0	0.0	0.1	2.6	2.7
Construction and engineering	0.3	0.1	0.2	3.9	4.5
Trade	0.4	0.1	0.4	6.0	6.8
Transport, hotels and restaurants	0.5	0.0	0.1	3.1	3.7
Information and communication	0.0	0.0	0.0	0.3	0.4
Financing and insurance	0.4	0.0	0.1	13.2	13.8
Real property	0.9	0.1	0.5	8.8	10.3
Other industries	0.3	0.0	0.3	5.5	6.1
Total business customers	**5.6**	**0.5**	**2.7**	**49.7**	**58.5**
Total retail customers	**1.5**	**0.1**	**2.0**	**38.0**	**41.5**
Total	**7.1**	**0.5**	**4.7**	**87.7**	**100.0**

Credit quality 2017

%	1	2c	2b	2a/3	Exposure
Public authorities	0.0	0.0	0.0	0.0	0.0
Agriculture, hunting and forestry	2.3	0.1	0.3	2.4	5.1
Fisheries	0.0	0.0	0.0	0.2	0.2
Industry and raw materials extraction	0.4	0.1	0.6	3.4	4.5
Utilities	0.1	0.0	0.1	2.5	2.7
Construction and engineering	0.4	0.0	0.2	3.5	4.1
Trade	0.4	0.1	0.2	5.4	6.1
Transport, hotels and restaurants	0.5	0.1	0.2	2.5	3.3
Information and communication	0.0	0.0	0.0	0.3	0.3
Financing and insurance	0.4	0.0	0.1	20.6	21.1
Real property	1.1	0.2	0.3	7.8	9.4
Other industries	0.3	0.0	0.3	4.3	4.9
Total business customers	**5.8**	**0.6**	**2.3**	**52.9**	**61.6**
Total retail customers	**1.6**	**0.1**	**2.1**	**34.6**	**38.3**
Total	**7.4**	**0.7**	**4.4**	**87.5**	**100.0**

In its most recent major report on Spar Nord (June 2017), the Danish FSA noted that the Bank's credit quality is higher than those of its peers and on a level with that for group 1 institutions.

6.6 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.

Figure 6.26

Geographical breakdown of mortgages

%

Figure 6.27

Mortgages broken down by property type

DKKm/%	2018	2018	2017	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**

Figures 6.28 and 6.29 show that the total unsecured share at end-2018 was 38.8%, against 34.9% at end-2017. Net of reverse lending, the total unsecured share amounted to 42.3%. At end-2017, the unsecured share without reverse lending was 41.5%.

Figure 6.28

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 of credit exposure	**38.8**	**34.9**

Figure 6.29

Unsecured share of credit exposure

DKKm/%	2018		2017	
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 industries	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	**22,628**	**38.8**	**21,082**	**34.9**

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 figure below. This is because the former amount represents the amount mortgaged to Spar Nord and is recorded as collateral received, 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.

Figure 6.30
Credit risk mitigation by virtue of collateral

DKKm	2018	2017
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
Other collateral, total	**27,695**	**31,833**
Spec. secured trans. (mortgage credit inst. guarantees)	4,790	5,077
Total collateral, excluding Spar Nord Leasing	32,485	36,910
Collateral accepted, Spar Nord Leasing	3,177	2,333
Total	**35,662**	**39,243**

6.7 Impairment of loans and advances, etc.

Until 2018, impairments were calculated in accordance with IAS 39, whereas calculations from 2018 are made using IFRS 9.

A review of IFRS 9 is provided in the accounting policies in the financial statements.

Spar Nord's total value adjustment must be supplemented by calculated impairments in stages 1 and 2 of DKK 414 million and model-calculated stage 3 impairments of DKK 31 million.

Impairment losses are calculated individually as concerns all customers suffering from financial imbalances (objective evidence of impairment (OEI)). The expected cash flow is calculated, comprising conservatively assessed values and realisable costs for any assets that might have to be sold to cover the outstanding debt.

An exposure need not be in default before impairment is recognised and approval procedures regarding any new extension of credit are tightened.

Figure 6.31
Impaired claims

2018 DKKm	Exposure	Individually value-adjusted
Insolvent liquidation and bankruptcy	66	48
Debt collection and restructuring, etc.	179	85
Other financial difficulty	3,179	1,367
Total individual impairments	**3,424**	**1,500**
Impairments in stages 1 and 2		414
Non-individually impaired in stage 3		31
Total impairments		1,945

2017 DKKm	Exposure	Individually value-adjusted
Insolvent liquidation and bankruptcy	38	32
Debt collection and restructuring, etc.	100	44
Other financial difficulty	2,991	1,288
Total individual impairments	**3,130**	**1,365**
Collective impairments, Spar Nord		251
Total impairments		1,616

In 2018, Spar Nord recorded an increase in credit exposure to customers with individual impairment of DKK 294 million.

At end-2018, the impaired claims represented 5.8% of total credit exposure compared with 5.2% in 2017

The total impairment account rose by DKK 0.3 billion in 2018, which covers an increase resulting from the inclusion of IFRS 9 in the opening balance sheet (see figure 6.8).

Figure 6.32
Losses and individual impairment

2018 DKKm	In default and impaired	Impairment account *)	Recognised losses
Public authorities	0	0	0
Agriculture, hunting and forestry	1,077	567	78
Fisheries	0	0	0
Industry and raw materials extraction	231	54	3
Utilities	21	8	0
Construction and engineering	175	55	9
Trade	166	91	15
Transport, hotels and restaurants	260	82	4
Information and communication	8	4	0
Financing and insurance	214	90	11
Real property	410	149	2
Other industries	135	76	12
Total business customers	**2,697**	**1,176**	**134**
Total retail customers	**727**	**324**	**79**
Total	**3,424**	**1,500**	**213**

*) Spar Nord's total value adjustment must be supplemented by calculated impairments in stages 1 and 2 of DKK 414 million and model-calculated stage 3 impairments of DKK 31 million.

2017 DKKm	In default and impaired	Impairment account	Recognised losses
Public authorities	0	0	0
Agriculture, hunting and forestry	919	431	218
Fisheries	0	0	0
Industry and raw materials extraction	144	60	19
Utilities	48	16	10
Construction and engineering	223	61	12
Trade	150	46	32
Transport, hotels and restaurants	131	52	19
Information and communication	9	2	5
Financing and insurance	169	83	24
Real property	508	198	72
Other industries	150	86	21
Total business customers	**2,449**	**1,034**	**432**
Total retail customers	**681**	**331**	**102**
Total	**3,130**	**1,365**	**534**

*) Spar Nord's total value adjustments should be supplemented by collective impairments in the amount of DKK 251 million.

Figure 6.33

Impairment account

DKKm	Impairment account 2018	Impairment account 2017
Public authorities	0	0
Agriculture, hunting and forestry	596	522
Fisheries	1	0
Industry and raw materials extraction	88	65
Utilities	21	17
Construction and engineering	87	64
Trade	132	51
Transport, hotels and restaurants	106	95
Information and communication	6	2
Financing and insurance	119	85
Real property	198	203
Other industries	117	89
Total business customers	**1,471**	**1,194**
Total retail customers	**474**	**422**
Total	**1,945**	**1,616**

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 a profit impact of DKK 13 million, while for retail customers there was a profit impact of DKK 54 million, DKK 46 million of which was attributable to SparXpres.

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.

Figure 6.34

Profit impact from losses and impairment of loans, advances and guarantees - by industry

DKKm	2018	2017
Public authorities	0	0
Agriculture and forestry	106	-38
Fisheries	0	-2
Industry and raw materials extraction	-14	31
Utilities	-10	-1
Building and construction	2	14
Trade	62	-5
Transport, hotels and restaurants	-7	46
Information and communication	2	0
Financing and insurance	14	-90
Real property	-52	-76
Other business customers	17	8
Total business customers	**119**	**-113**
Total retail customers	**54**	**75**
Total	**173**	**-38**

Exposures for which interest accrual has been suspended rose from DKK 341 million at end-2017 to DKK 476 million at end-2018.

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 3.0%. 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.

Figure 6.35 shows a breakdown of loans and advances subject to forbearance.

Figure 6.35
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**

Figure 6.36
Losses and impairment on loans, advances and guarantees

DKKm	2018	2017
Losses, incl. losses covered by provisions/impairment and impairment losses taken over	215	533
Covered by provisions/impairment and impairment losses taken over	-139	-441
Losses not covered by provisions/impairments	**75**	**93**
New provisions/impairments, excluding sector-targeted solutions	655	457
Reversal of provisions/impairments	-452	-349
Interest accrued on loans subject to impairments	-33	-44
Net provisions/impairments	**171**	**64**
Recoveries of prior losses	**-77**	**-167**
Losses and impairments for the year	**169**	**-11**
Other losses	4	4
Total losses and impairments for the year	**173**	**-7**
Total amount recognised in the income statement	**173**	**-7**
Adjustment of discount on exposures taken over from Sparbank		31
Impact on income statement	**173**	**-38**

At end-2018, the impairment account amounted to DKK 1,945 million, equal to 3.3% of loans, advances and guarantees.

Figure 6.37
Movement in loans and value adjustments and non-performing loans

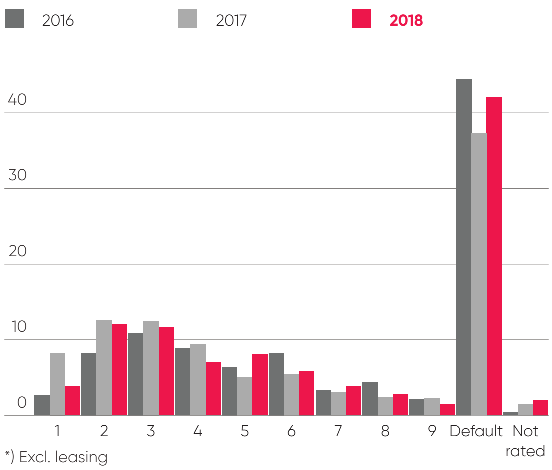
DKKm	2018	2017
Gross loans, advances and guarantees, end of year	58,290	60,324
Total losses and impairments for the year	**173**	**-38**
– in % of loans, advances and guarantees	0.3	-0.1
Impairment account	**1,945**	**1,616**
– in % of loans, advances and guarantees	3.3	2.7
Contractual non-performing loans, year-end	**476**	**341**
– in % of loans, advances and guarantees	0.8	0.6
Impairment account in % of contractual non-performing loans	**409**	**474**

6.7.1 Agriculture

Loans, advances and guarantees to agricultural customers amounted to DKK 3.0 billion, equal to 5.1% of Spar Nord's total loans, advances and guarantees. Of this amount, leasing loans account for DKK 0.5 billion and guarantees for DKK 0.2 billion.

Figure 6.38 shows developments in credit quality among agricultural customers at Spar Nord's Local Banks in the period from 2016 to 2018.

Figure 6.38
Agricultural exposures by rating group *)
%



*) Excl. leasing

Figure 6.39
Average rating group – agriculture *)

	2016	2017	2018
Average rating group	6.3	5.6	5.9

*) Exposures after impairments

As appears from figures 6.38 and 6.39, 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 fixed 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.

Spar Nord's total impairment of agricultural loans amounted to DKK 596 million at end-2018, equal to 20.0% 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 below show Spar Nord's agricultural loans and impairment related to agricultural exposures, broken down by production lines.

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%.

Figure 6.40

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**

Figure 6.41

Agricultural impairment by production line

2018 DKKm/%	Impairment account	Written off	Impairment for the year	Impairment ratio of exposure	Percentage of 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 ratio of exposure	Percentage of 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**

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.

6.8 Credit risk exposure to financial counterparties

As part of its trading in 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 on a day-to-day basis.

A major source of financial credit risk is Spar Nord's balances with credit institutions. The credit risk relates to international credit institutions, for which Spar Nord has provided cash collateral for financial transactions, or Danish credit institutions with which Spar Nord's Trading, Financial Markets & the International Division has customer relations.

Figure 6.42

Due from credit institutions by product type

DKKm/%	2018	2017	2018	2017
Certificates of deposit	0	0	0.0	0.0
Reverse repo transactions	931	570	58.1	34.2
Deposits and unlisted bonds	0	175	0.0	10.5
Current accounts	172	272	10.7	16.3
CSA accounts, etc.	297	420	18.5	25.2
Market value, derivatives	203	231	12.7	13.8
Due from credit institutions	**1,603**	**1,668**	**100.0**	**100.0**

Figure 6.43

Due from credit institutions by rating

DKKm/%	2018	2017	2018	2017
AAA	931	570	58.1	34.2
AA	148	242	9.2	14.5
A	426	652	26.6	39.1
BBB	82	117	5.1	7.0
BB	0	1	0.0	0.1
Not rated	16	85	1.0	5.1
Due from credit institutions	**1,603**	**1,668**	**100.0**	**100.0**

93.9% of Spar Nord's receivables from credit institutions concerns banks with an A rating or higher. Of the total receivables from credit institutions in the amount of DKK 1.6 billion, 58.1% is attributable to exposures with an AAA rating. Balances with unrated credit institutions are attributable exclusively to Danish credit institutions.

6.9 Counterparty risk

Counterparty risk is the risk of loss because a financial counterparty or an institutional customer defaults on its obligations under a financial contract. In addition, settlement risks may arise when financial contracts are concluded and settled, as principals in different currencies are not necessarily exchanged at the same time or securities are not received simultaneously with the appropriate payment.

Utilisation of lines with respect to financial counterparties is calculated on a gross basis as weighted principals of all transactions concluded, to which is added the sum of all positive market values, while negative market values are not offset. The size of principal weighting for the individual financial transactions is calculated based on the volatility of interest rates and currencies, and due consideration is paid to the term to maturity of the specific financial transaction.

Spar Nord's business procedures specify the maximum term to maturity for the individual financial transactions, and compliance is followed up on a daily basis, as is compliance with the granted lines.

In connection with lines granting and registration of lines, a check is performed to verify whether the registered lines accord with the authorisation details. Additionally, Spar Nord has a controller department that conducts random sampling of compliance as concern granting of lines, procedures and business procedures.

Figure 6.44

Counterparty risk

DKKm	2018	2017
Derivatives with positive market value	862	1,030
Netting	193	215
Exposure after netting	**669**	**815**
Collateral received	31	44
Exposure after netting and collateral	**637**	**771**

6.9.1 Counterparty risk against financial and institutional customers

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

6.9.2 Framework and collateral agreements

To mitigate counterparty risk, Spar Nord concludes framework, netting and collateral agreements to the extent possible. As concerns small Danish credit institutions, such agreements will be based on the framework agreement prepared by Finance Denmark for forex and securities transactions.

When deemed necessary, the Bank will also conclude a collateral agreement, according to which it is agreed that if the net market value of the concluded financial contracts exceeds an individually fixed maximum for each credit institution, then appropriate collateral must be furnished, in most cases by way of cash deposits.

For foreign and large Danish credit institutions and institutional customers, netting and framework agreements will be based on the international ISDA Master Agreements, often with associated Credit Support Annexes (CSA), according to which it is agreed that if the net market value of the concluded financial contracts exceeds an individually fixed maximum for each agreement, then collateral will have to be exchanged, most frequently by way of cash deposits in EUR or DKK.

In addition, Global Master Repurchase Agreements (GMRA) and Global Master Securities Lending Agreements (GMSLA) will be concluded to secure reverse repo transactions and stock lending transactions.

Both Danish and foreign collateral agreements are followed up on a daily basis, as are exchanges of collateral in step with fluctuations in the market values of the transactions concluded. In addition, to the widest extent possible, Spar Nord settles transactions via CLS, VP or Euroclear, which serves to minimise settlement risks as much as possible.

Spar Nord is an indirect member of London Clearing House via selected clearing brokers, and expects to regularly clear a large share of the clearing-approved transactions.

6.10 ECAI

Spar Nord has selected Standard % Poor's Ratings Services as its external credit assessment institution (ECAI) to provide credit assessment information on countries, counterparties and issues.

Rating information is used as an integral part of the dataflow at Spar Nord's data processing centre, which receives external credit ratings from Standard & Poor's Ratings Services via SIX Financial.

An IT update of credit rating from Standard & Poor's Ratings Services is undertaken on an ongoing basis.

The conversion of credit rating classes to credit quality steps is based on the conversion table issued by the Committee of European Banking Supervisors (CEBS). The individual credit quality steps are accorded a weighting to be used for the exposures on the individual credit quality steps when calculating the total risk exposure according to the standardised approach for credit risks pursuant to Articles 111-134 of the CRR.

Figure 6.45

ECAI exposure before and after deductions

2018 DKKm	Exposure	Exposure after ECAI risk weighting
Institutions	1,938	405
Other	194	49
Total	**2,132**	**454**

2017 DKKm	Exposure	Exposure after ECAI risk weighting
Institutions	2,435	487
Other	173	44
Total	**2,608**	**531**

6.11 Spar nord's total credit exposure in relation to solvency ratio

The total credit exposure is the sum total of:

- Loans, advances and receivables
- Guarantees
- Unutilised credit limits
- Credit commitments
- Equity investments
- Non-current assets
- Intangible assets
- Other property, plant and equipment
- Counterparty risk
- Shares and corporate bonds

A total statement of Spar Nord's credit exposure shows an exposure of DKK 96.0 billion. This calculation corresponds to Spar Nord's credit risk, which is treated according to the standardised approach

In general, exposures declined by DKK 0.2 billion in 2018, equal to a 0.3% decrease. Measured on the basis of average figures, this amounts to an increase of DKK 3.2 billion, equal to 3.4%.

Figure 6.46

Total credit exposure

DKKm	2018	2017	Average 2018	Average 2017
Sovereigns or central banks	1,076	1,016	871	1,244
Regional or local authorities	954	1,284	900	1,285
Public-sector entities	253	276	277	251
Institutions	8,922	7,045	9,046	5,494
Corporates	30,966	34,109	32,523	32,256
Retail	40,536	39,584	40,097	39,300
Exposures secured by mortgage on immovable property	6,442	6,660	6,960	6,347
Exposures in default	2,273	2,090	2,260	3,975
High-risk exposures	1,124	1,084	1,006	977
Exp. with short-term rating	0	0	0	0
Exposure in units or CIU	11	1	11	4
Equity exposures	1,591	1,217	1,435	1,173
Other exposures	1,854	1,879	1,945	1,862
Total	**96,001**	**96,245**	**97,328**	**94,168**

Section 6
Credit risk

Spar Nord's credit exposure is predominantly limited to Denmark. In 2018, debtors based in Denmark accounted for more than 97% of Spar Nord's credit exposure. The geographical breakdown is shown in figure 6.47.

Figure 6.47
Exposure categories by country

	2018					2017				
DKKm	**Denmark**	**EU**	**Rest of Europe**	**Rest of world**	**Total**	**Denmark**	**EU**	**Rest of Europe**	**Rest of world**	**Total**
Sovereigns or central banks	1,076	0	0	0	**1,076**	1,016			0	**1,016**
Regional or local authorities	953	2	0	0	**954**	1,283			1	**1,284**
Public-sector entities	253	0	0	0	**253**	276			0	**276**
Institutions	7,674	614	616	18	**8,922**	6,037	788	168	53	**7,045**
Corporates	30,131	360	436	38	**30,966**	28,225	5,127	440	317	**34,109**
Retail	40,280	107	31	118	**40,536**	39,279	156	44	105	**39,584**
Exposures secured by mortgage on immovable property	6,406	12	10	14	**6,442**	6,617	22	8	13	**6,660**
Exposures in default	2,231	35	3	5	**2,273**	2,032	54	2	2	**2,090**
High-risk exposures	1,121	3	0	0	**1,124**	1,082	3	0	0	**1,084**
Exposures with short-term rating	0	0	0	0	**0**	0			0	**0**
Exposure in units or CIU	11	0	0	0	**11**	1	0	0	0	**1**
Equity exposures	1,554	20	0	16	**1,591**	1,171	20	0	26	**1,217**
Other exposures	1,854	0	0	0	**1,854**	1,878	0	0	0	**1,879**
Total	**93,544**	**1,152**	**1,097**	**209**	**96,001**	**88,897**	**6,170**	**662**	**516**	**96,245**

A major share of Spar Nord's business exposure is towards small and medium-sized enterprises (SMEs). At end-2018, the exposure to SMEs represented 37% of the total exposure.

Figure 6.48
Credit risk mitigation by virtue of collateral

	2018		2017	
	Exp. covered by guarantee	**Other financial collateral**	**Exp. covered by guarantee**	**Other financial collateral**
Institutions	1	2,410	0	1,095
Corporates	87	5,524	106	10,374
Retail	18	440	37	458
Exposures secured by mortgages on immovable property	0	6	0	12
Exposures in default	13	25	19	16
High-risk exposures	0	15	0	6
Total	**119**	**8,420**	**163**	**11,960**

Figure 6.49
Exposures to SMEs

DKKm	**2018**	**2017**
Corporates	19,697	18,152
Retail	14,998	14,447
Exposures secured by mortgage on immovable property	829	1,237
Total	**35,524**	**33,836**

Section 7

Market risk

Developments in 2018

In 2018, the net interest rate risk was mainly positive, averaging around DKK 60 million, which is about DKK 5 million lower than in 2017.

Compared with end-2017, the net interest rate risk was reduced by DKK 46 million to DKK 9 million at end-2018. The change was driven by a decline in net interest rate risk in the trading book of DKK 34 million and a DKK 13 million decline in net interest rate risk in the banking book.

The net portfolio of bonds was increased by DKK 5.2 billion in 2018. In 2018, the portfolio of mortgage bonds was increased by DKK 4.3 billion, while bonds issued by financial issuers were increased by DKK 0.8 billion.

In addition, there was a small increase in foreign exchange risk in 2018 compared with 2017.

The portfolio of shares outside the trading book and associates was increased by DKK 365 million in 2018 to DKK 1,967 million, among other things due to the acquisition of shares in Danske Andelskassers Bank, which resulted in an increase in the portfolio of shares in credit and financial institutions. The market value of shares held in the trading book fell by DKK 10 million to DKK 134 million in 2018.

TOTAL RISK EXPOSURE AMOUNT

DKK 4.1 billion

2017: DKK 3.2 billion

NET INTEREST RATE RISK

DKK 9 million

2017: DKK 55 million

FOREIGN EXCHANGE RISK

1.2%

2017: 0.8%

SHARE PORTFOLIO

DKK 2.1 billion

2017: DKK 1.8 billion

Definition of 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.

Market risk breaks down into:

- Interest rate risk
- Foreign-exchange risk
- Equity risk
- Commodity risk
- Option risk
- Own properties

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.

Section 7
Market risk

7.1 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. 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.

7.2 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.

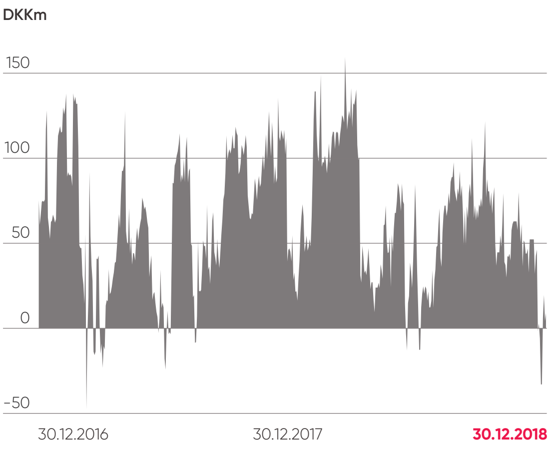
7.3 Interest rate risk
The interest rate risk is the risk of loss due to interest rate fluctuations. Most of Spar Nord's interest rate risks in the banking book derive from bank activities like deposits and lending, leases, repo and reverse repo transactions, strategic loans and possibly hedge operations 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, futures and standard interest rate options.

Spar Nord's interest-rate risk both within and outside the trading and the banking book is calculated on the basis of 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 embedded 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.

7.3.1 Interest rate risk developments
Figure 7.1 shows the total net interest rate risk that Spar Nord will encounter if interest rates rise by 1 percentage point. This implies a parallel shift of all yield curves.

Figure 7.1
Developments in net interest rate risk



Spar Nord's net interest rate risk was mainly positive in 2018 as Spar Nord was primarily exposed to a drop in market interest rates.

In addition, Spar Nord calculates the interest rate risk relative to duration and currencies. This shows the risk of changes for a given time interval on the yield curve.

Figure 7.2 shows the interest rate risk broken down on the individual time intervals, given a 1 percentage point increase in interest rates. At end-2018, Spar Nord was exposed to rate increases in DKK and rate falls in EUR.

Figure 7.2

Interest-rate risk by duration and currency

2018 DKKm	Less than 3 months	3 mths – 1 year	1 years – 3 years	3 years – 7 years	More than 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 DKKm	Less than 3 months	3 mths – 1 year	1 years – 3 years	3 years – 7 years	More than 7 years	Total
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**

7.3.2 Interest rate risk in the trading book

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

As appears from figure 7.3, the interest rate risk attaching to the trading book amounted to DKK 7 million at end-2018, which is a DKK 34 million reduction of the positive net interest rate risk compared with end-2017.

Figure 7.3

Interest rate risk in the trading book

2018 DKKm	Less than 3 months	3 mths – 1 year	1 years – 3 years	3 years – 7 years	More than 7 years	Total
DKK	7	2	22	28	18	77
EUR	8	4	-21	-35	-33	-76
Other	3	3	1	0	0	7
Total	**18**	**9**	**3**	**-7**	**-15**	**7**

2017 DKKm	Less than 3 months	3 mths – 1 year	1 years – 3 years	3 years – 7 years	More than 7 years	Total
DKK	6	8	17	22	14	67
EUR	-1	-1	-7	-11	-11	-30
Other	3	0	1	1	0	4
Total	**8**	**8**	**10**	**12**	**3**	**41**

7.3.3 Interest rate risk in the banking book

The interest-rate risk attaching to positions in the banking book derives from fixed-rate deposits and lending from ordinary banking transactions, repo and reverse repo transactions and interest rate risk related to Spar Nord's funding, incl. subordinated debt.

Figure 7.4 shows the net interest rate risk in the banking book, given a 1 percentage point increase in interest rates broken down by duration and currency. The interest rate risk outside Spar Nord's trading book was positive in the amount of DKK 1 million at end-2018, against a positive interest rate risk of DKK 14 million at end-2017.

Figure 7.4

Interest rate risk in the banking book

2018 DKKm	Less than 3 months	3 mths – 1 year	1 years – 3 years	3 years – 7 years	More than 7 years	Total
DKK	3	0	1	-6	0	-2
EUR	0	0	1	2	0	3
Other	-1	0	0	1	0	1
Total	3	1	2	-4	0	1

2017 DKKm	Less than 3 months	3 mths – 1 year	1 years – 3 years	3 years – 7 years	More than 7 years	Total
DKK	3	-2	2	7	0	10
EUR	0	0	1	1	0	2
Other	0	0	0	1	0	1
Total	3	-2	3	9	1	14

7.3.4 Credit spread risk

Credit spread measures the creditworthiness of a bond issuer and expresses the additional return required for an investor to assume a risk in e.g. a mortgage bond instead of a government bond. A credit spread of an issued bond is derived from the bond price and the effective yield. The effective yield is compared to a risk-free reference rate, and the difference between the two rates equals the credit spread.

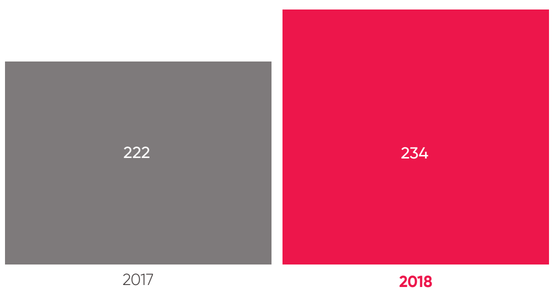
Credit spread risk is the risk that credit spreads on issuers on the bond portfolio should develop unfavourably. Losses may arise because of a change in the credit risk (credit spread) on mortgage bonds relative to government bonds. The risk is also relevant for bonds for which the overall interest rate risk has been hedged and for floating-rate bonds.

Spar Nord applies a fixed model to measure credit spread risk. The model employs a credit spread premium, which is determined on the basis of historical fluctuations of the bond credit spreads measured relative to a reference yield curve. The model builds on recognised statistical considerations, and the Bank is able to back-test the calculated results.

Figure 7.5

Credit spread risk

DKKm



7.3.5 Other interest rate risk targets

Spar Nord has defined targets for changes in the yield structure as the general interest rate risk target assumes a parallel shift of the entire yield curve. Spar Nord also measures the convexity risk on interest-bearing debt instruments. Duration as a basis for the general interest rate risk target expresses the slope of the price curve, while convexity expresses the curvature of the yield curve.

7.3.6 Bond portfolio

Spar Nord's bond portfolio is composed of 85.4% mortgage bonds, 8.9% bonds from financial issuers, 1.6% from corporate bonds and 4.1% government bonds.

The overall increase in the bond portfolio of DKK 5.2 billion is mainly composed of a net purchase of mortgage worth a total of DKK 4.3 billion, while bonds from financial issuers were increased by DKK 0.8 billion.

At end-2018, 87.0% of the Spar Nord's bond portfolio had an AA rating or better.

Figure 7.6

Bond portfolio by issuer type *)

DKKm/%	2018	2017	2018	2017
Mortgage bonds	13,598	9,339	85.4	87.0
Financial issuers	1,422	637	8.9	5.9
Credit bonds	259	271	1.6	2.5
Government bonds	648	494	4.1	4.6
Total bonds	**15,928**	**10,741**	**100.0**	**100.0**

*) Bond portfolio plus spot and forward purchases and sales

Figure 7.7

Bond portfolio by rating *)

DKKm/%	2018	2017	2018	2017
AAA	13,412	9,207	84.2	85.7
AA	439	232	2.8	2.2
A	1,151	984	7.2	9.2
BBB	713	97	4.5	0.9
BB	66	76	0.4	0.7
B	12	10	0.1	0.1
CCC	0	1	0.0	0.0
CC	0	0	0.0	0.0
C	0	0	0.0	0.0
Not rated	134	133	0.8	1.2
Unallocated	0	0	0.0	0.0
Total bonds	**15,928**	**10,741**	**100.0**	**100.0**

*) Bond portfolio plus spot and forward purchases and sales

Figure 7.8

Bond portfolio
2018

DKKm/%	Origin	Rating group		
Mortgage bonds	Denmark	AAA	11,970	75.2
		A	404	2.5
		Unrated	5	0.0
	Sweden	AAA	138	0.9
	Norway	AAA	1,082	6.8
			13,598	**85.4**
Financial issuers	Denmark	AA-A	192	1.2
		BBB-Unrated	658	4.1
	Norway	A-BBB	328	2.1
	Austria	A-BBB	178	1.1
	Sweden	A-BBB	61	0.4
	Other	AAA-Unrated	6	0.0
			1,422	**8.9**
Credit bonds	Denmark	BBB-Unrated	79	0.5
	Other	AA-Unrated	180	1.1
			259	**1.6**
Government bonds	Denmark	AAA-AA	555	3.5
	Europe	AAA	92	0.6
	Outside Europe	AAA	2	0.0
			648	**4.1**
Total			**15,928**	**100.0**
Own bonds	Denmark	Unrated	4	

Bond portfolio
2017

DKKm/%	Origin	Rating group		
Mortgage bonds	Denmark	AAA	8,721	81.2
		A	404	3.8
		Unrated	6	0.1
	Sweden	AAA	148	1.4
	Norway	AAA	61	0.6
			9,339	**87.0**
Financial issuers	Denmark	AA-A	584	5.4
		BBB-Unrated	35	0.3
	Norway	BBB	7	0.1
	Sweden	AA-BBB	4	0.0
	Germany	A	3	0.0
	Austria	BB	2	0.0
	France	BBB	1	0.0
	Other	A-Unrated	2	0.0
			637	**5.9**
Credit bonds	Denmark	BBB-Unrated	96	0.9
	Other	AA-Unrated	175	1.6
			271	**2.5**
Government bonds	Denmark	AAA-AA	417	3.9
	Europe	AAA-AA	77	0.7
			494	**4.6**
Total			**10,741**	**100.0**
Own bonds	Denmark	Unrated	11	

7.4 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 in figure 7.9. The calculation is based on the assumption that all exchange rates develop unfavourably for Spar Nord by 2%.

Figure 7.9
Currency risk

	Foreign exchange position		Foreign exchange risk	
DKKm	2018	2017	2018	2017
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	9	7	0.2	0.1
Total	**59**	**38**	**1.2**	**0.8**

Figure 7.9 shows that the foreign exchange risk at end-2018 amounted to DKK 1.2 million, equal to a risk increase of DKK 0.4 million compared with end-2017. The change was caused by an increase in EUR.

7.5 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.

7.5.1 Shares in the trading book
Shares in the trading book are held for trading purposes.

Figure 7.10 shows that the holding of shares in the trading book was reduced from DKK 144 million at end-2017 to DKK 134 million at end-2018. The increase in the Bank's portfolio of unlisted shares was due to a change in MiFID regulation, with unit certificates now often being available both as listed and unlisted securities.

Figure 7.10
Equity risk in the trading book

DKKm	2018	2017
Listed shares in the trading book	106	124
Unlisted shares in the trading book	28	20
Total	**134**	**144**

7.5.2 Shares outside the trading book
A salient feature of shares outside the trading book is that they have not been acquired with trading purpose. In addition, Spar Nord makes a distinction between shares in strategic partners, including sector companies, associates and other shares outside the trading book.

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 redistributed to the effect that the ownership interest of the respective institution will reflect its business volume with the sector company.

The shares are typically redistributed 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 redistributed, 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 recognised in the income statement.

Figure 7.11
Equity risk outside the trading book

DKKm	2018	2017
Shares in credit and financing institutions	1,285	1,251
Shares in unit trust man. companies	197	88
Shares in pension institutions	2	2
Shares in data supplier	0	0
Other equities	60	65
Total shares in strategic business partners	**1,545**	**1,405**
Realised gain	4	46
Unrealised gain	186	91
Associates	333	128
Other shares outside the trading book	89	77
Total	**1,967**	**1,611**

The total holding of shares outside the trading book increased by DKK 356 million to DKK 1,967 million at end-2018.

The DKK 140 million increase in strategic partners was driven by share price appreciation and a reduction of DLR shares in connection with a sale and redistribution.

The increase in the holding of associates of DKK 205 million was mainly due to the Bank's acquisition of a stake in Danske Andelskassers Bank and a sale of the Bank's shares in Valueinvest Asset Management S.A.

7.6 Commodity risk
Spar Nord only accepts commodity risks to a very limited extent. The commodity exposure is calculated as a gross exposure, with setoffs only being made with respect to contracts having the same underlying commodity, the same maturity date, etc.

7.7 Option risk
Spar Nord uses derivatives to hedge and manage Spar Nord's risks. These include options and products that contain an embedded option. Spar Nord's option risks originates primarily from interest and currency options and positions in callable mortgage bonds.

Option risks are calculated by computing the positions' Delta, Gamma, Vega and Theta risks.

7.8 Sensitivity analysis
Figure 7.12 shows how Spar Nord's income statement will be impacted if interest rates change, if share prices fall or if all exchange rates develop unfavourably.

It appears from figure 7.12 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.

Figure 7.12
Sensitivity analysis *)

	Impact on operating profit		Impact on equity	
DKKm/%	2018	2017	2018	2017
Interest rate increase of 1 %-point	-6	-32	-0.1	-0.4
Interest rate decrease of 1 %-point	6	32	0.1	0.4
Share price decrease of 10% in the trading book	-10	-11	-0.1	-0.1
A fair value decrease of 10% for shares outside the trading book	-153	-126	-1.8	-1.5
Unfavourable 2% exchange rate fluctuation	-1	-1	0.0	0.0

*) 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.

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

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

The fair value of the individual property is reassessed at least once a year based on the current letting market and the interest level. An external valuation is obtained from a real estate agent to support the calculation of fair value, including the rental rates and rates of return used.

In 2018, positive value adjustments totalling DKK 9 million were made on domicile properties, such adjustments being recognised directly in equity under other comprehensive income. Reversed impairment losses totalling DKK 6 million (net) have been recognised under depreciation and impairment in the income statement. Reference is made to Spar Nord's Annual Report for a more detailed description of the accounting treatment of properties.

Figure 7.13 shows Spar Nord's properties broken down by the rates of return.

Figure 7.13
Yield/return

	2018		2017	
DKKm	No. of properties	Value end of year	No. of properties	Value end of year
-> 7%	12	212	11	165
7% - 8%	16	341	15	333
8% - 9%	13	130	12	122
9% ->	0	0	1	2
Total	**41**	**683**	**39**	**621**

The most important assumptions when calculating the fair value of investment and domicile properties are the required rate of return and 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 at end-2018 against DKK 41 million at end-2017.

Other things being equal, an increase of the rent level of 5% will reduce the fair value by DKK 30 million at end-2018 against DKK 28 million at end-2017.

Section 8

Operational risk

Developments in 2018

In 2018, the Bank focused on implementing new processes, improving the level of competencies and increasing awareness of new systems and thereby reducing operational risk

Definition of 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
- damage to physical assets

TOTAL RISK EXPOSURE AMOUNT

DKK 5.7 billion

2017: DKK 5.7 billion

8.1 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.

8.2 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 Risk Management Function is charged with handling operational risk, a responsibility that includes the role as risk facilitator.

Responsibility for dealing with risk lies with the units responsive for the relevant business activities, the risk owners.

Throughout Spar Nord, events that result in a loss of more than DKK 10,000 are recorded and categorised, and identified risks are recorded on an ongoing basis, followed up by reporting to the Risk owners, 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 for operational risk is submitted to the Board of Directors. In 2019, the reporting frequency will be increased to quarterly reports to the Board of Directors.

Loss events exceeding DKK 5 million will be reported separately to the Executive Board and Board of Directors.

Section 8

Operational risk

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.

8.3 Loss events
Spar Nord's operational loss events are primarily break down on the risk types "external fraud", "execution/delivery and process management" and "clients, products and business practice":

It appears from figure 8.1 showing no. of operational loss events broken down by risk type that external fraud in 2018 accounted for 55% of the events (2017: 49%), clients, products and business practice 12% (2017: 18%), while execution/delivery and process management accounted for 33% (2017: 33%).

The majority of loss events consist of events with a minor financial impact – primarily events like card abuse and online banking fraud.

Figure 8.2 shows a breakdown of losses in 2018 by amounts: external fraud accounted for 86% (2017: 34%), business disruption and system errors 5% (2017: 0%), internal fraud 1% (2017: 0%), clients, products and business practice 5% (2017: 31%) and execution/delivery 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.

Figure 8.1

No. of operational loss events broken down by risk type

%

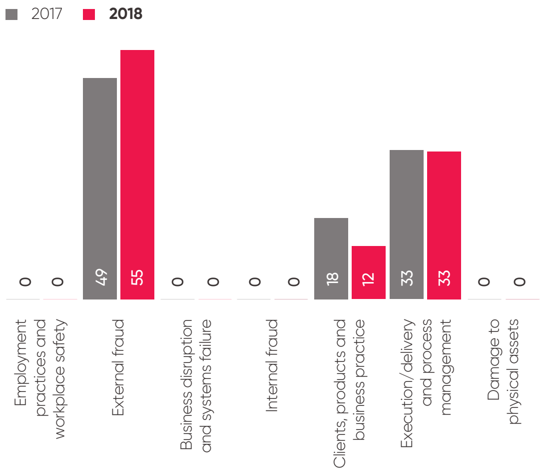
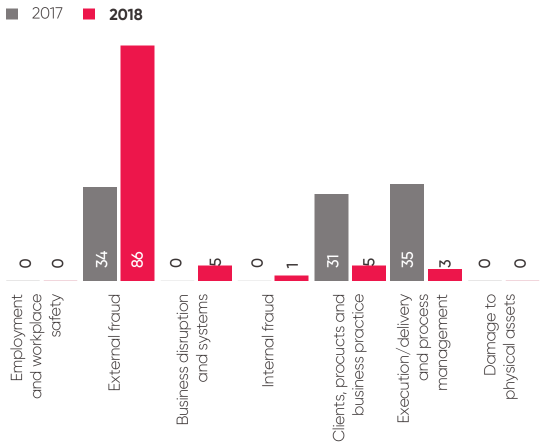


Figure 8.2

Operational loss amounts broken down by risk type

%



In view of the regular reporting provided to Spar Nord's Board of Directors and Executive Board, Management believes that the Bank has satisfactory measures to counter the risk of being exposed to major operational losses.

8.4. 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 Spar Nord'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.

8.5 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.

8.6 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 as a bank we share 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 Danish Public Prosecution for Serious Economic and International Crime ("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.

8.7 GDPR
In 2018, the Bank focused on implementing the General Data Protection Regulation (GDPR), which entered into force on 25 May 2018.

The Bank has recruited a data protection officer (DPO) 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.

Section 9
Risk statement

Spar Nord's Board of Directors approved Spar Nord's 2018 Risk Report on 7 February 2019.

The Board of Directors believes Spar Nord's risk management complies with applicable rules and standards, is appropriate and effective, and is consistent with Spar Nord's business model. In addition, in the opinion of the Board of Directors, Spar Nord's risk management systems are appropriate given Spar Nord's risk appetite and strategy, thus ensuring a going concern.

We believe that Spar Nord's general risk profile with respect to the business strategy, business model and key performance indicators provides a fair representation of Spar Nord's risk management, including of the adopted risk profile and risk appetite.

The Board of Directors' assessment is based on the business model and strategy adopted by it, and materials and reports submitted to it by the Executive Board, the Internal Audit Department, Spar Nord's Risk Review Officer and Compliance Officer.

The core of Spar Nord's strategy, vision and fundamental values is for Spar Nord to be a strong and attractive bank for retail customers and small and medium-sized businesses in the local communities in which the Bank is present. Spar Nord strives to run a profitable business based on a pricing of its products that reflects the risk and capital tie-up that Spar Nord assumes. Spar Nord wants to maintain suitable and robust own funds supporting the business model at all times, based on an overall assessment of the business volume with customers and counterparties.

The Board of Directors' review of Spar Nord's business model and policies shows that the general requirements in respect of the individual risk areas are appropriately reflected in policies and specified limits, including in the Board of Directors' guidelines to the Executive Board, and powers delegated to other organisational units. The specified limits are believed to be defined in a way making them transparent and controllable.

In addition, the review shows that the actual risks are within the limits laid down in the individual policies and powers delegated, and in this light the Board of Directors believes that there is a correlation between business model, policies, guidelines and the actual risks within the individual areas.

More information and key performance indicators for Spar Nord's risk profile can be found in this Risk Report and in the risk sections of the Annual Report.

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

Section 10
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Sektion 10
Appendix A

Spar Nord's disclosure obligations

Subject	Location of information
Risk and risk management	Annual Report 2018, page 22 - 24. https://www.sparnord.dk/regnskaber
Organisation and corporate governance	Annual Report 2018, page 26. https://www.sparnord.dk/regnskaber
Remuneration policy	https://www.sparnord.com/investor-relations/organisation/governance/

Appendix B

Balance Sheet Reconciliation Methodology

Balance Sheet Reconciliation Methodology

Capital base

DKKm	31 December 2018
Shareholders' equity according to balance sheet	9,226
Transitional arrangements for mitigating the impact of the introduction of IFRS 9	206
Regulation according to limit for holdings own capital instruments	-27
Provision for dividend	-431
Deduction tier 1 capital included in equity	-846
Indirect holdings of own capital instruments	-1
Additional value adjustments	-21
Goodwill	-159
Tax - Goodwill	27
Deferred tax assets	0
Intangible assets	-19
Tax - Intangible assets	4
Deduction insignificant capital shares - CET1 instruments	-376
Deduction significant capital shares - CET1 instruments	-35
Common Equity Tier 1 capital	**7,549**
Tier 1 capital	843
Deduction - Holdings of insignificant AT1 capital	-5
Total Tier 1 capital	**8,387**
Tier 2 instruments	1,314
Deduction - Holdings of insignificant T2 capital	-10
Total capital base	**9,691**

Appendix C

Capital instruments

1	Issuer	Spar Nord Bank A/S	Spar Nord Bank A/S	Spar Nord Bank A/S	Spar Nord Bank A/S	Spar Nord Bank A/S	Spar Nord Bank A/S
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	DK0030362512	DK0030386297	DK0030422357	DK0030432075	NO0010808033	DK0030431341
3	Governing law(s) of the instrument	Danish	Danish	Danish	Danish	Danish	Danish
	Regulatory treatment						
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo & Consolidated	Solo & Consoli-dated	Solo & Consoli-dated	Solo & Consoli-dated	Solo & Consoli-dated	Solo & Consoli-dated
7	Instrument type (types to be specified by each jurisdiction)	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 51, 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 51, 52	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	DKK 400m	DKK 450m	DKK 400m	DKK 350m	DKK 436m	DKK 150m
9	Nominal amount of instrument	DKK 400m	DKK 450m	DKK 400m	DKK 350m	SEK 600m	DKK 150m
9a	Issue price	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability - amortised cost	Liability - amor-tised cost	Liability - amor-tised cost	Liability - amor-tised cost	Liability - amor-tised cost	Liability - amor-tised cost
11	Original date of issuance	10/Jun/15	06/Dec/16	19/Jun/18	29/Nov/18	18/Oct/17	29/Nov/18
12	Perpeptual or dated	Perpetual	Perpetual	Dated	Dated	Dated	Dated
13	Original maturity date	No maturity	No maturity	19/Jun/28	29/May/29	18/Oct/27	29/May/29
14	Issuer call subjet to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	10-Jun-20 100 per cent of Nominal amount In addition Tax/Regula-tory call	06-Dec-21 100 per cent of Nominal amount In addition Tax/ Regulatory call	19-jun-2023 100 per cent of Nominal amount In addition Tax/ Regulatory call	29-May-24 100 per cent of Nominal amount In addition Tax/ Regulatory call	18-Oct-22 100 per cent of Nominal amount In addition Tax/ Regulatory call	29-May-24 100 per cent of Nominal amount In addition Tax/ Regulatory call
16	Subsequent call dates, if applicable	10-Jun and 10-Dec each year after first call date	06-Jun and 06-Dec each year after first call date	At any time after first call date	At any time after first call date	18-Jan, 18-Apr, 18-Jul and 18-Oct each year after first call date	At any time after first call date
	Coupons / dividends						
17	Fixed or floating dividend/coupon	Fixed to floating	Fixed to floating	Fixed to floating	Floating	Floating	Fixed to floating
18	Coupon rate and any related index	Fixed 6.052 per cent per annum, until first call date. Thereafter floating Cibor 6-month +5.40 per cent per annum	Fixed 5.50 per cent per annum, until first call date. Thereafter floating Cibor 6-month +5.166 per cent per annum	Fixed 2.5348 per cent per annum, until first call date. Thereafter floating Cibor 3-month +2.10 per cent per annum	Floating Cibor 6-month + 2.40 per cent per annum	Floating Stibor 3-month + 2.50 per cent per annum	Fixed 2.9298 per cent per annum, until first call date. Thereafter floating Cibor 6-month +2.40 per cent per annum
19	Existence of a dividend stopper	No	No	No	No	No	No
20a	Fully discretionary, partially discretion-ary or mandatory (in terms of timing	Fully discretionary	Fully discre-tionary	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretion-ary or mandatory (in terms of amount)	Fully discretionary	Fully discre-tionary	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No
22	Noncumulative or cumulative	Non cumulative	Non cumulative	Non cumulative	Non cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A

Capital instruments

26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	N/A
28	If convertible, specifiy instrument type convertible into	N/A	N/A	N/A	N/A	N/A	N/A
29	If convertible, specifiy issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A	N/A
30	Write-down features	Yes	Yes	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger (s)	When core tier 1 ratio is below 5 1/8 percent.	When core tier 1 ratio is below 5 1/8 percent.	When the point of non-viability is reached. The national reslution authority determines if the institution meets the condition: a i The institution has incurred/ is likely to incur in a near future losses depleting all or subsantially all its own funds; and/or ii. the asset are/ will be in a near future less than its liabilities; and/or iii. The institution is/ will be in a near future unable to pay its obligations; and/or iv. the institution requires public financial support; b. there is no reasonable prospect that a private action would prevent the failure; and c. a resolution action is necessary in the public interest.	When the point of non-viability is reached. The national reslution authority determines if the institution meets the condition: a i The institution has incurred/ is likely to incur in a near future losses depleting all or subsantially all its own funds; and/or ii. the asset are/ will be in a near future less than its liabilities; and/or iii. The institution is/ will be in a near future unable to pay its obligations; and/or iv. the institution requires public financial support; b. there is no reasonable prospect that a private action would prevent the failure; and c. a resolution action is necessary in the public interest.	When the point of non-viability is reached. The national reslution authority determines if the institution meets the condition: a i The institution has incurred/ is likely to incur in a near future losses depleting all or subsantially all its own funds; and/or ii. the asset are/ will be in a near future less than its liabilities; and/or iii. The institution is/ will be in a near future unable to pay its obligations; and/or iv. the institution requires public financial support; b. there is no reasonable prospect that a private action would prevent the failure; and c. a resolution action is necessary in the public interest.	When the point of non-viability is reached. The national reslution authority determines if the institution meets the condition: a i The institution has incurred/ is likely to incur in a near future losses depleting all or subsantially all its own funds; and/or ii. the asset are/ will be in a near future less than its liabilities; and/or iii. The institution is/ will be in a near future unable to pay its obligations; and/or iv. the institution requires public financial support; b. there is no reasonable prospect that a private action would prevent the failure; and c. a resolution action is necessary in the public interest.
32	If write-down, full or partial	Full or Partially	Full or Partially	Full or Partially	Full or Partially	Full or Partially	Full or Partially
33	If write-down, permanent or temporary	Temporary	Temporary	Permanent	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	The notes may be reinstated at the Issuer's discretion out of relevant profits, subject to certain restrictions	The notes may be reinstated at the Issuer's discretion out of relevant profits, subject to certain restrictions	N/A	N/A	N/A	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	Tier 2	Senior debt	Senior debt	Senior debt	Senior debt
36	Non-compliant transitioned features	No	No	No	No	No	No
37	If yes, specifiy non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A

Appendix D

Transitional own funds

Common Equity Tier 1 capital: instruments and reserves (1)		31 December 2018 DKKm	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
1	Capital instruments and the related share premium accounts	1,230	26 (1), 27, 28, 29, EBA list 26 (3)	
	of which: Instrument type 1		EBA list 26 (3)	
	of which: Instrument type 2		EBA list 26 (3)	
	of which: Instrument type 3		EBA list 26 (3)	
2	Retained earnings	6,130	26 (1) (c)	
	Transitional arrangements for mitigating the impact of the introduction of IFRS 9	206	473a	
3	Accumulated other comprehensive income (and any other reserves)	103	26 (1)	
3a	Funds for general banking risk		26 (1) (f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)	
	Public sector capital injections grandfathered until 1 january 2018		483 (2)	
5	Minority interests (amount allowed in consolidated CET1)		84, 479, 480	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	489	26 (2)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	8,158		

Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-21	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	-146	36 (1) (b), 37, 472 (4)	
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	36 (1) (c), 38, 472 (5)	
11	Fair value reserves related to gains or losses on cash flow hedges		33 (a)	
12	Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159, 472 (6)	
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (1) (b) (c)	
15	Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41, 472 (7)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-31	36 (1) (f), 42, 472 (8)	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negatvie amount)		36 (1) (g), 44, 472 (9)	
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-376	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-35	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91	
20c	of which: securitisation positions (negative amount)		36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258	
20d	of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)	
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	

Appendix D

Transitional own funds

	Common Equity Tier 1 capital: instruments and reserves (1)	31 December 2018 DKKm	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
22	Amount exceeding the 15% threshold (negative amount)		48 (1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)	
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary difference		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
25a	Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment			
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468			
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR		481	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36 (1) (j)	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-609		
29	Common Equity Tier 1 (CET1) capital	7,549		
	Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	850	51, 52	
31	of which: classified as equity under applicable accounting standards			
32	of which: classified as liabilities under applicable accounting standards			
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)	
	Public sector capital injections grandfathered until 1 january 2018		483 (3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480	
35	of which: instruments issued by subsidiaries subject to phase-out		486 (3)	
36	Additional Tier 1 (AT1) capital before regulatory adjustments	850		
	Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-7	52 (1) (b), 56 (a), 57, 475 (2)	
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	56 (b), 58, 475 (3)	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-5	56 (c), 59, 60, 79, 475 (4)	
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79, 475 (4)	
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)			
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 473(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		477, 477 (3), 477 (4) (a)	
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR		467, 468, 481	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-12		

Transitional own funds

Common Equity Tier 1 capital: instruments and reserves (1)		31 December 2018 DKKm	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
44	Additional Tier 1 (AT1) capital	838		
45	Tier 1 capital (T1 = CET1 + AT1)	8,387		
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	1,332	62, 63	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)	
	Public sector capital injections grandfathered until 1 january 2018		483 (4)	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party		87, 88, 480	
49	of which: instruments issued by subsidiaries subject to phase-out		486 (4)	
50	Credit risk adjustments		62 (c) & (d)	
51	Tier 2 (T2) capital before regulatory adjustment	1,332		
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-18	63 (b) (i), 66 (a), 67, 477 (2)	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68, 477 (3)	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-10	66 (c), 69, 70, 79, 477 (4)	
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		66 (d), 69, 79, 477 (4)	
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		475, 475 (2) (a), 475 (3), 475 (4) (a)	
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR		467, 468, 481	
57	Total regulatory adjustments to Tier 2 (T2) capital	-28		
58	Tier 2 (T2) capital	1,304		
59	Total capital (TC = T1 + T2)	9,691		
60	Total risk-weighted assets	53,858		
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	14.0%	92 (2) (a), 465	
62	Tier 1 (as a percentage of total risk exposure amount	15.6%	92 (2) (b), 465	
63	Total capital (as a percentage of total risk exposure amount	18.0%	92 (2) (c)	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	1.9%	CRD 128, 129, 140	
65	of which: capital conservation buffer requirement	1.9%		
66	of which: countercyclical buffer requirement	0.0%		
67	of which: systemic risk buffer requirement	0.0%		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		CRD 131	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.5%	CRD 128	

Transitional own funds

	Common Equity Tier 1 capital: instruments and reserves (1)	31 December 2018 DKKm	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
69	[non-relevant in EU regulation]			
70	[non-relevant in EU regulation]			
71	[non-relevant in EU regulation]			
	Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	796	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	758	36 (1) (i), 45, 48, 470, 472 (11)	
74	Empty set in the EU			
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)		36 (1) (c), 38, 48, 470, 472 (5)	
	Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	- Current cap on CET1 instruments subject to phase-out arrangements		484 (3), 486 (2) & (5)	
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)	
82	- Current cap on AT1 instruments subject to phase-out arrangements		484 (4), 486 (3) & (5)	
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)	
84	- Current cap on T2 instruments subject to phase-out arrangements		484 (5), 486 (4) & (5)	
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)	

(1) 'N/A' inserted if the question is not applicable

Appendix E

Institution-specific countercyclical capital buffer

2018
DKKm

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	Breakdown by country:	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Counter-cyclical capital buffer rate
		Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposuare for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securi-tisation exposures	Total		
		010	020	030	040	050	060	070	080	090	100	110	120
010	Denmark	54,990		15,848				3,460	135		3,594	0.978	0.00%
	Sweden	204		76				11	1		12	0.003	2.00%
	Germany	321		1,153				8	11		19	0.005	0.00%
	Norway	53		1,059				3	11		14	0.004	2.00%
	United Kingdom	119		20				4	2		5	0.001	1.00%
	Luxembourg	7		140				0	1		2	0.000	0.00%
	USA	66		14				4	1		4	0.001	0.00%
	Czech Republic	1		0				0	0		0	0.000	1.00%
	Slovakia	0		0				0	0		0	0.000	1.25%
	Hong Kong	2		0				0	0		0	0.000	1.88%
	Iceland	3		0				0	0		0	0.000	1.25%
	Lithuania	0		0				0	0		0	0.000	0.50%
	Other countries	485		128				24	2		26	0.007	0.00%
020		**56,248**		**18,438**				**3,513**	**164**		**3,677**	**1.000**	

	Amount of institution-specific countercyclical capital buffer	010
010	Total risk exposure amount	53,858
020	Institution specific countercyclical buffer rate	0.02%
030	**Institution specific countercyclical buffer requirement**	**8**

Sektion 10
Appendix F

CRR Leverage Ratio

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts
1	Total assets as per published financial statements	82,793
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0
4	Adjustments for derivative financial instruments	532
5	Adjustments for securities financing transactions "SFTs"	18
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	13,735
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-620
8	Total leverage ratio exposure	96,457

Table LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	75,087
2	(Asset amounts deducted in determining Tier 1 capital)	-620
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	74,467
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	862
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	532
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	267
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-32
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivative exposures (sum of lines 4 to 10)	1,629
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	6,609
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	18
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	6,627
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	42,275
18	(Adjustments for conversion to credit equivalent amounts)	-28,540
19	Other off-balance sheet exposures (sum of lines 17 to 18)	13,735

Sektion 10
Appendix F

CRR Leverage Ratio

Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposures		
20	Tier 1 capital	8,387
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	96,457
Leverage ratio		
22	Leverage ratio	8.7%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	75,354
EU-2	Trading book exposures	30,440
EU-3	Banking book exposures, of which:	44,914
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	1,093
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	184
EU-7	Institutions	471
EU-8	Secured by mortgages of immovable properties	2,713
EU-9	Retail exposures	17,268
EU-10	Corporate	17,880
EU-11	Exposures in default	1,850
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	3,455

Table LRQua: Free format text boxes for disclosure on qualitative items

		Column
		Free format
1	Description of the processes used to manage the risk of excessive leverage	Spar Nord has made several initiatives to avoid excessive leverage risk. Besides having a threshold value and procedures for calculating the leverage ratio, there are defined guidelines for the actions, that will be taken, if the leverage ratio drops to a level below the threshold. In addition, there are methods to measure the risks of excessive leverage and methods to evaluate significant changes to the leverage ratio. Excessive leverage is the risk resulting from an institution's vulnerability due to leverage or potential leverage, that may require unforeseen changes. This includes sale of assets which could result in losses or adjustments in the value of its remaining assets .
2	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	The balance is considered stable through 2018. The Leverage Ratio has been positively affected by increased core capital, which is mainly affected by the profit of the year.

Appendix G

LCR disclosure

		Total unweighted value				Total weighted value			
Scope of consolidation - Consolidated									
Currency and units - DKKm									
Quarter ending on		31 Mar. 2018	30 Jun. 2018	30 Sep. 2018	31 Dec. 2018	31 Mar. 2018	30 Jun. 2018	30 Sep. 2018	31 Dec. 2018
Number of data points used in the calculation of averages									
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					16,946	17,253	17,536	17,645
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	38,673	39,072	39,541	40,224	2,618	2,637	2,660	2,702
3	Stable deposits	27,881	28,297	28,764	29,346	1,394	1,415	1,438	1,467
4	Less stable deposits	10,791	10,775	10,777	10,878	1,224	1,222	1,222	1,234
5	Unsecured wholesale funding	10,148	10,431	10,694	10,917	5,149	5,318	5,553	5,739
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0	0	0	0	0
7	Non-operational deposits (all counterparties)	10,148	10,431	10,694	10,917	5,149	5,318	5,553	5,739
8	Unsecured debt	0	0	0	0	0	0	0	0
9	Secured wholesale funding					155	97	107	109
10	Additional requirements	26,107	26,070	25,663	25,670	2,463	2,414	2,348	2,312
11	Outflows related to derivative exposures and other collateral requirements	149	112	90	88	149	112	90	88
12	Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
13	Credit and liquidity facilities	25,958	25,959	25,573	25,582	2,314	2,303	2,259	2,224
14	Other contractual funding obligations	3,376	3,517	3,551	3,671	3,376	3,517	3,551	3,671
15	Other contingent funding obligations	147	130	116	103	147	130	116	103
16	TOTAL CASH OUTFLOWS					13,908	14,113	14,336	14,634
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	7,152	7,557	8,025	7,570	1,077	995	1,066	1,062
18	Inflows from fully performing exposures	741	679	648	715	606	539	501	564
19	Other cash inflows	7,332	7,551	7,204	7,724	2,596	2,663	2,726	2,861
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	TOTAL CASH INFLOWS	15,224	15,787	15,877	16,009	4,279	4,198	4,293	4,486
EU-20a	Fully exempt inflows	0	0	0	0	0	0	0	0
EU-20b	Inflows Subject to 90% Cap	0	0	0	0	0	0	0	0
EU-20c	Inflows Subject to 75% Cap	15,224	15,787	15,877	16,009	4,279	4,198	4,293	4,486
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					**16,946**	**17,253**	**17,536**	**17,645**
22	**TOTAL NET CASH OUTFLOWS**					**9,629**	**9,916**	**10,042**	**10,148**
23	**LIQUIDITY COVERAGE RATIO (%)**					**176**	**174**	**175**	**174**

Appendix H

Asset encumbrance

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	**2,145**		**81,042**	
030	Equity instruments	0	0	1,735	1,735
040	Debt securities	1,479	1,479	13,472	13,472
120	Other assets	666		65,835	

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	**601**	**7,272**
150	Equity instruments	0	7
160	Debt securities	601	7,236
230	Other collateral received	0	29
240	**Own debt securities issued other than own covered bonds or ABSs**	**0**	**0**

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**1,992**	**2,746**

Appendix I

Credit exposure

TERM TO MATURITY BY EXPOSURE CATEGORY	2018 On demand	2018 0 - 3 mths	2018 3 mths - 1 years	2018 1 - 5 years	2018 over 5 years	2018 Total	2017 On demand	2017 0 - 3 mths	2017 3 mths - 1 years	2017 1 - 5 years	2017 over 5 years	2017 Total
Central gov, or central banks	924	32	120	0	0	1,076	1,016	0	0	0	0	**1,016**
Regional or local authorities	0	897	12	0	46	954	0	394	818	23	49	**1,284**
Public-sector entities	0	0	91	3	159	253	0	0	111	32	133	**276**
Institutions	3,575	4,073	343	65	867	8,922	2,928	2,733	443	92	850	**7,046**
Corporates	309	8,594	14,508	3,613	3,942	30,966	359	10,391	16,684	3,075	3,600	**34,109**
Retail	1,018	10,217	10,032	10,054	9,215	40,536	934	3,314	10,348	16,239	8,750	**39,584**
Exp, secured by mortg, on imm, prop,	70	79	562	672	5,059	6,442	58	87	877	940	4,697	**6,660**
Exp, in default	81	100	1,118	427	548	2,273	125	40	1,076	417	433	**2,090**
High-risk exposures	21	13	974	67	49	1,124	35	16	912	66	56	**1,084**
Exp, with short-term rating	0	0	0	0	0	0	0	0	0	0	0	**0**
Exp, in units or CIU	0	0	0	0	11	11	0	0	0	0	1	**1**
Equity exposure	0	0	0	0	1,591	1,591	0	0	0	0	1,217	**1,217**
Other exposures	301	334	483	0	736	1,854	455	289	446	0	689	**1,879**
Total	**6,298**	**24,338**	**28,242**	**14,900**	**22,223**	**96,001**	**5,909**	**17,262**	**31,716**	**20,884**	**20,474**	**96,245**

TOTAL CREDIT EXPOSURE BY INDUSTRY 2018 Line of business	Exposure category Central gov, or central banks	Regional or local authorities	Public-sector entities	Institutions	Corporates	Retail	Exp, secured by mortg, on imm, prop,	Exp, in default	High-risk exposures	Exp, with short-term rating	Exp, in units or CIU	Equity exposure	Other exposures	Total
Public authorities	0	918	0	0	4	4	0	27	0	0	0	0	0	**953**
Agriculture, hunting and forestry	0	0	0	0	1,022	1,591	55	602	51	0	0	1	0	**3,322**
Fisheries	0	0	0	0	73	93	13	5	3	0	0	0	0	**186**
Industry and raw materials extraction	0	2	0	0	2,641	1,341	71	225	1	0	0	20	0	**4,301**
Energy supply	0	35	249	0	1,435	564	5	15	0	0	0	3	0	**2,305**
Building and construction	0	0	0	0	1,948	1,694	109	91	539	0	0	0	0	**4,381**
Trade	0	0	0	2	3,861	2,237	94	146	1	0	0	5	0	**6,346**
Transport, hotels and restaurants	0	0	0	0	1,343	1,162	47	178	25	0	0	0	0	**2,756**
Information and communication	0	0	0	0	153	205	19	6	0	0	0	4	0	**386**
Financing and insurance	1,076	0	0	8,918	7,635	1,056	61	155	35	0	11	1,345	1,852	**22,145**
Real estate	0	0	0	0	5,175	2,443	231	256	403	0	0	2	0	**8,510**
Other business areas	0	0	4	0	2,775	3,143	128	75	39	0	0	195	0	**6,359**
Business customers, total	**1,076**	**954**	**253**	**8,920**	**28,065**	**15,533**	**833**	**1,778**	**1,098**	**0**	**11**	**1,575**	**1,852**	**61,948**
Retail customers	0	0	0	2	2,900	25,004	5,609	495	26	0	0	16	2	**34,053**
Total	**1,076**	**954**	**253**	**8,922**	**30,966**	**40,536**	**6,442**	**2,273**	**1,124**	**0**	**11**	**1,591**	**1,854**	**96,001**

Appendix I

Credit exposure

TOTAL CREDIT EXPOSURE BY INDUSTRY	Exposure category													
2017 Line of business	Central gov, or central banks	Regional or local authorities	Public-sector entities	Institutions	Corporates	Retail	Exp, secured by mortg, on imm, prop,	Exp, in default	High-risk exposures	Exp, with short-term rating	Exp, in units or CIU	Equity exposure	Other exposures	Total
Public authorities	0	1,248	0	0	4	5	0	0	0		0	0	0	**1,257**
Agriculture, hunting and forestry	0	0	0	0	1,224	1,593	214	418	65		0	1	0	**3,516**
Fisheries	0	0	0	0	46	58	8	3	2		0	0	0	**117**
Industry and raw materials extraction	0	0	0	0	2,647	1,374	37	347	1		0	29	0	**4,435**
Energy supply	0	35	271	0	1,539	765	50	26	3		0	7	0	**2,695**
Building and construction	0	0	0	0	1,820	1,493	116	161	383		0	0	0	**3,973**
Trade	0	0	0	2	3,549	2,218	117	209	1		0	4	0	**6,100**
Transport, hotels and restaurants	0	0	0	0	1,349	1,026	71	60	29		0	0	0	**2,535**
Information and communication	0	0	0	0	123	288	13	4	1		0	9	0	**439**
Financing and insurance	1,016	0	0	7,041	12,540	1,113	101	128	29		1	1,032	1,791	**24,791**
Real estate	0	0	0	0	4,157	2,155	369	373	479		0	9	0	**7,540**
Other business areas	0	0	5	0	2,450	3,131	146	76	38		0	96	0	**5,942**
Business customers, total	**1,016**	**1,283**	**276**	**7,044**	**31,448**	**15,220**	**1,243**	**1,802**	**1,031**	**0**	**1**	**1,187**	**1,791**	**63,340**
Retail customers	0	1	0	2	2,661	24,365	5,417	288	54		0	30	88	**32,905**
Total	**1,016**	**1,284**	**276**	**7,046**	**34,109**	**39,584**	**6,660**	**2,090**	**1,084**	**0**	**1**	**1,217**	**1,879**	**96,245**

Sektion 10

Appendix J

Quantitative template - IFRS 9 Transitional arrangements

		31 December 2018
	Available capital (amounts)	**DKKm**
1	Common Equity Tier 1 (CET1) capital	7.549
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7.301
3	Tier 1 capital	8.387
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8.139
5	Total capital	9.691
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9.442
	Risk-weighted assets (amounts)	**DKKm**
7	Total risk-weighted assets	53.858
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	53.648
	Capital ratios	**%**
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	14,0
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13,6
11	Tier 1 (as a percentage of risk exposure amount)	15,6
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15,2
13	Total capital (as a percentage of risk exposure amount)	18,0
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,6
	Leverage Ratio	**DKKm / %**
15	Leverage ratio total exposure measure	96.457
16	Leverage ratio (percentage)	8,7
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (percentage)	8,4

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

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