



Annual Report 2020

**Satisfactory performance
in a historically turbulent year**



The Personal Bank in a Digital World

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

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Why invest in Spar Nord?



Strong financial performance

Based on a strategy focused on serving retail customers and small and medium-sized enterprises in Denmark, Spar Nord has successfully generated strong results in a challenging market. Throughout the current business cycle, the Bank has achieved a satisfactory financial performance, and in recent years it has recorded one of the best returns on equity among the large banks in Denmark.



Ten years of growth

Spar Nord has experienced ten years of growth in both the retail and the business customer market. Customer volumes grew from 269,000 in 2010 to 384,000 in 2020, while credits arranged rose from DKK 78 billion to DKK 137 billion, and the total business volume from DKK 145 billion to DKK 291 billion. As a result, Spar Nord currently holds a market share of around 4% of the total Danish market for bank, leasing and mortgage loans.



High customer satisfaction

Spar Nord enjoys a strong reputation and high customer satisfaction across customer segments. In the retail segment, Spar Nord regularly monitors customer satisfaction levels via ongoing evaluation of customer meetings. Customer satisfaction improved in 2020 and is at a high level. In the business customer segment, Spar Nord has – for the fourth consecutive year – been named the bank among the six largest banks in Denmark with the most satisfied business customers.



Strong credit quality

Spar Nord's business model is based on decentralised decision-making powers and local ownership. In the credit area, however, the Bank retains strong centralised management, and coupled with strategic decisions on matters such as exposure size and customer segments, this has given the Bank a well-diversified loan portfolio and a persistently strong credit quality throughout the business cycle.



Strong capital position – preparing for IRB

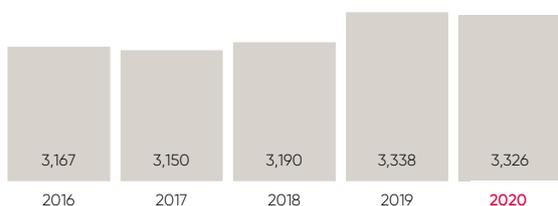
In recent years, Spar Nord has strengthened its capital position considerably. Our common equity tier 1 capital ratio has increased from 9.5% in 2010 to 17.2% in 2020 – primarily because the Bank's equity has grown from DKK 4.4 billion to DKK 9.6 billion. In order to ensure more optimum capital application, Spar Nord has launched a strategic project, which, over the course of the coming years, is to facilitate a transition from the standard method to internal ratings-based models (IRB).



Investing in digitalisation

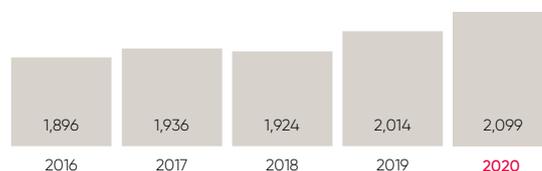
Over the past few years, Spar Nord has invested substantial resources in new digital solutions – both in the form of direct customer-centric solutions, new tools for employees and systems to streamline production and compliance procedures. Most recently, Spar Nord has implemented Salesforce as its new CEM system and established a dedicated development unit to strengthen IT support for advisers in their everyday work.

Key results in 2020



Core income

Spar Nord generated core income of DKK 3,326 million in 2020, which was DKK 12 million lower than in 2019. Net interest income and net fee income both rose by 1%, while market value adjustments were up by 14%. Lastly, other income was reduced by 56%, primarily because of extraordinary income from Spar Nord's ownership interest in Danske Andelskassers Bank in 2019.



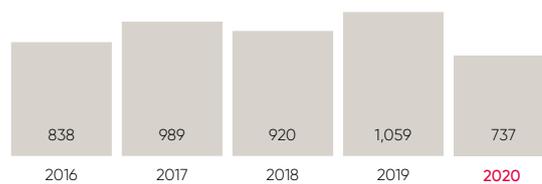
Costs and expenses

Spar Nord's total costs and expenses amounted to DKK 2,099 million, against DKK 2,014 million in 2019. In 2020, costs and expenses were affected by one-off costs for redundancies, and IT costs (data processing centre) were higher.



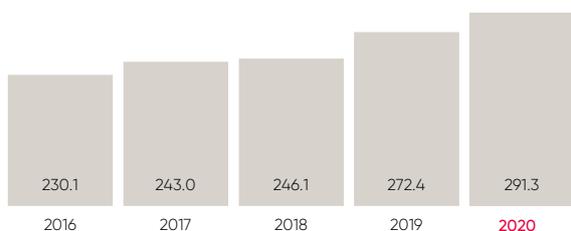
Loan impairment

Loan impairment charges amounted to DKK 309 million, against DKK 22 million in 2019. The increase was to a large extent attributable to the recognition of a management estimate of DKK 320 million due to COVID-19.



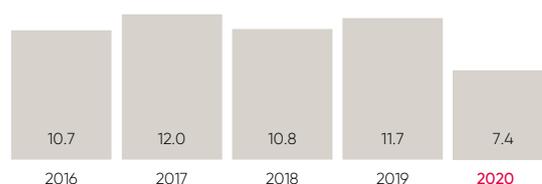
Profit/loss after tax

Spar Nord's profit before tax amounted to DKK 918 million in 2020 compared with DKK 1,302 million in 2019. Profit after tax was DKK 737 million in 2020.



Business volume

The total business volume grew 7% in 2020 to DKK 291.3 billion at the end of the year. The facilitation of mortgage loans rose 7% to DKK 94.5 billion, while bank and leasing loans fell 2% to DKK 42.5 billion.



Return on equity

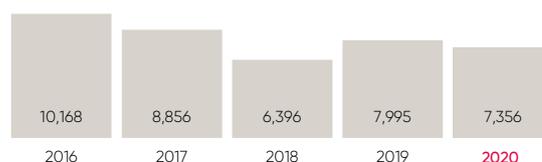
Return on equity after tax stood at 7.4% in 2020, down from 11.7% in 2019.



Dividend

For the 2020 financial year, the Danish FSA generally recommends limited dividend payments by Danish banks. The Board of Directors will therefore recommend to the shareholders at the Annual General Meeting that a dividend of DKK 1.5 per share be distributed for 2020.

Spar Nord did not disburse the planned DKK 3.5 per share from 2019 because the Danish FSA recommended the suspension of dividend payments.



Market capitalisation

Spar Nord's market capitalisation fell 8% in 2020 to DKK 7.4 billion at the end of the year.



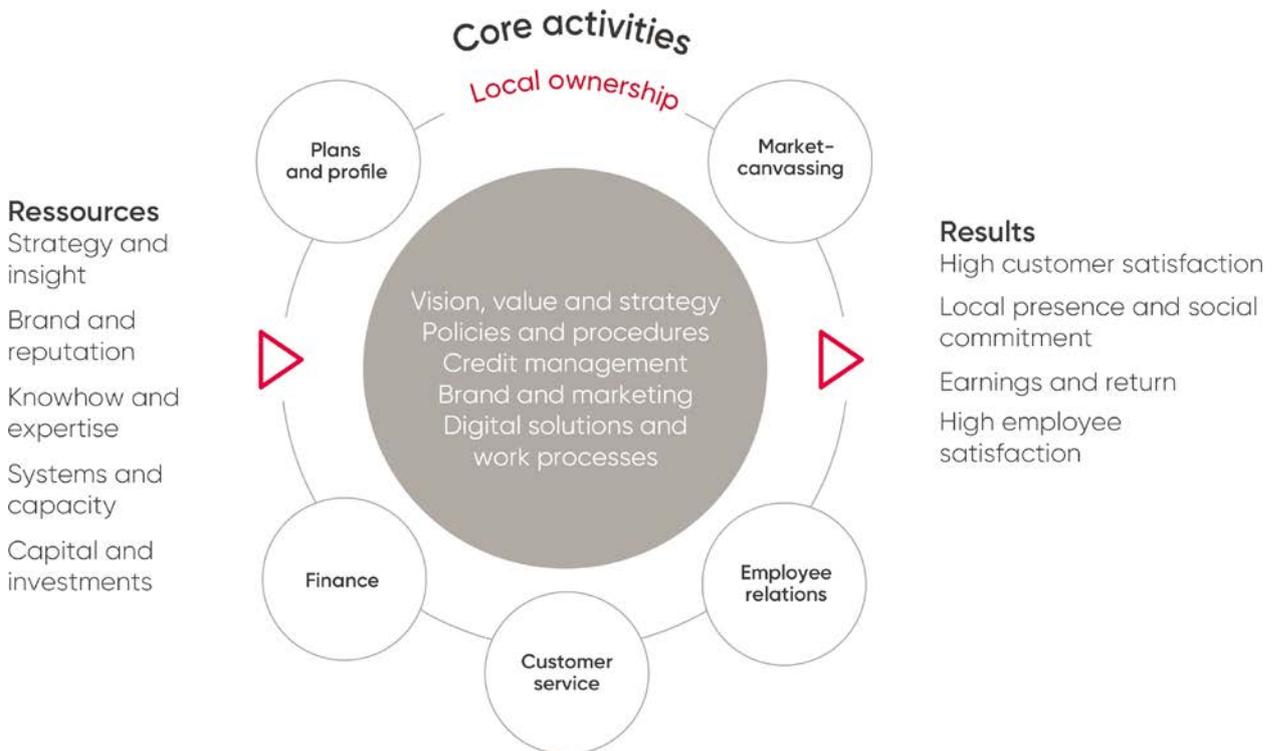
How we do business

Decentralised ownership and strong central support

The core of Spar Nord's business model is local commitment combined with strong central support.

Spar Nord consists of local entities with extensive decision-making powers in areas such as customer service, market canvassing and employee conditions.

The philosophy underlying the business model is that the work undertaken by the centralised support and development functions should be determined by customer requirements for the decentralised customer-facing entities. In the credit area, the Bank applies centralised management and monitoring.



Letter to our shareholders

Dear shareholders

2020 was a historically turbulent year for Spar Nord and for the whole world. In spite of the COVID-19 pandemic, Spar Nord made it through 2020 with a satisfactory performance, as a result of which our Board of Directors proposes a dividend of DKK 1.50 per share.

Reporting a net profit of DKK 737 million and a return on equity of 7.4% for 2020, Spar Nord ranks among the top-performing large Danish banks.

In the retail customer area, we experienced a surprisingly high level of activity in 2020, especially in the housing area with remortgaging and house sales. In a volatile year, we managed to create solid growth in the facilitation of mortgage loans, which rose by 7%, and we also recorded an increase in loans to retail customers during a period in which total sector lending to retail customers fell by 4%. This illustrates that we continue to increase our market share in the retail customer segment in Denmark.

Close to customers during COVID-19 pandemic

A few years from now, 2020 will undoubtedly be remembered for COVID-19, which has had an unprecedented – in modern times – impact on people's lives, both at home, financially and in terms of the human cost.

Watching developments in China at the beginning of 2020, few had imagined the Danish government would be announcing an almost complete lockdown of society at a press conference on 11 March. Restrictions during the rest of the year waxed and waned, but generally meant we had to find new ways of living and working.

At Spar Nord, the consequences included distance working for many of our employees through much of the year – and here, our employees have shown a high degree of flexibility and ability to advise customers at a difficult time.

This was not least the case in our business customer segment, where, fortunately, we have been able to accommodate 95% of our business customers' wishes and requirements resulting from COVID-19. The gratitude of our business customers is reflected in the most recent survey conducted by Aalund. The survey names Spar Nord – for the fourth consecutive year – as the bank among the six largest banks in Denmark with the most satisfied business customers, and whose customers are most satisfied with the Bank's COVID-19 support.

Despite this support, lending to business customers fell by DKK 1.9 billion, in part because of the Danish government's relief packages, which include deferring payment of VAT and income tax.

In 2020, our retail customers once again demonstrated strong credit quality and robust finances, and they only experienced slight problems caused by the corona crisis. Despite a reduced level of activity in society as a whole, business carried on in the housing market, in securities trading and in the asset management area.

However, a high level of uncertainty still attaches to the longer-term societal effects and consequences of the crisis, and especially the implications for Spar Nord's business customers.

Because of a macroeconomic slowdown and focus on internal efficiency, we adjusted our employee headcount on two occasions in 2020, partly through a voluntary severance programme in mid-2020, and partly through redundancies at the end of 2020. It is always regrettable and sad to say goodbye to skilled colleagues, but in the current situation we found it the responsible thing to do.

Low interest rates moving even lower

While the year started with expectations of low interest rates for a long time, government and central bank intervention in response to the corona crisis prompted most people to prepare for even lower interest rates for an even longer period.

In the current, extreme interest rate environment, negative deposit rates are the new normal for both retail and business customers. Prompted by current expectations of low interest rates as far as the eye can see, we found it necessary to implement a number of changes and initiatives on the deposit side in an attempt to fix the imbalance created by negative market rates.

The decision to further increase the negative interest rate towards business customers means a moderately positive interest rate margin on deposits has again been established. At the same time, the threshold for calculating a negative rate on retail customers' cash deposits was lowered to DKK 100,000.

With respect to negative deposit rates, it is generally important to look at the flipside too. Customers have long been able to take out a 30-year mortgage loan at a fixed rate of interest of 0.5%. In other words, customers have the benefit of borrowing money at historically low interest rates.

Negative return to shareholders

Our shareholders also had a turbulent 2020. From an end-of-year price of DKK 65 in 2019, the COVID-19 crisis in March caused the Spar Nord share to briefly trade around a price of 36. In line with other financial stocks, the Spar Nord share appreciated over the remainder of the year, closing 2020 at a price of 60.



As no dividends were distributed in 2020, the total return was therefore minus 8%, equal to the fall in the share price for the year (Y/Y).

In response to the COVID-19 crisis, the Danish FSA recommended the suspension of dividend payments in 2020 for the 2019 financial year, and Spar Nord followed this recommendation.

For the 2020 financial year, the Danish FSA generally recommends limited dividend payments by Danish banks. The Board of Directors has therefore resolved to recommend to the shareholders at the Annual General Meeting that a dividend of DKK 1.50 per share be distributed, equal to a payout ratio of 25%, which is slightly below the Bank's dividend policy target of 30-50%.

Acquisition of BankNordik's Danish business

The Bank's last news item of the year also turned out to be the most important one. On 22 December 2020, Spar Nord announced that the Bank had entered into a conditional agreement to acquire BankNordik's Danish business. Overall, the agreement entails that some 60,000 customers with a total business volume of around DKK 25 billion will become a part of Spar Nord from 1 February 2021.

The acquisition of BankNordik's Danish business significantly strengthens Spar Nord's presence and market position in the retail customer segment in the Greater Copenhagen area and in the cities of Aarhus, Odense, Kolding and Haderslev. After the acquisition, Spar Nord will have the same number

of local branches on Zealand as in northern Jutland, which is a good illustration of our transformation from a regional to a nationwide bank over the past 20 years.

The agreement will again make Spar Nord the largest distributor of Totalkredit mortgage loans and the largest distributor of investment products from BankInvest.

Because of costs associated with the acquisition and the integration, the acquired business is expected to make just a modest contribution to the Bank's earnings in 2021. From 2022, we expect the acquired portfolio to contribute core earnings before impairment of around DKK 110 million.

Closing of the transaction was subject to the approval of the Danish FSA and the Danish Competition and Consumer Authority. As Spar Nord received both regulatory approvals before the end of January 2021, the acquisition was finalised at 1 February 2021.

Corporate social responsibility and sustainability

In 2019, we defined a number of initiatives and efforts under the corporate social responsibility designation. In 2020, Spar Nord therefore became a signatory to the UN Global Compact (corporate responsibility), the UN Principles for Responsible Investment (UN PRI) and the UN Principles for Responsible Banking (UN PRB).

Introduction

In 2019, we also defined a goal of Spar Nord being carbon neutral by 2025. In 2020, we reduced our own climate footprint by, among other things, establishing additional solar cell panels at our head office and by converting the Bank's power consumption to 100% Danish wind turbine-generated power. Furthermore, a number of ongoing activities to promote sustainability have been accelerated after the COVID-19 pandemic struck. For example, we have travelled far less in 2020 and correspondingly increased the number of online meetings with customers and colleagues many times over.

As a result of developments during the past year, we expect Spar Nord to become carbon neutral as early as 2021.

Strategy and outlook

In 2019, we teamed up with our employees to define a plan for 2020-22 that builds on the Bank's vision of being Denmark's most personal bank. We remain confident that competent and personal advisory services and good overall service will continue to be key to high customer satisfaction and, by extension, growing business volumes – also in the years ahead.

At end-2020, we decided to prioritise selected initiatives of the strategy, focusing on simplification and creating increased business volume.

This strategic focus requires an upgrade of the Bank's digital strengths. As a result, we are in the process of recruiting IT resources dedicated to creating more efficient processes and business procedures for the Bank's customer-centric employees.

At the same time, we have resolved to reduce the number of in-house metrics and work to reduce the time spent on administrative tasks in order to free up more time for customers and business.

We believe that the Bank's business model of being strongly anchored close to our customers will provide the foundation for future growth. That is also the reason why we bucked the trend in 2020 by announcing the opening of three new local branches in Herlev, Solrød Strand and Korsør.

Having fine-tuned the Bank's strategy, we expect to be able to create an even more profitable and business-oriented bank. Our overall financial goal is still to generate a return on equity of 7-9% after tax and thus to rank among the top-performing large Danish banks.

Yours faithfully

Kjeld Johannesen
Chairman of the
Board of Directors

Lasse Nyby
Chief Executive Officer

Performance indicators and financial ratios – Group

Performance indicators

Income statement

DKKm	2020	2019	Change in %	2018	2017	2016
Net interest income *)	1,584	1,573	1	1,548	1,546	1,621
Net fee income	1,238	1,225	1	1,127	1,116	1,053
Market value adjustments and dividends	433	379	14	268	404	434
Other income	71	160	-56	247	83	59
Core income	3,326	3,338	0	3,190	3,150	3,167
Staff costs	1,293	1,218	6	1,152	1,165	1,142
Operating expenses	806	796	1	771	771	755
Costs and expenses	2,099	2,014	4	1,924	1,936	1,896
Core earnings before impairment	1,227	1,324	-7	1,266	1,213	1,270
Impairment of loans, advances and receivables etc. *)	309	22	-	173	-38	242
Profit/loss before tax	918	1,302	-29	1,094	1,251	1,028
Tax	181	243	-26	174	262	190
Profit/loss	737	1,059	-30	920	989	838
Interest expenses to holders of additional tier 1 (AT1) capital	49	49	0	49	49	26

Balance sheet

DKKm						
Total assets	102,077	93,113	10	82,793	80,367	78,473
Loans and advances	52,312	51,312	2	44,330	46,747	41,346
Lending, banking and leasing activities	42,494	43,157	-2	39,551	37,272	35,092
Lending, reverse repo transactions	9,819	8,155	20	4,779	9,475	6,253
Deposits	78,881	70,602	12	65,545	64,266	61,006
Deposits, banking activities	58,084	53,279	9	50,773	48,668	46,464
Deposits, repo transactions	333	0	-	0	175	0
Deposits, pooled schemes	20,464	17,323	18	14,772	15,423	14,541
Issued bonds	2,670	2,637	1	0	0	0
Subordinated debt	1,333	1,322	1	1,332	1,144	1,093
Additional tier 1 (AT1) capital	794	860	-8	861	861	862
Shareholders' equity	9,596	8,901	8	8,380	8,114	7,765
Guarantees	15,591	14,766	6	12,092	11,961	12,334
Total risk exposure amount	54,865	55,963	-2	53,858	49,546	47,486
Tier 1 capital	10,193	9,032	13	8,387	7,924	7,428
Impairment account and discount on commitments taken over **)	1,717	1,503	14	1,945	1,616	1,994
Contractual non-performing loans	275	303	-9	476	341	443
Business volume	291,310	272,431	7	246,063	243,014	230,114

*) In the core earnings format in 2016 and 2017, an amount was reclassified between the items Net interest income and Impairment of loans, advances and receivables, etc., which relates to the share of the discount, recognised as income, on commitments taken over.

***) From 2018 onwards, the figure is inclusive of impairment of unutilised credit lines, and for 2017 and earlier years inclusive of exposures taken over.

The comparative figures have not been restated in connection with the implementation of IFRS 9 on financial instruments at 1 January 2018 and IFRS 16 on leasing at 1 January 2019.

Financial performance – core earnings, year

Financial ratios

		2020	2019	2018	2017	2016
Own funds						
Own funds ratio		21.0	18.5	18.0	18.2	17.7
Tier 1 capital ratio		18.6	16.1	15.6	16.0	15.6
Common equity tier 1 capital ratio		17.2	14.6	14.0	14.4	14.0
Earnings						
Return on equity before tax excl. additional tier 1 (AT1) capital *)	%	9.4	14.5	12.8	15.1	13.2
Return on equity after tax excl. additional tier 1 (AT1) capital *)	%	7.4	11.7	10.8	12.0	10.7
Cost share of core income	DKK	0.63	0.60	0.60	0.61	0.60
Cost share of core income – incl. impairment of loans, advances and receivables, etc.	DKK	0.72	0.61	0.66	0.60	0.68
Return on assets	%	0.7	1.1	1.1	1.2	1.1
Market risk and liquidity						
Interest rate risk	%	1.1	0.6	0.2	0.7	1.2
Foreign exchange position	%	0.9	1.0	1.4	3.3	3.2
Foreign exchange risk	%	0.1	0.1	0.1	0.1	0.1
Liquidity Coverage Ratio (LCR)	%	241	195	174	187	171
Bank and leasing loans relative to bank deposits	%	73.2	81.0	77.9	76.6	75.5
Credit risk						
Bank and leasing loans relative to shareholders' equity		4.4	4.8	4.7	4.6	4.5
Increase in loans and advances for the year	%	-1.5	9.1	6.7	6.2	3.6
Sum of large exposures **)	%	78.1	83.6	79.2	17.2	14.5
Impairment ratio		0.4	0.0	0.3	-0.1	0.4
Employees and branches						
Number of employees (full-time equivalents, end of period ***)		1,545	1,549	1,518	1,538	1,540
Number of branches		51	49	49	50	58
Spar Nord share						
DKK per share of DKK 10						
Share price, end of period		60	65	52	72	81
Net asset value (NAV), *)		78	72	68	66	63
Profit/loss for the year *)		5.6	8.2	7.2	7.8	6.6
Dividend ****)	DKK	1.5	0.0	3.5	3.5	5.0
Return	%	-8	32	-23	-5	38
Price/earnings *)		11	8	7	9	12

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

**) From 2018 onwards, the ratio is calculated according to the Danish FSA's new reference point for large exposures.

***) Number of employees for 2020 includes 47 employees, who retired on 1 January 2021.

****) To support the political intentions to ensure an appropriate mitigation of the effects of the COVID-19 pandemic and its consequences for the Danish economy, it was adopted by the general meeting on 17 June 2020, as recommended by the Board of Directors, that no dividends would be distributed for the 2019 financial year.

The comparative figures have not been restated in connection with the implementation of IFRS 9 on financial instruments at 1 January 2018 and IFRS 16 on leasing at 1 January 2019.

The Danish FSA's layout and ratio system is shown in note 6.13 to the consolidated financial statements.

A definition of financial ratios is provided in note 6.13.1 to the consolidated financial statements.

Performance indicators and financial ratios – Group

Performance indicators

Income statement

	2020	2020	2020	2020	2019
DKKm	Q4	Q3	Q2	Q1	Q4
Net interest income	398	391	408	387	396
Net fee income	319	300	296	322	290
Market value adjustments and dividends	133	137	174	-11	67
Other income	22	21	7	21	25
Core income	872	850	885	719	779
Staff costs	344	289	344	315	324
Operating expenses	224	190	188	204	215
Costs and expenses	568	479	532	520	539
Core earnings before impairment	304	371	353	199	239
Impairment of loans, advances and receivables etc.	22	53	59	175	12
Profit/loss before tax	282	318	294	24	227
Tax	52	66	63	0	44
Profit/loss	230	252	231	24	182
Interest expenses to holders of additional tier 1 (AT1) capital	11	11	15	12	12

Balance sheet

DKKm					
Total assets	102,077	96,026	95,242	94,457	93,113
Loans and advances	52,312	49,397	49,272	50,400	51,312
Lending, banking and leasing activities	42,494	41,748	41,644	43,017	43,157
Lending, reverse repo transactions	9,819	7,649	7,629	7,383	8,155
Deposits	78,881	74,855	73,227	67,631	70,602
Deposits, banking activities	58,084	55,454	54,843	51,552	53,279
Deposits, repo transactions	333	250	166	0	0
Deposits, pooled schemes	20,464	19,150	18,218	16,078	17,323
Issued bonds	2,670	2,625	2,632	2,585	2,637
Subordinated debt	1,333	1,317	1,321	1,293	1,322
Additional tier 1 (AT1) capital	794	807	796	872	860
Shareholders' equity	9,596	9,369	9,125	8,915	8,901
Guarantees	15,591	14,676	14,494	14,596	14,766
Total risk exposure amount	54,865	54,749	54,627	56,548	55,963
Tier 1 capital	10,193	9,890	9,725	9,471	9,032
Impairment account	1,717	1,708	1,678	1,626	1,503
Contractual non-performing loans	275	284	343	303	303
Business volume	291,310	280,094	273,952	263,879	272,431

Financial performance – core earnings, quarterly

Financial ratios

		2020	2020	2020	2020	2019
		Q4	Q3	Q2	Q1	Q4
Own funds						
Own funds ratio		21.0	20.4	20.2	19.0	18.5
Tier 1 capital ratio		18.6	18.1	17.8	16.7	16.1
Common equity tier 1 capital ratio		17.2	16.7	16.4	15.3	14.6
Earnings						
Return on equity before tax excl. additional tier 1 (AT1) capital p.a. *)	%	11.7	13.4	12.4	0.5	9.9
Return on equity after tax excl. additional tier 1 (AT1) capital p.a. *)	%	9.5	10.5	9.6	0.5	7.9
Cost share of core income	DKK	0.65	0.56	0.60	0.72	0.69
Cost share of core income – incl. impairment of loans, advances and receivables, etc.	DKK	0.68	0.63	0.67	0.97	0.71
Return on assets	%	0.2	0.3	0.2	0.0	0.2
Market risk and liquidity						
Interest rate risk	%	1.1	1.1	1.1	0.1	0.6
Foreign exchange position	%	0.9	0.9	1.1	1.1	1.0
Foreign exchange risk	%	0.1	0.1	0.1	0.1	0.1
Liquidity Coverage Ratio (LCR)	%	241	216	231	185	195
Bank and leasing loans relative to bank deposits	%	73.2	75.3	75.9	83.4	81.0
Credit risk						
Bank and leasing loans relative to shareholders' equity		4.4	4.5	4.6	4.8	4.8
Increase in loans and advances for the period	%	1.8	0.3	-3.2	-0.3	1.5
Sum of large exposures	%	78.1	77.7	78.6	82.6	83.6
Impairment ratio		0.0	0.1	0.1	0.3	0.0
Employees and branches						
Number of employees (full-time equivalents, end of period **)		1,545	1,553	1,560	1,561	1,549
Number of branches		51	49	49	49	49
Spar Nord share						
DKK per share of DKK 10						
Share price, end of period		60	47	53	42	65
Net asset value (NAV) *)		78	76	74	72	72
Profit/loss for the period *)		1.8	2.0	1.8	0.1	1.4

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

***) Number of employees for Q4 2020 includes 47 employees, who retired on 1 January 2021.

Results in 2020

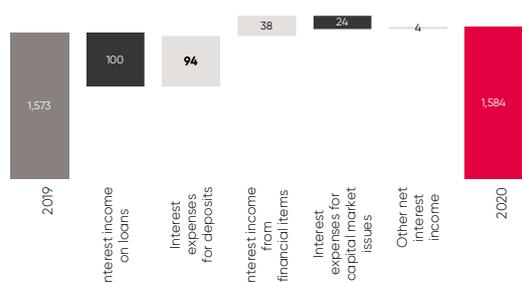
Spar Nord achieved a net profit of DKK 737 million in 2020, which corresponds to an annualised return on equity of 7.4%. The profit is DKK 322 million, or 30%, lower than in 2019 but is considered satisfactory given the COVID-19 situation.

Income

Core income for the year amounted to DKK 3,326 million, which was on a level with 2019. Net interest income was DKK 1,584 million in 2020, against DKK 1,573 million in 2019.

Compared with 2019, interest income from loans to customers was DKK 100 million lower, while interest expenses from deposits improved by DKK 94 million. Interest income from bonds etc. was DKK 38 million higher than in 2019, while interest expenses for issuing bonds and subordinated debt were DKK 24 million higher.

Developments in net interest income (DKKm)

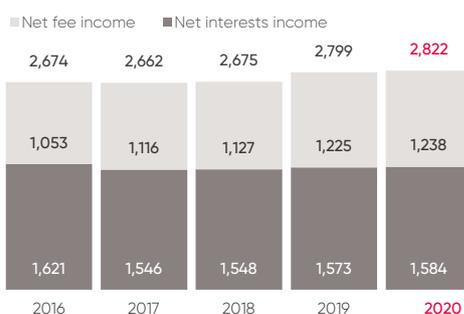


Net interest income was thus positively influenced by improved interest expenses driven by active initiatives in using negative interest on deposits and interest income from the placement of the Bank's excess liquidity. Detracting from net interest income was a DKK 0.7 billion drop in loans and advances, equal to 2%, and continued pressure on interest margins. From the end of 2019 to the end of 2020, the overall interest margin was thus reduced by 15 basis points, covering a fall in the lending margin of 28 basis points, which was partly offset by a fall in the deposit margin of 13 basis points. The pressure on lending margins was driven by a combination of product mix effects (stronger growth in lower-margin products, mortgage loans to retail customers and leasing loans) and generally mounting competition.

DKKm	2020	Q4	Q3	Q2	Q1
Interest income on loans	1,447	357	357	362	370
Interest expenses for deposits	-132	-40	-36	-32	-25
Net interest income, deposits and loans	1,579	397	393	394	395
Interest income from financial items	101	25	24	37	14
Interest expenses for capital market issues	60	15	16	15	14
Other net interest income	-35	-9	-9	-8	-8
Total net interest income	1,584	398	391	408	387

Net fee income was DKK 1,238 million in 2020, against DKK 1,225 million in 2019. Net fee income thus accounted for 44% of total net interest and fee income in 2020 (2019: 44%).

Net interests income and net fee income (DKKm)

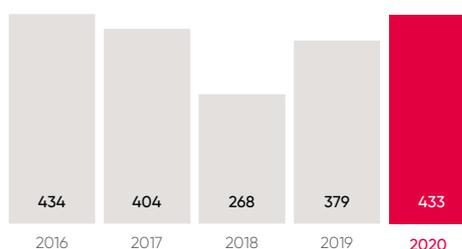


The highly satisfactory trend in net fee income was mainly attributable to the persistently rising level of activity in securities trading and asset management and to a generally high level of activity in the housing market. The lower remortgaging activity compared with 2019 resulted in a fall in transaction fees, while fee income from payment services, insurance etc. was higher than in 2019.

DKKm	2020	Q4	Q3	Q2	Q1
Mortgage fees	434	106	110	106	112
Other transaction fees	108	27	30	19	31
Securities and asset management	401	104	88	107	103
Other fees	294	81	72	65	76
Total net fee income	1,238	319	300	296	322

Market value adjustments and dividends totalled DKK 433 million in 2020, against DKK 379 million in 2019.

Market value adjustments and dividends (DKKm)



2020 was a year of contrasts in the financial markets with a turbulent end to the first quarter being replaced by very positive developments in the other three quarters. Market value adjustments on equities in the Trading Division amounted to DKK 61 million in 2020, while bonds contributed DKK 158 million. Overall, earnings in the Trading Division

Financial review

were DKK 44 million higher than in 2019, which was very satisfactory.

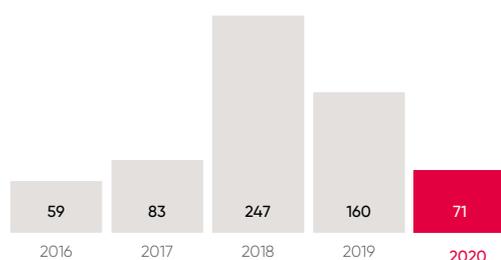
Market value adjustments and dividends on the portfolio of strategic shares were DKK 7 million higher than in 2019. The holding of shares in BI Holding and PRAS and sale of shares in VP Securities A/S added to performance, while a lower ownership interest in DLR detracted from performance.

DKKm	2020	Q4	Q3	Q2	Q1
Market value adjustments in Trading Division, etc.	221	74	80	134	-68
Equity investments, incl. dividends	151	41	43	28	39
Currency trading and exchange rate gains	62	18	13	12	18
Total market value adjustments and dividends	433	133	137	174	-11

Other income amounted to DKK 71 million, against DKK 160 million in 2019.

2019 was extraordinarily impacted by Spar Nord's stake in Danske Andelskassers Bank, including its share of the gain Danske Andelskassers Bank achieved from the sale of Sparinvest.

Other income (DKKm)

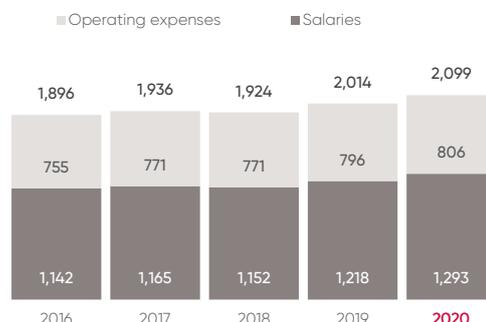


Costs and expenses

The Group's total costs and expenses amounted to DKK 2,099 million, against DKK 2,014 million in 2019.

Wages and salaries accounted for DKK 1,293 million of total costs and expenses, which means that realised payroll costs were DKK 75 million higher than in 2019. The increase was generally due to pay rises under collective agreements and a higher number of employees over the course of the year as well as the completion of the severance programme in June and redundancies at the head office in November. The two latter initiatives resulted in one-off costs in 2020 totalling DKK 34 million.

Total cost (DKKm)



At 31 December 2020, Spar Nord employed 1,545 people (FTE), of whom 47 retired at 1 January 2021. At the beginning of 2021, Spar Nord thus had 51 fewer employees than at end-2019.

Other operating expenses came to DKK 806 million, which is DKK 9 million higher than in 2019. Operating expenses were adversely affected by rising IT costs (data processing centre), while cost reductions were realised on most other cost items, notably travel and marketing expenses.

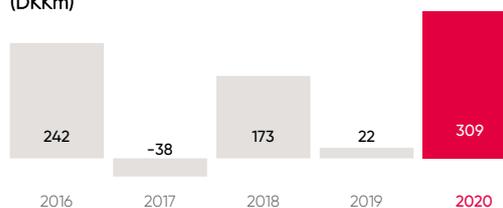
The realised core income and costs correspond to a Cost/Income Ratio of 0.63, which is slightly better than Spar Nord's strategic target.

Loan impairment

Loan impairment etc. was an expense of DKK 309 million, against an expense of DKK 22 million in 2019.

The COVID-19 pandemic was the dominant theme of 2020, and one which had a strong impact on impairment charges for the year. In 2020, Spar Nord made a model-supported management estimate relating to COVID-19 of DKK 320 million. Because of the financial relief packages, the COVID-19 crisis in 2020 has still only caused moderate losses on individual exposures. However, a high level of uncertainty still attaches to the longer-term societal effects and consequences of the crisis, and especially the implications for Spar Nord's business customers.

Impairment (DKKm)



Financial review

At end-2020, Spar Nord's total management estimates amounted to DKK 570 million, of which DKK 320 million related to COVID-19 as the largest single item. Of this amount, DKK 130 million is attributable to retail customers and DKK 190 million to business customers. The remaining amount of DKK 250 million breaks down into DKK 147 million attributable to land prices in the agricultural sector and DKK 103 million relating to model uncertainty.

The DKK 309 million impact on profits breaks down into DKK 250 million attributable to business customers ex. agricultural customers, DKK -74 million to agricultural customers, DKK 124 million to retail customers and DKK 9 million to customers in the SparXpres consumer loan business.

Stage 3 impairment at 31 December 2020 amounted to DKK 941 million (year-end 2019: DKK 1,083 million), while stage 1 and 2 impairment totalled DKK 777 million (year-end 2019: DKK 420 million).

NPL ratio developments

	2020	2019
NPL (DKKm)	1,873	2,004
Exposure (DKKm)	54,884	54,079
NPL ratio	3.4	3.7

At the end of the year, the share of non-performing loans (NPL ratio) at Spar Nord was 3.4%

The Group's loans, advances and guarantees *)

Breakdown by industry Line of business, %	Loans, advances and guarantees		Impairment account	
	31.12.20	31.12.19	31.12.20	31.12.19
Public authorities	1.6	2.0	0.0	0.0
Agriculture, hunting and forestry	5.0	4.7	19.5	27.1
Fisheries	0.2	0.2	0.1	0.1
Industry and raw materials extraction	4.3	5.0	4.9	5.1
Energy supply	3.0	2.8	1.7	0.9
Building and construction	4.3	4.3	3.6	3.0
Trade	5.8	7.0	8.5	5.6
Transport, hotels and restaurants	4.2	4.4	9.0	5.8
Information and communication	0.4	0.5	0.5	0.6
Financing and insurance	5.5	5.7	6.5	4.7
Real estate	11.4	12.3	10.2	11.5
Other business areas	6.7	6.3	7.3	10.6
Business customers, total	52.3	55.2	71.8	74.7
Total retail customers	47.7	44.8	28.2	25.3
Total	100.0	100.0	100.0	100.0

*) Excl. reverse repo transactions

Profit/loss

The profit for the year before tax amounted to DKK 918 million compared with DKK 1,302 million in 2019. The Group's effective tax rate was 20%, bringing the net profit to DKK 737 million, against DKK 1,059 million in 2019.

Q4 2020 relative to Q3 2020

Spar Nord recorded a net profit of DKK 230 million in Q4 2020, against DKK 252 million in Q3 2020.

Net interest income amounted to DKK 398 million in Q4, against DKK 391 million in Q3. Developments reflected a DKK 4 million improvement in interest expenses for deposits, while interest income from loans and advances were unchanged. Lastly, income from the placement of the Bank's excess liquidity contributed to the positive performance.

Net fee income amounted to DKK 319 million, which was DKK 19 million higher than in the preceding quarter. The increase was primarily driven by rising fee income from securities trading and asset management and from the payment area.

Market value adjustments and dividends amounted to DKK 133 million, down from DKK 137 million in Q3. The decline was attributable to lower market value adjustments of the Bank's bond portfolio, while income from currency trading and exchange rate gains were higher in Q4 than in Q3.

Total costs and expenses amounted to DKK 568 million, which was DKK 89 million higher than in the preceding quarter. Payroll costs were DKK 344 million, against DKK 289 million in Q3, attributable in particular to accrual of holiday pay obligations and expenses for layoffs. Operating expenses amounted to DKK 224 million, against DKK 190 million in Q3. The increase was attributable in part to higher IT costs (data processing centre) and in part to consulting fees regarding the IRB project and legal assistance in connection with the acquisition of BankNordik's Danish business.

Loan impairment etc. in Q4 was an expense of DKK 22 million, against an expense of DKK 53 million in Q3.

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Business volume

The Group's total business volume (deposits, loans, advances and guarantees, facilitated mortgage loans, customers' custodianship accounts and life annuities) amounted to DKK 291.3 billion at 31 December 2020, which was DKK 18.9 billion higher than at end-2019.

Business volume

DKKbn	2020	2019	2018	2017	2016
Lending, banking and leasing activities	42.5	43.2	39.6	37.3	35.1
Deposits, banking activities	58.1	53.3	50.8	48.7	46.5
Deposits in pooled schemes	20.5	17.3	14.8	15.4	14.5
Guarantees	15.6	14.8	12.1	12.0	12.3
Loans and advances, mortgage loans	94.5	88.6	80.9	77.2	73.6
Custodianship accounts	57.3	52.8	46.1	50.9	48.1
Letpension, life annuities	2.9	2.5	1.9	1.6	-
Total business volume	291.3	272.4	246.1	243.0	230.1

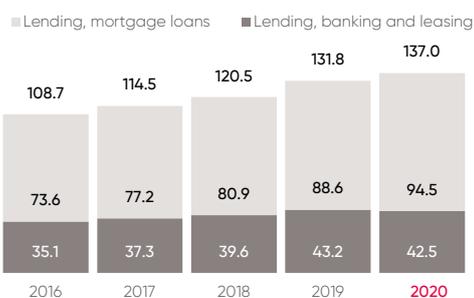
In 2020, the Bank recorded a decline in bank and leasing loans of DKK 0.7 billion, or 2%, to DKK 42.5 billion. Of the decline, DKK 1.9 billion was attributable to business customers, for which COVID-19 relief packages have reduced the need to draw on credit facilities. Conversely, leasing loans grew DKK 0.7 billion, and loans to retail customers increased by DKK 0.7 billion, while loans to public-sector customers fell by DKK 0.2 billion.

Based on the volume of bank and leasing loans, Spar Nord has a market share in Denmark of about 5%.

During 2020, the volume of facilitated mortgage loans grew by DKK 5.9 billion to DKK 94.5 billion, equal to 7%. In total, the volume of facilitated mortgage loans amounted to DKK 83.0 billion from To-talkredit and DKK 11.5 billion from DLR Kredit.

Total credits arranged

(DKKbn)



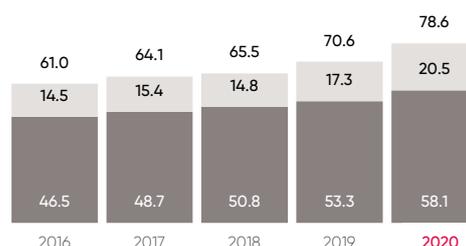
In 2020, deposits, banking activities increased by DKK 4.8 billion to DKK 58.1 billion, equal to 9%. Of the increase, retail customers accounted for DKK 1.2 billion and business customers for DKK 3.6 billion. Total deposits of DKK 58.1 billion at the end of 2020

gave Spar Nord a market share in Denmark of about 4%.

Deposits in pooled schemes rose by DKK 3.1 billion, or 18%, to DKK 20.5 billion, while customers' custodianship accounts rose by DKK 4.5 billion, or 8%, to DKK 57.3 billion.

Total deposits (DKKbn)

■ Lending in pooled schemes ■ Deposits, banking activities



As a result of developments in deposit and lending volumes, the loan-to-deposit ratio at end-2020 stood at 73%.

Capital position

Since being designated a SIFI institution, Spar Nord has pursued a goal on the capital side of having a common equity tier 1 (CET1) ratio of 13.5% and an own funds ratio of 17.5%.

	2020	2019	2018	2017	2016
Common equity tier 1 capital ratio	17.2	14.6	14.0	14.4	14.0
Tier 1 capital ratio	18.6	16.1	15.6	16.0	15.6
Own funds ratio	21.0	18.5	18.0	18.2	17.7

At 31 December 2020, the common equity tier 1 (CET1) ratio was 17.2%, while the own funds ratio was 21.0%. This should be viewed relative to the individual solvency need calculated by Spar Nord at 9.9% plus the 3.5% combined buffer requirement, bringing the total capital requirement to 13.4%. Thus, at end-2020 Spar Nord has an excess capital coverage of 7.6 percentage points, equal to DKK 4.2 billion.

Spar Nord must comply with the same requirements regarding eligible liabilities (MREL requirements) as other SIFIs. For Spar Nord, the requirement will be phased in during the period until mid-2022. When the MREL requirement has been fully phased in, Spar Nord must have total capital of about 27% of the total risk exposure amount (REA).

Over the coming years, the phasing in of the new requirements is expected to lead to a total need for issuing MREL capital to the tune of DKK 6 billion, of which around DKK 2 billion is expected to be issued in 2021. In 2019, Spar Nord issued DKK 2.6 billion with an expected term to maturity of 3 and 5 years, respectively. As a result of the COVID-19 crisis, the Danish FSA decided in 2020 to postpone the phasing-in of the MREL requirement by six

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months, as a result of which Spar Nord was no longer required to issue additional MREL capital in 2020.

With due consideration to ensuring an even maturity structure and the current opportunities and prices of issues, Spar Nord regularly considers the need for and timing of issuing additional MREL capital.

Calibrated MREL requirement

%	31.12.20	01.07.22
Solvency ratio	9.9	9.9
Requirement for loss-absorption amount	9.9	9.9
Solvency ratio	9.9	9.9
Capital conservation buffer requirement	2.5	2.5
SIFI buffer requirement	1.0	1.0
Phasing in	-7.1	0.0
Requirement for recapitalisation amount	6.3	13.4
Calibrated MREL requirement	16.1	23.2
Capital conservation buffer requirement	2.5	2.5
Countercyclical buffer requirement	0.0	0.0
SIFI buffer requirement	1.0	1.0
Combined capital buffer requirement	3.5	3.5
Total MREL and combined capital buffer requirement	19.6	26.7

Excess coverage calibrated MREL requirement

DKKm / %	31.12.20
Own funds	11,514
Non-preferred senior capital	2,650
Other MREL-eligible liabilities	0
Total capital	14,164
Deduction – separate combined buffer requirement	1,922
Total MREL-eligible liabilities	12,241
MREL and combined buffer percentage	25.8
MREL ratio	22.3
MREL and combined buffer requirement	10,774
MREL requirement	8,851
Excess coverage, MREL requirement	3,390
Excess coverage, MREL requirement in percentage points	6.2

Liquidity

Spar Nord has defined strategic liquidity as the difference between bank and leasing loans and the long-term funding (bank deposits, senior loans, issued bonds, subordinated debt and equity). Subordinated debt, additional tier 1 capital, senior loans and issued bonds with a contractual due date within 12 months do not form a part of the Bank's strategic liquidity.

Strategic liquidity

(DKKbn)	2020	2019	2018	2017	2016
Deposits, banking activities	58.1	53.3	50.8	48.7	46.5
Senior loans/bond issues	2.7	2.6	0.0	0.0	0.0
Shareholders' equity and subordinated debt	11.7	11.1	10.6	10.1	9.7
Liquidity procurement	72.5	67.0	61.3	58.8	56.2
Lending, banking and leasing activities	42.5	43.2	39.6	37.3	35.1
Maturity, senior loans, issued bonds, subordinated debt and additional tier 1 capital					
<1 year	0.0	0.4	0.0	0.7	0.4
Strategic liquidity, total	30.0	23.4	21.8	20.8	20.7

*) See note 5.3.2

At the end of 2020, Spar Nord's strategic liquidity amounted to DKK 30.0 billion, up DKK 6.6 billion on end-2019. The increase was primarily attributable to a strong increase in deposits because of the COVID-19 crisis.

Spar Nord's LCR ratio at 31 December 2020 was 241.

Rating

Throughout 2020, Spar Nord's rating from rating agency Moody's was unchanged. Spar Nord has an Adjusted Baseline credit assessment of baa1 and a Banking deposit rating of A1 with a stable outlook. Spar Nord's Senior Non-Preferred issues have been assigned a rating of A3 by Moody's.

Acquisition of BankNordik's Danish business

On 22 December 2020, Spar Nord Bank and BankNordik signed a conditional agreement for the acquisition of BankNordik's Danish business with a total business volume of approximately DKK 25 billion, distributed on some 60,000 customers. The purchase price was agreed at the carrying amount with the addition of goodwill of DKK 255 million. Overall, the acquisition is expected to reduce the Bank's capital ratios by around 1.5 percentage point.

The agreement enables Spar Nord to strengthen its market position in the retail customer segment in the Greater Copenhagen area and in the cities of Aarhus, Odense, Kolding and Haderslev. The total business volume of approximately DKK 25 billion breaks down as follows: Loans, advances and guarantees approx. DKK 3.7 billion, deposits approx. DKK 5.8 billion, mortgage loans arranged through Totalkredit approx. DKK 11.1 billion and customers' guardianship accounts approx. 4.8 billion.

The agreement will make Spar Nord the largest distributor of Totalkredit mortgage loans and the largest distributor of investment products from BankInvest.

The acquired business is expected to contribute moderately to the Bank's core earnings before impairment in 2021, as one-off costs associated with the transaction are expected to amount to around DKK 60 million. From 2022, the acquired portfolio is expected to contribute core earnings before impairment of around DKK 110 million.

Closing of the transaction was subject to the approval of the Danish FSA and the Danish Competition and Consumer Authority. As Spar Nord received both regulatory approvals before the end of January 2021, the acquisition was finalised at 1 February 2021.

The Supervisory Diamond

Some years ago, the Danish FSA launched a model, the Supervisory Diamond, which lists a number of quantitative reference points, stipulating what can be considered a financial institution with an increased risk profile.

Failure to comply with the reference points in the Supervisory Diamond will trigger a reaction from the Danish FSA.

In 2020, Spar Nord was comfortably within all the reference points, achieving the values shown below:

The Supervisory Diamond

		Threshold values	2020	2019
Sum of large exposures	%	<175	78.1	83.6
Growth in lending	%	<20	-1.5	9.1
Property exposure	%	<25	10.5	11.5
Funding ratio		<1	0.5	0.5
Liquidity benchmark	%	>100	251.0	204.0

Outlook for 2021

Spar Nord expects two opposing trends in the Danish economy in the first and second halves of 2021. While the first half of 2021 is still expected to be strongly impacted by the COVID-19 crisis with limited investment and consumption propensity, the second half is expected to see an uptick in activity and optimism as vaccinations are rolled out.

Combining its existing market position with the opening of three new branches (Herlev, Solrød Strand and Korsør), Spar Nord expects to generate growth in lending and its overall business volume. On top of this comes the effect of the acquisition of BankNordik's Danish business at 1 February 2021.

On the basis of expected organic growth in lending volumes combined with an expectedly reduced pressure on the overall interest margin, including the full effect of deposit initiatives already completed, Spar Nord expects to generate an improvement in net interest income. The additional impact from the acquisition of BankNordik's Danish business is expected to be around DKK 80 million.

With respect to fee income, Spar Nord expects to be able to extend the levels of 2020, given expectations of persistently high housing market activity, both in terms of remortgaging and house sales, and continuing growth in demand for asset management products. To this should be added net fee income resulting from the acquisition of BankNordik's Danish business, which is expected to amount to around DKK 120 million.

Market value adjustments are expected to be substantially lower than in 2020, primarily because the high market value adjustments on the Bank's bond portfolio are not expected to be repeated in a year of consistently low interest rates. Moreover, equity market performances are expected to be somewhat less positive than in 2020. On the other hand, the acquisition of BankNordik's Danish business is expected to add around DKK 10 million.

Payroll costs are generally expected to fall because of a lower number of Group employees. Furthermore, the Bank incurred one-off costs in 2020 of DKK 34 million in connection with a severance programme and redundancies at Spar Nord's headquarters.

Operating expenses will be marked by mounting IT costs. In a number of other areas, such as staff costs and marketing expenses, Spar Nord expects a small decline relative to 2020.

On the cost side, the impact of the acquisition of BankNordik's Danish business is expected to be around DKK 130 million, on top of which come one-off expenses to the tune of DKK 60 million.

Uncertainty with respect to the long-term socio-economic effects and consequences of the COVID-19 crisis is expected to persist at least until the end of H1 2021. Going into 2021, the Bank is confident about its existing management estimate relating to COVID-19, and loan impairment charges for 2021 are therefore expected to be normalised at a slightly lower level than in 2020.

Overall, the above factors lead the Bank to project core earnings before impairment in the DKK 1,100-1,300 million range, and profit after is expected to be in the DKK 650-850 million range.



Strategy plan 2020-22



Strategy plan 2020-22

Since 2017, Spar Nord's vision has been to develop DENMARK'S MOST PERSONAL BANK. Our vision is thus defined because attentiveness and commitment have always been characteristic of Spar Nord's approach to banking and because Spar Nord believes that personal relations will remain pivotal to the ability to attract and retain customers.

Concurrently with the vision, Spar Nord defined a new strategic direction under the heading THE PERSONAL BANK IN A DIGITAL WORLD. The strategic direction reflects that digitalisation is a basic requirement for all banks and that digital technologies, when used correctly, may help create efficiency improvements and even closer and more personal customer relations.

Vision remains intact

At the end of the strategy period, many of the efforts that were a part of the 2017-19 plan have proven to be a success. Initiatives like The Good Customer Meeting and the Good Banking Experience have been successfully implemented and made a positive contribution to customer satisfaction levels and customer inflows. Spar Nord has achieved decent growth in the business customer segment, and for four years in a row we have had the most satisfied business customers among the large banks (source: Aalund Research).

In November 2019, the Bank presented a strategy plan for the years 2020-22, which is in many ways a natural continuation of the 2017-19 plan. The vision is still to become DENMARK'S MOST PERSONAL BANK, and the business model focusing on extensive decentralised ownership and on operating a retail bank with a combination of brick-and-mortar branches and digital support remains unchanged.

Also, a number of the trends in the basic analysis of the market and the world around us are unchanged.

In order to signal that Spar Nord with the new plan is moving along the course already set, the plan – and the strategic direction – has been named THE PERSONAL BANK IN A DIGITAL WORLD 2.0. Three Must Win Battles have been determined under this heading, each comprising three prioritised actions.

Efficiency in the machine room

These prioritised actions were more clearly defined in autumn 2020 such that the Bank's digital focus is primarily inward-facing in terms of reducing the administrative burden and freeing up time for customers. The banking sector has been subject to a great many new rules and standards in recent years with accompanying administrative tasks. Spar Nord's ambition to create efficiency in its machine room should be seen against this background.

The goal is to reduce the administrative burden, especially for the Bank's customer-facing employees, and is prompted by an acknowledgement that business is created through dialogue with customers. In its efforts to succeed at this goal, Spar Nord has established a new IT unit whose dedicated task is to increase administrative efficiency in order to free up more time for customer engagement for the Bank's advisers.

In line with the Bank's business model and focus on decentralised ownership, we have decided to include customer-facing competences in our work to reduce the administrative burden. The aim is to ensure that digital support of administrative tasks has the maximum effect on the advisor's daily work.

Strategy

Well prepared for the future

Our financial results were satisfactory during the strategy period 2017-19 and in the first year of the strategy period 2020-22. Hence, Spar Nord's business growth, return on equity and cost efficiency have been excellent compared to similar large banks. Spar Nord has won market share and was in 2019 designated a systemically important financial institution in Denmark.

Summing up, management believes that THE PERSONAL BANK IN A DIGITAL WORLD has been a success over the past few years and that Spar Nord is well prepared to face coming years' challenges.

Four current themes

We believe the banking analysis that formed the basis of Spar Nord's new strategic direction in 2016 remains relevant. The dilemmas and strategic themes defined back then were thus also included in the analysis underlying the new strategy: THE PERSONAL BANK IN A DIGITAL WORLD 2.0:

Theme 1 Weak growth and low interest rates

The economic climate is challenged by relatively weak growth, low consumer spending and extremely low interest rates. At the same time, there is substantial excess liquidity in the market and the Danish banking market is extremely competitive. These factors were intensified by the COVID-19 pandemic and have combined put severe pressure on prices of and earnings on the traditional core banking products of deposits and loans.

Theme 2 Digitalisation

Digitalisation of the Danish banking market has not progressed nearly as rapidly as expected three or four years ago. Nevertheless, digitalisation will unavoidably remain a basic banking requirement also in the coming years. Future generations of banking customers will have greater expectations in terms of digital offerings, and well-functioning technology is a key prerequisite for running efficient banking operations in the future.

Theme 3 Legislation and regulation

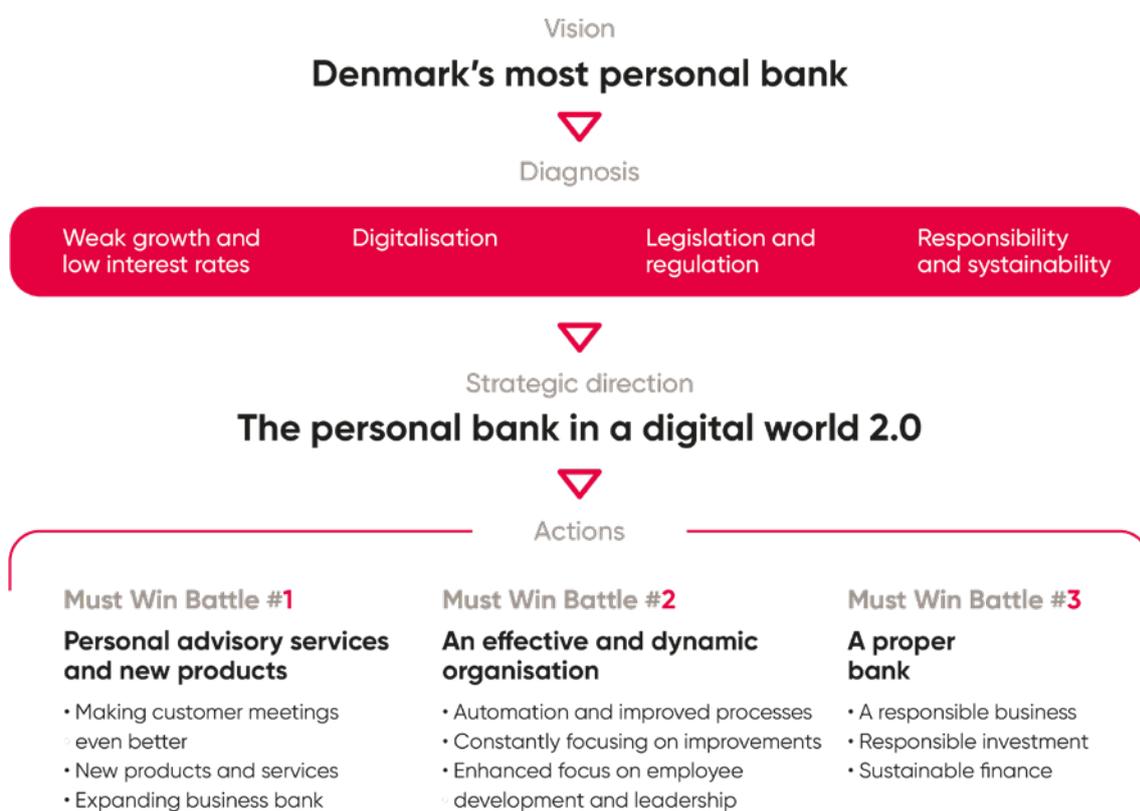
In recent years, a deluge of new rules and standards has flooded the banking sector. These regulatory measures call for many development and implementation resources, thus adding additional pressure on earnings at Spar Nord and other banks.

Theme 4 Responsibility and sustainability

The entire banking sector is currently in a confidence crisis following a number of unfortunate incidents relating to money laundering, tax evasion and dubious investment products. Adding to that the climate crisis and enhanced focus on corporate responsibility it means the requirements from customers and the general public with respect to prudence, responsibility and sustainability are becoming more and more pronounced.

Three Must Win Battles

Based on the vision and the four strategic themes introduced above, Spar Nord has defined three new Must Win Battles, which are considered key to the Bank successfully implementing the strategy plan 2020–22. The overall plan is illustrated in the model below:



MWB #1

Personal advisory services and new products

Providing attentive and personal services to our customers is a paramount competitive parameter for Spar Nord. In the years ahead, Spar Nord will therefore focus on delivering even better services and products to retail and business customers alike.

The most important initiatives are:

Making customer meetings even better

The good customer meeting is already a Spar Nord stronghold. However, it can be improved even further, among other things by improving the meeting documents to strengthen their professional content and facilitate customer and adviser preparation. Moreover, we still need to work on the good service experience.

New products and services

Spar Nord is focused on maintaining up-to-date and relevant products and services for the Bank's defined principal target groups. During the past year, the Bank has thus launched new products and solutions in areas such as asset management, inheritance and wills as well as payment cards and payment services.

Expanding business bank

Spar Nord still has a huge growth potential as a business bank and to achieve this potential, we segment our business customers to ensure an even better match between the Bank's value offerings and expertise and the individual needs of our customers.

MWB #2

An effective and dynamic organisation

The second Must Win Battle is about developing expertise, organisation and the tools and processes required to ensure that as much time as possible is spent on customers and as little time as possible on administration and paper work.

The most important initiatives are:

Automation and improved processes

Dedicated efforts will be made to streamline and automate processes, thus reducing the amount of administrative resources, freeing up more time for advisory services. Focus areas will include ensuring intuitive assistance from the systems used by the employees.

Constantly focusing on improvements

Efforts will regularly be made to identify and realise efficiency enhancements in the Bank, among other things by establishing a new IT entity dedicated resources, the purpose of which is to realise efficiency enhancements for administrative tasks mainly for the Bank's customer-centric employees.

Enhanced focus on employee development and leadership

Efforts in the field of leadership and employee development will be intensified to ensure that Spar Nord remains an attractive bank for its employees and that it has the right expertise to meet future requirements. At the same time, we will intensify the marketing of Spar Nord as a workplace and strengthen the onboarding of new colleagues.

MWB #3

A reputable bank

In coming years, Spar Nord will make strategic and systematic efforts to ensure that, in all aspects of our business, we meet our corporate responsibilities and the expectations which our customers and the general public have for the way in which we run our business.

The most important initiatives are:

A responsible business

Responsible banking is about fulfilling the social contract, complying with laws and regulations – and also about putting the customers' interests first with respect to advisory services and product innovation. Moreover, responsibility is about the Bank's global footprint in areas such as climate, the environment, working environment and responsible supply chain management, which is an area where Spar Nord regularly launches new initiatives. Lastly, Spar Nord will maintain its local commitment and in that way become even better at creating value to our society.

Responsible investment

When making investments, Spar Nord will focus on meeting the requirements and standards expected by our customers. As part of these endeavours, Spar Nord complies with international principles for responsible investment and will review its product portfolio. Also, new products will be launched with an enhanced focus on "meaningful investment", if we experience customer demand for such products.

Sustainable finance

Under the "sustainable funding" heading, Spar Nord will regularly launch new products and services which, in addition to meeting customers' funding requirements, also address the challenges of our planet.

Strategic targets 2020-22

Return on equity

7-9%

after tax

Cost/Income Ratio

65

Dividend

30-50%

of profit for the year

Investor Relations

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

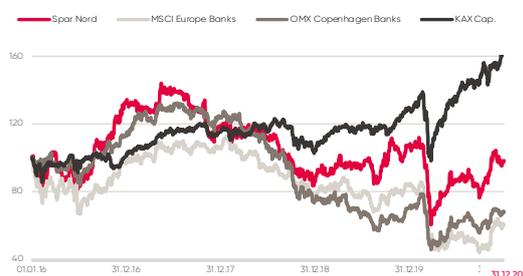
The Bank presents financial reports and other information via its IR website, sparnord.com/ir, and also provides ongoing information to investors and analysts at frequent meetings, conferences and roadshows, among other things after the publication of the Group's annual and interim reports.

In 2020, analysts from six investment banks were covering the Spar Nord share (ABG Sundal Collier, Carnegie, Danske Bank, Handelsbanken, Nordea and SEB).

Spar Nord share

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

Price developments for the Spar Nord share
2016 - 2020
Index - linked - jan 2016 = 100



The Spar Nord share fell from a price of 65 at end-2019 to 60 at end-2020. As no dividends were distributed in 2020, the total return was therefore minus 8%, equal to the fall in the share price for the year (Y/Y). By way of comparison, returns for the Danish total index KAX Cap. was 29%, while OMX Copenhagen Banks and MSCI Europe Banks produced returns of minus 4% and minus 28%, respectively. At 31 December 2020, the market capitalisation of Spar Nord was DKK 7.4 billion, against DKK 8.0 billion at end-2019.

In 2020, the average daily trading volume amounted to about 119,000 shares compared with 89,000 in 2019.

Breakdown of shareholders

At end-2020, Spar Nord Bank had approximately 93,500 shareholders. The ten largest shareholders combined held about 52% of the share capital. About 67% of the share capital is held by foundations and institutional investors and other major shareholders, while 33% of the capital is held by

shareholders who each own fewer than 20,000 shares. Geographically speaking, 74% of the share capital is owned by Danish investors and 26% by foreign investors.

The Bank has two shareholders who have announced that they each hold more than 5% of the share capital. The Spar Nord Foundation, Aalborg, is the largest shareholder, having an interest of 19.3%. Nykredit Realkredit A/S, Copenhagen, is the second largest shareholder, having an interest of 14.0%.

Dividend policy and expectations

Spar Nord pursues the goal of generating a competitive return for its shareholders – by way of share price performance and dividends. Thus, the Bank's policy is to distribute dividends to shareholders in years when profits permit. As from the 2020 financial year, Spar Nord pursues the following dividend policy:

Spar Nord pursues the goal of generating a competitive return for its shareholders – by way of share price performance and dividends. Spar Nord aims to distribute 30-50% of the net profit for the year as ordinary dividends with due consideration to meeting the Bank's capital targets. In case the Bank has extensive excess capital after the distribution of ordinary dividends, the Board of Directors will assess whether such capital can be returned to the shareholders in the form of extraordinary dividends or share buybacks.

For 2021, the Danish FSA generally recommends limited dividend payments by Danish banks regarding the financial results for 2020. In connection with the distribution of dividends, the Danish FSA prioritises that the bank is well-capitalised and that the dividend distribution is lower than set out in the bank's dividend policy. Against this background, the Board of Directors recommends to the shareholders at the Annual General Meeting that a cash dividend of DKK 1.5 per share be distributed, equal to a dividend yield of about 3% and a payout ratio of 25%.

Spar Nord share	2020	2019
Share capital (DKKm)	1,230	1,230
Market price, year-end	60	65
Market capitalisation (DKKm)	7,356	7,995
Earnings per share for the year (DKK) *)	5.6	8.2
Dividend per share	1.5	0.0
Net asset value per share (DKK)	78	72
Share price/NAV per share	0.8	0.9

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

Financial calendar 2021

7 April 2021	Annual General Meeting
5 May 2021	Interim report for Q1
19 August 2021	Interim report for H1
4 November 2021	Interim report for Q1-Q3

Corporate responsibility



Spar Nord is a nationwide bank with approximately 384,000 customers, 1,545 employees and thousands of small and large suppliers. Spar Nord is also active in Danish associations and cultural life, acting as sponsor across Denmark. As such, Spar Nord plays a role in the life of many people, making it crucial for the Bank to take joint responsibility and play an active part in relations with individuals and society at large.

This section of the report contains an introduction to Spar Nord's corporate responsibility initiatives. A more detailed description of the Bank's policies, activities and results in this area is provided in our CSR Report for 2020, which is available on our website sparnord.com/csr.

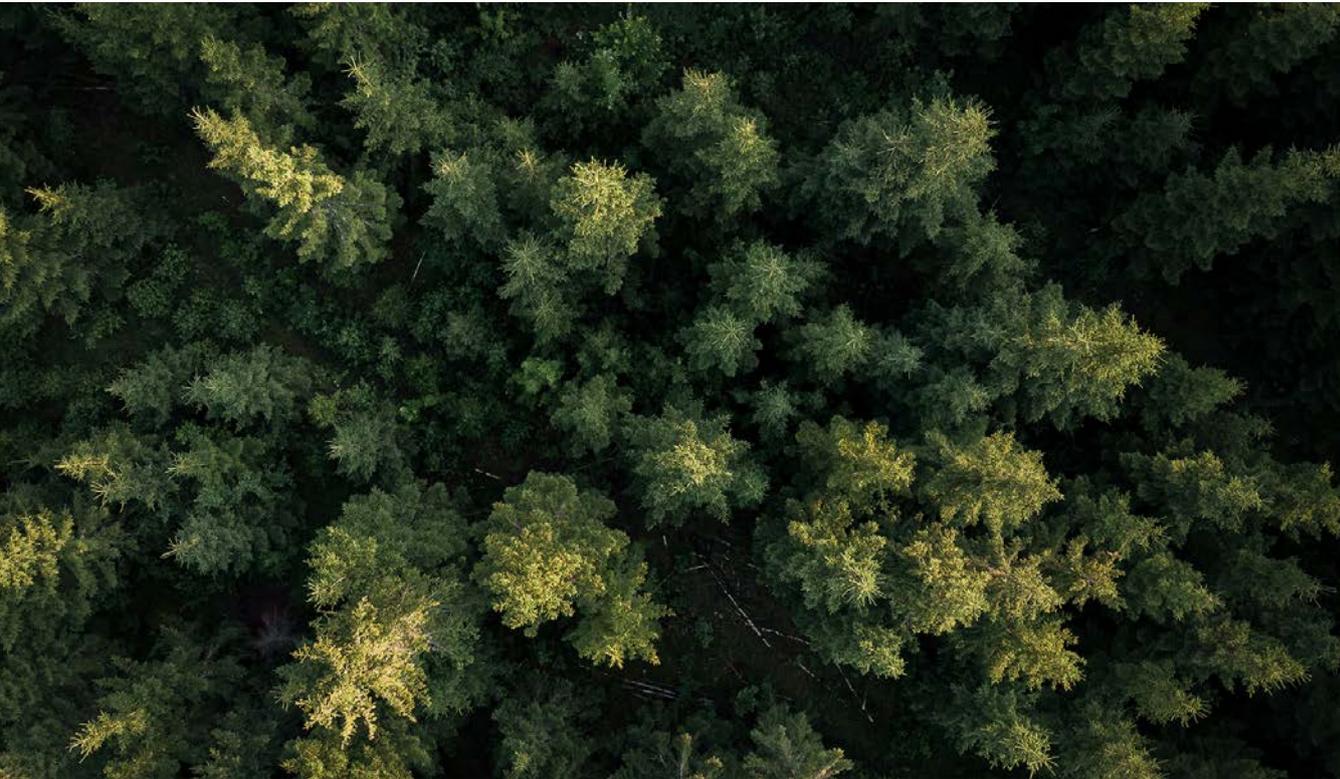
Responsibility a strategic focus area

Responsibility and sustainability play a pivotal role in Spar Nord's 2020-22 strategy plan. The plan, which is presented together with this annual report, identifies "A reputable bank" as one of three Must Win Battles and describes concrete initiatives in areas such as responsible investment, sustainable funding, climate and environmental issues, responsible supply chain management and local commitment.

Signatory to UN principles for responsibility and sustainability

Since January 2020, Spar Nord has been a signatory to the UN Global Compact (corporate responsibility), the UN Principles for Responsible Investment (UN PRI) and the UN Principles for Responsible Banking (UN PRB). Becoming a signatory is a natural part of our existing CSR initiatives. Our progress and initiatives will be reported within the framework of the UN standards.





Goal no. 7 Affordable and Clean Energy

Using affordable and clean energy and goal of carbon neutrality in 2021.

Goal no. 8 Decent Work and Economic Growth

Actively engaging employees in a well-documented effort to continuously improve our employees' health, safety and working conditions throughout their working lives.

Goal no. 11 Sustainable Cities and Communities

Promoting healthy communities and activities across the locations at which we do business, through donations and sponsorships of local culture and sports.

Goal no. 12 Responsible Consumption and Production

Buying sustainably and recycling our waste while continuously implementing resource-saving initiatives across the organisation and encouraging a sustainable corporate culture.

Goal no. 13 Climate Action

Bringing down direct and indirect climate impacts by reducing our own footprint, implementing sustainable investing criteria and developing sustainable banking products.

Goal no. 16 Peace, justice and strong institutions

Countering money laundering, terrorist financing, economic crime and cybercrime by establishing effective systems, a healthy employee culture and open collaboration with public authorities. Countering violence, war and human rights abuse through responsible investment, responsible financing and responsible supply chain management.

Responsible banking

Countermeasures against money laundering, terrorist financing and financial crime start with responsible banking. It is about putting the customers' interests first with respect to advisory services and product innovation, about complying with applicable laws and regulations and about ensuring that compliance and general conformity with the law form an integral part of the Bank's strategy and business. Responsible banking is paramount given that the existence of cross-border financial crime and international terrorism is a basic condition for all banks. The risk of the Bank being abused for purposes of money laundering and the financing of terrorism is present every day, and the threat level is rising.

Consequently, it is the duty of Spar Nord to contribute actively to reducing the risk of money laundering and terrorist financing, and, to that end, we have defined a money laundering policy and a number of preventive measures which are regularly adapted to legislation and the current threat scenario. The policy, which, among other things, serves to ensure that financial transactions, customer relationships, employee matters and agreements are screened when entered into and are monitored on an ongoing basis, outlines a low risk exposure in the area. Consequently, we regularly implement risk-mitigating measures and initiatives to strengthen the Bank's systems and employee capabilities in this area.

Responsibility

A decent workplace

Spar Nord's most important resource is its employees. Therefore, Spar Nord continues to take responsibility for creating a healthy and progressive working environment in which all employees can unfold their professional and personal potential in the best possible way. However, Spar Nord is responsible not only for regulating employee conditions in a proper manner, but also for promoting a culture in which employees consistently act responsibly towards customers, colleagues, the Bank and society in general. At the beginning of 2020, Spar Nord became a signatory to the UN Global Compact, and over the course of the year, we implemented an updated responsible working environment policy.

Diversity

We believe diversity is beneficial for developing both business relations and collegial relations. Spar Nord therefore aims to strengthen its customer services and competitive strength by attracting as skilled employees as possible with respect to professional and human qualities. It follows from this that prejudice based on gender, age, skin colour, religion, sexual orientation, physical appearance or ethnic origin is a barrier not only to developing our business, but also to ensuring a healthy working environment and a good reputation.

Currently, the Bank has defined a goal that women should represent at least 33% of board members. At the end of 2020, this goal was not achieved with women representing 22% of board members.

In terms of its general management, Spar Nord works systematically to identify and motivate employees with leadership potential regardless of gender and to improve the retention of managers of both genders by offering opportunities and flexibility in relation to work-life balance.

Spar Nord has defined a goal that there should be at least five qualified applicants for managerial positions in the Bank, and that at least two of these should be women. The long-term objective of the Bank is to shift the gender breakdown at executive and executive mid-level towards a more equal distribution between men and women – from about 21.8% women currently in the Bank's executive team to 25% women by the end of 2024. As the above-mentioned goals were not fully achieved in 2020, the Bank will focus on HR initiatives to support the intended developments in 2021.

Environment and climate: Carbon-neutral banking operations in 2021

Climate and environmental impacts are a major challenge to our society, and Spar Nord takes an interest in and co-responsibility for tackling this challenge. Accordingly, Spar Nord is a signatory to the UN's Sustainable Development Goals (SDGs) (UN Global Compact), which forms the foundation

for our efforts to reduce our negative carbon footprint. As a part of Spar Nord's strategy plan, operations should eventually be carbon neutral. Our goal was originally to achieve carbon neutrality by 2025, but in 2020 we came a major step closer to our goal by purchasing green power and optimising energy consumption. Consequently, we are now working to be carbon neutral by the end of 2021.

The following are examples of our specific results in the area of climate and environment in 2020:

- Drop in company car emissions of 41 tCO₂e
- Total drop in air travel emissions of 191 tCO₂e
- Two vehicle charging points installed
- 93% of the Bank's company cars were A-labelled in 2020
- Emissions from the treatment of waste and spillage in 2020 were 3 tCO₂e.
- Emissions from water consumption in 2020 were 6 tCO₂e.

Responsible supply chain management

Spar Nord buys goods and services from hundreds of Danish and international suppliers. Consequently, Spar Nord takes joint responsibility for maintaining good and transparent supplier relationships, which underpin the Bank's good reputation, help attract good suppliers and retain and attract customers.

We require our suppliers to maintain high environmental standards and that major suppliers support the UN's Sustainable Development Goals and the ten principles of the UN Global Compact. To ensure this, Spar Nord launched a code of conduct in 2019 for major suppliers, which, with systematic follow-up from 2020, became a natural part of the Bank's central procurement processes and supply chain management.

Local commitment

Spar Nord builds on a locally-rooted business model, and we are committed to entering into healthy and sustainable relations with the local communities in which we operate. The locally-rooted model allows us to build better customer relations, and it facilitates the creation of local community cohesion through active participation in and support for local associations, initiatives and institutions. We want to continue and strengthen these initiatives as they contribute both financially and in terms of human value creation in society and in our bank. We believe that our role in society is to stimulate healthy and sustainable associations at all of our bank locations.

Associations – be they local, regional or national – are the centre of attention for the Spar Nord Foundation, which each year makes donations of DKK 40-50 million for small and large initiatives across Denmark. The Spar Nord Foundation owns 20% of

Responsibility

Spar Nord Bank, and the dividends from this ownership interest are channelled back into society.

The Foundation and the Bank remain focused on working with many local, small donations and sponsorships – partly to reach out to more individuals, and partly to make it easier for dedicated locals to reach their goals. In 2019, we studied the socio-economic impacts of the Spar Nord Foundation’s donations and our sponsorships, and we clearly saw that local donations and sponsorships are important and very valuable to local communities. In 2020, the Spar Nord Foundation donated DKK 40.7 million to support 681 different projects across Denmark, while Spar Nord signed sponsorship agreements for a total amount of DKK 20.6 million.

Responsible investment and sustainable funding

Spar Nord offers proprietary and facilitates third party investment products for retail and business customers. Investment always involves a risk of direct or indirect co-financing of activities which have an adverse impact on meeting the UN Sustainable Development Goals. We therefore share a responsibility for ensuring accountability in proprietary and facilitated investments. We have defined responsible investment requirements in our own investment policies and for investments made by our business partners.

The following are specific examples of results in the area of responsible and sustainable investment in 2020:

- 100% ESG screening of Spar Nord’s managed portfolios
- 100% ESG screening of suppliers’ portfolios
- About 13% of our “Stjerneinvest” investment concept is placed in the eco-labelled fund BankInvest Global Equities Sustainable Development.
- Implemented stewardship policy relative to Danish equities



Organisation and corporate governance

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

For that reason, Spar Nord's Management backs the efforts to promote corporate governance and has chosen to comply with a vast majority of the 2017 recommendations from the Danish Corporate Governance Committee. The full wording of Spar Nord's position on the recommendations and on Finance Denmark's corporate governance code is available at spanord.com/governance.

The updated 2020 recommendations from the Danish Corporate Governance Committee will take effect for financial years starting on 1 January 2021.

General Meeting

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

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

Shareholders owning at least 20,000 shares may exercise their voting rights at the general meeting.

Board of Directors and board committees

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

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

Each year, the Spar Nord Board of Directors convenes 11 ordinary meetings and holds a strategy seminar and four meetings with the chairmen of the regional bank committees. In 2020, the Board of Directors held a total of 26 physical meetings and telephone conferences. In addition, 6 meetings were held in the Audit

Committee, 4 meetings in the Risk Committee and 5 meetings in the Nomination and Remuneration Committee.

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

Evaluation and nomination process

The process of nominating members to the Board of Directors is undertaken by the Nomination and Remuneration Committee in dialogue with the combined members of the Board of Directors and with the assistance of the chairmen of the local bank councils of Spar Nord's shareholder regions. On the basis of the annual evaluation of the Board of Directors' work, competencies and composition, any need for recruiting new board members is assessed. If such a need exists, the Board will prepare a description of the competences and qualifications required for the candidate. The nomination process generally attaches importance to areas such as management experience, business experience, business acumen, insight into finance and risk management and relevant personal skills.

Election to the Board of Directors

At the Annual General Meeting in April 2021, three of the members elected by the shareholders are up for election. Per Nikolaj Bukh and Kaj Christiansen have announced that they stand for re-election, and the Board of Directors recommends their re-election, while John Sørensen, after serving six years on the Board, has announced that he will not be standing for re-election.

Executive Board

The Executive Board is appointed by the Board of Directors and is composed of Lasse Nyby, CEO, John Lundsgaard, Managing Director, Lars Møller, Managing Director, and Martin Kudsk Rasmussen, Managing Director.

The Executive Board is the supreme decision-making body as concerns the day-to-day affairs of the Bank, in compliance with the guidelines and directions issued by the Board of Directors. The more specific distribution of duties between the Board of Directors and the Executive Board appears from their rules of procedure.

Remuneration of the Board of Directors and the Executive Board

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

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

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

Board of Directors



Kjeld Johannesen
Chairman of the Board of Directors

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

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

Up for reelection in 2022

Managing Director

CLK 2016 Holding ApS
Kjeld Johannesen Holding ApS

Education

BCom (Marketing)

Chairman of the board of directors

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

Board member of

Aktieselskabet Schouw & Co
Direktør Svend Hornsylds Legat
Direktør Hans Hornsylds og Hustru Eva Hornsylds legat
Sparekassen Nordjyllands Fond af 29. marts 1976

Areas of expertise

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

Shares held in Spar Nord

80,000

Independent



Per Nikolaj Bukh
Deputy Chairman of the Board of Directors

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

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

Up for reelection in 2021

Professor

Aalborg University

Managing Director

P. N. Bukh ApS

Education

Msc Econ.
PhD
Board of directors training from Bestyrelsesakademiet

Board member of

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

Areas of expertise

Finance and risk management
Financial markets
Public enterprises
Utilities

Shares held in Spar Nord

27,200

Not independent



Lene Aaen
Member of the Board of Directors

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

Workplace representative, Spar Nord Bank A/S

Up for reelection in 2024

Education

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

Board member of

The Financial Services Union "Spar Nord Kreds"
Sparekassen Nordjyllands Fond af 29. marts 1976

Areas of expertise

HR
Organisation

Shares held in Spar Nord

4,750

Not independent



Kaj Christiansen
Member of the Board of Directors

2012 Member of the Board of Directors of Spar Nord Bank A/S

1955 Year of birth

Chairman of the Risk Committee

Up for reelection in 2021

Managing Director

Dokøen A/S

Education

State-Authorised Public Accountant

Board member of

Dokøen A/S
Frederikshavn Maritime Erhvervs-
park A/S
The Spar Nord Foundation
Sparekassen Nordjyllands Fond af
29. marts 1976

Areas of expertise

Properties
Marketing
Finance and risk management

Shares held in Spar Nord

21,100

Independent



Morten Bach Gaardboe
Member of the Board of Directors

2016 Member of the Board of Directors of Spar Nord Bank A/S

1968 Year of birth

Member of the Audit Committee

Up for reelection in 2022

Education

Financial services background

Chairman of the board of directors

Gefion Group A/S
Svend Aage Nielsen, Autoriseret
El-installatør A/S
Slagelse Erhvervscenter A/S

Board member of

Sparekassen Nordjyllands Fond af
29. marts 1976

Areas of expertise

The SME segment

Shares held in Spar Nord

7,505

Independent



Henrik Sjøgreen
Member of the Board of Directors

2020 Member of the Board of Directors of Spar Nord Bank A/S

1964 Year of birth

Member of the Risk Committee

Up for reelection in 2022

Managing Director

FIH A/S

Education

Diploma in business economics and
management accounting

Chairman of the board of directors

Simon Fougner Hartmanns Fond

Board member of

Danmarks Skibskredit A/S
FIH Holding A/S
FIH A/S
Henrik Frode Obels Fond
Sparekassen Nordjyllands Fond af
29. marts 1976

Areas of expertise

Experience in financial business
management
Strategy
Financial risk management

Shares held in Spar Nord

3,500

Independent



Jannie Skovsen
Member of the Board of Directors

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

Senior workplace representative, Spar Nord Bank A/S
Member of the Nomination and Remuneration Committee

Up for reelection in 2024

Education

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

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

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

Areas of expertise
HR
Organisation

Shares held in Spar Nord
0

Not independent



John Sørensen
Member of the Board of Directors

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

Member of the Audit Committee

Up for reelection in 2021

Managing Director

The Accounts Division of the Ministry of Defence

Education

State-Authorised Public Accountant

Board member of
Sparekassen Nordjyllands Fond af 29. marts 1976
Sparekassen Sæbys Fond

Areas of expertise
Accounting and auditing

Shares held in Spar Nord
5,160

Independent



Kim Østergaard
Member of the Board of Directors

2020 Member of the Board of Directors of Spar Nord Bank A/S
1985 Year of birth

Up for reelection in 2024

Education

Diploma in business economics and management accounting
Master of Business Development (to be completed in 2021)

Board member of
Sparekassen Nordjyllands Fond af 29. marts 1976
Young Money ApS

Areas of expertise
Business Development
Digitalisation
Innovation

Shares held in Spar Nord
26

Not independent

Executive Board



Lasse Nyby

Chief Executive Officer

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

Education

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

Chairman of the board of directors

Aktieselskabet Skelagervej 15

Board member of

AP Pension
AP Pensionservice A/S
FinansDanmark
Foreningen AP Pension F.M.B.A.
FR I af 16. september 2015 A/S
National Banks in Denmark
Nykredit Realkredit A/S
PRAS A/S
Sparekassen Nordjyllands Fond af
29. marts 1976

Shares held in Spar Nord

75,179



John Lundsgaard

Managing Director

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

Education

Financial services background
MBA

Chairman of the board of directors

Factor Insurance Brokers A/S

Board member of

Aktieselskabet Skelagervej 15,
deputy chairman
BOKIS A/S, deputy chairman
Bankernes EDB Central a.m.b.a.
Erhverv Norddanmark
Finanssektorens Uddannelsescenter
Kunsten Museum of Modern Art, Aalborg
Sparekassen Nordjyllands Fond af
29. marts 1976
Utzon Center A/S

Shares held in Spar Nord

93,725



Lars Møller

Managing Director

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

Education

Financial services background
Executive education from Insead

Chairman of the board of directors

BI Asset Management Fondsmægler-
selskab A/S
BI Holding A/S (BankInvest Gruppen)
BI Management A/S

Board member of

DLR Kredit A/S, deputy chairman
Aktieselskabet Skelagervej 15
Sparekassen Nordjyllands Fond af
29. marts 1976

Shares held in Spar Nord

93,800



Martin Kudsk Rasmusen

Managing Director

2020 Joined the Executive Board
2009 Year of employment
1978 Year of birth

Education

Bachelor in economics and business admin-
istration
Executive education from Insead

Board member of

Letpension A/S
SNB II Komplementar ApS
SNB IV Komplementar ApS
Vækst Invest Nordjylland A/S
Sparekassen Nordjyllands Fond af
29. marts 1976

Shares held in Spar Nord

4,160

Risk management

Risk assumption is a natural component of banking operations, placing heavy demands on Spar Nord's risk management organisation and risk management environment.

The following risks are considered the most important for Spar Nord:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk, including IT security

For a more detailed description of risk management in the individual risk areas, including a description of policy, monitoring and reporting, reference is made to the respective sections.

Risk management organisation

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

The structure of Spar Nord's risk management organisation is shown in the figure on page 38.

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.

Using the strategic objectives as its point of departure, the Board of Directors determines a 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 the risk profile is appropriate at all times, having regard to the Bank's capital and liquidity situation.

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.

Board committees

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

Establishing these board committees helps ensure a better utilisation of the specific 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 terms of reference of the committees are available at www.sparnord.com/committees, which also provides a presentation of the members and their qualifications.

Risk Committee

The principal purpose of the Risk Committee is to handle risk-related matters, including to review and assess the adequacy and efficiency of the Bank's policies, instructions and systems. The Risk Committee also serves to advise the Board of Directors on the Bank's overall current and future risk profile and strategy and to ensure the correct implementation of the risk strategy in the Bank.

The Risk Committee consists of three independent board members. The Committee held four meetings in 2020.

Nomination and Remuneration Committee

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 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 members, one of which is an independent member and one a member elected by the employees. The Committee held five meetings in 2020.

Audit Committee

The principal purpose of the Audit Committee is to monitor and control accounting and auditing matters, including informing the Board of Directors of the outcome of the statutory audit. Its duties also include monitoring the efficiency of the Bank's internal control system, Internal Audit and risk management systems for financial reporting purposes.

The Audit Committee consist of three members, two of whom are independent. The Committee held six meetings in 2020.

Risks

Executive Board

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

The Executive Board must ensure that 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.

Executive Board 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.

Solvency and Risk Management Committee

The Solvency and Risk Management Committee is composed of a member of the Executive Board, Trading Division, Credit Rating, Finance & Accounts and Risk Management. The Committee meets every quarter and serves to define targets and principles for calculating adequate own funds and the individual solvency need. The Solvency and Risk Management Committee prepares a recommendation for the individual solvency need and passes it on to the Board of Directors for approval. The Committee handles input from the Market Risk, IT Security and Model Risk Committees and the Credit Committee to ensure that any capital consequences are dealt with by the primary capital and solvency authority.

Market Risk Committee

The Market Risk Committee is composed of a member of the Executive Board and members of the Trading Division, Finance & Accounts and Risk Management. 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.

IT Security Committee

The IT Security Committee is composed of a member of the Executive Board, the IT department, Risk Management 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.

Model Risk Committee

The Model Risk Committee is composed of a member of the Executive Board, Risk Management and Credit Rating. The Committee meets once every

quarter to discuss and monitor the management of model risks and to consider recommendations of newly developed and revised models prior to approval and implementation.

Credit Committee

The Credit Committee is composed of two members of the Executive Board and one member from Credit Rating. The Committee 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.

1st line of defence

The business units Spar Nord's Local Banks and Trading Division together with the support and control functions 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 and is performed in all major risk areas, including credit, market, liquidity and operational risk. In order to support the business units in relation to preventing money-laundering and terrorist financing, an Anti-Money Laundering (AML) function has also been established, which is part of the 1st line of defence.

2nd line of defence

The 2nd line of defence is composed of the risk management function and the compliance function. The functions have key assignments of monitoring, controlling and reporting the Bank's risks and control environment.

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 in providing information about the Bank's risk exposure.

The Risk Management Function reports to the Board of Directors on a quarterly basis. The activities of the Risk Management Function are rooted in the annual plan adopted by the Board of Directors.

The Chief Risk Officer reports directly to the Executive Board. 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 checking Spar Nord's compliance with appli-

Risks

cable legislation, banking sector standards and internal guidelines, as well as advising on how to reduce compliance risk.

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.

The Head of Compliance reports directly to the Executive Board. Dismissal of the Head of Compliance is subject to the prior approval of the Board of Directors.

3rd line of defence

The 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 Risk Committee.

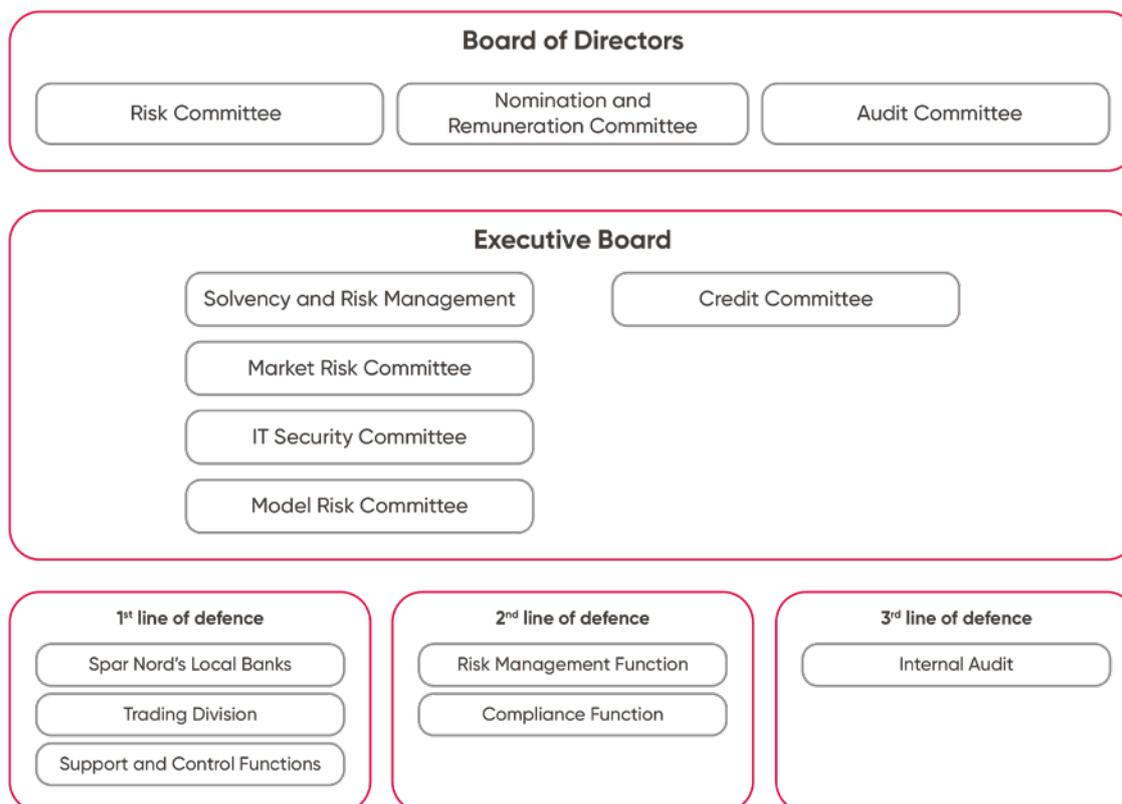
The Internal Audit Department bases its activities on the annual plan adopted by the Board of Directors. These activities include test examinations of business procedures and internal control systems in key areas subject to risk, including in connection with preparing the financial statements.

It reports directly to the Board of Directors and regularly reports on an ongoing basis to the Executive Board and the Board of Directors. Dismissal of the head of internal audit is subject to the prior approval of the Board of Directors.

Reporting

To ensure an adequate decision-making basis for the Executive Board and the Board of Directors, management receives reporting material pertaining to the principal risk areas.

Risk management organisation



Alternative performance measures

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

Throughout the Management's review, performance is assessed on the basis of the financial highlights and segment reporting, which represent the financial information regularly provided to Management. The differences between the financial highlights and the IFRS financial statements relate only to certain changes in the presentation. As

there are no adjusting items, net profit is the same in the financial highlights and in the IFRS income statement. A reconciliation of the correlation between core income in the management commentary and the IFRS financial statements is shown in note 2.1 Business segments.

Spar Nord uses core earnings as a performance measure. There is no difference between "Core earnings before impairment" in the core earnings format and "Profit/loss before loan impairments" in the IFRS financial statements.

Defined below are the additional key indicators shown on pages 11-14 of the management commentary and in the other sections of the management commentary.

Return on equity before tax, excl. additional tier 1 (AT1) capital

Profit/loss before tax in per cent of shareholders' equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year. Profit/loss before tax and shareholders' equity are calculated as if the additional tier 1 (AT1) capital were treated as a liability.

Return on equity after tax excl. additional tier 1 (AT1) capital

Profit/loss after tax in per cent of shareholders' equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year. Profit/loss after tax and shareholders' equity are calculated as if the additional tier 1 (AT1) capital were treated as a liability.

Cost share of core income

Total costs/core income.

Cost share of core income – incl. impairment of loans, advances and receivables, etc.

Total costs plus impairment of loans, advances and receivables, etc./core income.

Bank and leasing loans relative to bank deposits

Bank and leasing loans as a percentage of bank deposits

Bank and leasing loans relative to shareholders' equity

Bank and leasing loans / shareholders' equity

Impairment ratio, %

Impairment for the year in per cent of loans and advances + guarantees + impairment of loans, advances and receivables etc. and provisions for unutilised credit lines

Management's statement on the Annual Report

The Board of Directors and Executive Board have today reviewed and adopted the 2020 Annual Report of Spar Nord Bank A/S.

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

We consider the accounting policies applied to be appropriate, and in our opinion the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2020 and of the results of the Group's and the Parent Company's operations and cash flows for the 2020 financial year.

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

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

Aalborg, 11 February 2021

Executive Board



Lasse Nyby
Chief Executive Officer



John Lungsgaard
Managing Director



Lars Møller
Managing Director



Martin Kudsk Rasmussen
Managing Director

Board of Directors



Kjeld Johannesen
Chairman



Per Nikolaj Bukh
Deputy Chairman



Lene Aaen



Kaj Christiansen



Morten Bach Gaardboe



Henrik Sjogreen



Jannik Skovsen



John Sørensen



Kim Østergaard

Report by the Internal Audit Department

Report on the consolidated and parent company financial statements

Opinion

In our opinion, the consolidated financial statements and the financial statements of Spar Nord Bank A/S give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2020 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2020 in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed financial institutions in respect of the consolidated financial statements and in accordance with the Danish Financial Business Act in respect of the Parent Company's financial statements.

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

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

Basis for opinion

We have audited the consolidated financial statements and the financial statements of Spar Nord Bank A/S for the financial year 1 January – 31 December 2020. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed financial enterprises. The Parent Company's financial statements have been prepared in accordance with the Danish Financial Business Act.

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

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

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

We participated in auditing all critical audit areas. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Statement on the Management's review

Management is responsible for the management's review.

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

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Business Act.

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

Aalborg, 11 February 2021

Spar Nord Bank A/S
Internal Audit Department

Margit Nicolajsen
Margit Nicolajsen
Head of Internal Audit Department

Independent auditor's report

To the shareholders of Spar Nord Bank A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Spar Nord Bank A/S for the financial year 1 January 2020 to 31 December 2020, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including the summary of significant accounting policies, for the Group as well as the Parent and the consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial companies, and the parent financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2020 and of its financial performance and cash flows for the financial year 1 January 2020 to 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial companies.

Also, in our opinion, the parent financial statements give a true and fair view of the financial position of the Parent at 31 December 2020 and of its financial performance for the financial year 1 January 2020 to 31 December 2020 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the IESBA Code of Ethics for Professional Accountants and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

We were appointed auditors of Spar Nord Bank A/S for the first time on 10 April 2019 for the financial year 2019. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of 2 years up to and including the financial year 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<p>Loan impairment charges and provisions for guarantees</p>	<p>How the matter was addressed in our audit</p>
<p>Determining expected loan impairment charges and provisions for guarantees is subject to significant uncertainty and to some degree based on management judgement. Due to the significance of such management judgement and the loan and guarantee volumes of the Group and the Parent, auditing loan impairment charges and provisions for guarantees is a key audit matter.</p> <p>The principles for determining loan impairment charges and provisions for guarantees are further described in Summary of significant accounting policies, and Management has described the management of credit risks and the review for impairment in notes 2.9, 3.2 and 5.1 to the consolidated financial statements.</p> <p>The areas of loans and guarantees involving the highest level of management judgement, thus requiring greater audit attention, are:</p> <ul style="list-style-type: none"> • Identification of credit-impaired exposures. • Parameters and management judgements in the calculation model used to determine Stage 1 and Stage 2 expected losses. • Valuation of collateral and future cash flows, including management judgement involved in determining Stage 3 expected losses. • The assessment of the effects of COVID-19 and other events that were not already considered by the models in terms of management judgements incorporated in the models and post-model adjustments. 	<p>Based on our risk assessment, our audit comprised a review of the Group's relevant procedures for loans and guarantees, testing of relevant controls and analysis of the credit quality of loans and guarantees, including the amount of impairment charges and provisions for guarantees.</p> <p>Our audit procedures included testing relevant controls regarding:</p> <ul style="list-style-type: none"> • Current assessment of credit risk. • Assessment and validation of input and assumptions applied in calculating impairment charges and provisions for Stage 1 and Stage 2 guarantees. • Determining management judgements in addition to model-based impairment charges. • Determining impairment charges on exposures in Stage 2 and Stage 3, including test of cash flows and definition of scenarios. <p>Our audit procedures also comprised:</p> <ul style="list-style-type: none"> • Reviewing, on a sample basis, exposures to ensure timely identification of credit-impaired loans and guarantees. • Obtaining and evaluating the system auditor's report from the Bank's data centre which includes an assessment of the mass data import used by the Bank and of the correct allocation of collateral. • Challenging key parameters in the calculation model applied with particular focus on objectivity and the data used. • Challenging management judgements in the calculation model used with particular focus on management consistency and bias. • Testing, on a sample basis for exposures classified to be in Stage 3, the calculated impairment charges for consistency with legal and group guidelines to this effect. This included testing collateral values and definition of scenarios. • Challenging management judgements incorporated in the models and Management's established post-model adjustments in relation to the effects of COVID-19 and other events that had not already been considered by the models.

Statement on the Management's review

Management is responsible for the management's review.

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

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

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

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

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

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Business Act, and for the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in the preparation of the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Aalborg, 11 February 2021

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56



Anders Oldau Gjelstrup
State-Authorised Public
Accountant
MNE no 10777



Jakob Lindberg
State-Authorised Public
Accountant
MNE no 40824

Consolidated financial statements

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Group

Income statement

Note	2020 DKKm	2019 DKKm	
	Interest income calculated under the effective interest method	1,647	1,640
	Other interest income	100	63
2.2 + 2.3.1	Interest income	1,747	1,702
2.2 + 2.3.2	Interest expenses	163	129
	Net interest income	1,584	1,573
2.4	Fees, charges and commissions received	1,396	1,395
2.4	Fees, charges and commissions paid	158	169
2.5	Market value adjustments and dividends	433	379
2.6	Other income	71	160
2.7	Staff costs	1,293	1,218
2.8	Operating expenses	806	796
	Profit/loss before loan impairment (core earnings before impairment)	1,227	1,324
2.9	Impairment of loans, advances and receivables etc.	309	22
	Profit/loss before tax	918	1,302
2.10	Tax	181	243
	Profit/loss for the year	737	1,059
	Appropriation:		
	The shareholders of the Parent Company Spar Nord Bank A/S	688	1,010
	Holders of additional tier 1 (AT1) capital instruments	49	49
	Profit/loss for the year	737	1,059
	Earnings per share for the year		
4.5	Earnings per share for the year (DKK)	5.6	8.2
4.5	Diluted earnings per share for the year (DKK)	5.6	8.2
	Proposed dividend per share (DKK) (2019: proposed DKK 3.50 – subsequently suspended by the general meeting) *)	1.5	0.0

*) To support the political intentions to ensure an appropriate mitigation of the effects of the COVID-19 pandemic and its consequences for the Danish economy, it was adopted by the general meeting on 17 June 2020, as recommended by the Board of Directors, that no dividends would be distributed for the 2019 financial year.

Statement of comprehensive income

Profit/loss for the year	737	1,059
Other comprehensive income		
Items that cannot be reclassified to the income statement:		
Adjustment relating to associates	-1	-6
Net revaluation of domicile property	7	-10
Other comprehensive income after tax	6	-16
Total comprehensive income	743	1,043
Appropriation:		
The shareholders of the Parent Company Spar Nord Bank A/S	694	994
Holders of additional tier 1 (AT1) capital instruments	49	49
Total comprehensive income	743	1,043

Group

Balance sheet

Note	2020	2019
	DKKm	DKKm
Assets		
	1,126	1,152
	1,259	1,588
3.1	52,312	51,312
3.2	21,647	16,498
3.3.1	1,789	1,740
3.3.2	529	470
3.4	20,464	17,323
3.5	171	174
3.6	782	788
3.7.1	112	113
3.7.2	98	54
3.7.3	5	11
3.8	1,675	1,780
	108	111
	102,077	93,113
Equity and liabilities		
Liabilities		
3.9	4,167	4,062
3.10	58,416	53,279
3.5	20,464	17,323
4.8	2,670	2,637
3.3.3	835	960
3.11	3,677	3,664
	28	30
3.12	19	20
3.13	78	54
4.7	1,333	1,322
	91,687	83,352
Equity		
	1,230	1,230
	100	92
	94	116
	185	431
	7,987	7,032
	9,596	8,901
4.6	794	860
	10,390	9,761
	102,077	93,113

Statement of changes in equity

	Share capital	Revaluation reserve	Statutory reserves	Proposed dividend	Retained earnings	Shareholders of Spar Nord Bank A/S	Additional tier 1 (AT1) capital	Total equity
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Equity at 31.12.2019	1,230	92	116	431	7,032	8,901	860	9,761
Comprehensive income in 2020								
Profit/loss for the year	-	-	29	185	474	688	49	737
Other comprehensive income								
Adjustment relating to associates	-	-	-50	-	49	-1	-	-1
Net revaluation of properties	-	7	-	-	0	7	-	7
Other comprehensive income, total	0	7	-50	0	49	6	0	6
Total comprehensive income	0	7	-22	185	523	694	49	743
Transactions with owners								
Issue of additional tier 1 (AT1) capital, net transaction costs	-	-	-	-	0	0	330	330
Redemption of additional tier 1 (AT1) capital	-	-	-	-	-	-	-400	-400
Interest paid on additional tier 1 (AT1) capital	-	-	-	-	-	-	-49	-49
Suspended dividend payment	-	-	-	-431	431	0	-	0
Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	-431	-431	-	-431
Addition upon sale of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	433	433	3	436
Total transactions with owners	0	0	0	-431	432	2	-116	-114
Equity at 31.12.2020	1,230	100	94	185	7,988	9,596	794	10,390
Equity at 31.12.2018	1,230	103	0	431	6,616	8,380	861	9,241
Amortisation, additional fees and commissions received	-	-	-	-	-40	-40	0	-40
Equity at 01.01.2019	1,230	103	0	431	6,577	8,340	861	9,201
Comprehensive income in 2019								
Profit/loss for the year	-	-	110	431	470	1,010	49	1,059
Other comprehensive income								
Adjustment relating to associates	-	-	6	-	-12	-6	-	-6
Net revaluation of properties	-	-10	-	-	0	-10	-	-10
Other comprehensive income, total	0	-10	6	0	-12	-16	0	-16
Total comprehensive income	0	-10	116	431	458	994	49	1,043
Transactions with owners								
Interest paid on additional tier 1 (AT1) capital	-	-	-	-	-	-	-49	-49
Dividends paid	-	-	-	-431	-	-431	-	-431
Dividends received, treasury shares	-	-	-	-	0	0	-	0
Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	-372	-372	-1	-373
Addition upon sale of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	369	369	-	369
Total transactions with owners	0	0	0	-431	-2	-433	-50	-483
Equity at 31.12.2019	1,230	92	116	431	7,032	8,901	860	9,761

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

Dividends of DKK 185 million have been proposed for 2020, corresponding to DKK 1.50 per share. (2019: proposed dividends of DKK 431 million, corresponding to DKK 3.50 per share, were subsequently suspended at the general meeting to support the political intentions to ensure an appropriate mitigation of the effects of the COVID-19 pandemic and its consequences for the Danish economy).

Dividends paid in 2020 amounted to DKK 0 million (2019: DKK 431 million, corresponding to DKK 3.50 per share). The distribution of dividend to Spar Nord's shareholders has no tax consequences for Spar Nord.

Group

Cash flow statement

	2020	2019
	DKKm	DKKm
Operations		
Profit/loss before tax	918	1,302
3.7 Fair value changes, investment properties and temporary assets	1	-1
2.8.2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	80	86
2.6 Gains and losses on the sale of intangible assets and property, plant and equipment	2	4
2.6 Gains and losses on sale of associates	0	0
5.1.6 Adjustment of loan impairment etc.	214	-442
Adjustment of subordinated debt, issued bonds etc.	51	1
3.1.3 Provisions	24	-127
3.4 Income from investments in associates	-29	-110
Corporate income tax paid	-225	-309
Operating activities, total	1,036	403
Working capital		
3.1+3.9 Movement in credit institutions and central banks, net	105	1,596
Movement in loans, advances and other receivables at amortised cost	-1,215	-6,614
3.3.1 Movement in bonds at fair value	-5,149	-338
3.3.2 Movement in equity portfolio	-50	28
Movement in other assets and other liabilities, net	-13	677
3.1.0 Movement in deposits and other payables	5,137	2,506
Working capital, total	-1,185	-2,145
Cash generated from operations, total	-149	-1,742
Investments		
3.4 Acquisition of associates	-80	-51
3.4 Sale of associates	0	4
3.6 Acquisition of intangible assets	-3	-2
3.6 Sale of intangible assets	0	0
3.7 Acquisition of property, plant and equipment	-44	-58
3.7 Sale of property, plant and equipment	17	28
3.4 Dividends from associates	49	14
Investing activities, total	-61	-66
Financing		
4.7 Subordinated debt	-4	-5
4.6 Additional tier 1 (AT1) capital included in equity	-116	-50
4.8 Issued bonds	-2	2,630
Dividends paid, excluding dividends on treasury shares	0	-430
Acquisition of treasury shares	-431	-372
Sale of treasury shares	433	369
3.1.1.1 Repayment of lease liabilities	-25	-24
Financing activities, total	-145	2,119
Movements in cash and cash equivalents for the year	-355	311
Cash and cash equivalents, beginning of year	2,740	2,428
Movements in cash and cash equivalents for the year	-355	311
Cash and cash equivalents, end of year	2,385	2,740
Cash and cash equivalents, end of year		
Cash, cash equivalents and demand deposits with central banks	1,126	1,152
3.1 Due from credit institutions and central banks within less than 3 months	1,259	1,588
Total	2,385	2,740

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Section 1

Basis of preparation

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Main items

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

The most important changes to the accounting standards from 2019 to 2020 are:

- Amendments to the IFRS Conceptual Framework
- Amendments to IFRS 3 regarding definition of a business combination
- Amendments to IAS 1 and IAS 8 regarding definition of materiality
- Amendments to IFRS 9, IAS 39 and IFRS 7 regarding IBOR reform

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

- Loan impairment
- Fair value of financial instruments

Basis of preparation

1.1 Accounting policies

1.1.1 Basis of preparation of the annual report

Spar Nord Bank A/S is a public limited company with its registered office in Denmark. The annual report for the year ended 31 December 2020 includes both the consolidated financial statements of Spar Nord and its subsidiary and separate financial statements of the Parent Company.

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

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

On 11 February 2021, the Board of Directors and Executive Board reviewed and adopted the 2020 Annual Report of Spar Nord. The Annual Report will be submitted for adoption by the shareholders at the Annual General Meeting on 7 April 2021.

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

The policies regarding recognition and measurement in the Parent Company are compatible with IFRS. The difference between the profit or loss in the Group and in the Parent Company is due to the net effect of revaluations and impairment, which in the Group is recognised in other comprehensive income but in the Parent Company in the income statement via profit in subsidiaries. Depreciation of domicile properties in the consolidated financial statements is not made in the subsidiary due to the investment property classification.

Except for the effect of implementation of new and amended accounting standards and interpretations, as described below, the accounting policies are consistent with those applied last year. Comparative figures have been restated to the changed accounting policies unless otherwise provided.

The general accounting policies are described in the following.

Specific accounting policies are incorporated in the relevant notes.

Implementation of new accounting standards

Effective 1 January 2020, the Spar Nord Group implemented the IFRS standards and interpretations taking effect in the EU for 2020. The following amendments to IFRS relevant to Spar Nord were implemented effective 1 January 2020:

- Amendments to the IFRS Conceptual Framework
- Amendments to IFRS 3 regarding definition of a business combination
- Amendments to IAS 1 and IAS 8 regarding definition of materiality
- Amendments to IFRS 9, IAS 39 and IFRS 7 regarding IBOR reform

The implementation of the adopted amendments and new standards did not materially affect recognition and measurement in 2020, thus not impacting earnings per share, diluted earnings per share and equity.

Recognition and measurement

Assets within Spar Nord's control as a result of past events are recognised in the balance sheet when it is probable that future economic benefits will flow to Spar Nord and the value of the asset can be reliably measured. Obligations arising from past events are recognised in the balance sheet where it is probable that outflows of future financial resources will be required to settle the obligations and they can be reliably estimated.

On initial recognition, assets and liabilities are measured at fair value, and for assets and liabilities subsequently measured at amortised cost directly attributable transaction costs will be added. Subsequently, assets and liabilities are measured as described for each item.

Recognition and measurement take into consideration any gains, losses and risks that arise before the presentation of the annual report and that confirm or invalidate matters existing at the balance sheet date.

Income is recognised in the income statement as earned. Costs incurred to generate the year's earnings are recognised in the income statement. Value adjustments of financial assets and liabilities and derivative financial instruments are recognised in the income statement.

Financial instruments are recognised at the settlement date and are derecognised when the right to receive or surrender cash flows from the financial instrument has expired, or if the financial instrument has been transferred and Spar Nord has transferred substantially all risks and rewards of ownership.

Foreign currency translation

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

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

Offsetting

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

Consolidated financial statements

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

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

The group enterprise Aktieselskabet Skelagervej 15 is fully consolidated.

Section 1

Basis of preparation

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

Cash flow statement

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

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

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

1.1.2 Information about standards not yet effective

The International Accounting Standards Board (IASB) has published a number of new and amended financial reporting standards (IAS and IFRS), which Spar Nord is not required to observe in preparing the 2020 Annual Report. These are IFRS 17, amendments to IFRS 3 and IFRS 16 and IAS 1, IAS 16, IAS 37 as well as the annual improvement project to IFRS standards 2018-2020 and IBOR II.

None of the above standards and interpretations have been adopted by the EU.

Spar Nord does not expect to implement the new standards and interpretations until they become mandatorily effective. None of the above standards and interpretations are expected to materially affect Spar Nord's financial reporting, including recognition and measurement.

1.2 Significant accounting estimates and judgments

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

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

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

Accounting item	Estimate	Assessments	Note
Loan impairment	X	X	3.2
Fair value of financial instruments		X	3.3

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

Section 2

Income statement

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Main items

Net interest income

DKK 1,584 million

2019: **DKK 1,573** million

Impairment of loans and advances, etc.

DKK 309 million

2019: **DKK 22** million

Net fee income

DKK 1,238 million

2019: **DKK 1,225** million

Profit/loss before tax

DKK 918 million

2019: **DKK 1,302** million

Costs and expenses

DKK 2,099 million

2019: **DKK 2,014** million

Profit/loss after tax

DKK 737 million

2019: **DKK 1,059** million

Profit/loss before loan impairment charges

DKK 1,227 million

2019: **DKK 1,324** million

C/1 ratio

0.63

2019: **0.60**

Income statement

2.1 Business segments



Accounting policies

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

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

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

Description of business segments

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

Spar Nord's Local Banks cater to all types of retail and business customers. Spar Nord's Local Banks (the retail bank unit) constitute the largest organisational unit in the Spar Nord Group, consisting of 51 local banks throughout the country. Spar Nord Bank's leasing activities form an integral part of Spar Nord's Local Banks.

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

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

Principles for Intra-group settlement

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

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

From 2020, the Bank has made an additional allocation of key costs incurred, which total approximately DKK 400 million per year, the vast majority of which is allocated to Spar Nord's Local Bank.

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

The assets and liabilities of the business segments are the operating assets and operating liabilities that are employed by a segment for its operations and that are either directly attributable to the segment or can reasonably be allocated to the segment. The individual business segment includes allocated capital equal to 13.5% (2019: 13.5%) of the average total risk exposure amount of the business area. In the business segment Other areas, the difference between allocated capital and equity is presented.

Information about income broken down by products and services

The Group's business areas are organised according to differences in products and services, and products and services are uniform within the individual business areas. Income from the business area Spar Nord's Local Banks mainly comprises income from interest, fees, charges and commissions related to products within lending and deposits as well as leasing activities. The customers consist of retail, business and public-sector customers.

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

Section 2

Income statement

Business segments

2020 DKKm	Spar Nord's Local Banks	Trading Division	Other areas	Core earnings ^{*)} and Group
Income statement				
Net interest income	1,421	107	56	1,584
Net fee income	1,229	2	6	1,238
Market value adjustments and dividends	191	229	14	433
Other income	22	0	49	71
Core income/revenue, total	2,863	338	125	3,326
Staff costs and operating expenses	1,958	62	78	2,099
Core earnings before impairment	905	276	47	1,227
Impairment of loans, advances and receivables etc.	312	1	-3	309
Profit/loss before tax	593	275	49	918

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

Balance sheet	Spar Nord's Local Banks	Trading Division	Other areas	Group, total
Loans, advances and other receivables at amortised cost	42,253	10,059	0	52,312
Investments in associates	0	0	529	529
Intangible assets and property, plant and equipment *)	248	2	815	1,064
Other assets **)	1,339	25,116	21,716	48,172
Allocated assets, total	43,841	35,177	23,060	102,077
Deposits and other payables	57,229	583	605	58,416
Equity (allocated capital)	5,835	1,250	3,305	10,390
Other liabilities	20,694	5,745	6,832	33,271
Allocated equity and liabilities, total	83,758	7,578	10,741	102,077

Disclosures – income/revenue, total

Internal income/revenue	-147	124	786	762
Internal income and eliminations, offset against costs	0	-95	-667	-762
Income/revenue, external customers	3,010	309	6	3,326
Income/revenue, total	2,863	338	125	3,326
Of which revenue from contracts with customers	723	21	26	770

Disclosures, cash flow statement

Depreciation, amortisation and impairment ***)	23	0	57	80
Additions, intangible assets and property, plant and equipment *)	17	2	28	47
Non-cash operating items excl. depr., amort. and impairment of int. assets and prop., plant & equipment	0	0	-5	-5
Impairment and reversal of impairment of loans, advances and receivables, etc.	214	0	0	214

Key figures

Return on equity, % ****)	10.0	22.6	-	-
Cost share of core income	0.68	0.18	-	-
Total risk exposure amount, end of period	43,222	9,259	2,384	54,865
Number of employees (full-time equivalents, end of period)	1,017	68	460	1,545

*) All assets are located in Denmark.

***) Temporary assets amount to DKK 5 million, of which DKK 4 million relates to lease activities and DKK 1 million relates to other areas.

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

*****) The rate of return on equity per annum has been calculated on allocated capital, which amounts to 13.5% of the average total risk exposure amount.

Section 2

Income statement

Business segments

2019 DKKm	Spar Nord's Local Banks	Trading Division	Other areas	Core earnings*) and Group
Income statement				
Net interest income	1,431	80	62	1,573
Net fee income	1,217	3	5	1,225
Market value adjustments and dividends	197	169	13	379
Other income	23	0	138	160
Core income/revenue, total	2,867	252	219	3,338
Staff costs and operating expenses	1,560	53	401	1,914
Core earnings before impairment	1,308	199	-183	1,324
Impairment of loans, advances and receivables etc.	23	0	-1	22
Profit/loss before tax	1,285	199	-181	1,302

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

	Spar Nord's Local Banks	Trading Division	Other areas	Group, total
Balance sheet				
Loans, advances and other receivables at amortised cost	42,915	8,396	0	51,312
Investments in associates	0	0	470	470
Intangible assets and property, plant and equipment *)	258	0	816	1,074
Other assets **)	18,704	20,258	1,295	40,257
Allocated assets, total	61,878	28,654	2,582	93,113
Deposits and other payables	52,328	392	559	53,279
Equity (allocated capital)	6,135	1,001	2,625	9,761
Other liabilities	17,559	5,577	6,937	30,073
Allocated equity and liabilities, total	76,022	6,970	10,121	93,113

Disclosures – income/revenue, total

Internal income/revenue	-154	100	585	531
Internal income and eliminations, offset against costs	0	-51	-480	-531
Income/revenue, external customers	3,021	204	114	3,338
Income/revenue, total	2,867	252	219	3,338
Of which revenue from contracts with customers	743	16	33	792

Disclosures, cash flow statement

Depreciation, amortisation and impairment ***)	23	0	63	86
Additions, intangible assets and property, plant and equipment *)	28	0	32	60
Non-cash operating items excl. depr., amort. and impairment of int. assets and prop., plant & equipment	0	0	-237	-237
Impairment and reversal of impairment of loans, advances and receivables, etc.	-442	0	0	-442

Key figures

Return on equity, % ****)	18.8	16.7	-	-
Cost share of core income	0.54	0.21	-	-
Total risk exposure amount, end of period	45,445	7,416	3,102	55,963
Number of employees (full-time equivalents, end of period)	1,027	67	455	1,549

*) All assets are located in Denmark.

**) Temporary assets amount to DKK 11 million, of which DKK 5 million relates to lease activities and DKK 6 million relates to other areas.

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

****) The rate of return on equity per annum has been calculated on allocated capital, which amounts to 13.5% of the average total risk exposure amount.

Section 2

Income statement

2.2 Financial items

2020	Interest income	Interest expense	Net interest	Market value adjustments	Dividend	Total
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Net financials at amortised cost						
Due from and due to credit institutions and central banks	5	9	-5	-	-	-5
Lending and deposits, banking activities	1,447	-133	1,580	-	-	1,580
Repo and reverse repo transactions	-50	-19	-31	-	-	-31
Issued bonds	0	25	-25	-3	-	-28
Subordinated debt	0	35	-35	-	-	-35
Other interest	0	1	-1	-	-	-1
Total	1,401	-82	1,483	-3	-	1,480
Net financials at fair value						
Trading book	101	0	101	282	3	386
Other financial investment assets (shares according to fair-value option)	0	0	0	95	57	151
Total	101	0	101	377	60	537
Total net income from financials	1,502	-82	1,584	374	60	2,018
2019	Interest income	Interest expense	Net interest	Market value adjustments	Dividend	Total
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Net financials at amortised cost						
Due from and due to credit institutions and central banks	9	26	-18	-	-	-18
Lending and deposits, banking activities	1,547	-39	1,586	-	-	1,586
Repo and reverse repo transactions	-39	-14	-24	-	-	-24
Issued bonds	0	2	-2	3	-	1
Subordinated debt	0	34	-34	-	-	-34
Other interest	4	3	2	-	-	2
Total	1,521	11	1,510	3	-	1,513
Net financials at fair value						
Trading book	63	0	63	222	5	290
Other financial investment assets (shares according to fair-value option)	0	0	0	95	55	149
Total	63	0	63	317	60	439
Total net income from financials	1,584	11	1,573	320	60	1,952

In the table above, negative interest rates are offset against interest income and interest expenses, respectively. The amount of the negative interest rates offset is shown in notes 2.3.1 and 2.3.2.

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

Income statement

2.3 Net interest



Accounting policies

Interest income and expenses comprise:

- interest-bearing financial instruments measured at amortised cost, which are recognised in the income statement applying the effective interest method based on the cost of the financial instrument;
- amortisation of fees which are an integral part of the effective yield of the financial instrument, including origination fees and document-handling fees in connection with loan establishment etc., and amortisation of any additional difference between cost and redemption price;

- interest on financial instruments measured at fair value, but not interest on assets and deposits under pooled schemes, which is recognised under market value adjustments;
- interest income which the lessor on finance leases and purchase contracts has recognised on the basis of the agreed effective interest rate;
- fees, etc. from operating and finance leases which the lessor has accrued over the remaining term of the leases and recognised on an ongoing basis under Interest income; and
- interest expense on operating leases in which Spar Nord is the lessee.

Interest on loans with credit impairment made on the basis of the value after impairment is presented under impairment of loans, advances and receivables etc.

2.3.1 Interest income

	2020	2019
	DKKkm	DKKkm
Interest income		
Due from credit institutions and central banks	-10	-2
Loans, advances and other receivables	1,411	1,519
Bonds	74	82
Derivatives	27	-19
Other interest income	0	4
Total interest income after offsetting negative interest income	1,502	1,584
Negative interest income offset against interest income	67	39
Negative interest expenses offset against interest expenses	178	80
Total interest income before offsetting negative interest income	1,747	1,702
Of which, interest income from reverse repo transactions booked under		
Due from credit institutions and central banks	-15	-11
Loans, advances and other receivables	-35	-28

Negative interest income amounts to DKK 67 million (2019: DKK 39 million) and relates to repo transactions and bonds.

Negative bond yields of DKK 17 million (2019: DKK 17 million) is offset against interest income from bonds.

In the table above, negative interest income is offset against interest income. In the income statement, negative interest income is presented as interest expenses, and negative interest expenses are presented as interest income.

2.3.2 Interest expenses

	2020	2019
	DKKkm	DKKkm
Interest expenses		
Credit institutions and central banks	-6	14
Deposits and other payables	-137	-41
Issued bonds	25	2
Subordinated debt	35	34
Other interest expenses	1	3
Total interest expenses after offsetting negative interest expenses	-82	11
Negative interest expenses offset against interest expenses	178	80
Negative interest income offset against interest income	67	39
Total interest expenses before offsetting negative interest expenses	163	129
Of which, interest expenses from repo transactions booked under		
Credit institutions and central banks	-15	-12
Deposits and other payables	-4	-2

Negative interest expenses amount to DKK 178 million (2019: DKK 80 million) and relate partly to deposits, partly to repo transactions.

In the table above, negative interest expenses are offset against interest expenses.

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

Income statement

2.4 Fees, charges and commissions received

Accounting policies

Fees, charges and commissions relating to services provided over a period of time are accrued over the service period, which includes guarantee commissions. Income generated upon performing a given transaction, including securities and custodianship fees plus payment services fees, is recognised as income when the transaction has been performed.

Revenue from contracts with customers

Revenue is recognised with a view to depicting the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. On the basis of this basic principle, a five-step model is applied in a process to ensure systematic assessment of all elements in contracts with customers.

Revenue is recognised on completion of the transaction and is not a part of the effective rate of interest.

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

Examples of revenue from contracts with customers:

- Portfolio management fees
- Credit card transactions
- Securities trading fees
- Other types of income in the form of, for instance, fee income, property management income and rental income

	2020	2019
	DKKm	DKKm
Securities trading and custody accounts	444	417
Payment services	155	168
Loan transaction fees	568	600
of which mortgage credit institutions	434	430
Guarantee commission	30	27
Other fees, charges and commissions	199	183
Total fees, charges and commissions received	1,396	1,395
Total fees, charges and commissions paid	158	169
Total net fees, charges and commissions received	1,238	1,225

Of which

Transaction fees relating to financial instruments measured at amortised cost	568	600
Income from management activities and other fiduciary activities	253	229

Revenue from contracts with customers

Securities trading and custody accounts	334	312
Payment services	153	166
Loan fee	133	169
Other net fees and other operating income	150	145
Total revenue from contracts with customers	770	792

2.5 Market value adjustments and dividends

Accounting policies

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

	2020	2019
	DKKm	DKKm
Other loans, advances and receivables at fair value	-3	3
Bonds	146	74
Shares, etc.	153	141
Currency	64	58
Foreign exchange, interest, share, commodity and other contracts and derivatives	14	44
Assets linked to pooled schemes	2,089	1,926
Deposits in pooled schemes	-2,089	-1,926
Other liabilities	0	0
Total market value adjustments	374	320
Dividends on shares, etc.	60	60
Market value adjustments and dividends on shares, etc., total	433	379

Section 2

Income statement

2.6 Other income



Accounting policies

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

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

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

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

	2020	2019
	DKKm	DKKm
Payments under operating leases and other rental income	9	9
Other income	20	27
Operation of investment properties	13	14
Total other operating income	42	50
Income from investments in associates	29	110
Other income, total	71	160

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2.7 Staff costs



Accounting policies

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

	2020	2019
	DKKm	DKKm
Salaries	1,040	975
Pensions	116	111
Social security costs	138	132
Total staff costs	1,293	1,218

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

Board of Directors

Number	9	9
Fixed remuneration	4.2	4.0
Pension	-	-
Total remuneration	4.2	4.0

Breakdown of remuneration to Board of Directors

Kjeld Johannesen	0.9	0.8
Per Nikolaj Bukh	0.6	0.6
Lene Aaen	0.3	0.3
Kaj Christiansen	0.4	0.4
Morten Bach Gaardboe	0.4	0.4
Laila Mortensen (retired on 17 June 2020)	0.2	0.4
Henrik Sjøgreen (took office on 17 June 2020)	0.2	-
Jannie Skovsen	0.3	0.3
Gitte Holmgaard Sørensen (retired on 1 April 2020)	0.1	0.3
John Sørensen	0.4	0.4
Kim Østergaard (took office on 1 April 2020)	0.2	-
Total remuneration earned and paid	4.2	4.0
Of which, committee fees	0.6	0.7

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

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

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

Material risk takers

Number (avg. number of risk takers)	16	15
Fixed pay *)	19.4	18.5
Variable pay	0.9	0.7
Pension	2.8	2.7
Total remuneration earned and paid	23.1	21.8

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

In accordance with the Danish Financial Business Act, Spar Nord's remuneration policy defines the group of persons who are material risk takers. No variable remuneration components over and above the statutorily allowed lower threshold limit (DKK 100,000 per year) are paid to material risk takers.

The remuneration paid to Group Management (Board of Directors and Executive Board) does not include any variable components or discretionary pension benefits. The remuneration policy was adopted at the Annual General Meeting on 17 June

2020. The remuneration policy is available at sparnord.com/investor-relations/organisation/governance/.

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

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Income statement

	2020	2019
	DKKm	DKKm
Executive Board		
Number	4	3
Base salary	15.8	12.3
- less fees received from directorships	1.8	1.6
The Bank's expense, base salary	14.0	10.7
Pension	2.4	1.9
Total remuneration earned and paid	16.5	12.6
Breakdown of remuneration to Executive Board		
Lasse Nyby		
Base salary *)	4.9	4.6
- less fees received from directorships	0.7	0.6
The Bank's expense, base salary	4.2	4.0
Pension	0.8	0.7
Total remuneration earned and paid	5.0	4.7
John Lundsgaard		
Base salary	4.0	3.8
- less fees received from directorships	0.3	0.3
The Bank's expense, base salary	3.7	3.5
Pension	0.6	0.6
Total remuneration earned and paid	4.3	4.1
Lars Møller		
Base salary *)	3.9	3.9
- less fees received from directorships	0.7	0.7
The Bank's expense, base salary	3.3	3.2
Pension	0.6	0.6
Total remuneration earned and paid	3.9	3.8
Martin Kudsk Rasmussen **)		
Base salary *)	2.9	-
- less fees received from directorships	0.1	-
The Bank's expense, base salary	2.8	-
Pension	0.4	-
Total remuneration earned and paid	3.2	-

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

**) Martin Kudsk Rasmussen was appointed as managing director and a member of the Executive Board on 1 April 2020.

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

Note 6.8 provides information on the Board of Directors and the Executive Board's loans, advances and loan commitments, deposits, collateral and interest rates.

Termination rules

The members of the Executive Board are entitled to a notice period of 12 months and will receive severance pay corresponding to one to two years' salary.

The two-year severance pay period applies until the member's 64th birthday, after which the severance pay will be reduced gradually, and no severance pay will be paid when a member of the Executive Board has reached the age of 67.

Pension obligation

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

Number of employees

Average number of employees in the financial year converted into full-time equivalents	1,553	1,535
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Section 2

Income statement

2.8 Operating expenses



Accounting policies

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

Prepaid expenses are recognised at amortised cost under pre-payments (assets).

	2020	2019
	DKKm	DKKm
IT costs	439	388
Marketing expenses	62	79
Cost of premises	55	58
Staff costs and travel expenses	45	64
Office expenses	17	16
Other administrative expenses	107	105
Operating expenses	726	711
Depreciation, amortisation and impairment	80	86
Total operating expenses	806	796

2.8.1 Audit fees

	2020	2019
	DKKm	DKKm
Audit fee		
Fees to the audit firm appointed at the General Meeting	1.9	1.4
Fees to other audit firms for non-audit services	0.6	0.7
Total audit fees	2.5	2.1

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

Statutory audit	1.0	1.0
Other assurance engagements	0.2	0.2
Tax and VAT assistance	0.1	0.0
Non-audit services	0.7	0.3
Total fees to the audit firm appointed at the General Meeting	1.9	1.4

The fee for non-audit services provided by Deloitte Statsautoriseret Revisionspartnerselskab to the Group in 2020 amounted to DKK 0.7 million, consisting of other services which included a review of the quarterly financial statements with a view to recognising the profit for the period in capital, the preparation of a comfort letter relating to the EMTN programme and assistance in connection with the Bank's IRB project.

Deloitte Statsautoriseret Revisionspartnerselskab have met the requirements for total fees for non-audit services pursuant to Regulation (EU) No 537/2014, Article 4(2).

In 2019, the fee for non-audit services provided by Deloitte Statsautoriseret Revisionspartnerselskab to the Group amounted to DKK 0.3 million, consisting of other services, which included a review of the quarterly financial statements with a view to recognising the profit for the period in capital and the preparation of a comfort letter relating to the EMTN programme.

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Income statement

2.10 Tax



Accounting policies

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

Tax for the year, consisting of the year's current tax and changes in deferred tax, is recognised in the income statement as regards the amount that can be attributed to the profit or loss for the year, in other comprehensive income as regards the amount that can be attributed to other comprehensive income items and in equity as regards the amount that can be attributed to movements taken directly to equity, except for the tax effect concerning interest on the Group's additional tier 1 (AT1) capital, which is recognised in the income statement.

	2020	2019
	DKKm	DKKm
Tax on profit/loss for the year	181	243
Tax on other comprehensive income	0	0
Tax on changes in equity	0	-11
Total tax	181	232

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

Current tax	182	383
Deferred tax for the year	-2	-141
Adjustment of deferred tax, prior years	1	-1
Adjustment of current tax for prior years	0	1
Tax on profit/loss for the year	181	243

Specification of the effective tax rate:

Current tax rate	22.0	22.0
Income from investments and market value adjustment of shares, %	-3.6	-3.0
Non-deductible expenses and non-taxable income, %	1.2	-0.4
Adjustment of prior-year taxes, %	0.1	0.0
Total effective tax rate	19.7	18.6

	Before tax	Tax income/ expense	After tax	Before tax	Tax income/ expense	After tax
	2020	2020	2020	2019	2019	2019
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Tax on other comprehensive income						
Adjustment relating to associates	-1	0	-1	-6	0	-6
Net revaluation of properties	7	0	7	-10	0	-10
Tax on other comprehensive income, total	6	0	6	-16	0	-16

Tax on changes in equity

Amortisation, additional fees and commissions received at 01.01.19	0	0	0	-51	11	-40
Interest and issuance expenses, additional tier 1 (AT1) capital	-49	0	-49	-49	0	-49
Tax on changes in equity	-49	0	-49	-100	11	-89

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Main items

Lending, banking and leasing activities

DKK 42,494 million

2019: **DKK 43,157** million

Shares in the trading book

DKK 144 million

2019: **DKK 132** million

Bonds at fair value

DKK 21,647 million

2019: **DKK 16,498** million

Shares in the banking book

DKK 1,645 million

2019: **DKK 1,607** million

Deposits, banking activities

DKK 58,084 million

2019: **DKK 53,279** million

Deposits in pooled schemes

DKK 20,464 million

2019: **DKK 17,323** million

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Balance sheet

3.1 Due from credit institutions and central banks

§ Accounting policies

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

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

Amounts due from credit institutions and central banks are initially recognised at fair value plus transaction costs and less fees and commissions received that are directly related to the establishment. Subsequently, amounts due from credit institutions and central banks are measured at amortised cost using the effective interest method less write-downs for bad debt losses.

	2020	2019
	DKKm	DKKm
Balances at notice with central banks	61	0
Due from credit institutions, reverse repo transactions	343	924
Due from credit institutions, other	855	663
Total due from credit institutions and central banks	1,259	1,588
Of which, subordinated receivables	0	0
Shown by term to maturity		
Demand deposits	263	279
Up to 3 months	996	1,309
Over 3 months and up to 1 year	0	0
Between 1 year and 5 years	0	0
Over 5 years	0	0
Total	1,259	1,588

3.2 Loans, advances and other receivables at amortised cost

§ Accounting policies

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

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

Loans and other receivables are initially recognised at fair value plus transaction costs and less fees and commissions received that are directly related to the establishment. Subsequently, loans, advances and other receivables are measured at amortised cost using the effective interest method less write-downs for bad debt losses.

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

🔍 Significant accounting estimates and judgments, loan impairment

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

Under the Bank's expected credit loss model, a loss allowance must be recognised on all credit exposures. The expected credit loss model is based on a complex model involving a number of underlying assumptions concerning choice of variable input and their interdependence. Stage 1 and Stage 2 impairment charges are made on the basis of a model calculation, whereas the calculation in respect of exposures from the weak part of stage 2

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as well as stage 3 is made as a combination of an individual assessment and a modal calculation. The following components of the model are considered accounting estimates and judgments:

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

Spar Nord has defined a list of risk events that indicate credit impairment. Some risks are registered automatically in the systems, while others are registered manually by customer advisers or credit staff members, including credit-quality flagging of customers. Credit-quality flagging is based on important Management estimates, particularly affected by such factors as property prices, unemployment rates and demand for various products and services. Credit-quality flagging has a direct impact on customer impairment as it affects customer PD values. See note 5.1.11 for a description hereof. In accordance with an assessment of default, loan exposures of less than DKK 500,000 are subject to an automated process of credit-quality flagged customers based on customer data and characteristics.

Individually assessed impairment should be founded on the most likely scenario (base case). In addition, a worst case scenario must be calculated taking a more critical approach to customer exposures, including ability to pay and value of collateral, and a best case scenario based on a more positive approach. A calculation is made for each of the three scenarios, which are then weighted based on the probability of each scenario. Assessment of changes in payment ability and collateral

values in and weighting of the three scenarios is based on evaluation of individual customer commitments. The model calculation of the expected losses on impairment in stage 1 and 2 includes an add-on/deduction calculated on the basis of a weighting of the various scenarios with different approaches to macroeconomic developments in the coming years.

At end-2020, the Bank increased total impairment charges by DKK 267 million relating to management estimates. The increase in management estimates primarily relates to COVID-19 (DKK 320 million) and agricultural land values (DKK -22 million). Moreover, the management estimates relate to model uncertainty pursuant to the Bank's PD models (DKK -16 million) and lack of discounting of collateral in the individual impairment charges (DKK -15 million).

Owing to various relief packages to business customers and improved conditions for most of the Bank's retail and agricultural customers, calculated impairment charges on customers were reversed. Due to uncertainty with respect to the economic situation in 2021, when several relief packages must be repaid, Spar Nord has in 2020 made and increased its management estimate of expected losses relating to COVID-19.

From end-2019 to end-2020, the impairment account rose from DKK 1.5 billion to DKK 1.7 billion.

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

Loans and advances amounted to DKK 52,312 million, corresponding to about 51% of the Group's assets at end-2020.

	2020	2019
	DKKm	DKKm
Lending, reverse repo transactions	9,819	8,155
Lending, banking and leasing activities	42,494	43,157
Loans, advances and other receivables at amortised cost, total	52,312	51,312
Broken down by category		
Loans at fair value	0	0
Loan contracts with access to variable utilisation	21,693	24,216
Lease contracts	5,348	4,634
Other lending	25,271	22,462
Total	52,312	51,312
Shown by term to maturity		
Demand deposits	1,832	1,297
Up to 3 months	11,149	9,464
Over 3 months and up to 1 year	16,797	19,057
Between 1 year and 5 years	7,953	8,494
Over 5 years	14,582	13,000
Total	52,312	51,312

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

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Balance sheet

3.2.1 Finance leases as lessee



Accounting policies

Leases in which Spar Nord is the lessee are classified as finance leases when all significant risks and rewards of ownership of an asset are transferred to the lessee.

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

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

	2020	2019
	DKKm	DKKm
Lease payments by contractual term to maturity		
Year 1	1,339	1,109
Year 2	1,206	1,077
Year 3	1,079	905
Year 4	793	745
Year 5	535	462
Year 6 onwards	652	561
Total gross investments in finance leases	5,603	4,858
Of which, unearned, future financial income	255	225
Total net investments in finance leases	5,348	4,634
Year 1	1,248	1,028
Year 2	1,141	1,019
Year 3	1,035	866
Year 4	767	722
Year 5	521	450
Year 6 onwards	636	549
Total net investments in finance leases	5,348	4,634
Lease income is recognised in the income statement under the item "Interest income"	114	99
Average remaining term of the lease contracts	3.0 years	3.2 years

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

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

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

Leasing loans are always backed by security in the assets through ownership.

Balance sheet

3.3 Securities



Accounting policies

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

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

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

Strategic shares

Spar Nord's strategic shares that are not included in the Group's trading book are measured at fair value through profit and loss. Strategic shares form part of a portfolio that is managed – and on which the returns are measured on the basis of fair value – in accordance with a documented risk management and investment strategy. Acquired strategic shares, which are not included in the trading portfolio, are measured at fair value on the basis of available trading information or accepted valuation principles and current market data, including an assessment of future earnings and cash flows (Level 3). The fair value is also affected by co-ownership, trading with the relevant company and shareholders' agreements.



Significant accounting estimates and judgments, fair value of financial instruments

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

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

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

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

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

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

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

Financial instruments valued on the basis of non-observable input amounted to DKK 1,921 million, equal to 2% of Spar Nord's assets at year-end 2020.

3.3.1 Bonds at fair value

	2020	2019
	DKKm	DKKm
Mortgage bonds	19,639	14,420
Government bonds	686	723
Other bonds	1,322	1,354
Bonds at fair value, total	21,647	16,498
Of which, subordinated receivables	41	41
Trading book	21,450	16,312
Banking book	197	186
Bonds at fair value, total	21,647	16,498

3.3.2 Shares, etc.

	2020	2019
	DKKm	DKKm
Shares/unit trust certificates listed on NASDAQ Copenhagen A/S	146	146
Shares/unit trust certificates listed on other stock exchanges	71	41
Unlisted shares at fair value	1,572	1,552
Total shares, etc.	1,789	1,740
Trading book	144	132
Banking book	91	93
Banking book, strategic shares	1,554	1,514
Total shares, etc.	1,789	1,740

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3.3.3 Other non-derivative financial liabilities at fair value



Accounting policies

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

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

	2020	2019
	DKKm	DKKm
Balancing item to negative bond portfolios in connection with reverse repo transactions	835	953
Balancing item to negative equity portfolios in connection with share loans	0	7
Total other non-derivative financial liabilities at fair value	835	960

3.3.4 Information on fair value of financial instruments



Accounting policies

Financial instruments are recognised in the balance sheet at fair value or amortised cost.

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

- Trading book, which are measured at fair value (bonds and shares).
- Loans, advances and receivables, measured are measured at amortised cost.
- Financial assets at fair value through profit and loss.
- Assets under pooled schemes, which are measured at fair value (trading book – bonds and shares).

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

- Trading book, which is measured at fair value.
- Liabilities in pooled schemes at fair value due to accounting mismatch.
- Other financial liabilities, which are measured at amortised cost.

Fair value measurement of financial instruments

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

Spar Nord's bond trading takes place primarily directly between professional counterparties and not trading directly on the stock exchange.

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

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

- **Level 2 – observable input:**

Valuation techniques based on inputs other than quoted prices at Level 1, observable either directly (prices) or indirectly (derived from prices). Observable input is obtained from recognised providers of price information, which is used in trading with financial counterparties. Spar Nord primarily uses Reuters.

If a financial instrument is quoted in a market that is not active, the measurement is based on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance by including transactions in similar instruments that are assumed to be motivated by normal business considerations.

- **Level 3 – non-observable input:**

Valuation techniques based on inputs for valuing an asset or liability based on unobservable market data. For a number of financial assets and liabilities, no effective market exists. In such situations, an estimated value is used instead, taking account of recent transactions in similar instruments, and discounted cash flows or other recognised estimation and valuation techniques based on the market terms existing at the balance sheet date.

If an instrument is classified differently at the reporting date as compared to the beginning of the financial year, it is transferred to another category in the valuation hierarchy. Any reclassification is considered to have been made as of the reporting date.

Bonds and other non-derivative financial liabilities are valued according to the following principles:

- In case of quoted prices, the fair value is fixed as a quoted price or a price quotation by a recognised exchange.
- In case of pricing based on observable inputs, the fair value is primarily determined on the basis of published supply and demand prices that build on pricing information from Reuters and secondarily calculated using a market-based yield curve plus/minus a credit spread, which is also calculated based on market prices.
- In case of pricing based on non-observable inputs, the calculation includes inputs based on the Bank's own valuations of individual components, and also market data in some cases.

At 31 December 2019, Spar Nord changed its estimate/method for calculating fair value of a significant proportion of the bond portfolio. Previously, Spar Nord used stock exchange prices for a significant proportion of its bond portfolio. As a result of the changed estimate/method, a significant proportion of the bond portfolio was changed from quoted prices (level 1) to observable prices (level 2), because Spar Nord assessed that the market for bond trading mainly consisted of professional counterparties where transactions were based on price information from Reuters. The changed estimate/method affected the accounting items bonds, other non-derivative financial liabilities and bonds included in assets linked to pooled schemes.

At 31 December 2019, the changed estimate/method resulted in the following change from level 1 to level 2: DKK 12,680 million under bonds, DKK 953 million under other non-derivative financial liabilities and DKK 4,123 million under assets linked to pooled schemes.

The changed estimate/method had an entirely immaterial profit impact in 2019, which was recognised in market value adjustments.

Prices available via Reuters are real-time prices provided by large Danish and European banks, which means that end-prices take into account interest rate developments since the latest transactions. Spar Nord believes that these prices express the

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most correct fair value of the bond portfolios, which are mainly traded between professional counterparties and other large single transactions.

Shares are valued according to the following principles:

- In case of quoted prices, the fair value is fixed as a price quoted by a recognised exchange or an external party.
- In case of pricing based on observable inputs, the fair value is calculated based on available prices for shares that are not listed.

- In case of pricing based on non-observable inputs, the calculation includes shares valued according to generally accepted valuation principles, e.g., the discounting of expected future cash flows, market expectations as to required rate of return on equity and comparable transactions. Shares that are priced on the basis of the prices recommended by Lokale Pengeinstitutter (the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) are included as non-observable inputs.

The fair values are based on shareholders' agreements for the individual companies and share transactions completed. The fair value is often based on the companies' book equity (intrinsic value), which is used as a basis for the transaction price between shareholders.

The fair value has been reliably measured for all shares, and accordingly no shares have been recognised at cost.

	Amortised cost	Fair value through profit or loss
	DKKkm	DKKkm
2020		
Cash balances and demand deposits with central banks	1,126	0
Due from credit institutions and central banks	1,259	0
Loans, advances and other receivables at amortised cost	52,312	0
Bonds at fair value	0	21,647
Shares, etc.	0	1,789
Assets linked to pooled schemes	0	20,464
Positive fair value of derivatives	0	777
Total financial assets	54,698	44,677
Due to credit institutions and central banks	4,167	0
Deposits and other payables	58,416	0
Deposits in pooled schemes	0	20,464
Issued bonds at amortised cost	2,670	0
Other non-derivative financial liabilities at fair value	0	835
Lease liabilities	137	0
Negative fair value of derivatives	0	743
Subordinated debt	1,333	0
Total financial liabilities	66,724	22,043
2019		
Cash balances and demand deposits with central banks	1,152	0
Due from credit institutions and central banks	1,588	0
Loans, advances and other receivables at amortised cost	51,312	0
Bonds at fair value	0	16,498
Shares, etc.	0	1,740
Assets linked to pooled schemes	0	17,323
Positive fair value of derivatives	0	828
Total financial assets	54,051	36,389
Due to credit institutions and central banks	4,062	0
Deposits and other payables	53,279	0
Deposits in pooled schemes	0	17,323
Issued bonds at amortised cost	2,637	0
Other non-derivative financial liabilities at fair value	0	960
Lease liabilities	132	0
Negative fair value of derivatives	0	555
Subordinated debt	1,322	0
Total financial liabilities	61,432	18,839

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Derivatives



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

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

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

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

Day 1 gains (customer margin)

When valuing unlisted derivative instruments, the initial customer margin, etc. is amortised over the remaining term to maturity. At the end of 2020, the customer margin, etc. not yet amortised amounted to DKK 63 million (2019: DKK 68 million).

In Day 1 gains, DKK 8 million (2019: DKK 8 million) was offset from CVA at end-2020, which is the credit value component of derivatives.

	2020	2019
	DKKm	DKKm
Unamortised customer margin at 1 January	68	73
Net development in amortisation of customer margin	-5	-5
Unamortised customer margin at 31 December	63	68

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

	Quoted prices Level 1	Observable inputs Level 2	Non-observ- able inputs Level 3	Total
	DKKm	DKKm	DKKm	DKKm
2020				
Bonds at fair value	0	21,647	0	21,647
Shares, etc.	217	16	1,556	1,789
Assets linked to pooled schemes	16,074	4,025	365	20,464
Positive fair value of derivatives	0	776	0	777
Total financial assets	16,292	26,464	1,921	44,677
Deposits in pooled schemes	0	20,464	0	20,464
Other non-derivative financial liabilities at fair value	0	835	0	835
Negative fair value of derivatives	0	743	0	743
Total financial liabilities	0	22,043	0	22,043

	Quoted prices Level 1	Observable inputs Level 2	Non-observ- able inputs Level 3	Total
	DKKm	DKKm	DKKm	DKKm
2019				
Bonds at fair value	0	16,498	0	16,498
Shares, etc.	187	37	1,516	1,740
Assets linked to pooled schemes	10,934	6,048	342	17,323
Positive fair value of derivatives	0	828	0	828
Total financial assets	11,121	23,411	1,858	36,389
Deposits in pooled schemes	0	17,323	0	17,323
Other non-derivative financial liabilities at fair value	7	953	0	960
Negative fair value of derivatives	0	555	0	555
Total financial liabilities	7	18,832	0	18,839

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Level 3	Fair value based on net asset value, cf. shareholders' agreements	Other	Fair value based on net asset value, cf. shareholders' agreements	Other
	2020	2020	2019	2019
	DKKkm	DKKkm	DKKkm	DKKkm
Equities	1,179	377	1,148	368
Assets linked to pooled schemes	-	365	-	342
Positive fair value of derivatives	-	0	-	0
Sensitivities:				
Change in fair value of shares if the profit/loss of the companies changes by 10%	12	-	11	-

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

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

Financial instruments measured at fair value based on non-observable inputs (Level 3)

In 2020, the Bank recognised unrealised market value adjustments of DKK 83 million (2019: DKK 81 million) in respect of financial assets held on the balance sheet date valued on the basis of non-observable inputs.

	2020	2019
	DKKkm	DKKkm
Carrying amount at 1 January	1,858	1,891
Value adjustments through profit or loss	95	110
Market value adjustments in other comprehensive income	0	0
Purchase	40	21
Sale	71	165
Transferred to/from Level 3	0	0
Carrying amount at 31 December	1,921	1,858
Value adjustments through profit or loss of assets held at the reporting date	83	81

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

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Financial instruments recognised at amortised cost – information on fair value

	Carrying amount 2020	Fair value 2020	Carrying amount 2019	Fair value 2019
	DKKm	DKKm	DKKm	DKKm
Cash balances and demand deposits with central banks *)	1,126	1,126	1,152	1,152
Due from credit institutions and central banks *)	1,259	1,259	1,588	1,588
Loans, advances and other receivables at amortised cost *)	52,312	52,507	51,312	51,483
Total financial assets	54,698	54,892	54,051	54,223
Due to credit institutions and central banks *)	4,167	4,167	4,062	4,062
Deposits and other payables *)	58,416	58,416	53,279	53,279
Issued bonds at amortised cost **)	2,670	2,714	2,637	2,639
Lease liabilities *)	137	137	132	132
Subordinated debt ***)	1,333	1,371	1,322	1,344
Total financial liabilities	66,724	66,805	61,432	61,456

*) Level 3 in the fair value hierarchy

**) Level 1 in the fair value hierarchy

***) Level 1 in the fair value hierarchy amounts to DKK 0 million (2019: DKK 0 million), and Level 3 in the fair value hierarchy amounts to DKK 1,371 million (2019: DKK 1,344 million).

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



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

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

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3.4 Investments in associates



Accounting policies

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

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

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

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

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

	2020	2019
	DKKkm	DKKkm
Total cost, beginning of year	354	311
Additions	80	51
Disposals	0	7
Total cost, end of year	434	354
Revaluations and impairment, beginning of year	116	22
Profit/loss	29	110
Dividend	49	14
Other capital movements recognised in comprehensive income	-2	-6
Reversal of revaluations and impairment	0	-4
Revaluations and impairment, end of year	94	116
Carrying amount, end of year	529	470

Danske Andelskassers Bank A/S is assessed individually to be a significant associate of Spar Nord.

The acquisition of the shares in Danske Andelskassers Bank A/S in 2018 and later years is a strategic investment, and Spar Nord intends to merge Danske Andelskassers Bank A/S with Spar Nord.

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

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

	2020	2019
	DKKkm	DKKkm
Spar Nord's share of:		
Profit/loss for the year	7	5
Other comprehensive income	0	0
Total comprehensive income	7	5

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Financial information for associates that are individually significant

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

The accounting figures in the 2020 column below are from the most recently published annual report for the 2019 financial year of Danske Andelskassers Bank A/S.

	2020	2019
	DKKm	DKKm
	Danske Andelskassers Bank A/S	Danske Andelskassers Bank A/S
Registered office	Hammershøj	Hammershøj
Ownership interest (%)	31.9	28.5
Share of votes (%)	31.9	28.5
Statement of comprehensive income		
Revenue	826	557
Profit/loss for the year	349	128
Other comprehensive income	-4	-1
Total	346	127
Dividends received	33	0
Balance sheet		
Loans, advances and receivables etc.	6,409	6,247
Other assets	6,095	4,852
Total assets	12,504	11,099
Deposits and other payables	9,077	8,602
Other liabilities	1,446	1,071
Total liabilities	10,523	9,673
Equity	1,982	1,427
Spar Nord's share of shareholders' equity in Danske Andelskassers Bank A/S according to the most recently published annual report	549	332

Investments in associates are measured according to the equity method, which means that Danske Andelskassers Bank A/S is measured at a share of equity less fair value adjustment of acquired net assets at the date of acquisition.

Based on the market price, Spar Nord's share of the fair value of Danske Andelskassers Bank A/S (Level 1 in the fair value hierarchy) was calculated at DKK 433 million (2019: DKK 334 million).

Reconciliation of carrying amount at 31 December

	2020	2019
	DKKm	DKKm
Carrying amount of equity investments in individually significant associates	473	408
Carrying amount of equity investments in individually non-significant associates	56	63
Total	529	470

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3.5 Pooled schemes



Accounting policies

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

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

Assets and liabilities in pooled schemes are recognised at fair value, see note 3.3.4.

	Pension pools	Other pools	Total	Total
	2020	2020	2020	2019
	DKKm	DKKm	DKKm	DKKm
Assets				
Cash deposits	423	5	428	684
Bonds	3,956	49	4,005	6,048
Shares, etc.	10,939	123	11,061	7,129
Unit trust certificates	4,888	62	4,950	3,429
Other assets	19	0	20	34
Total assets	20,225	239	20,464	17,323
Equity and liabilities				
Total deposits	20,225	239	20,464	17,323
Total equity and liabilities	20,225	239	20,464	17,323

3.6 Intangible assets

	2020	2019
	DKKm	DKKm
Goodwill	159	159
Customer relations	6	9
Other intangible assets	6	6
Total intangible assets	171	174

3.6.1 Goodwill



Accounting policies

Acquired goodwill is recognised at cost less accumulated impairment writedowns.

Goodwill is not amortised.

Goodwill on associates is recognised in Investments in associates.

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

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

	2020	2019
	DKKm	DKKm
Total cost, beginning of year	160	160
Additions	0	0
Disposals	0	0
Total cost, end of year	160	160
Impairment, beginning of year	2	2
Impairment for the year	0	0
Reversal of impairment on disposals	0	0
Impairment, end of year	2	2
Carrying amount, end of year	159	159

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	Cost	Additions/disposals	Cost	Impairment	Impairment	Impairment on disposal	Impairment	Carrying amount
	01.01.2020	2020	31.12.2020	01.01.2020	2020	2020	31.12.2020	31.12.2020
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Banking activities, Roskilde Bank branches	87	0	87	0	0	0	0	87
Banking activities, Sparbank	35	0	35	0	0	0	0	35
Banking activities, branches, Other	38	0	38	2	0	0	2	37
Total goodwill	160	0	160	2	0	0	2	159

	Cost	Additions/disposals	Cost	Impairment	Impairment	Impairment on disposal	Impairment	Carrying amount
	01.01.2019	2019	31.12.2019	01.01.2019	2019	2019	31.12.2019	31.12.2019
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Banking activities, Roskilde Bank branches	87	0	87	0	0	0	0	87
Banking activities, Sparbank	35	0	35	0	0	0	0	35
Banking activities, branches, Other	38	0	38	2	0	0	2	37
Total goodwill	160	0	160	2	0	0	2	159

Goodwill concerns the business segment Spar Nord's Local Banks.

3.6.2 Customer relations



Accounting policies

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

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

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

	2020	2019
	DKKm	DKKm
Total cost, beginning of year	65	65
Additions	0	0
Disposals	0	0
Total cost, end of year	65	65
Depreciation and impairment, beginning of year	55	52
Depreciation for the year	3	4
Reversal of amortisation on disposals	0	0
Depreciation and impairment, end of year	59	55
Carrying amount, end of year	6	9

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3.6.4 Impairment test



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

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

The share of equity has been fixed at 13.5% (2019: 13.5%) of total risk exposure amount.

The impairment test in 2020 did not give rise to any writedowns for impairment of intangible assets.

Goodwill

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

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

Principal assumptions

Cash flow during the budget period

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

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

Growth during the budget period is projected at 1.5% (2019: 1.5%) The average annual growth reflects the targets incorporated into the Bank's outlook for the future.

Net interest income

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

The interest margin is estimated on the basis of current lending and borrowing rates and Management's expectations for future competition. The pressure on the Bank's interest rate margin is expected to abate, and for the first time in many years the interest rate margin is expected to increase from end-2020 to end-2021, because the negative rate of deposit is expected to fall by more than the lending rate. Lending activity was strongly impacted by the COVID-19 crisis in 2020. Deferred VAT payment, holiday allowance disbursement, wage compensation schemes and the possibility of raising attractive loans from the public authorities contributed to a small decline in lending in 2020. In 2021, a large part of the COVID-19 relief packages are expected to be phased out, leading to an increase in lending. After an increase in 2020, deposits are expected to stabilise at the current level.

Net fee income

The expectations for income from fees, charges and commissions are based on historical data, adjusted to reflect the current situation. Spar Nord expects a small increase in net fee income in 2021.

Market value adjustments

Market value adjustments are expected to be substantially lower than in 2020, when there were extraordinarily high market value adjustments of both shares and bonds.

Costs and expenses

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

Loan impairment

Expectations as to loan impairment are based on the Bank's estimate for the next few years. The expectations are based on historical data, adjusted to reflect the current situation. Loan impairment charges are expected to be lower than in 2020.

Cash flow during the terminal period

Cash flow during the terminal period represents earnings in the preceding years, growing at a constant rate. Growth is projected at 1.5% (2019: 1.5%) Growth has been projected on the basis of expectations for macroeconomic growth.

Discount rate

The discount rate used to calculate the discounted value of future cash flows is 9.5% (2019:11.5%) before tax at a tax rate of 22%.

After tax, the discount rate is 7.5% (2019: 9.0%)

The discount rate has been fixed on the basis of a CAPM model.

Primary assumptions; see above:	2020	2019
Acquired goodwill, DKKm	159	159
Budget period	5 years	5 years
Average annual growth during the budget period	1.5%	1.5%
Average annual growth during the terminal period	1.5%	1.5%
Discount factor before tax	9.5%	11.5%
Discount factor after tax	7.5%	9.0%
Share of equity of total risk exposure amount	13.5%	13.5%

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Sensitivity analysis

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

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

The following matters do not lead to impairment	2020	2019
Increase in the discount rate (pre-tax) up to	33%	14%
Reduction in pre-tax profit/loss (change in net interest income, fee income, cost ratio or impairment) up to	11%	20%
Negative growth in balance-sheet items possible	Yes	Yes

Projections for the budget period mean that 75% of the present value of expected cash flows in Spar Nord's Local Banks relates to the terminal period (2019: 70%).

Customer relations

The carrying amount of customer relations recognised in connection with the merger with Sparbank amounted to DKK 6 million (2019: DKK 9 million).

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

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

Other intangible assets

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

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

3.7 Property, plant and equipment

3.7.1 Land and buildings



Accounting policies

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

The fair value is calculated on the basis of current market data according to an asset return model that includes the property's rental income, operating expenses, as well as management and maintenance, etc. Operating expenses and maintenance costs are calculated on the basis of the condition of the individual property, construction year, materials used, etc. The fair value of the property is determined based on the calculated return on its operation and the individually determined rate of return.

The return rate is fixed on the basis of the location of the individual property, potential use, the state of maintenance, credit quality, etc. The fair value of the individual property is reassessed once a year based on the current market and the interest level.

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

Land is not depreciated.

	2020	2019
	DKKm	DKKm
Investment properties	134	136
Domicile properties	511	520
Domicile properties, leasing	137	132
Land and buildings, total	782	788

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Investment properties



Accounting policies

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

Investment property is not depreciated.

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

	2020	2019
	DKKm	DKKm
Fair value, beginning of period	136	135
Reclassifications from temporary assets	0	0
Additions, incl. improvements	1	0
Additions, reclassifications	0	0
Disposals	1	0
Unrealised fair value adjustment	-1	1
Fair value, end of year	134	136
Required rate of return used in calculating the fair value, %	5.5 - 9.0	5.5 - 9.0

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

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

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

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

0	0
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Domicile properties



Accounting policies

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

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

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

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

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

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

	2020	2019
	DKKm	DKKm
Total cost, beginning of year	684	692
Additions	1	10
Disposals	8	18
Total cost, end of year	677	684
Value adjustment, beginning of year	164	144
Depreciation for the year	15	17
Net impairment via the income statement	-1	2
Changes in value recognised in other comprehensive income	-7	10
Depreciation and impairment on disposals	4	9
Value adjustment, end of year	166	164
Fair value, end of year	511	520
Required rate of return used in calculating the fair value, %	5.8 - 9.0	5.8 - 9.0
Carrying amount if domicile properties were measured according to the depreciated cost method	411	427
Collateral provided to mortgage credit institutions in the form of mortgages on land and buildings has a carrying amount of	-	-

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From the subsidiary Aktieselskabet Skelagervej 15, additions in 2020 include domicile property in the amount of DKK 0 million (2019: DKK 0 million) regarding a property under construction and DKK 0 million (2019: DKK 1 million) regarding refurbishment of properties.

No borrowing costs were recognised in 2020 and 2019.

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

The annual review of the Bank's investment and corporate properties did not give rise to any significant changes in the required rates of return. The required rates of return remained within the 5.8-9.0% range (2019: 5.8-9.0%) for domicile properties and the 5.5-9.0% range (2019: 5.5-9.0%) for investment properties.

2020

Required rates of return in %	Domicile properties		Investment properties	
	Number of properties	Fair value year-end	Number of properties	Fair value year-end
-> 7.00	10	186	1	17
7.00 - 8.00	12	229	3	89
8.00 - 9.00	7	95	6	29
Total	29	511	10	134

2019

Required rates of return in %	Number of properties	Fair value year-end	Number of properties	Fair value year-end
-> 7.00	10	187	1	17
7.00 - 8.00	12	230	3	90
8.00 - 9.00	8	103	6	29
Total	30	520	10	136

Required rates of return Property characteristics

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

Balance sheet



Sensitivity analyses

The most important assumptions when calculating the fair value of domicile and investment properties are the required rate of return and the rent level. Other things being equal, an increase of the required rate of return of 0.5 percentage point will reduce the fair value by DKK 43 million (2019: DKK 44 million). Other things being equal, a decrease of the rental level of 5% will reduce the fair value by DKK 32 million (2019: DKK 30 million).

Domicile properties, leasing



Accounting policies

As a lessee, Spar Nord only has property leases for properties used as domicile property from which the Bank pursues banking activities. The lease activities are presented as part of the Bank's land and buildings.

A lease asset is recognised in the balance sheet when, in accordance with a lease entered into regarding a specific, identifiable asset, the asset is made available for use by the group throughout the lease term and when the group becomes entitled to obtain substantially all of the economic benefits from use of the identified asset and entitled to direct the use of the identified asset. For information on recognition and measurement of lease liabilities, please refer to note 3.11.1.

On initial recognition, the right-of-use asset is measured at cost, corresponding to the value of the lease liability, adjusted for prepaid lease payments, plus any directly related costs.

On subsequent recognition, the asset is measured at cost less any accumulated depreciation and impairment. The lease asset is depreciated over the longer of the lease term and the expected extension option of the lease asset of 4-6 years (see below under lease term). Depreciation charges are recognised in the income statement on a straight-line basis.

The lease asset is adjusted for changes in the lease liability as described in note 3.11.1.

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



Significant accounting estimates and judgments, leasing

Lease term

The lease term covers the non-cancellable period of the lease plus periods comprised by an extension option which Spar Nord reasonably expects to exercise and periods comprised by a termination option which Spar Nord reasonably expects not to exercise.

A proportion of Spar Nord's property leases contain options entitling Spar Nord to extend the lease for another lease term of expectedly 4-6 years. On initial recognition of the lease asset, Spar Nord assesses whether it is reasonably probable that it will exercise the extension option. This estimate is reassessed upon the occurrence of a significant event or a significant change in circumstances that is within Spar Nord's control.

	Lease liability recognised in the balance sheet (dis-counted)	Potential future lease liability not recognised in the balance sheet (dis-counted *)
2020		
Domicile properties	137	20
2019		
Domicile properties	132	16

*) Lease contracts not yet in force.

Section 3

Balance sheet

Alternative borrowing rate

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

	2020	2019
	DKKm	DKKm
Balance, 1 January	132	0
Effects of transition, 1 January	-	111
Adjusted balance, 1 January	132	111
Additions	15	0
Disposals	0	1
Remeasurement of lease liability	15	46
Depreciation for the year	25	24
Balance sheet at 31 December	137	132

3.7.2 Other property, plant and equipment



Accounting policies

Operating equipment in the form of IT equipment, vehicles, furniture, fixtures and leasehold improvements are recognised at cost less accumulated depreciation and impairment charges.

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

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

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

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

	2020	2019
	DKKm	DKKm
Other property, plant and equipment	99	99
Operating lease assets	13	13
Other property, plant and equipment, total	112	113

Other property, plant and equipment

	2020	2019
	DKKm	DKKm
Total cost, beginning of year	341	340
Additions	36	28
Disposals	15	28
Total cost, end of year	362	341
Depreciation and impairment, beginning of year	242	231
Depreciation and impairment for the year	33	35
Reversal of depreciation and impairment for the year	12	23
Depreciation and impairment, end of year	263	242
Carrying amount, end of year	99	99

The figures at end-2020 include various fully written-off assets used for the Spar Nord Group's operations. The original purchase price of these assets amounts to DKK 273 million (2019: DKK 239 million).

Section 3

Balance sheet

Operating lease assets



Accounting policies

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

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

	2020	2019
	DKKm	DKKm
Total cost, beginning of year	16	25
Additions	2	9
Disposals	0	17
Total cost, end of year	18	16
Depreciation and impairment, beginning of year	3	8
Depreciation and impairment for the year	3	2
Reversal of depreciation and impairment for the year	0	7
Depreciation and impairment, end of year	5	3
Carrying amount, end of year	13	13

The contracts can be terminated during the lease term.

Lease payments by term

Year 1	3	2
Year 2	3	2
Year 3	3	2
Year 4	3	2
Year 5	1	3
Year 6 onwards	0	1
Total lease payments under operating leases	13	13

Income from operating leases in the form of variable lease payments that do not depend on an index or a rate under other income in the amount of

5	4
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Section 3

Balance sheet

3.7.3 Temporary assets



Accounting policies

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

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

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

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

	2020	2019
	DKKm	DKKm
Total cost, beginning of year	21	22
Additions	5	11
Disposals	14	12
Total cost, end of year	11	21
Depreciation and impairment, beginning of year	9	13
Movements during the year:	-3	-4
Depreciation and impairment, end of year	6	9
Carrying amount, end of year	5	11

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

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

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

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

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

3.8 Other assets



Accounting policies

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

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

Other items are measured at amortised cost.

	2020	2019
	DKKm	DKKm
Positive fair value of derivatives, etc.	777	828
Miscellaneous receivables	497	376
Interest and commissions receivable	62	52
Capital contribution to Bankernes EDB Central a.m.b.a.	312	500
Other assets	27	24
Total other assets	1,675	1,780

Balance sheet

3.9 Due to credit institutions and central banks

§ Accounting policies

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

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

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

	2020	2019
	DKKkm	DKKkm
Due to central banks	2,182	94
Due to credit institutions, repo transactions	985	2,764
Due to credit institutions, other	1,001	1,204
Total due to credit institutions and central banks	4,167	4,062
Shown by term to maturity		
Demand deposits	283	283
Up to 3 months	3,884	3,753
Over 3 months and up to 1 year	0	27
Between 1 year and 5 years	0	0
Over 5 years	0	0
Total	4,167	4,062

3.10 Deposits and other payables

§ Accounting policies

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

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

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

	2020	2019
	DKKkm	DKKkm
Repo transactions	333	0
Demand deposits	53,631	48,509
Subject to notice	1,899	1,651
Time deposits, excluding repo business	2	40
Special types of deposits	2,552	3,078
Total deposits and other payables	58,416	53,279
Shown by term to maturity		
Demand deposits	53,631	48,509
Up to 3 months	2,014	1,521
Over 3 months and up to 1 year	107	140
Between 1 year and 5 years	540	562
Over 5 years	2,123	2,547
Total	58,416	53,279

Section 3

Balance sheet

3.11 Other liabilities



Accounting policies

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

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

	2020	2019
	DKKm	DKKm
Miscellaneous payables	2,379	2,606
Negative fair value of derivatives, etc.	743	555
Interest and commissions payable	22	24
Lease liabilities	137	132
Other liabilities	394	348
Total other liabilities	3,677	3,664

3.11.1 Lease liabilities



Accounting policies

A lease liability is recognised in the balance sheet when, in accordance with a lease entered into regarding a specific, identifiable asset, the asset is made available for use by the group throughout the lease term and when the group becomes entitled to obtain substantially all of the economic benefits from use of the identified asset and entitled to direct the use of the identified asset.

For information on recognition and measurement of lease assets, including extension and termination options, please refer to note 3.7.1.

On initial recognition, the lease liability is measured at the present value of the future lease payments, including extension and termination options, discounted using an alternative interest rate for charging an asset that provides similar security. The lease liability is calculated on the basis of fixed lease payments.

The lease liability is measured at amortised cost using the effective interest rate method. The lease liability is remeasured when there is a specific change in the underlying contractual cash flows.

The lease liability is presented under other liabilities.

Spar Nord has opted to omit recognising short-term leases in the balance sheet if the lease term at the date of contract is 12 months or less or if it is a low-value asset.

Instead, lease payments are recognised in the income statement on a straight-line basis.

	2020	2019
	DKKm	DKKm
Total lease payments for the year concerning leases	25	24
Amount recognised in the income statement		
Interest payments relating to lease liabilities	0	0
Variable lease payments not recognised as part of the lease liability	-	-
Costs relating to short-term leases (less than 12 months)	-	-
Costs relating to low-value leases	-	-

A maturity analysis of the lease liabilities is provided in note 5.3.8.

	2020	2019
	DKKm	DKKm
Lease liabilities, specification of cash flows		
Payments in respect of principal	25	24
Payments in respect of interest element	0	0
Lease payments in respect of short-term leases and low-value leases	0	0
Total cash outflows regarding leases	25	24
Of which financing activity	25	24
Of which operating activity	0	0
Total	25	24

Section 3

Balance sheet

3.12 Deferred tax



Accounting policies

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

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

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

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

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

Adjustment is made to deferred tax relating to eliminations of unrealised intra-group profits and losses. Deferred tax is measured on the basis of the tax regulations and rates that, according to the rules in force at the balance sheet date, will apply at the time the deferred tax is expected to crystallise as current tax. Changes in deferred tax resulting from changes in tax rates are recognised in the income statement.

	2020	2019
	DKKkm	DKKkm
Beginning of period	20	173
Deferred tax for the year recognised in profit/loss for the year	-1	-142
Deferred tax for the year recognised in other comprehensive income	0	0
Deferred tax for the year recognised in changes in equity	0	-11
Deferred tax, end of year	19	20

	Beginning of period	Recognised in profit for the year	Recognised in other comprehensive income etc.	End of year
	DKKkm	DKKkm	DKKkm	DKKkm
Changes in deferred tax in 2020				
Intangible assets	30	0	0	30
Property, plant and equipment, incl. leased assets	25	-9	0	16
Loans, advances and other receivables at amortised cost	-29	-3	0	-31
Payables and subordinated debt	12	12	0	24
Provisions	-13	-1	0	-14
Claw-back loss	4	0	0	4
Miscellaneous	-8	-1	0	-9
Total	20	-1	0	19

Changes in deferred tax in 2019

Intangible assets	29	0	0	30
Property, plant and equipment, incl. leased assets	176	-151	0	25
Loans, advances and other receivables at amortised cost	-17	0	-11	-29
Payables and subordinated debt	3	9	0	12
Provisions	-13	0	0	-13
Claw-back loss	4	0	0	4
Miscellaneous	-8	0	0	-8
Total	173	-142	-11	20

Section 3

Balance sheet

	2020	2019
	DKKm	DKKm
Shown by term to maturity		
Up to 3 months	0	0
Over 3 months and up to 1 year	7	4
Between 1 year and 5 years	9	-1
Over 5 years	3	17
Total	19	20

Deferred tax assets not recognised in the balance sheet

2020	Beginning of period	Recognised in profit for the year	Additions and disposals	End of year
	DKKm	DKKm	DKKm	DKKm
Deferred tax assets not recognised relate to:				
Losses on properties with deductibility restricted to gains from the same source	13	0	1	14
Tax loss abroad	4	0	0	4
Deferred tax assets not recognised, total	17	0	1	18

2019

Deferred tax assets not recognised relate to:				
Losses on properties with deductibility restricted to gains from the same source	11	0	2	13
Tax loss abroad	4	0	0	4
Deferred tax assets not recognised, total	15	0	2	17

All deferred tax liabilities are recognised in the balance sheet. The temporary differences in 2020 and 2019 relating to losses on properties with deductibility restricted to gains from the same source arose on the sale of properties.

3.13 Provisions



Accounting policies

Provisions include mainly guarantee commitments, provisions for losses on unutilised credit lines and loan commitments, legal actions and any restructuring costs, etc. Restructuring costs are recognised as liabilities, provided that a detailed, formal restructuring plan is available at the reporting date. A provision is recognised when a legal or constructive obligation exists and when it is probable that the obligation will become effective and it can be measured reliably.

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

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

	2020	2019
	DKKm	DKKm
Provision for losses on guarantees	57	40
Provisions for losses in connection with legal proceedings	0	0
Other provisions	4	4
Provisions for unutilised credit lines and loan commitments	17	9
Total provisions	78	54
Provisions recognised in the income statement		
New provisions	54	25
Reversed provisions	29	130
Total provisions recognised in the income statement	25	-106
Provision for losses on guarantees		
Beginning of period	40	80
New provisions	42	21
Reversed provisions	26	60
Conclusively lost	0	0
End of year	57	40
Losses on guarantees recognised in the income statement		
New provisions	42	21
Reversed provisions	26	60
Recognised in the income statement	17	-39

Section 3

Balance sheet

	2020	2019
	DKKm	DKKm
Other provisions		
Beginning of period	4	4
New provisions	0	1
Reversed provisions	0	0
Applied to cover liabilities	0	0
End of year	4	4
Other provisions recognised in the income statement		
New provisions	0	1
Reversed provisions	0	0
Recognised in the income statement	0	0
Provisions for unutilised credit lines and loan commitments		
Beginning of period	9	76
New provisions	11	3
Reversed provisions	3	70
End of year	17	9
Provisions for unutilised credit lines and loan commitments recognised in the income statement		
New provisions	11	3
Reversed provisions	3	70
Recognised in the income statement	8	-67

Provisions by term to maturity, shown by category

2020	Over 3 months and Between 1 year and 5 years				Total
	Up to 3 months	up to 1 year	and 5 years	Over 5 years	
	DKKm	DKKm	DKKm	DKKm	DKKm
Provision for losses on guarantees	27	3	15	11	57
Other provisions	0	0	2	2	4
Provisions for unutilised credit lines and loan commitments	17	0	0	0	17
Total provisions	45	4	17	13	78
2019					
Provision for losses on guarantees	3	4	13	20	40
Other provisions	0	0	2	2	4
Provisions for unutilised credit lines and loan commitments	9	0	0	0	9
Total provisions	12	4	14	23	54

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

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

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

Other provisions include provisions for anniversary lump sums.

Section 4

Capital

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Main items

Earnings per share for the year

DKK 5.6

2019: **DKK 8.2**

Target:
Common equity tier 1 capital ratio

13.5%

2019: **13.5%**

Target:
Own funds ratio

17.5%

2019: **17.5%**

Proposed dividend per share

DKK 1.5

2019: **DKK 0.0 *)**

Common equity tier
1 capital ratio

17.2%

2019: **14.6%**

Own funds ratio

21.0%

2019: **18.5%**

*) Proposed dividends of DKK 3.50 per share were subsequently suspended at the general meeting to support the political intentions to ensure an appropriate mitigation of the effects of the COVID-19 pandemic and its consequences for the Danish economy.

Section 4

Capital

4.1 Capital management

§ Spar Nord's objectives of capital management are:

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

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

Since early 2019, Spar Nord has pursued the following capital targets:

- a common equity tier 1 capital ratio of 13.5%
- an own funds ratio of 17.5%

Under its dividend policy, Spar Nord aims to distribute 30–50% of the net profit for the year as dividends

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

During the year under review, Spar Nord's common equity tier 1 (CET1) ratio ranged from 15.3–17.2% (2019: 13.8–14.6%) and thus exceeded Spar Nord's internal target for the period of 13.5%. Correspondingly, the internal target of an own funds ratio of 17.5% has been met, as it remained within the 19.0–21.0% band during the year (2019: 17.6–18.5%).

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

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

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

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

Note 4.2 provides more details about the capital requirement.

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

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

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

Section 4

Capital

4.2 Own funds

	2020	2019
	DKKm	DKKm
Equity	10,390	9,761
Phasing in of IFRS 9	433	188
Additional tier 1 (AT1) capital included in equity	794	860
Proposed dividend	185	431
Intangible assets	141	143
Other primary deductions	53	47
Deduction – Holdings of insignificant CET1 instruments	132	205
Deduction – Holdings of significant CET1 instruments	95	71
Common equity tier 1 capital	9,422	8,192
Additional tier 1 (AT1) capital *)	773	843
Other deductions	2	3
Tier 1 capital	10,193	9,032
Subordinated debt, excl. Additional Tier 1 (AT1) capital *)	1,324	1,308
Other deductions	3	5
Own funds	11,514	10,335
Weighted risk exposure amount, credit risk etc.	45,277	47,068
Weighted risk exposure amount, market risk	3,994	3,340
Weighted risk exposure amount, operational risk	5,594	5,555
Total risk exposure amount	54,865	55,963
Common equity tier 1 capital ratio	17.2	14.6
Tier 1 capital ratio	18.6	16.1
Own funds ratio	21.0	18.5

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

4.3 Equity



Accounting policies

Revaluation reserves

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

Statutory reserves

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

Proposed dividend

Proposed dividend is recognised as a liability at the time of adoption at the annual general meeting (the declaration date). Dividend proposed to be distributed for the year is included under equity until adoption of the dividend proposal. In accordance with the Bank's dividend policy, Spar Nord aims to distribute 30-50% (2019: 40-50%) of the net profit for the year as ordinary dividends with due consideration to meeting the Bank's capital targets.

Treasury shares and own bonds

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

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

Section 4

Capital

4.4 Shares

Issued shares	Number of shares		Nominal value (DKKm)	
	2020	2019	2020	2019
1 January	123,002,526	123,002,526	1,230	1,230
31 December – fully paid	123,002,526	123,002,526	1,230	1,230

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

	2020	2019
Number of shares in circulation		
Beginning of period	122,923,347	122,964,961
Acquisition/sale of treasury shares, trading book	21,116	-41,614
End of year	122,944,463	122,923,347
Shares issued, beginning of year	123,002,526	123,002,526
Group's portfolio of treasury shares, trading book	58,063	79,179
Outstanding shares in circulation	122,944,463	122,923,347
Treasury share portfolio		
Number of shares	58,063	79,179
Nominal value, DKKm	1	1
Fair value, DKKm	3	5
Percentage of share capital	0.0	0.1
Treasury share portfolio, fair value, DKKm		
Portfolio, beginning of year	5	2
Acquisition of treasury shares	431	372
Sale of treasury shares	433	369
Market value adjustments	0	1
Portfolio, end of year	3	5
Treasury shares deposited as collateral		
Number of shares	944,410	1,030,690
Nominal value, DKKm	9	10
Fair value, DKKm	56	67
Percentage of share capital	0.8	0.8

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

The Bank uses treasury shares for trading with customers.

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

Section 4

Capital

4.5 Earnings per share for the year

	2020	2019
	DKKm	DKKm
The profit/loss of shareholders of the Parent Company, Spar Nord Bank A/S	688	1,011
Number of shares, beginning of year	123,002,526	123,002,526
Average number of treasury shares	68,621	58,372
Average number of shares in circulation	122,933,905	122,944,154
Average dilutive effect of outstanding share options	0	0
Average number of outstanding shares (diluted)	122,933,905	122,944,154
Earnings per share for the year (DKK)	5.6	8.2
Diluted earnings per share for the year (DKK)	5.6	8.2

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

4.6 Additional tier 1 (AT1) capital



Accounting policies

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

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

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

						2020	2019
		Principal	Interest rate	Received	Maturity	DKKm	DKKm
Currency	Note	DKKm					
DKK	a	330	6.00%	2020	Perpetual	344	-
DKK	b	450	5.50%	2016	Perpetual	450	449
DKK	c	400	6.052%	2015	Perpetual	-	412
Additional tier 1 (AT1) capital issued under CRR, total						794	860

a Issued on 15.04.2020, with an option of early redemption as from 15.04.2025. The loan carries interest at a rate of 6.00% p.a. until 15.04.2025, after which date interest will be fixed at CIBOR6 + a 6.00% margin, but a minimum of 6.00%.

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

c Redeemed on 10.06.2020.

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

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

	2020	2019
	DKKm	DKKm
Issue of additional tier 1 (AT1) capital	330	-
Redemption of additional tier 1 (AT1) capital	-400	-
Net transaction costs	0	-
Change in portfolio of own bonds	3	-1
Interest paid	-49	-49
Total cash flows for the year	-116	-50

Section 4

Capital

4.7 Subordinated debt



Accounting policies

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

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

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

For further information on the issuing of additional tier 1 capital under CRR, see note 4.6.

Supplementary capital contributions

						2020	2019
						DKKm	DKKm
Currency	Note	Principal DKKm	Interest rate	Received	Maturity		
DKK	a	350	CIBOR6 + 2.40%	2018	29.05.2029	349	349
DKK	b	150	2.9298%	2018	29.05.2029	150	149
DKK	c	400	2.5348%	2018	19.06.2028	400	400
SEK	d	600	STIBOR3 + 2.50%	2017	18.10.2027	443	428
Supplementary capital contributions, total						1,342	1,326
Portfolio of own bonds relating to subordinated debt						-9	-5
Total subordinated debt						1,333	1,322
Interest on subordinated debt						34	33
Costs of raising subordinated debt						1	1

a Redeemable as from 29.05.2024. If the loan is not redeemed, interest will be fixed at CIBOR6 + a 2.40% margin.

b Redeemable as from 29.05.2024. If the loan is not redeemed, interest will be fixed at CIBOR6 + a 2.40% margin.

c Redeemable as from 19.06.2023. If the loan is not redeemed, interest will be fixed at CIBOR3 + a 2.10% margin.

d Redeemable as from 18.10.2022. If the loan is not redeemed, interest will be fixed at STIBOR3 + a 2.50% margin.

Subordinated debt, specification of cash flows

			2020	2019
			DKKm	DKKm
Beginning of period			1,322	1,332
Cash Flows				
New loans			0	0
Redeemed			0	0
Net transaction costs			0	0
Change in portfolio of own bonds			-4	-5
Net cash flows			-4	-5
Other movements				
Change in exchange rate adjustments			15	-7
Amortised costs expensed			1	1
Total other movements			16	-6
End of year			1,333	1,322

Section 4

Capital

4.8 Issued bonds at amortised cost



Accounting policies

Issued bonds at amortised cost comprise Non-Preferred Senior debt issued to comply with the MREL requirement for SIFI institutions.

Issued bonds are recognised on issuance at fair value less directly attributable external transaction costs. Subsequently, issued bonds are measured at amortised cost using the effective interest method.

						2020	2019
						DKKm	DKKm
Currency	Note	Principal DKKm	Interest rate	Received	Maturity		
SEK	a	1,250	STIBOR3 + 1.05%	2019	05.12.2023	923	893
DKK	b	1,350	CIBOR3 + 1.00%	2019	05.12.2025	1,347	1,348
DKK	c	400	0.7290%	2019	05.12.2025	399	397
Issued bonds, total						2,670	2,637
Portfolio of own bonds relating to issued bonds						0	0
Issued bonds, total						2,670	2,637

- a** The bonds are redeemable from 05.12.2022. If the bonds are not redeemed, interest will be fixed at STIBOR3 + a 1.05% margin.
b The bonds are redeemable from 05.12.2024. If the bonds are not redeemed, interest will be fixed at CIBOR3 + a 1.00% margin.
c The bonds are redeemable from 05.12.2024. If the bonds are not redeemed, interest will be fixed at CIBOR3 + a 1.00% margin.
 The loan is comprised by the rules on hedge accounting, see note 6.5.

Issued bonds at amortised cost, specification of cash flows

		2020	2019
		DKKm	DKKm
Beginning of period		2,637	0
Cash Flows			
New loans		0	2,635
Redeemed		0	0
Net transaction costs		-2	-5
Change in portfolio of own bonds		0	0
Net cash flows		-2	2,630
Other movements			
Change in exchange rate adjustments		31	9
Change in interest rate hedging		3	-3
Amortised costs expensed		2	0
Total other movements		35	7
End of year		2,670	2,637
		2020	2019
		DKKm	DKKm
Shown by contractual term to maturity			
Up to 3 months		0	0
Over 3 months and up to 1 year		1	1
Between 1 year and 5 years		2,668	2,636
Over 5 years		0	0
Total		2,670	2,637

Section 5

Risk management

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Main items

Credit exposures – loans, advances
and guarantees excl. reverse repo transactions

DKK 59,784 million

2019: **DKK 59,416** million

Credit exposure – financial credit risk

DKK 23,099 million

2019: **DKK 18,286** million

Credit exposure – retail/business

47.7 % / 52.3 %

2019: **44.8% / 55.2%**

Total impairment account

DKK 1,717 million

2019: **DKK 1,503** million

Interest rate risk

DKK 116 million

2019: **DKK 52** million

Shares held in Spar Nord

DKK 2,318 million

2019: **DKK 2,210** million

Short-term liquidity LCR

241%

2019: **195%**

Long-term liquidity Strategic liquidity

DKK 29,982 million

2019: **DKK 23,442** million

Section 5

Risk management

5 Risk management

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

The most important categories of risks are as follows:

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

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

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

5.1 Credit risk

Credit risk 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.

In 2020, Spar Nord made no major changes in assumptions, objectives, exposures and calculation methods, etc. as compared to the year before.

Overview of principal figures in the credit risk note

	2020	2019
	DKKm	DKKm
Credit exposure for financial reporting purposes		
Loans and guarantees	69,603	67,571
Loans and guarantees excl. reverse repo transactions	59,784	59,416
Loans and advances excl. reverse repo transactions	44,136	44,609
Lending growth (carrying amount, excl. reverse repo transactions)	-1.5%	9.1%
Credit exposure to loans, advances and guarantees excl. reverse repo transactions		
Retail customers	47.7%	44.8%
Business customers	52.3%	55.2%
Recognised impairment		
Retail customers	133	51
Business customers excl. agriculture	250	30
Agriculture	-74	-59
Total (positive amounts indicate a negative profit impact)	309	22
Impairment ratio, loans, advances and guarantees (impact on operations)	0.4%	0.0%
Impairment etc., end of year		
Stage 1, credit risk has not increased significantly	196	155
Stage 2, credit risk has increased significantly	580	265
Stage 3, credit-impaired	941	1,083
Total	1,717	1,503
Total impairment in % of loans, advances and guarantees (excl. reverse repo transactions)	2.9%	2.5%

Section 5

Risk management

Overall comments on credit risk

Loan impairment etc. was an expense of DKK 309 million, against an expense of DKK 22 million in 2019.

The COVID-19 pandemic was the dominant theme of 2020, and one which had a strong impact on impairment charges for the year. In 2020, Spar Nord made a model-supported management estimate relating to COVID-19 of DKK 320 million. Because of the financial relief packages, the COVID-19 crisis alone only caused moderate losses in 2020. However, a high level of uncertainty still attaches to the longer-term societal effects and consequences of the crisis, and especially the implications for Spar Nord's business customers.

At end-2020, Spar Nord's total management estimates amounted to DKK 570 million, of which DKK 320 million related to COVID-19 as the largest single item. Of this amount, DKK 130 million is attributable to retail customers and DKK 190 million to business customers. The remaining amount of DKK 250 million breaks down into DKK 147 million attributable to land prices in the agricultural sector and DKK 103 million relating to model uncertainty.

The DKK 309 million impact on profits breaks down into DKK 250 million attributable to business customers ex. agricultural customers, DKK -74 million to agricultural customers, DKK 124 million to retail customers and DKK 9 million to customers in the SparXpres consumer loan business.

Risk management

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

§ Accounting policies

Impairment model

Spar Nord recognises a provision for expected credit losses pursuant to IFRS 9 for all financial assets recognised at amortised cost or at fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantees. For financial assets recognised at amortised cost, the impairment for expected credit losses is recognised in the income statement and set off against the asset in the balance sheet. Provisions for unutilised credit lines and loan commitments and financial guarantees are stated at expected credit losses in the income statement and recognised as a liability.

The above impairment model implies that provisions must be recognised on all Spar Nord's financial assets measured at amortised cost and certain loan commitments and financial guarantees based on statistically expected credit losses ("expected loss" model). Losses caused by regulation of a financial asset will be considered as having been written off.

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

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

The expected credit loss is measured for each facility. Impairment models support the calculation of expected credit losses based on loss ratios and the concepts of PD (Probability-of-Default), LGD (Loss-Given-Default) and EAD (Exposure-at-Default).

The calculation of the expected credit losses on exposures in stages 1 and 2 is based on a model calculation, whereas the calculation in respect of exposures from the weak part of stage 2 as well as stage 3 exposures is made as a combination of an individual assessment and a modal calculation. For customer groups with total exposures exceeding DKK 500,000, the Bank performs an individual assessment of the expected credit losses and the pertaining probabilities. For customer groups with total exposures below DKK 500,000, model-based calculations will be used. The model calculation is based on the Bank's model, which has been part of the basis for Spar Nord's credit control for a number of years, supplemented by a macroeconomic module, which adjusts the calculated PD values. A smaller, delimited portfolio is classified as being exposed to low credit risk. Exposures to these customers are maintained in stage 1.

Substantial increase in risk

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

- A 100% increase in the PD for the expected remaining life of the exposure and a 0.5% point increase in the 12-month PD where the 12-month PD was below 1.0% on initial recognition.
- A 100% increase in the PD for the expected remaining life of the exposure or a 2.0% point increase in the 12-month PD where the 12-month PD was 1.0% or higher on initial recognition.
- If the exposure has been in arrears for more than 30 days.

Exposures with a substantial increase in the credit risk belonging to customers whose ability to pay shows considerable signs of weakness will be categorised as the weak part of stage 2. A customer's ability to pay in this category is defined as a 12-month PD that exceeds 5.0%.

Improvement of credit risk

If the exposure that has been in arrears for more than 30 days ceases to exist or the customers' PD level is subsequently improved (see above with respect to time of initial recognition), it will no longer be considered a significant increase in credit risk, and the exposure will be transferred back to stage 1.

Overall monitoring of Spar Nord's credit risk exposure is managed by the Risk Function. Risk Monitoring oversees changes in the credit quality of all exposures and undertakes systematic credit quality control of the credit portfolio. A "weak list" for high-risk customers is used for credit control purposes. If a customer is marked "weak", the customer's PD will be adversely affected. Similarly, the customer's PD will be positively affected if the "weak" marking is removed again.

Transition to stage 3 (credit impairment)

If one of the customer's exposures is believed to be credit-impaired, all exposures of the customer in question will be transferred from stage 1 or 2 to stage 3. The criteria for credit impairment are determined on the basis of the Bank's credit management and credit policy. Generally, the criteria for business customers will be significant breach of contract or likely bankruptcy, while for retail customers they will include major negative events.

A customer's exposure is considered to be in default, for example if:

- there are credit-impaired exposures, and the customer is not considered to be able to settle its credit liabilities as calculated in the most likely scenario;
- for retail customers in case of a negative change in income, insufficient disposable income, listing in the Danish credit information agency RKL, material tax debt or substantial consumer loans;
- for business customers in case of negative results and negative equity, substantial negative equity or conversion of debt to subordinated capital;
- for agricultural customers in case of a negative change in income, substantial negative equity or non-compliance with the Bank's requirements for break-even and solvency;
- the payment obligations have been put on hold, or significantly relaxed terms have been granted with respect to interest rate, repayment profile or respite due to the customer's critical financial situation; or
- the customer's exposure for a long period of time (at least 90 days) has been in arrears or overdrawn.

If none of the customer's exposures are considered to be in default any longer, each exposure will again be considered individually. Subsequently, the exposures will be assessed relative to a substantial increase in credit risk and subsequently placed in stage 1 and 2 using the stage motor in the Bank's impairment model.

Section 5

Risk management

The criteria for definition of default are determined on the basis of the Bank's credit management and credit policy.

If none of the customer's exposures are considered to be in default any longer, each exposure will again be considered individually. Subsequently, the exposures will be assessed relative to a substantial increase in credit risk and subsequently place in stage 1 and 2 via using the model's stage motor.

Prospective information

The model calculation of the expected loss is structured around a number of regression models determining the historical correlation between default and a number of explanatory macroeconomic variables relating to the various segments (retail, corporate and agriculture) in the impairment calculation.

The following economic indicators are applied:

- Retail customers: House price developments and mortgage rates.
- Business customers: SME confidence indicator and industrial confidence indicator.
- Agriculture: Ratio of milk and pork prices to feed prices and price trend for slaughter pigs and milk.

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

The weighting of the various scenarios is calculated on the basis of the ratio between actual and potential GDP. The current scenario weights are 85% in base case, 5% in best case and 10% in worst case.

The assessment of the probability for each scenario is made using macroeconomic variables and approved by the Credit Committee in consultation with the relevant specialists.

Scenario sensitivity

If either best-case or worst-case from the model calculation and the individual impairment calculations are exclusively applied, it would result in the following impairment distribution between the stages:

2020

Scenarios	Stage 1	Stage 2	Stage 3	Total
Current	11	33	55	100
Best	10	31	44	86
Worst	11	40	77	128

2019

Scenarios	Stage 1	Stage 2	Stage 3	Total
Current	10	18	72	100
Best	9	14	60	83
Worst	11	25	96	132

The total current impairment amount is used as index 100. Best-case would reduce impairment by DKK 253 million, while worst-case would increase impairment by DKK 493 million. The calculation does not take into account any customers wishing to shift between model and individual calculations in the best and the worst case, respectively.

As a supplement to the IFRS 9 calculations, Spar Nord has recognised an impairment charge in the form of a management estimate of DKK 320 million due to the extraordinary COVID-19

situation. The estimate was made on the basis of a macroeconomic impairment model that estimates total expensed impairment based on a historical correlation to selected macroeconomic variables.

Spar Nord does not have substantial exposure to individual industries that are particularly challenged by the COVID-19 pandemic.

With respect to the management estimate for land prices, the price per hectare used is DKK 15 thousand lower than the Danish FSA's recommended land prices. The estimate has been calculated at DKK 147 million. If the calculation had instead been made with a change of DKK 10 thousand per hectare, the estimate would have been DKK 99 million.

Developments in management estimates are shown in note 5.17.

Credit losses

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

Write-off policy

All write-offs are performed by the Debt Collection Department. When the exposure is handed over to Debt Collection, they assess any need for write-off or interim write-off on the unsecured part of the exposure. Exposures covered by collateral will remain on a zero-interest account until the collateral has been realised, and the final loss/write-off has been assessed.

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. For purposes of assessing creditworthiness, the Bank applies statistical rating models which risk-classify its customers.

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

Spar Nord only wants to conclude transactions that conform to good banking practice and do not jeopardise the Bank's reputation or professional profile.

The Bank includes climate considerations and sustainability in its assessment of business customers in particular. Businesses with a high climate impact face special market terms and conditions, more stringent regulatory requirements and an increased requirement to invest in climate measures. Climate challenges may affect the robustness of a business and will potentially impair its earnings capacity and growth opportunities. Other things being equal, this could limit the creditworthiness of a business. Companies with an environmentally sustainable profile are estimated to have a far better foundation for tackling the challenges imposed by rising climate considerations.

Section 5

Risk management

The Bank considers a satisfactory climate profile a favourable component in its credit assessment.

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 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.

Exposure caps have been determined on the basis of the following rules:

- Exposure is capped at DKK 750 million for exposure groups within the same legal entity with more stringent requirements for collateral to secure exposure amounts exceeding DKK 500 million. The unsecured share in the exposure group must not exceed DKK 250 million.
- Exposure is capped at DKK 1 billion for exposure groups consisting of customers who, financially, legally and in terms of risk, are independent of each other and are only affiliated because of a common administrative body. The unsecured share in the exposure group must not exceed DKK 250 million, and individual exposures in the group must not exceed the limits set out above.
- For unrated customers subject to supervision by the Danish FSA, exposure is capped at DKK 1 billion.

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.

On the basis of the breakdown of the Bank's loans and advances guarantees by industry, targets for the maximum distribution within selected industries are shown below. The maximum figures stated serve to ensure that the Bank maintains a strongly diversified customer portfolio and prevents large concentration risks in individual industries.

The Bank pursues the policy that business customers' share of total loans and advances guarantees cannot exceed 70% of the Bank's total loans, advances and guarantees excl. reverse lending.

This means the Bank has set a minimum limit of 30% for retail customers' share of the Bank's total loans and advances guarantees. The Bank has no upper limit for retail customers' share of total loans, advances and guarantees because a high proportion of loans to retail customers is considered a strength in terms of credit.

Targets for industry diversification

Targets for industry diversification in %	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
Energy supply	8

*) Excl. reverse repo transactions

***) CRR 575/2013 Article 4(79)

Finally, in its credit policy Spar Nord has stipulated that it wants insight into any commitments that its customers may have towards other financial institutions.

Management, monitoring and reporting

Although Spar Nord's business model is characterised by decentralised decision-making powers, the credit process is managed centrally.

As concerns new customers, the facility authorisation right is generally half of that for existing customers. The powers of authority in the credit area are governed by two factors:

- The individual local managers' ability and requirements with respect to customer base.
- The wish that a certain share of authorisations from the local banks is always dealt with by Credit Rating.

Decentralised facility authorisation rights are maximised at DKK 10 million for existing customers.

Customer advisers, where relevant in consultation with relationship managers in retail and business banking, 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. In addition, the Credit Committee may authorise credit lines up to DKK 100 million for existing customers and up to DKK 50 million for new customers. Exposures exceeding DKK 100 million for existing customers and exposures exceeding DKK 50 million for new customers 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 Risk Management, which oversees changes in the credit quality of all 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 the system. 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.

The Bank's rating system regularly calculates a statistically based rating of both retail and business customers. This monthly updated rating, possibly combined with an "application score" for new customers, is included in the decentralised credit assessment of the individual loan case, and together with other parameters it decides the extent of the decentralised authorisation power. Customers in the rating categories accorded the least risk exposure are more likely to be given higher credit limits or extensions than those with the greatest risk exposure. The risk categorisation based on ratings is also used in early warning processes, in the Bank's impairment processes (IFRS 9), for managing overdrafts and for pricing purposes to help ensure a correlation between the risk assumed by the customer and the price paid.

The Bank's rating system risk-classifies all non-defaulting customers into "rating categories" according to the probability that the individual customer defaults within the next 12 months.

The probability of default is estimated on the basis of statistical models adapted to the individual customer segment. On the

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basis of this probability, customers are classified into rating categories from 1 to 8, with category 8 containing customers with the highest risk of default. Customers with objective evidence of impairment (OEI) but without a need for impairment are placed in rating category 9, while OEI customers with a need for impairment and other customers in default are placed in rating category 11.

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 exposure/credit history. These components classify/rank customers according to probability of default. Finally, the risk level is adjusted relative to current/expected cyclical developments via the third component – the "cyclical component".

New business customers are classified based on the accounting component and the cyclical component during the first six months, after which time the behavioural component is also applied in the overall rating.

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, when a record of customer behaviour towards the Bank has been established, customers are subjected to behavioural scoring scrutiny.

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. The flagging of weak credit quality is assessed and made as soon as it is considered likely that the customer will become financially challenged, which is thus often before the situation is discernible in data for the statistically based models. Customers flagged as having a weak credit quality are reviewed at least once a year.

If a retail customer is flagged as having a weak credit quality but is not in default, the customer will automatically be downgraded by one rating category; it should be noted that a customer flagged as having a weak credit quality can never qualify for rating in the best rating categories (1 and 2).

Business customers are divided into two categories, customers flagged as having a weak credit quality and customers not flagged, and rated using two different models. While both models are based on the same components, the result of the rating calculation in the model for customers flagged as having a weak credit quality will typically lead to a lower rating.

If the adviser or another person believes that the rating of a major business customer does not reflect their true creditworthiness, for example due to inefficiencies in the data or otherwise, a process will be identified to evaluate and, where relevant, change the "rating" (rating override).

Risk classification – rating categories

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 categories 1 to 9, with category 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, after 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.

For both retail and business customers, the behavioural score is based on information about factors like overdrafts, number of increases and leverage. In the accounting-based credit score for business customers, inputs include information on return on assets, solvency ratio and debt figures.

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

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5.1.2 Credit exposure

	2020	2019
	DKKm	DKKm
Credit risk, loans, advances and receivables		
Balance sheet items		
Loans, advances and other receivables at amortised cost	52,312	51,312
Impairment account for loans and other receivables	1,643	1,453
Off-balance sheet items		
Guarantees, etc.	15,591	14,766
Provisions for guarantees	57	40
Total credit exposure for financial reporting purposes, loans, advances and guarantees	69,603	67,571
Unutilised credit lines and loan commitments		
Impairment account for unutilised credit lines and loan commitments	27,306	23,403
	17	9
Total credit exposure for financial reporting purposes, loans, advances and guarantees, incl. unutilised credit lines and loan commitments	96,926	90,983
Financial credit risk		
Bonds at fair value	21,647	16,498
Due from credit institutions and central banks	1,259	1,588
Positive fair value of derivative instruments, financial enterprises	194	201
Total credit exposure for financial reporting purposes	23,099	18,286

Credit exposure relating to loans, advances and guarantees, gross, and impairment account by industry

	2020				2019			
	Loans, advances and guarantees		Total impairment and provisions *)		Loans, advances and guarantees		Total impairment and provisions *)	
	DKKm	%	DKKm	%	DKKm	%	DKKm	%
Business customers								
Public authorities	978	1.4	0	0.0	1,200	1.8	0	0.0
Agriculture, hunting, forestry and fisheries	3,109	4.5	336	19.6	2,932	4.3	414	27.6
Industry and raw materials extraction	2,562	3.7	84	4.9	2,964	4.4	85	5.7
Energy supply	1,871	2.7	30	1.7	1,712	2.5	15	1.0
Building and construction	2,591	3.7	62	3.6	2,525	3.7	55	3.6
Trade	3,449	5.0	146	8.5	4,175	6.2	96	6.4
Transport, hotels and restaurants	2,487	3.6	155	9.0	2,615	3.9	94	6.3
Information and communication	254	0.4	8	0.5	285	0.4	9	0.6
Financing and insurance	13,020	18.7	111	6.5	11,375	16.8	80	5.3
Real estate	6,802	9.8	175	10.2	7,310	10.8	195	13.0
Other business areas	3,979	5.7	126	7.3	3,737	5.5	79	5.2
Business customers, total	41,103	59.1	1,233	71.8	40,829	60.4	1,122	74.7
Total retail customers	28,500	40.9	484	28.2	26,742	39.6	381	25.3
Total loans and guarantees	69,603	100.0	1,717	100.0	67,571	100.0	1,503	100.0

*) incl. provisions for unutilised credit lines and loan commitments of DKK 17 million (2019: DKK 9 million).

Spar Nord's impairment balance amounted to DKK 1.7 billion, equal to 2.9% of Spar Nord's total loans, advances and guarantees excl. reverse repo transactions at end-2020. The impairment balance increased by DKK 0.2 billion relative to end-2019.

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Gross credit exposure relating to loans, advances and guarantees, gross, by industry without reverse repo transactions

	2020				2019			
	Loans, advances and guarantees		Total impairment and provisions *)		Loans, advances and guarantees		Total impairment and provisions *)	
	DKKm	%	DKKm	%	DKKm	%	DKKm	%
Business customers								
Public authorities	978	1.6	0	0.0	1,200	2.0	0	0.0
Agriculture, hunting, forestry and fisheries	3,109	5.2	336	19.6	2,932	4.9	414	27.6
Industry and raw materials extraction	2,562	4.3	84	4.9	2,964	5.0	85	5.7
Energy supply	1,786	3.0	30	1.7	1,672	2.8	15	1.0
Building and construction	2,591	4.3	62	3.6	2,525	4.2	55	3.6
Trade	3,449	5.8	146	8.5	4,175	7.0	96	6.4
Transport, hotels and restaurants	2,487	4.2	155	9.0	2,615	4.4	94	6.3
Information and communication	254	0.4	8	0.5	285	0.5	9	0.6
Financing and insurance	3,287	5.5	110	6.4	3,385	5.7	80	5.3
Real estate	6,802	11.4	175	10.2	7,310	12.3	195	13.0
Other business areas	3,979	6.7	126	7.3	3,737	6.3	79	5.2
Business customers, total	31,284	52.3	1,233	71.8	32,799	55.2	1,122	74.7
Total retail customers	28,500	47.7	484	28.2	26,617	44.8	381	25.3
Total loans and guarantees	59,784	100.0	1,717	100.0	59,416	100.0	1,502	100.0

*) Incl. provisions for unutilised credit lines and loan commitments of DKK 17 million (2019: DKK 9 million).

Loans, advances and guarantees by exposure size *)

DKKm/%	2020	2019	2020	2019
	Number	Number	%	%
0 - 0.1	49,974	52,678	0.9	0.9
0.1 - 0.5	36,530	36,243	10.3	10.1
0.5 - 1.0	14,763	14,078	12.3	11.6
1.0 - 5.0	10,106	9,439	27.3	26.5
5.0 - 10.0	1,110	1,009	9.7	9.2
10.0 - 20.0	458	432	8.0	7.9
20.0 - 50.0	275	263	10.9	11.5
50.0 - 100.0	94	91	8.3	9.0
100.0 ->	44	48	12.3	13.3
Total	113,354	114,281	100.0	100.0

*) Excl. reverse repo transactions and SparXpres

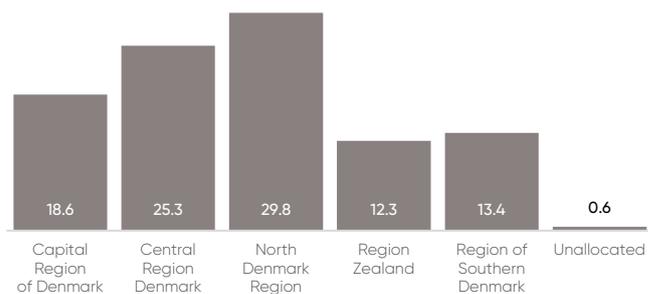
As concerns size of exposures, Spar Nord's credit portfolio is considered to be well-diversified, because 60.5% of the total exposure is attributable to exposures below DKK 10 million each, and Spar Nord only has 44 exposures that exceed DKK 100 million.

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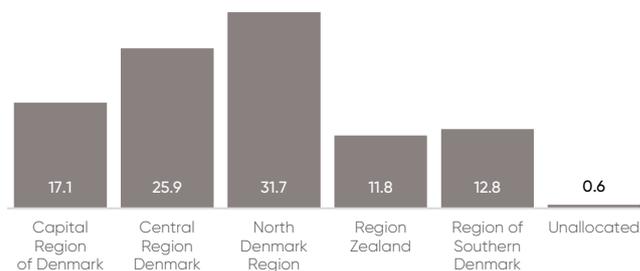
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Gross credit exposure relating to loans, advances and guarantees excl. reverse repo transactions and SparXpres by geography

Loans, advances and guarantees broken down
by region 2020
%



Loans, advances and guarantees broken down
by region 2019
%



Spar Nord's credit portfolio is considered to have an excellent geographical spread. At end-2020, the North Denmark Region accounted for 29.8% of Spar Nord's total loans, advances and guarantees, while the balance is spread over the other regions in Denmark.

5.1.3 Spar Nord's exposure by customer portfolios

Spar Nord's total loans, advances and guarantees before off-setting impairment were DKK 69.6 billion at end-2020, which is DKK 2.0 billion higher than in 2019.

Reverse repo loans increased by DKK 1.7 billion to DKK 9.8 billion at end-2020.

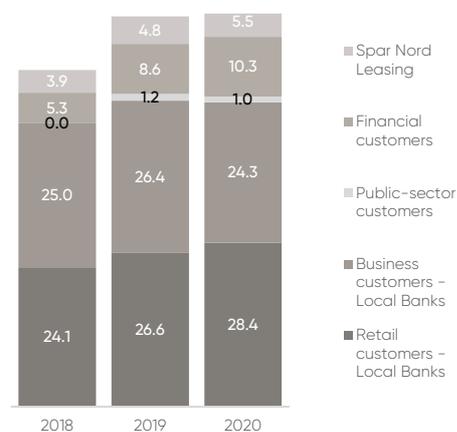
In addition, the Bank's loans and advances fell DKK 0.5 billion to DKK 44.1 billion at end-2020, corresponding to lending growth of -1.1% in 2020.

Furthermore, guarantees rose by DKK 0.8 billion to stand at DKK 15.6 billion at 31 December 2020.

Customers are categorised into five groups as part of the on-going risk monitoring: 1) Retail customers – Local Banks, 2) Business customers – Local Banks, 3) Public-sector customers, 4) Financial customers and 5) Spar Nord Leasing.

The development in these customer groups appears from the figure.

Exposures by category
(DKKbn)



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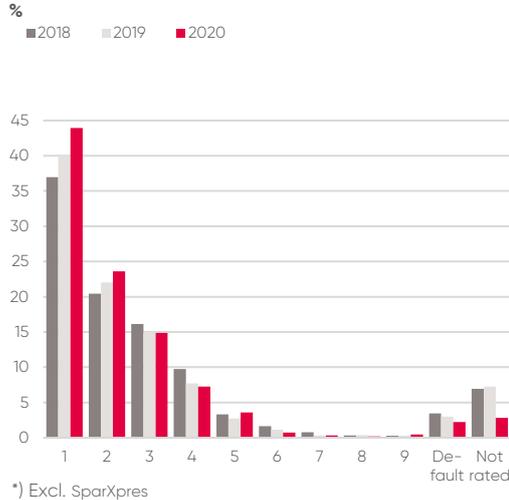
Retail customers with Spar Nord's Local Banks

The total credit exposure to retail customers at Spar Nord's Local Banks amounted to DKK 28.4 billion at end-2020 compared with DKK 26.6 billion at end-2019. The credit exposure to retail customers amounts to 40.9% of Spar Nord's total credit exposure. As appears from the figure below, the average credit quality of retail customers has developed favourably over the past few years and is currently at a very satisfactory level.

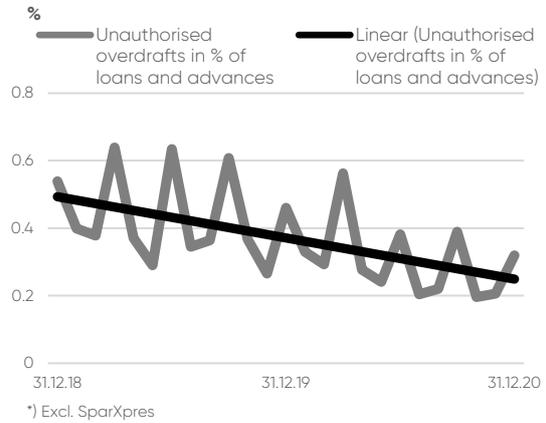
Retail customers' unauthorised overdrafts and past due exposures were at a low level from 2018-2020, showing a declining trend. After the transition to IFRS 9, there is an ever-increasing focus on the treatment of unauthorised overdrafts and arrears.

In the period from 2018 to 2020, there was an improvement in retail customer credit quality.

Exposures to retail customers by rating category*)



Retail customers - Local Banks - Developments in unauthorised overdrafts/arrears *)



Average risk group *)

	2020	2019	2018
Average risk group	2.2	2.4	2.6

*) Exposures after impairment

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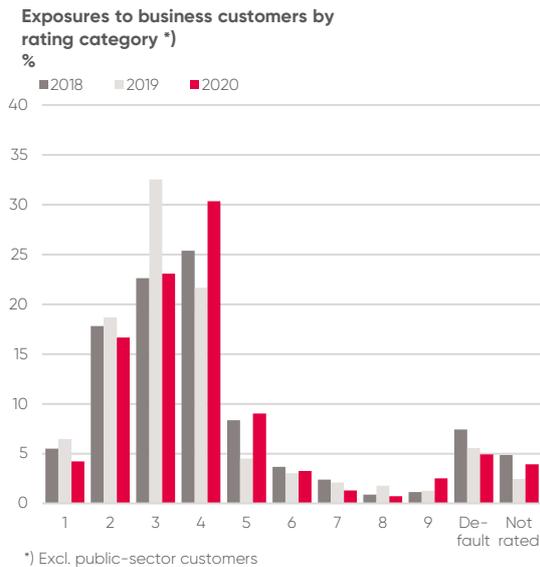
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Business customers with Spar Nord's Local Banks

The total credit exposure to business customers at Spar Nord's Local Banks amounted to DKK 24.3 billion at end-2020 compared with DKK 26.4 billion at end-2019.

The credit exposure to business customers amounted to 35,0% of Spar Nord's total credit exposure.

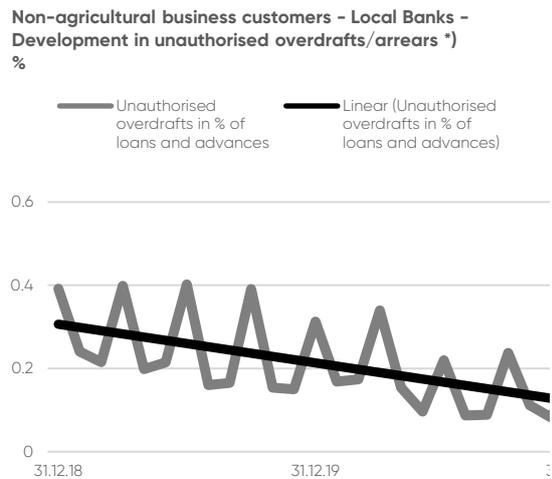
The Bank's rating model for business customers includes a business cycle model, which has shown instability in specific variables ("consumption expectations").



These consumption expectations have to a large extent contributed to a negative development in business customers' average credit quality during the past year.

The Bank is monitoring developments and has made a management estimate to address the uncertainty.

Business customers' unauthorised overdrafts and past due exposures remained at a stable, low level of below 0.3% in the period from 2018 to 2020.



Average risk group *)

	2020	2019	2018
Average risk group	3.9	3.6	3.9

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

Leasing activities

Spar Nord's total credit exposure in the leasing area amounted to DKK 5.5 billion at end-2020, which is DKK 0.8 billion, or 15.7%, more than at end-2019. Credit exposure in the leasing area equals 8.0% of Spar Nord's total loans, advances and guarantees.

The volume of repossessed leasing equipment remains at a very low level below 0.1% of leasing loans.

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

Repossessed equipment

DKKm	2020	2019
Repossessed equipment, total	3	5

Leasing loans by industry	Loans and advances		Impairment account	
	2020	2019	2020	2019
Public authorities	0.0	0.0	0.0	0.0
Agriculture, hunting and forestry	14.2	13.5	10.4	10.3
Fisheries	0.0	0.0	0.0	0.0
Industry and raw materials extraction	12.3	13.1	16.2	20.8
Energy supply	9.0	8.7	5.8	5.0
Building and construction	14.7	14.0	5.9	5.7
Trade	8.5	9.4	7.0	6.0
Transport, hotels and restaurants	22.7	22.9	28.0	22.5
Information and communication	0.6	0.8	0.7	0.3
Financing and insurance	1.3	1.7	1.3	0.8
Real estate	1.9	2.3	8.4	19.7
Other business areas	13.8	13.2	15.9	8.1
Business customers, total	99.1	99.5	99.6	99.2
Total retail customers	0.9	0.5	0.4	0.8
Total	100.0	100.0	100.0	100.0

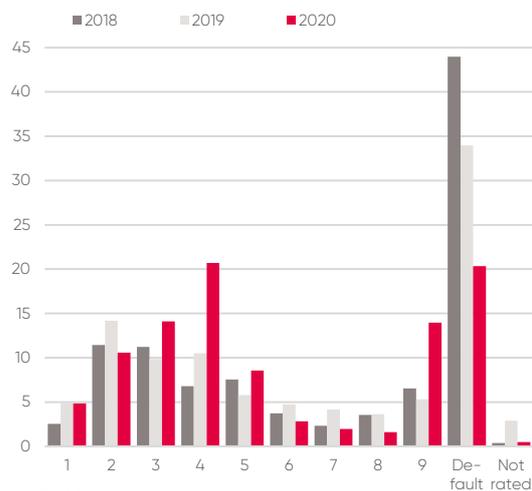
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Agriculture

At end-2020, loans, advances and guarantees to agricultural customers amounted to DKK 3.0 billion, equal to 4.3%. Of this amount, leasing loans amounted to DKK 0,8 billion.

Agricultural exposures by rating category *)
%



*) Excl. leasing

Average risk category – agriculture *)

	2020	2019	2018
Average risk group	5.5	5.9	6.2

*) Exposures after impairment

As appears from the figures, the average credit quality of agricultural customers improved during 2020. The positive development was attributable to a decrease in the Default rating category for agricultural customers.

The impact on profits from impairment of agricultural loans amounted to an income of DKK 74 million in 2020 compared with an income of DKK 59 million in 2019.

Earnings in the agricultural sector were generally satisfactory in 2020. During the past few years, milk prices have been quite stable, providing acceptable earnings to dairy farmers. Grain prices have moved slightly lower to the benefit of feed purchasers but to the detriment of arable farmers, who should expect slightly lower sales prices. On the other hands, yields have also been slightly better than average.

While still at acceptable levels, pork prices have fallen from record-high levels due to the outbreak of African swine fever in Germany. At the same time, the COVID-19 pandemic has affected all industries, and mink farmers in particular.

The mink industry was already suffering from low settlement prices, and the outbreak of COVID-19 in China, which is a very larger importer of mink fur, pushed prices even lower. On top of this comes the COVID-19-related culling of all mink in Denmark, which will, at least temporarily, close down all mink production. After the end of the financial year, the Danish government has entered into an agreement on compensation for the Danish mink industry. However, the Bank only has limited exposure to the industry.

Spar Nord's total impairment of agricultural loans amounted to DKK 334 million at end-2020, equal to 11.1% of Spar Nord's total loans, advances and guarantees to the industry. At 31 December 2019, the corresponding figures were DKK 413 billion and 14.7%.

The figures show Spar Nord's agricultural loans and impairment related to agricultural exposures, broken down by production lines.

Agricultural exposures by production line

2020 DKKm	Loans and guarantees	Non-performing loans	Of which impaired	Share impaired
Cattle farmers	554	3	171	30.9
Pig farmers	451	0	133	29.5
Arable farmers	624	8	74	11.8
Mink farmers	103	1	16	15.1
Leasing	789	1	6	0.8
Miscellaneous	466	2	27	5.8
Total	2,987	14	426	14.3

2019 DKKm	Loans and guarantees	Non-performing loans	Of which impaired	Share impaired
Cattle farmers	616	8	203	33.0
Pig farmers	481	27	200	41.6
Arable farmers	545	14	85	15.6
Mink farmers	113	2	46	40.3
Leasing	647	1	8	1.2
Miscellaneous	415	1	17	4.0
Total	2,818	52	559	19.8

Agricultural impairment by production line

2020 DKKm / %	Impairment account	Written off	Impairment for the year	Impairment ratio of exposure	Percentage impaired
Cattle farmers	150	7	-22	27.1	87.4
Pig farmers	78	2	-37	17.3	72.2
Arable farmers	60	4	-11	9.5	88.0
Mink farmers	25	0	-3	24.8	53.3
Leasing	4	0	1	0.6	69.5
Miscellaneous	17	0	-3	3.7	68.2
Total	334	13	-74	11.2	78.4

2019 DKKm / %	Impairment account	Written off	Impairment for the year	Impairment ratio of exposure	Percentage impaired
Cattle farmers	177	5	-61	28.8	87.1
Pig farmers	113	50	-25	23.5	56.5
Arable farmers	72	75	32	13.2	84.5
Mink farmers	28	2	4	25.0	61.9
Leasing	3	0	-9	0.5	42.1
Miscellaneous	20	0	1	4.7	116.8
Total	413	132	-59	14.7	74.0

Spar Nord's total exposure to the agricultural sector was largely unchanged in 2020, but with minor reduction to cattle, pig and

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mink farmers and a small increase in exposure to arable farmers.

Spar Nord pursues the principle that if agricultural customers with a weak capital position 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 OEL. Breakeven prices are calculated based on financing at a 4% average interest rate for all the interest-bearing debt except for mortgage debt, for which the interest rate is fixed using fixed-rate bonds loans with long maturities. If these breakeven prices cannot be achieved in financial statements and budgets, the exposure will be subjected to an impairment calculation.

Spar Nord anticipates that conditions for milk farmers will remain unchanged in 2021 compared with 2020. For pig farmers, earnings are expected to be slightly lower, but still at accepta-

ble levels. Figures for both production lines are subject to uncertainty due to COVID-19 and for pig farmers also the spread of African swine fever.

Spar Nord's calculation of collateral values of agricultural properties is in accordance with the Danish FSA'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. and are measured at fair value.

Other agricultural assets such as livestock, stocks, equipment, etc. are recognised at 80% of their carrying amount.

A 5% haircut is applied to all of the above-mentioned values.

5.1.4 Collateral

A key element in the Group's management of credit risk is to mitigate the risk of individual exposures by requiring collateral in the form of charges on physical assets, securities and guarantees, etc. The most commonly used collateral is mortgages on real property, securities and vehicles. Mortgages on property are by far the most important collateral type provided to Spar Nord. Mortgages on real property consist mainly of mortgages on private housing.

For a description of collateral with reverse repo transactions, see note 6.2 and for collateral provided through clearing systems with central banks and other infrastructure institutions see note 6.3.

The credit quality of the individual exposure categories broken down by Spar Nord's internal credit rating is shown in notes 5.1.8 and 5.1.10.

Collateral accepted and type

Spar Nord wants to reduce the risk attaching to individual exposures by accepting collateral such as mortgages and charges over physical assets, securities and guarantees, etc. whenever possible. Mortgages on real property are by far the most important collateral type provided to Spar Nord. Mortgages on real property consist mainly of mortgages on private housing.

In the event that Spar Nord calls up collateral that cannot easily be converted to cash, Spar Nord pursues the policy of attempting to dispose of such assets as soon as possible.

In 2020, the Group repossessed equipment and took over properties worth DKK 5 million (2019: DKK 11 million).

The leased assets are valued and depreciated on an ongoing basis. Thus, in periods of declining prices for leased assets, the collateral calculated for the Bank's leasing activities is reduced.

The property value under mortgages broken down by property type is calculated at DKK 30.3 billion, while only DKK 17.2 billion is recorded as security on properties in the table above. This is because the former amount represents the amount mortgaged to Spar Nord and is recorded as collateral accepted, while the latter amount is the share actually used for calculating collateral regarding a specific exposure. Some exposures are smaller than the collateral value, and collateral has also been provided by customers who do not currently have any facilities. Spar Nord monitors the value of collateral provided on an ongoing basis. When the risk associated with a counterparty increases, monitoring of the collateral provided will be intensified. A haircut of 5% of the value is made when the property collateral is allocated to the exposures.

The total loan amounts for customers which no impairment charge has been recognised as a result of collateral for 2020 is DKK 553 million.

	2020	2019
	DKKm	DKKm
Collateral accepted		
Credit exposure on loan, advances and guarantees for financial reporting purposes	69,603	67,571
Value of collateral	51,821	47,515
Unsecured, total	17,782	20,055
Types of collateral		
Properties	17,183	15,728
Custody accounts/securities	11,219	9,436
Guarantees/sureties	635	468
Vehicles	566	616
Cash	681	360
Other collateral	3,769	4,313
Collateral used, total	34,053	30,920
Specially secured transactions (mortgage credit institution guarantees)	13,165	12,603
Total collateral accepted, excl. leasing activities	47,218	43,523
Collateral accepted, leasing activities	4,603	3,993
Total	51,821	47,515

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Collateral accepted and type for stage 3

	2020	2019
	DKKm	DKKm
Collateral accepted		
Carrying amount of loans, advances and guarantees	1,070	1,112
Value of collateral	1,144	1,189
Unsecured, total	-73	-77
Types of collateral		
Properties	624	700
Custody accounts/securities	6	3
Guarantees/sureties	76	53
Vehicles	6	10
Cash	18	7
Other collateral	207	211
Collateral used, total	937	984
Specially secured transactions (mortgage credit institution guarantees)	117	168
Total collateral accepted, excl. leasing activities	1,054	1,152
Collateral accepted, leasing activities	90	37
Total	1,144	1,189

Mortgage on real property

Geographical breakdown of mortgages

%	2020	2019
Capital Region	17.2	16.8
Central Region	22.4	22.3
North Denmark Region	33.7	34.5
Zealand region	13.7	12.9
Southern Denmark Region	12.1	12.5
International	0.8	1.0
Total	100.0	100.0

Spar Nord continuously monitors the value of the collateral furnished. If the risk exposure to a counterparty increases, the collateral is subjected to a particularly critical review. The value is assessed based on the expected price to be fetched in a compulsory sale of the collateral, less any expenses arising from its realisation.

Mortgages by property type

	2020	2020	2019	2019
	DKKm	%	DKKm	%
Private housing	18,863	62.3	16,927	60.3
Holiday homes	1,153	3.8	1,051	3.7
Offices and businesses	4,495	14.8	4,419	15.7
Agriculture	2,168	7.2	2,141	7.6
International	3,600	11.9	3,541	12.6
Total	30,278	100.0	28,079	100.0

Spar Nord's evaluation of mortgages on rental properties is based on the capacity of the properties to generate a return. Various requirements are made with regard to the rate of return, depending on the use of the property, the condition of the buildings and the physical location in Denmark. Residential rental property is valued on the basis of a required rate of return in the 4.25 to 10.0% range.

Unsecured shares

The table below shows that the total unsecured share at end-2020 was 25.5%. Net of reverse loans, the total unsecured share at end-2020 amounted to 33.7%. At end-2019, the unsecured share without reverse repo transactions was 33.8%.

Compared with previous years, Spar Nord changed its principle for calculating its unsecured shares in 2020, so that rights of subrogation in the Bank's issued loss guarantees against facilitated mortgage loans are now included as a specific collateral.

Unsecured share of exposure

%	2020	2019
< 10	57.7	53.0
10 - 50	19.5	19.8
50 - 75	6.0	6.4
> 75	16.8	20.8
Average unsecured share	25.5	29.7

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The group's unsecured share of credit exposure

Line of business	2020	2020	2019	2019
	DKKm	%	DKKm	%
Public authorities	978	100.0	1,200	100.0
Agriculture, hunting and forestry	530	17.7	569	20.2
Fisheries	24	19.4	40	35.1
Industry and raw materials extraction	597	23.3	874	29.5
Energy supply	489	26.1	566	33.0
Building and construction	638	24.6	865	34.3
Trade	944	27.4	1,486	35.6
Transport, hotels and restaurants	492	19.8	740	28.3
Information and communication	101	39.8	143	50.1
Financing and insurance	2,069	15.9	2,059	18.1
Real estate	1,898	27.9	2,250	30.8
Other business areas	1,412	35.5	1,560	41.7
Business customers, total	10,172	24.7	12,350	30.2
Total retail customers	7,610	26.7	7,705	28.8
Total	17,782	25.5	20,055	29.7

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5.1.5 Forbearance

A loan facility is defined as being subject to forbearance if the conditions regarding interest payments and/or repayments have been relaxed on account of the borrower's financial difficulty or if the loan has been refinanced on more lenient terms. In connection with COVID-19, forbearance must be flagged if the more lenient terms are considered only to apply for a temporary period.

Forbearance must be approved by Credit Rating. Customers who have been granted forbearance must be flagged for objective evidence of credit impairment.

In addition to decentralised registration, customers flagged as having a weak credit quality and OEI with an indication of credit impairment will be monitored centrally and reported on periodically.

Stage 3 loans were reduced by a total of DKK 131 million due to improvement of customer credit quality, settlement of loans or write-offs. Overall, NPL loans were reduced by DKK 131 million to DKK 1,873 million, and the share of non-performing loans (NPL ratio) was thus 3.4% at end-2020.

An amount of DKK 167 million was written off in 2020, and individual impairment charges totalling DKK 137 million were reversed.

Non-Performing

An exposure is defined as "Non-performing" (NPL), if:

- the exposure has been in arrears (i.e. if any amount of interest, fees or instalments remains unpaid) for more than 90 days; or
- it is considered unlikely that the debtor will fully meet its payment obligations without realising collateral.

In addition, an exposure in IFRS 9 stage 3 is always defined as NPL even if the above criteria are not met.

NPL ratio

	2020	2019
NPL (DKKm)	1,873	2,004
Exposure (DKKm)	54,884	54,079
NPL ratio	3.4	3.7

Loans and advances subject to forbearance in the year

2020

Loans and advances subject to forbearance

DKKm	Business customers		Retail customers	Total
	Agriculture			
Non-Performing	199	28	145	372
Performing	5	6	5	16
Total	204	34	151	388

2019

DKKm	Business customers		Retail customers	Total
	Agriculture			
Non-Performing	204	59	129	392
Performing	10	7	10	28
Total	215	66	139	419

2020

Type of forbearance

DKKm	Total
Non-performing loans	294
Reduced interest rate	64
Extended term	30
Miscellaneous	1
Total	388

2019

DKKm	Total
Non-performing loans	308
Reduced interest rate	81
Extended term	29
Miscellaneous	1
Total	419

Claims due, but not impaired

DKKm	2020		2019	
	Unauthorised over-drafts	Collateral	Unauthorised over-drafts	Collateral
	0 - 30 days	89	115	141
31 - 60 days	3	6	5	10
61 - 90 days	1	2	1	14
> 90 days	0	0	0	0
Total	94	123	146	191

Collateral amounts are calculated on the basis of the Bank's collateral registration system. The collateral registration is based on a prudent valuation of all pledged/mortgaged assets.

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5.1.6 Exposures and impairment etc.

For a description of principles for loan impairment, see note 5.1.1.

Spar Nord's impairment account broken down by industry is shown in note 5.1.2.

	Exposure be- fore impairment	Impair- ment	Carrying amount	Recognised impairment etc. total
Summary of carrying amount of exposures				
2020	DKKm	DKKm	DKKm	DKKm
Loans and advances at amortised cost (note 5.1.7)	53,955	1,643	52,312	285
Due from credit institutions and central banks (note 5.1.8)	1,259	1	1,259	0
Guarantees (note 5.1.9)	15,648	57	15,591	17
Unutilised credit lines and loan commitments (note 5.1.7)	27,323	17	27,306	8
Total	98,185	1,717	96,468	309
2019	DKKm	DKKm	DKKm	DKKm
Loans and advances at amortised cost (note 5.1.7)	52,764	1,453	51,312	128
Due from credit institutions and central banks (note 5.1.8)	1,588	1	1,588	0
Guarantees (note 5.1.9)	14,807	40	14,766	-39
Unutilised credit lines and loan commitments (note 5.1.7)	23,412	9	23,403	-67
Total	92,571	1,503	91,068	22

Recognised impairment etc. is specified in notes 5.1.6, 5.1.7, 5.1.8 and 5.1.9.

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

DKKm	2020	2019
Public authorities	0	0
Agriculture, hunting and forestry	-74	-59
Fisheries	1	0
Industry and raw materials extraction	-1	6
Energy supply	14	-7
Building and construction	2	-7
Trade	59	8
Transport, hotels and restaurants	60	42
Information and communication	-1	3
Financing and insurance	30	-18
Real estate	36	13
Other business areas	50	-10
Business customers, total	176	-28
Total retail customers	133	51
Total	309	22

The impact on Spar Nord's profits from impairment amounted to an expense of DKK 309 million in 2020, equal to 0.4% of total loans, advances and guarantees.

The total impact on operations of DKK 309 million compared with an impact on operations of DKK 22 million in 2019 should primarily be seen in the context of COVID-19-related uncertainty.

Retail customers without SparXpres represented an expenses of DKK 124 million, while SparXpres resulted in an expense of DKK 9 million. For business customers, there was an expense of DKK 250 million, while the impact on operations from agriculture was an income of DKK 74 million.

Exposures for which interest accrual has been suspended fell from DKK 303 million at end-2019 to DKK 275 million at end-2020.

Exposures before impairment and provisions by stage

	Stage 1	Stage 2	Stage 3	Total
2020	DKKm	DKKm	DKKm	DKKm
Loans and advances at amortised cost	44,661	7,426	1,868	53,955
Due from credit institutions and central banks	1,259	0	0	1,259
Guarantees	14,671	838	139	15,648
Unutilised credit lines and loan commitments	25,042	2,150	131	27,323
Total	85,633	10,414	2,139	98,185
2019	DKKm	DKKm	DKKm	DKKm
Loans and advances at amortised cost	43,773	6,992	1,999	52,764
Due from credit institutions and central banks	1,588	0	0	1,588
Guarantees	13,907	707	192	14,807
Unutilised credit lines and loan commitments	21,919	1,394	99	23,412
Total	81,188	9,093	2,290	92,571

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Exposures before impairment and provisions by industry

	Stage 1	Stage 2	Stage 3	Total	Recognised impairment etc. total
2020	DKKm	DKKm	DKKm	DKKm	DKKm
Public authorities	1,825	0	0	1,825	0
Agriculture, hunting and forestry	2,487	949	441	3,877	-74
Fisheries	95	68	2	165	1
Industry and raw materials extraction	3,362	852	154	4,368	-1
Energy supply	2,216	173	19	2,408	14
Building and construction	3,492	605	124	4,221	2
Trade	5,359	1,357	180	6,896	59
Transport, hotels and restaurants	2,537	789	182	3,508	60
Information and communication	310	105	7	422	-1
Financing and insurance	14,052	918	89	15,059	30
Real estate	7,226	1,643	216	9,085	36
Other business areas	5,317	833	163	6,313	50
Total business	48,277	8,293	1,577	58,147	176
Total retail customers	36,096	2,121	562	38,779	133
Total	84,373	10,414	2,139	96,926	309
Total due from credit institutions	1,259	0	0	1,259	0
Total	85,632	10,414	2,139	98,185	309

	Stage 1	Stage 2	Stage 3	Total	Recognised impairment etc. total
2019	DKKm	DKKm	DKKm	DKKm	DKKm
Public authorities	1,871	0	0	1,871	0
Agriculture, hunting and forestry	2,252	791	580	3,623	-59
Fisheries	104	30	8	143	0
Industry and raw materials extraction	3,078	925	143	4,146	6
Energy supply	2,215	100	19	2,334	-7
Building and construction	2,998	587	125	3,710	-7
Trade	4,979	1,296	116	6,391	8
Transport, hotels and restaurants	2,444	604	185	3,233	42
Information and communication	363	73	9	444	3
Financing and insurance	12,422	716	69	13,208	-18
Real estate	8,319	894	354	9,566	13
Other business areas	4,545	693	96	5,334	-10
Total business	45,591	6,709	1,703	54,003	-28
Total retail customers	34,009	2,384	587	36,980	51
Total	79,599	9,093	2,290	90,983	22
Total due from credit institutions	1,588	0	0	1,588	0
Total	81,188	9,093	2,290	92,571	22

Impairment and provisions by stage

	Stage 1	Stage 2	Stage 3	Total
2020	DKKm	DKKm	DKKm	DKKm
Loans and advances at amortised cost	170	543	929	1,643
Due from credit institutions and central banks	1	0	0	1
Guarantees	18	32	7	57
Unutilised credit lines and loan commitments	7	6	4	17
Total	196	580	941	1,717
2019				
Loans and advances at amortised cost	134	258	1,061	1,453
Due from credit institutions and central banks	1	0	0	1
Guarantees	17	5	18	40
Unutilised credit lines and loan commitments	3	3	3	9
Total	155	265	1,083	1,503

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Individually impaired loans at amortised cost and guarantees

	2020	2019
	DKKm	DKKm
Loans, advances and receivables		
Sum total of loans, advances and receivables for which individual impairment has been recognised	1,868	1,999
Individual impairment of loans and advances, receivables	941	1,061
Carrying amount	927	938
Guarantees		
Sum total of guarantees for which individual provisions have been made	139	192
Individual provisions for guarantees	7	18
Carrying amount	132	174

Individually impaired loans at amortised cost and guarantees in stage 3 by cause of impairment

	2020	2020	2019	2019
	Credit exposure before impairment	Impairment	Credit exposure before impairment	Impairment
	DKKm	DKKm	DKKm	DKKm
Insolvent liquidation and bankruptcy	65	44	106	40
Debt collection or restructuring, etc.	94	40	67	34
Other financial difficulty	1,848	856	2,018	1,009
Individual impairment of loans and advances, receivables and guarantees, total	2,007	941	2,191	1,083

Individual impairment at end-2020 of DKK 941 million includes DKK 7 million in provisions for losses on unutilised credit lines and loan commitments.

In 2020, Spar Nord recorded a decline in credit exposure to customers with individual impairment of DKK 184 million.

At end-2020, the credit-impaired claims represented 2.9% of total credit exposure compared with 3.2% in 2019.

The total impairment account rose by DKK 214 million in 2020. Virtually all cases of insolvent liquidation and bankruptcy are attributable to business facilities.

The collateral for individually credit-impaired loans and for overdue loans that have not been individually impaired does not differ significantly from the Bank's other collateral.

Contractually outstanding amounts for financial assets written off during the accounting period and for which collection efforts are still pursued

In the financial year 2020, DKK 167 million was written off (2019: DKK 546 million), of which DKK 140 million (2019: DKK 522 million) is still the object of collection efforts.

5.1.7 Loans at amortised cost and unutilised credit lines and loan commitments

	2020	2019
	DKKm	DKKm
Loans and advances at amortised cost before impairment	53,955	52,764
Unutilised credit lines and loan commitments before impairment	27,323	23,412
Impairment of loans and advances and provisions on unutilised credit lines	1,660	1,462
Total	79,618	74,715

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Loans at amortised cost before impairment, by rating category

The table below shows the credit quality and exposures before impairment based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating categories and impairment model is provided in note 5.1.1.

	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
2020				
Rating category 1	8,092	3	0	8,095
Rating category 2	6,986	281	0	7,267
Rating category 3	5,827	1,574	0	7,402
Rating category 4	5,821	1,798	0	7,619
Rating category 5	1,370	1,176	0	2,546
Rating category 6	311	510	0	821
Rating category 7	59	313	0	372
Rating category 8	37	183	0	221
Rating category 9	1	789	5	795
Default	18	163	1,675	1,855
Unrated	987	3	0	989
Reverse repo transactions	9,819	0	0	9,819
SparXpres	503	27	83	612
Leasing	4,830	606	105	5,541
Total	44,661	7,426	1,868	53,955

	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
2019				
Rating category 1	7,967	17	0	7,985
Rating category 2	7,358	156	0	7,514
Rating category 3	8,180	1,592	0	9,772
Rating category 4	4,453	1,657	0	6,110
Rating category 5	1,014	698	0	1,711
Rating category 6	286	587	1	874
Rating category 7	153	452	0	605
Rating category 8	85	410	0	495
Rating category 9	0	432	8	440
Default	86	465	1,871	2,422
Unrated	1,249	1	0	1,250
Reverse repo transactions	8,155	0	0	8,155
SparXpres	533	38	70	641
Leasing	4,254	487	49	4,790
Total	43,773	6,992	1,999	52,764

Loans at amortised cost before impairment, by stage

	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
2020				
Gross exposure 1 January	43,773	6,992	1,999	52,764
New exposures and extension of existing exposures in the year	23,103	1,585	267	24,954
Repayments and reduction of existing exposures	-20,106	-3,019	-474	-23,599
Change in gross exposure, transfer to/from stage 1	-3,633	3,438	195	-
Change in gross exposure, transfer to/from stage 2	1,460	-1,730	269	-
Change in gross exposure, transfer to/from stage 3	76	173	-248	-
Gross exposure expensed	-13	-12	-140	-164
Gross exposure 31 December	44,661	7,426	1,868	53,955

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	Stage 1	Stage 2	Stage 3	Total
2019	DKKm	DKKm	DKKm	DKKm
Gross exposure 1 January	30,773	12,100	3,245	46,118
New exposures and extension of existing exposures in the year	22,593	1,575	295	24,463
Repayments and reduction of existing exposures	-14,245	-2,686	-343	-17,275
Change in gross exposure, transfer to/from stage 1	-2,518	2,426	92	-
Change in gross exposure, transfer to/from stage 2	6,715	-6,912	197	-
Change in gross exposure, transfer to/from stage 3	472	501	-973	-
Gross exposure expensed	-18	-12	-513	-543
Gross exposure 31 December	43,773	6,992	1,999	52,764

The figures concerning new exposures and extension and repayment and reduction include administrative movements in which the balance is moved between two accounts for the same customer.

Unutilised credit lines and loan commitments before impairment and provisions, by rating category

The rating breakdown of Spar Nord's unutilised credit lines and loan commitments before impairment and provisions generally follow the rating breakdown for loans at amortised cost before impairment shown above.

Unutilised credit lines and loan commitments before impairment and provisions, by stage

	Stage 1	Stage 2	Stage 3	Total
2020	DKKm	DKKm	DKKm	DKKm
Gross exposure 1 January	21,919	1,394	99	23,412
New exposures and extension of existing exposures in the year	9,982	933	63	10,978
Repayments and reduction of existing exposures	-6,133	-862	-72	-7,067
Change in gross exposure, transfer to/from stage 1	-1,283	1,226	56	-
Change in gross exposure, transfer to/from stage 2	545	-558	13	-
Change in gross exposure, transfer to/from stage 3	11	16	-27	-
Gross exposure expensed	0	0	0	0
Gross exposure 31 December	25,042	2,150	131	27,323

	Stage 1	Stage 2	Stage 3	Total
2019	DKKm	DKKm	DKKm	DKKm
Gross exposure 1 January	19,970	2,180	178	22,327
New exposures and extension of existing exposures in the year	7,852	534	39	8,424
Repayments and reduction of existing exposures	-6,430	-818	-90	-7,339
Change in gross exposure, transfer to/from stage 1	-853	839	14	-
Change in gross exposure, transfer to/from stage 2	1,360	-1,384	25	-
Change in gross exposure, transfer to/from stage 3	22	44	-66	-
Gross exposure expensed	0	0	0	0
Gross exposure 31 December	21,919	1,394	99	23,412

The figures concerning new exposures and extension and repayment and reduction include administrative movements in which the balance is moved between two accounts for the same customer.

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Impairment and provisions for losses

Analysis of changes in impairment and provisions for losses during the year broken down by stage and correlated to recognised impairment, etc. A summary of total recognised impairment, etc. is provided in note 5.1.6.

It is not possible to separate movements during the year into impairment and provisions for losses on the exposure categories loans at amortised cost and unutilised credit lines and loan commitments.

	Stage 1	Stage 2	Stage 3	Recognised	
	DKKm	DKKm	DKKm	Total impairment etc.	DKKm
2020					
Impairment at 1 January, loans at amortised cost	134	258	1,061	1,453	-
Provisions at 1 January, unutilised credit lines and loan commitments	3	3	3	9	-
Impairment re. new exposures during the year, including new accounts to existing customers	53	18	31	102	102
Reversed impairment re. repaid accounts	-19	-27	-87	-133	-133
Change in impairment at 1 January, transfer to/from stage 1	82	-45	-37	-	-
Change in impairment at 1 January, transfer to/from stage 2	-16	60	-43	-	-
Change in impairment at 1 January, transfer to/from stage 3	-2	-13	15	-	-
Impairment during the year due to change in credit risk	-56	295	112	350	350
Change in impairment due to model changes and risk parameters, net	0	0	0	0	0
Previously impaired, now finally lost	0	0	-138	-138	-
Other movements (interest rate correction etc.)	0	0	16	16	-
Loss without prior impairment	-	-	-	-	37
Amounts recovered on previously impaired receivables	-	-	-	-	-64
Impairment and provisions for losses at 31 December	177	549	933	1,660	293
Impairment at 31 December, loans at amortised cost	170	543	929	1,643	285
Provisions at 31 December, unutilised credit lines and loan commitments	7	6	4	17	8
Impairment and provisions for losses at 31 December	177	549	933	1,660	293
	Stage 1	Stage 2	Stage 3	Recognised	
	DKKm	DKKm	DKKm	Total impairment etc.	DKKm
2019					
Impairment at 1 January, loans at amortised cost	89	298	1,402	1,789	-
Provisions at 1 January, unutilised credit lines and loan commitments	4	4	69	76	-
Impairment re. new exposures during the year, including new accounts to existing customers	46	51	150	247	247
Reversed impairment re. repaid accounts	-16	-37	-145	-199	-199
Change in impairment at 1 January, transfer to/from stage 1	195	-149	-46	-	-
Change in impairment at 1 January, transfer to/from stage 2	-15	157	-141	-	-
Change in impairment at 1 January, transfer to/from stage 3	-2	-8	10	-	-
Impairment during the year due to change in credit risk	-163	-25	208	19	19
Change in impairment due to model changes and risk parameters, net	0	-30	0	-30	-30
Previously impaired, now finally lost	0	0	-463	-463	-
Other movements (interest rate correction etc.)	0	0	21	21	-
Loss without prior impairment	-	-	-	-	88
Amounts recovered on previously impaired receivables	-	-	-	-	-65
Impairment and provisions for losses at 31 December	137	261	1,064	1,462	61
Impairment at 31 December, loans at amortised cost	134	258	1,061	1,453	128
Provisions at 31 December, unutilised credit lines and loan commitments	3	3	3	9	-67
Impairment and provisions for losses at 31 December	137	261	1,064	1,462	61

The change in impairment charges is related to uncertainty due to COVID-19.

The figures concerning impairment re. new exposures and reversed impairment re. repaid accounts include administrative movements in which the balance is moved between two accounts for the same customer.

Loss without prior impairment expresses Spar Nord's recognised loans for which the loss is greater than impairment at the beginning of the year.

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Management estimates

	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
2020				
Discounting of collateral	0	0	37	37
Land prices	0	0	147	147
Model uncertainty	23	43	0	66
COVID-19	10	284	27	320
Management estimates, total	32	327	211	570

	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
2019				
Discounting of collateral	0	0	52	52
Land prices	0	0	169	169
Model uncertainty	5	77	0	82
COVID-19	0	0	0	0
Management estimates, total	5	77	221	303

In 2020, Spar Nord added a management estimate relating to COVID-19. This estimate represents the largest part of the increase. Discounting of collateral, land prices in the agricultural sector and model uncertainty were at the same level as in 2019.

5.1.8 Due from credit institutions and central banks

	2020	2019
	DKKm	DKKm
Due from credit institutions and central banks before impairment	1,259	1,588
Impairment	1	1
Carrying amount	1,259	1,588

Due from credit institutions and central banks before impairment, by rating category

	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
2020				
Credit institutions	1,198	0	0	1,198
Central banks	61	0	0	61
Total	1,259	0	0	1,259
2019				
Credit institutions	1,588	0	0	1,588
Central banks	0	0	0	0
Total	1,588	0	0	1,588

A breakdown by product type and rating category is shown in note 5.1.10.

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Due from credit institutions and central banks before impairment, by stage

	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
2020				
Gross exposure 1 January	1,588	0	0	1,588
New exposures and extension of existing exposures in the year	770	0	0	770
Repayments and reduction of existing exposures	-1,099	0	0	-1,099
Change in gross exposure, transfer to/from stage 1	0	0	0	-
Change in gross exposure, transfer to/from stage 2	0	0	0	-
Change in gross exposure, transfer to/from stage 3	0	0	0	-
Gross exposure 31 December	1,259	0	0	1,259

	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
2019				
Gross exposure 1 January	1,400	0	0	1,400
New exposures and extension of existing exposures in the year	1,259	0	0	1,259
Repayments and reduction of existing exposures	-1,071	0	0	-1,071
Change in gross exposure, transfer to/from stage 1	0	0	0	-
Change in gross exposure, transfer to/from stage 2	0	0	0	-
Change in gross exposure, transfer to/from stage 3	0	0	0	-
Gross exposure 31 December	1,588	0	0	1,588

The figures concerning new exposures and extension and repayment and reduction include administrative movements in which the balance is moved between two accounts for the same customer.

Impairment

Analysis of changes in impairment for the period broken down by stage and correlated to recognised impairment, etc. A summary of total recognised impairment, etc. is provided in note 5.1.6.

	Stage 1	Stage 2	Stage 3	Total	Recognised im- pairment etc.
	DKKm	DKKm	DKKm	DKKm	DKKm
2020					
Impairment, beginning of year	1	0	0	1	-
Impairment re. new exposures during the year, including new accounts to existing customers	1	0	0	1	1
Reversed impairment re. repaid accounts	0	0	0	0	0
Change in impairment at 1 January, transfer to/from stage 1	0	0	0	-	-
Change in impairment at 1 January, transfer to/from stage 2	0	0	0	-	-
Change in impairment at 1 January, transfer to/from stage 3	0	0	0	-	-
Impairment during the year due to change in credit risk	-1	0	0	-1	-1
Impairment, end of year	1	0	0	1	0

	Stage 1	Stage 2	Stage 3	Total	Recognised im- pairment etc.
	DKKm	DKKm	DKKm	DKKm	DKKm
2019					
Impairment, beginning of year	0	0	0	0	-
Impairment re. new exposures during the year, including new accounts to existing customers	1	0	0	1	1
Reversed impairment re. repaid accounts	0	0	0	0	0
Change in impairment at 1 January, transfer to/from stage 1	0	0	0	-	-
Change in impairment at 1 January, transfer to/from stage 2	0	0	0	-	-
Change in impairment at 1 January, transfer to/from stage 3	0	0	0	-	-
Impairment during the year due to change in credit risk	-1	0	0	-1	-1
Impairment, end of year	1	0	0	1	0

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5.1.9 Guarantees

	2020	2019
	DKKm	DKKm
Guarantees before provisions for losses	15,648	14,807
Provisions for losses	57	40
Carrying amount	15,591	14,766

Guarantees before provisions, by rating category

The table below shows the credit quality and exposures before impairment based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating categories and impairment model is provided in note 5.1.1.

	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
2020				
Rating category 1	6,900	2	0	6,902
Rating category 2	3,365	36	0	3,401
Rating category 3	1,855	218	0	2,073
Rating category 4	1,041	203	0	1,244
Rating category 5	453	103	0	557
Rating category 6	77	48	0	125
Rating category 7	17	17	0	34
Rating category 8	6	12	0	18
Rating category 9	1	135	0	135
Default	15	64	139	218
Unrated	940	0	0	940
Total	14,671	838	139	15,648

	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
2019				
Rating category 1	5,825	1	0	5,826
Rating category 2	2,943	44	0	2,987
Rating category 3	1,824	172	0	1,996
Rating category 4	1,031	151	0	1,182
Rating category 5	208	70	0	279
Rating category 6	117	65	0	182
Rating category 7	31	18	0	49
Rating category 8	33	52	0	85
Rating category 9	0	32	0	32
Default	45	102	192	340
Unrated	1,850	0	0	1,850
Total	13,907	707	192	14,807

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Guarantees, by stage

	Stage 1	Stage 2	Stage 3	Total
2020	DKKm	DKKm	DKKm	DKKm
Gross exposure 1 January	13,907	707	192	14,807
New exposures during the year	9,258	323	29	9,610
Reversed re. repaid exposures	-8,326	-366	-76	-8,769
Change in gross exposure, transfer to/from stage 1	-292	276	16	-
Change in gross exposure, transfer to/from stage 2	110	-125	15	-
Change in gross exposure, transfer to/from stage 3	13	24	-38	-
Gross exposure 31 December	14,671	838	139	15,648
	Stage 1	Stage 2	Stage 3	Total
2019	DKKm	DKKm	DKKm	DKKm
Gross exposure 1 January	11,028	772	373	12,172
New exposures during the year	9,329	276	58	9,663
Reversed re. repaid exposures	-6,414	-458	-157	-7,028
Change in gross exposure, transfer to/from stage 1	-271	246	24	-
Change in gross exposure, transfer to/from stage 2	190	-200	10	-
Change in gross exposure, transfer to/from stage 3	45	71	-116	-
Gross exposure 31 December	13,907	707	192	14,807

Provisions for losses

Analysis of changes in provisions for losses during the period broken down by stage and correlated to recognised impairment, etc. A summary of total recognised impairment, etc. is provided in note 5.1.6.

	Stage 1	Stage 2	Stage 3	Total	Recognised impairment etc.
2020	DKKm	DKKm	DKKm	DKKm	DKKm
Provisions for losses at 1 January	17	5	18	40	-
Provisions for losses re. new exposures during the year	20	1	4	24	24
Reversed provisions for losses re. repaid exposures	-14	-6	-10	-29	-29
Change in provisions for losses at 1 January, transfer to/from stage 1	1	-1	0	-	-
Change in provisions for losses at 1 January, transfer to/from stage 2	-1	4	-3	-	-
Change in provisions for losses at 1 January, transfer to/from stage 3	0	0	0	-	-
Provisions for losses during the year due to change in credit risk	-5	29	-3	21	21
Provisions for losses at 31 December	18	32	7	57	17
	Stage 1	Stage 2	Stage 3	Total	Recognised impairment etc.
2019	DKKm	DKKm	DKKm	DKKm	DKKm
Provisions for losses at 1 January	14	6	60	80	-
Provisions for losses re. new exposures during the year	20	0	6	26	26
Reversed provisions for losses re. repaid exposures	-13	-5	-52	-69	-69
Change in provisions for losses at 1 January, transfer to/from stage 1	4	-2	-2	-	-
Change in provisions for losses at 1 January, transfer to/from stage 2	-1	2	-1	-	-
Change in provisions for losses at 1 January, transfer to/from stage 3	0	0	0	-	-
Provisions for losses during the year due to change in credit risk	-7	3	7	3	3
Provisions for losses at 31 December	17	5	18	40	-39

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5.1.10 Financial credit risk

As part of its trading in and holding of securities, foreign currency and derivative instruments and its payment services, etc., the Bank will experience credit risk exposure to financial counterparties.

Spar Nord's Management allocates lines for credit risk exposure to financial counterparties, based on the specific counterparty's risk profile, rating, amount of exposure and solvency. The risks and lines of financial instruments are monitored constantly.

Total financial credit risk

	2020	2019	2020	2019
	Carrying amount	Carrying amount	Risk portfolio	Risk portfolio
	DKKm	DKKm	DKKm	DKKm
AAA	19,683	14,516	18,975	14,004
AA	725	601	725	601
A	1,813	2,057	1,812	2,057
BBB	497	759	497	759
BB	110	81	110	81
B	17	7	17	7
CCC	2	0	2	0
Not rated	253	266	209	266
Total	23,099	18,286	22,347	17,774

Overall, Management's assessment is that Spar Nord's credit risk exposure to financial counterparties remains at a moderate level, as 96.3% (2019: 93.7%) of the financial credit risk is attributable to counterparties with a rating of A or higher.

Bond portfolio

The Group's bond portfolio at fair value through profit or loss is the most significant source of financial credit risk.

	2020	2019	2020	2019
	Carrying amount	Carrying amount	Risk portfolio	Risk portfolio
	DKKm	DKKm	DKKm	DKKm
Bond portfolio by issuer type				
Mortgage-credit institutions	19,639	14,420	19,041	14,026
Financial issuers	986	1,077	986	1,077
Credit bonds	335	277	335	277
Government bonds	686	723	532	604
Total	21,647	16,498	20,895	15,985

Bond portfolio by rating

AAA	19,279	13,592	18,571	13,080
AA	546	425	546	425
A	1,059	1,551	1,059	1,551
BBB	394	590	394	590
BB	110	80	110	80
B	17	6	17	6
CCC	2	0	2	0
Not rated	240	254	196	254
Total	21,647	16,498	20,895	15,985

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Due from credit institutions

The other major source of financial credit risk is amounts due from credit institutions and central banks. In this area, Spar Nord's exposure is typically to central banks with a triple A rating or Danish banks with which the Bank's Trading Division has a customer relationship.

	2020	2019	2020	2019
	Carrying amount	Carrying amount	Risk portfolio	Risk portfolio
Due from credit institutions by product type	DKK m	DKK m	DKK m	DKK m
Certificates of deposit	61	0	61	0
Reverse repo transactions	343	924	343	924
Current accounts	263	279	263	279
CSA accounts, etc.	592	384	592	384
Total	1,259	1,588	1,259	1,588
Positive fair value of derivative instruments, financial enterprises	194	201	194	201
Total	1,452	1,789	1,452	1,789

Due from credit institutions by rating

AAA	404	924	404	924
AA	179	177	179	177
A	754	505	754	505
BBB	103	169	103	169
BB	0	1	0	1
B	0	0	0	0
Not rated	13	12	13	12
Total	1,452	1,789	1,452	1,789

92.0% (2019: 89.8%) of Spar Nord's amounts due from credit institutions concerns institutions with an A rating or higher. Of the total amounts due from credit institutions of DKK 1.5 billion (2019: DKK 1.8 billion), 27.8% (2019: 51.7%) is attributable to institutions with an AAA rating.

Balances with unrated credit institutions are attributable primarily to Danish credit institutions.

A breakdown by stage and rating category is shown in note 5.1.8.

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5.2 Market risk

Market risk is an umbrella heading for the risk of loss caused by changes in the value of a portfolio of financial instruments due to fluctuations in exchange rates or prices in financial markets.

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

In 2020, Spar Nord made no major changes in assumptions, objectives, policies, exposures and calculation methods, etc. as compared to the year before.

Spar Nord's interest rate risk, foreign exchange risk and equity risk are described below.

Market risk policy

The market risk policy determines Spar Nord's overall risk profile for market risk, as well as the overall organisational delegation of responsibilities in the market risk area with a view to profitably supporting Spar Nord's business model.

The policy identifies and sets limits for the various types of market risk, setting out specific limits for how much risk the Bank is prepared to assume. Market risks are:

- Interest rate risk in the trading book and the banking book.
- Credit spread risk on the bond portfolio.
- Equity risk in the trading book and the banking book.
- Foreign exchange risk.
- Option risk.
- Commodity risk

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 the Trading Division being the distinctly largest entity. At the third and last tier, the executives of the Trading 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:

- Regular 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.

The Bank has been working to replace the data platform in the market risk area for some time. The project started on the administrative side, but in 2021 the Bank is expected to implement the final element of the project and replace the risk system used for risk and position management. At the end of 2021, the Bank is thus expected to use the same system for the management of market risk – a so-called front-to-back solution. Similarly, the Bank is working to simplify its systems by phasing out its own valuation and risk management models.

5.2.1 Interest rate risk

The interest rate risk is the risk of loss due to interest rate fluctuations. Most of Spar Nord's interest rate risks in the banking book derives 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.

The interest rate risk both within the trading book 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.

Interest-rate risk shown by duration and currency (DKKm)

	Less than 3 months	3 months – 1 years	1 – 3 years	3 – 7 years	More than 7 years	Total
2020						
DKK	15	28	45	3	14	105
EUR	1	-2	-1	26	-15	8
Other	2	0	0	0	0	3
Total	18	25	44	29	0	116
2019						
DKK	-6	19	23	12	11	60
EUR	3	-10	-5	0	-4	-15
Other	2	1	4	0	0	7
Total	-1	11	23	12	7	52

Shown above is the interest rate risk relative to duration and exchange rates. This shows the risk of changes for a given time interval on the yield curve. The table shows the interest rate risk broken down on the individual time intervals, given a 1 percentage point drop in interest rates.

At end-2020, Spar Nord is exposed to a fall in DKK interest rates and to a minor extent EUR interest rates (2019: falling DKK interest rates and rising EUR interest rates). The interest rate risk amounted to DKK 116 million, which is a DKK 64 million increase of the positive net interest rate risk compared with end-2019.

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5.2.2 Foreign exchange risk

Foreign exchange risk is the risk of loss on positions in foreign currency due to exchange rate fluctuations. Currency options are included in the calculation at the Delta-adjusted position.

The foreign exchange risk is illustrated by the table below. The calculation is based on the assumption that all exchange rates develop unfavourably for Spar Nord by 2%.

Currency	Foreign exchange position		Foreign exchange risk	
	2020	2019	2020	2019
	DKKm	DKKm	DKKm	DKKm
EUR	51	53	1.0	1.1
SEK	0	1	0.0	0.0
USD	1	3	0.0	0.1
GBP	1	1	0.0	0.0
CHF	1	0	0.0	0.0
NOK	0	6	0.0	0.1
JPY	4	0	0.1	0.0
Other currencies	6	1	0.1	0.0
Foreign-exchange risk regarding financial instruments, etc., total	64	64	1.3	1.3

The table shows an unchanged foreign exchange risk with minor shifts between the various currencies. Foreign exchange risk generally remains at a low level.

5.2.3 Equity risk

Equity risk is the risk of losses caused by changes in equity prices. Equity positions are the calculated net value of long and short equity positions and equity-related instruments.

The calculation of equity positions is broken down by positions in the banking book and in the trading book.

Equity risk in the trading book	2020	2019
	DKKm	DKKm
Listed shares in the trading book	134	106
Unlisted shares in the trading book	10	26
Total shares in the trading book	144	132
Shares in the trading book are held for trading purposes.		
Equity risk in the banking book		
Shares in credit and financing institutions	1,274	1,245
Shares in unit trust management companies	214	193
Shares in pension institutions	2	2
Shares in data supplier	0	0
Shares in payment services business	7	8
Other equities	57	67
Total shares in strategic business partners	1,554	1,514
Realised gain	12	21
Unrealised gain	83	69
Total associates	529	470
Other shares in the banking book	91	93
Total shares not forming part of the trading book	2,174	2,078

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

Spar Nord's most significant equity investment recognised in associates at end-2020 was Danske Andelskassers Bank A/S (2019: Danske Andelskassers Bank A/S).

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Shares in strategic partners in the financial sector are shares in companies whose purpose is to support financial institutions' business 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 also recognised in the income statement.



5.2.4 Sensitivity analysis

The sensitivity information shows how Spar Nord's income statement will be impacted if interest rates change, if share prices fall or if all exchange rates develop unfavourably.

	Impact on operating profit		Impact on equity	
	2020	2019	2020	2019
	DKKm	DKKm	%	%
Interest rate increase of 1%-point	-85	-32	-0.9	-0.4
Interest rate decrease of 1%-point	85	32	0.9	0.4
Share price decrease of 10% in the trading book	-11	-10	-0.1	-0.1
A fair value decrease of 10% for shares in the banking book	-206	-197	-2.1	-2.2
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 the banking book and the trading book. The impact on the operating profit and the impact on equity are calculated after tax.

It appears from the table that the impact of an interest rate increase will be a loss equal to 0.9% of shareholders' equity. Furthermore, the effect of a 10% decline in the value of the share portfolio both in the banking and the trading book will be a loss equal to 2.2% of shareholders' equity.

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5.3 Liquidity risk

In 2020, Spar Nord made no major changes in calculation methods, policies and exposures etc. as compared to the year before.

Spar Nord Bank is generally exposed to liquidity risks when lending, investment and funding activities result in a cash flow mismatch.

Liquidity risk means that Spar Nord cannot meet its payment obligations while also meeting the statutory liquidity requirements. Moreover, a liquidity risk exists if the lack of financing/funding prevents Spar Nord from adhering to the adopted business model, or if Spar Nord's costs for procurement of liquidity rise disproportionately.

Liquidity policy

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

The aim of the liquidity policy is to ensure that Spar Nord has a liquidity risk that at all times bears a natural relation to Spar Nord's overall risk profile. In addition, the liquidity policy is intended to ensure that Spar Nord continuously handles and manages its liquidity appropriately and is capable of meeting its payment obligations as and when due while complying with applicable legislation and supporting future activities and growth. Lastly, the policy is intended to ensure a financing structure that ensures a correlation between risk and price.

Spar Nord's objective is for the Liquidity Coverage Ratio (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 benchmark threshold values in the Supervisory Diamond.

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 the liquidity function in the Trading Division, which is responsible for managing Spar Nord's short-term liquidity. Funding in 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.

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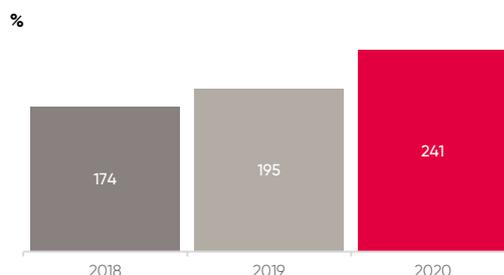
5.3.1 Short-term Liquidity

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-2020, LCR was calculated at 241% (2019: 195%), which is significantly above Spar Nord's target LCR of at least 125% (2019: 125%). The excess coverage of 116 percentage points (2019: 70) corresponds to excess liquidity of DKK 11.5 billion (2019: DKK 6.8 billion). Calculated relative to the statutory requirement of 100%, the excess liquidity amounted to DKK 14.0 billion.

The liquidity reserve according to LCR basically consists of central bank reserves and government debt (Level 1A assets) and mortgage bonds offering particularly high liquidity and very high credit quality (Level 1B assets).

Liquidity Coverage Ratio (LCR)



Liquidity Coverage Ratio

DKKm	2020	2019
Liquidity resources	23,844	18,928
Liquidity Coverage Requirement	9,876	9,717
LCR (%)	241	195

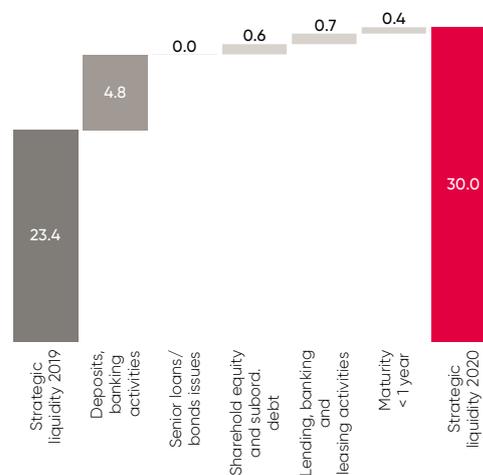
5.3.2 Long-term liquidity

Spar Nord calculates its strategic liquidity as deposits excl. repo transactions, senior loans, issued bonds, subordinated debt and equity less lending excl. reverse repo transactions. On the other hand, subordinated debt, additional tier 1 capital, senior loans and issued bonds due within 12 months are not included in the calculation of strategic liquidity.

At end-2020, Spar Nord had strategic liquidity of DKK 30.0 billion. This level reflects strengthened liquidity of DKK 6.6 billion relative to end-2019, when strategic liquidity was calculated at DKK 23.4 billion.

Compared with 2019, Spar Nord increased its deposits by DKK 4.8 billion, while loans and advances fell by DKK 0.6 billion in the same period. Finally, a positive consolidation for the period also contributes to an overall improvement in strategic liquidity.

Development in Strategic liquidity (DKKbn)



	2020	2019
	DKKm	DKKm
Deposits, banking activities	58,084	53,279
Senior loans and issued bonds	2,670	2,637
Subordinated debt	1,333	1,322
Equity	10,390	9,761
Liquidity procurement	72,476	66,999
Lending, banking and leasing activities	42,494	43,157
Senior loans, issued bonds, subordinated debt and additional tier 1 capital with a term to maturity of less than 12 months	0	400
Strategic liquidity	29,982	23,442

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5.3.3 Stress test

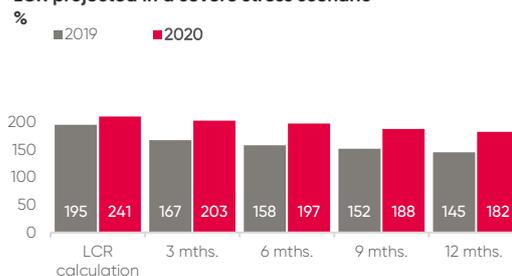
In accordance with the Executive Order on Management and Control of Banks etc., Spar Nord prepares internal liquidity stress tests based on LCR. The stress tests span a 12-month period and are calculated using three permanently defined scenarios: a business-specific, a market-specific and a mixed scenario. All scenarios are calculated without any management intervention. The stress tests prepared have lived up to Spar Nord's internal targets throughout the period.

Subsequently, the result of the liquidity projection in a severe stress scenario is shown, 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-2020, the projection shows that Spar Nord's liquidity resources will be reduced by DKK 7.7 billion over the 12-month projection period, but also that in a severe stress scenario Spar Nord complies with the LCR statutory requirement in the full 12-month projection period.

Run-off of liquidity resources in a severe stress scenario	Liquidity resources		Accumulated run-off	
	2020	2019	2020	2019
DKKm / %				
Calculation period	23,844	18,928		
3 months	19,407	14,880	-19	-21
6 months	18,441	13,642	-23	-28
9 months	17,046	12,748	-29	-33
12 months	16,111	11,914	-32	-37

LCR projected in a severe stress scenario

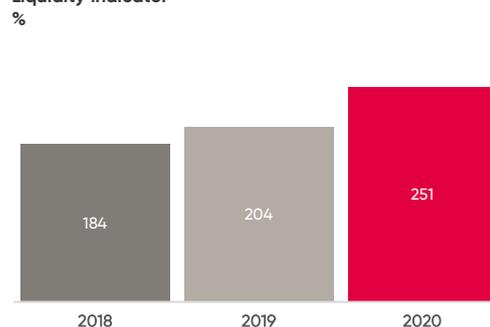


5.3.4 Liquidity benchmark

The liquidity indicator of the Danish FSA is based on a projected version of LCR using an adjusted calculation of liquidity in the numerator, while the time horizon for the denominator is extended to cover the period up to 3 months inclusive.

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

Liquidity indicator



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5.3.5 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, including Senior Non-Preferred
- Subordinated debt and equity

From an overall perspective, the Bank's funding at end-2020 increased by DKK 5.9 billion to DKK 77.0 billion compared with end-2019. The principal change in Spar Nord's funding is a DKK 5.1 billion increase in deposits (incl. repo), which was primarily driven by deposits on demand. Deposits remain Spar Nord's largest source of funding, and at end-2020 it represented 75.9% of Spar Nord's total funding.

At end-2020 Spar Nord's total long-term funding (deposits on demand and funding with a term to maturity of more than 12 months) amounts to 91.8%, which is on a level with year-end 2019.

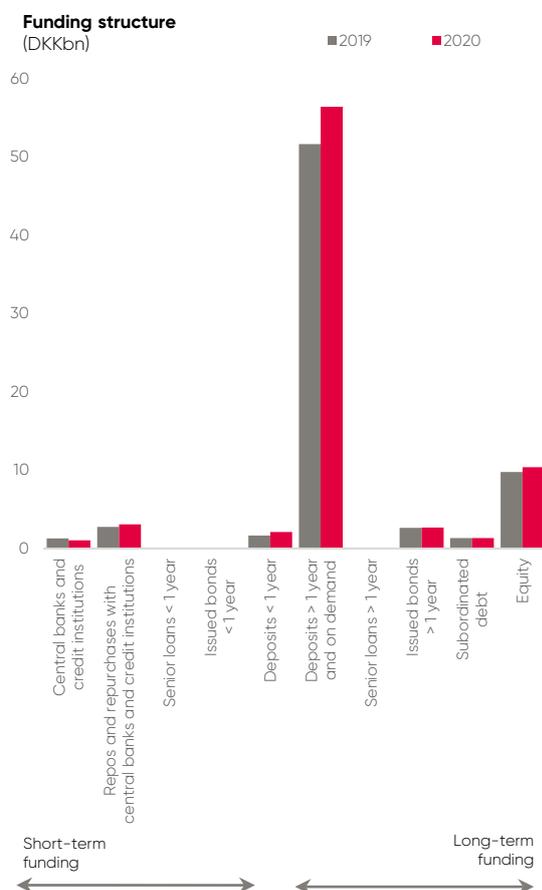
Funding structure

DKKm/%	2020	2019	2020	2019
Central banks and credit institutions	1,065	1,298	1.4	1.8
Repos and repurchases with central banks and credit institutions	3,102	2,764	4.0	3.9
Senior loans < 1 year	0	0	0.0	0.0
Issued bonds < 1 year	0	0	0.0	0.0
Deposits < 1 year	2,121	1,661	2.8	2.3
Deposits > 1 year and on demand	56,295	51,618	73.1	72.6
Senior loans > 1 year	0	0	0.0	0.0
Issued bonds > 1 year	2,670	2,637	3.5	3.7
Subordinated debt	1,333	1,322	1.7	1.9
Equity	10,390	9,761	13.5	13.7
Total	76,976	71,061	100.0	100.0

5.3.6 Contingency liquidity plan

Spar Nord has prepared a liquidity contingency plan pursuant to the Danish Executive Order on Management and Control of Banks. This plan contains a catalogue of possible courses of action for strengthening Spar Nord's liquidity in a critical situation. The catalogue contains a more detailed description of the expected impact and time span of the individual actions.

The liquidity contingency plan is applied if Spar Nord can only meet the predetermined liquidity instructions with difficulty and with resulting sharply increased funding costs.



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5.3.7 Balance sheet breakdown less/more than 1 year

Breakdown of balance sheet items expected to be recovered or repaid after more than or within 12 months

	2020		2019	
	< 1 year	> 1 year	< 1 year	> 1 year
	DKKm	DKKm	DKKm	DKKm
Assets				
Cash balances and demand deposits with central banks	1,126	0	1,152	0
Due from credit institutions and central banks	1,259	0	1,588	0
Loans, advances and other receivables at amortised cost	29,777	22,535	29,818	21,494
Bonds at fair value	912	20,735	574	15,924
Shares, etc.	217	1,572	187	1,552
Investments in associates	0	529	0	470
Assets linked to pooled schemes	2,483	17,981	2,079	15,244
Intangible assets	6	165	6	167
Land and buildings	37	744	39	749
Other property, plant and equipment	36	76	37	76
Current tax assets	98	0	54	0
Temporary assets	5	0	11	0
Other assets	704	970	563	1,217
Prepayments and deferred income	109	0	111	0
Total	36,769	65,308	36,219	56,894
Liabilities				
Due to credit institutions and central banks	4,167	0	4,062	0
Deposits and other payables	55,753	2,664	50,170	3,109
Deposits in pooled schemes	2,483	17,981	2,079	15,244
Issued bonds at amortised cost	2	2,668	1	2,636
Other non-derivative financial liabilities at fair value	835	0	960	0
Other liabilities	3,047	630	2,923	741
Prepayments and deferred income	28	0	30	0
Deferred tax	16	3	3	17
Provisions	48	30	17	37
Subordinated debt	0	1,333	0	1,322
Total	66,379	25,309	60,247	23,105

Deposits comprise fixed-term deposits and demand deposits, etc. Fixed-term deposits are recognised at the maturity date. Contractually, demand deposits have ultra-short maturity and are therefore shown above with a term to maturity of less than 12 months.

Bonds are broken down by duration.

Section 5

Risk management

5.3.8 Contractual term to maturity of financial liabilities

2020	Carrying amount	Contractual cash flows	Within 1 year	1– 5 years	Over 5 years
	DKKm	DKKm	DKKm	DKKm	DKKm
Non-derivative instruments					
Due to credit institutions and central banks	4,167	4,167	4,167	0	0
Deposits and other payables	58,416	58,322	55,752	540	2,029
Deposits in pooled schemes	20,464	20,464	2,483	4,587	13,394
Issued bonds at amortised cost	2,670	2,745	23	2,723	0
Other non-derivative instruments	835	835	835	0	0
Other non-derivative instruments	137	141	25	92	24
Other liabilities, excl. derivatives and lease liabilities	2,796	2,793	2,703	89	0
Subordinated debt	1,333	1,426	33	1,392	0
Guarantees	15,591	15,591	6,239	4,002	5,350
Derivatives					
Fair value of derivatives	743	672	315	79	277
Total	107,154	107,156	72,576	13,505	21,075
2019					
Non-derivative instruments					
Due to credit institutions and central banks	4,062	4,062	4,062	0	0
Deposits and other payables	53,279	53,296	50,170	562	2,564
Deposits in pooled schemes	17,323	17,323	2,079	3,975	11,270
Issued bonds at amortised cost	2,637	2,731	22	2,709	0
Other non-derivative instruments	960	960	960	0	0
Lease liabilities	132	135	24	84	27
Other liabilities, excl. derivatives and lease liabilities	2,977	2,974	2,891	83	0
Subordinated debt	1,322	1,440	34	1,406	0
Guarantees	14,766	14,766	5,321	4,686	4,759
Derivatives					
Fair value of derivatives	555	479	61	133	285
Total	98,014	98,167	65,624	13,638	18,905

The maturity analysis shows the contractual, undiscounted cash flows and comprises agreed payments, including principal and interest.

For liabilities with variable cash flow, such as floating-rate financial liabilities, the information is based on the conditions existing at the balance sheet date.

Subordinated debt is deemed to fall due at the time when the Spar Nord Group may choose between redeeming the debt or paying an increased interest rate/increased redemption price. If Spar Nord instead chooses to extend the loans, interest of DKK 33 million (2019: DKK 34 million) falls due for payment within 1 year, DKK 134 million (2019: DKK 134 million) within 1–5 years, and DKK 1,431 million including repayments of DKK 1,344 million (2019: DKK 1,445 million including repayments of DKK 1,325 million) after 5 years.

Issued bonds are deemed to fall due at the time when the Spar Nord Group may choose between redeeming the debt or paying a different interest rate. If Spar Nord instead chooses to extend the loans, interest of DKK 23 million (2019: DKK 22 million) falls due for payment within 1 year, DKK 2,745 million including repayments of DKK 2,675 million (2019: DKK 970 million including repayments of DKK 895 million) within 1–5 years, and DKK 0 million including repayments of DKK 0 million (2019: DKK 1,760 million including repayments of DKK 1,750 million) after 5 years.

As regards deposits in pension pools, only the customers' deposits in the pension pools are allocated, as future yields for pension pool participants depend on the return on pooled assets. The dates when the obligations fall due are correlated to the assets in the pension pools.

Payments regarding irrevocable credit commitments and guarantees fall due if a number of predetermined conditions have been met. Such payment obligations have been recognised at the time when the agreements expire.

Under the agreements made, customers can usually demand repayment of their deposits at short notice. However, in practice they are considered a stable funding source, as amounts disbursed largely equal deposits received.

The above-mentioned breakdown by term to maturity is based on the earliest date when a demand for payment can be made.

Risk management

5.4 Operational risk

Operational risk is the risk of loss resulting from inefficient or deficient internal procedures, from human or systemic errors or from external events, including legal risks.

Operational risk also comprises model risk, which is the risk of loss resulting from decisions primarily based on results of internal models. Operational risk arises due to errors in the development, execution or use of such models.

Operational risk policy

Spar Nord's Board of Directors defines the Group's operational risk policy. This includes determining risk tolerance in the area.

The purpose of the Bank's operational risk policy is to promote an open culture among its employees and thereby increase awareness of operational risk. The policy also describes how to ensure that the Board of Directors and the Executive Board are kept informed about significant risk areas.

Operational risks are assessed on the basis of the probability of the risk materialising in the form of an operational event, and the consequences this might entail. In the policy, operational risk tolerance has been determined as being low compared with the other types of risk the Bank is exposed to.

Addressing operational risks

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, with due consideration to continuing sound banking operations.

Operational risk is managed across Spar Nord through a comprehensive system of business procedures and control measures developed to ensure an adequate control environment.

Follow-up and reporting with respect to operational risk is anchored with the risk management function, while responsibility for addressing risks lies with the first line of defence in the unit responsible for the relevant business activity. This helps ensure a clear segregation of controlling and operational functions.

In addition to identifying operational risk, all operational events resulting in a loss of more than DKK 10,000 are systematically recorded, categorised and reported. The Bank also registers operational events resulting in a gain and events that could potentially have resulted in a loss/gain, but did not do so (near-miss events). To enhance awareness and promote an open culture in the organisation, awareness activities are regularly undertaken aimed at operational risk management.

Reporting operational risks

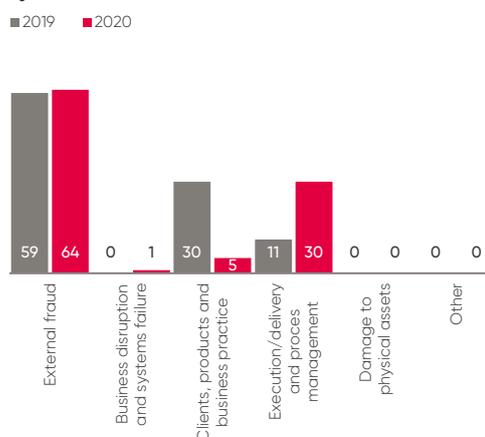
Reporting to the Board of Directors, Executive Board and risk owners is done on a quarterly basis. The risk owners are informed about the loss events during the period under review and about changes to the risk patterns of the area. The Board of Directors and Executive Board receive a summary of significant changes to the risk patterns and a statement of total loss events.

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

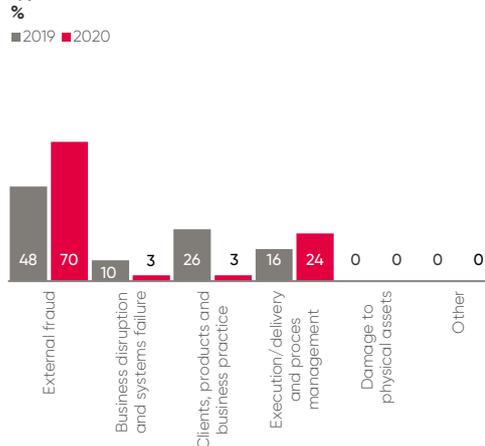
The figures below illustrate the percentage distribution on risk types measured by number of events and loss amounts, respectively.

As shown in the figures, most of the loss events relate to external fraud, including payment card abuse and online banking fraud. The rest of the loss events relate to traditional banking operations.

No. of operational loss events broken down by risk type %



Operational loss amounts broken down by risk type %



Section 5

Risk management

5.4.1 IT security

As Spar Nord is a digital business, data and IT systems security are paramount to its credibility and existence and involve the Bank managing a number of business-critical IT risks.

Spar Nord's central IT security function teams up with the business and IT to ensure that the threat picture is kept up to date, that IT risks are identified and analysed and that these risks are adequately mitigated through appropriate controls and risk-mitigating measures. The end-goal of the IT security function is thus for the current risk level to reflect the risk tolerance for IT security accepted by the Board of Directors.

The IT security function is responsible for ensuring compliance with the adopted IT security risk tolerance, as defined in the IT security policy, and for Spar Nord's IT contingency plan. The Bank's IT security efforts also include the preparation of contingency plans and recovery procedures and the periodic testing of such measures. The aim is to ensure continued operation of the Bank at a satisfactory level in the case of extraordinary events. The IT security function is also 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 IT security function, Executive Board and Board of Directors regularly review the Bank's IT security. The IT risk patterns are regularly addressed in the IT security committee which has representatives with decision-making powers that enable the committee to handle the Bank's IT risks.

In order to protect Spar Nord against the growing threat in the area of cyber security, the IT security function has regularly carried out awareness activities for employees. The function has also participated in sector-specific collaborative initiatives to build internal knowledge about information security.

5.4.2 Compliance risk

Operational risk includes compliance risks identified via the compliance function.

The compliance function is an independent function which serves to assess, check and report on the Bank's compliance with applicable legislation, practice and market standards. 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 2020, the function focused on areas such as compliance with anti-money laundering (AML) measures, governance rules, payment services, liquidity, capital, product approval the Market Abuse Regulation and MiFID II.

The compliance function is anchored in the Legal Department and reports directly to the Executive Board and Board of Directors.

5.4.3 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 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. The AML function supports the Bank's business development in connection with ongoing implementation of the rules. In addition, the AML function carries out regular controls to ensure compliance.

In 2020, the AML function continued to focus on enhancing and optimising existing processes and systems. The Bank has opted to centralise parts of its anti-money laundering procedures, as a result of which new staff was onboarded in the AML function.

The Bank continues to record an increase in filings with the State Prosecutor for Serious Economic and International Crime (SØIK), which is a trend witnessed in the rest of the Danish financial sector. In 2020, Spar Nord had 2,048 filings with SØIK as compared with 1,750 cases in 2019.

The AML function is anchored in the Legal Department and reports directly to the Executive Board and Board of Directors.

5.4.4 GDPR

2020 was characterised by a focus on systems compliance along with controls in the data protection area to reduce operational risk.

As with the rest of the Bank's compliance function, the Bank's data protection adviser applies a risk-based approach to identify areas for review.

In 2020, the adviser focused on areas such as compliance with security of processing requirements and the actual handling of confidential information and material – both on and off the Bank's premises.

The data protection adviser function is anchored in the Legal Department and reports directly to the Executive Board and Board of Directors.

5.4.5 Risk Exposure Amount

In 2020, the operational risk amounted to 10.2% (2019: 9.9% of the total risk exposure amount, ending at DKK 5,594 million at end-2020 (2019: DKK 5,555 million).

5.4.6 Products and services

Risks associated with the implementation of new products and services are identified and assessed according to internal procedures prior to final approval by the Executive Board and/or Board of Directors.

Risk analyses and statements by selected consultation partners, including statements from the Bank's Finance Department, Legal Department and the Chief Risk Officer, help ensure comprehensive insight into the risks faced by the Bank and its customers. As prescribed by law, the Chief Risk Officer may require that a change to an existing product be treated as a new product.

The approval procedures are described in the Bank's product policies for financial products and other bank products, respectively. The policies are reviewed annually by the Risk Committee, which recommends the policies for final approval by the Board of Directors.

Products which have been subjected to the internal approval procedures are regularly monitored and revisited at least every other year. If it turns out that a previous analysis of the Bank's and customers' risks is no longer accurate, the product will again be subjected to the internal approval procedure with a view to ensuring an accurate description of the Bank's and the customers' risks.

As part of the Bank's policy for financial products, a distribution strategy has been defined with the overall purpose of ensuring that the Bank distributes the right products to the right customers.

Section 6

Other notes

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Section 6

Other notes

6.1 Transfer of financial assets

Spar Nord has transferred the following financial assets, which are still recognised in the balance sheet.

	2020	2019
	DKKm	DKKm
Carrying amount of transferred financial assets		
Bonds in repo transactions	1,315	2,766
Carrying amount of related financial liabilities		
Due to credit institutions, repo transactions	985	2,764
Deposits and other payables, repo transactions	333	0
Interest payable	0	1
Total	1,317	2,763
Net position	2	-3

Spar Nord has entered into agreements regarding the sale of securities as genuine sale and repo transactions. When it lends or sells securities subject to a repurchase agreement, Spar Nord receives cash or other financial assets upon the transfer of the securities to the counterparty. The counterparty is entitled to sell or repledge the securities lent or sold according to the repurchase agreements, but the counterparty is obliged to return the securities upon expiry of the contract. If the value of the securities increases or decreases, Spar Nord may make or receive a demand for payment of additional cash collateral in specific circumstances.

Spar Nord has decided that it will essentially retain all the risks and benefits attaching to these securities, and therefore it has not ceased recognising them. In addition, Spar Nord recognises a financial liability for the cash received as collateral.

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

6.2 Collateral accepted

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

	2020	2019
	DKKm	DKKm
Reverse repo transactions		
Collateral accepted that can be repledged or sold	10,474	9,220
Of which, repledged or sold	847	1,851
Agreements regarding securities lending		
Collateral accepted that can be repledged or sold	0	9
Of which, repledged or sold	0	5

6.3 Collateral provided and encumbered assets

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

	2020	2019
	DKKm	DKKm
Deposits, clearing	173	178
Collateral provided for the market value of derivatives transactions	574	345
Positive market value of derivative contracts subject to netting	196	180
Collateral provided as part of repo transactions	1,315	2,766
Collateral provided for monetary policy loans	2,385	0
Total	4,643	3,470

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

Assets placed in unutilised facilities and which can be freely withdrawn are not considered to be encumbered. Securities sold as part of sale and repurchase agreements (repo transactions) remain in the balance sheet. The counterparty is entitled to sell the securities or deposit them as collateral for other loans. Assets deposited as collateral for own liabilities towards Danmarks Nationalbank (the central bank), Danish and foreign clearing centres and banks with which the Bank has concluded CSA agreements are all based on standard agreements customarily used by financial market participants.

Section 6

Other notes

6.4 Offsetting financial assets and financial liabilities

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

Related amounts not offset in the balance sheet

	Recognised gross DKKkm	Offset DKKkm	Lease amount recognised in the balance sheet DKKkm	Financial col- lateral DKKkm	Cash collateral DKKkm	Net amount DKKkm
2020						
Financial assets						
Derivatives	861	84	777	196	13	568
Reverse repo transactions	10,161	0	10,161	10,474	-	-312
Total	11,022	84	10,938	10,669	13	256
Financial liabilities						
Derivatives	1,002	258	743	196	574	-26
Repo transactions	1,317	0	1,317	1,315	-	2
Total	2,319	258	2,061	1,511	574	-24
2019						
Financial assets						
Derivatives	898	70	828	180	34	614
Reverse repo transactions	9,079	0	9,079	9,220	-	-141
Total	9,978	70	9,908	9,400	34	474
Financial liabilities						
Derivatives	833	278	555	180	336	39
Repo transactions	2,764	0	2,764	2,764	-	0
Total	3,598	278	3,320	2,945	336	39

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

Repo transactions and reverse repo transactions are recognised in the balance sheet on a gross basis; see notes 6.1 and 6.2.

Section 6

Other notes

6.5 Hedge accounting



Accounting policies

Spar Nord uses derivative financial instruments to hedge the interest rate risk on fixed-rate assets and liabilities (fair value hedge) measured at amortised cost. Such hedging derivatives are measured at fair value through profit or loss.

When the hedge accounting criteria are fulfilled, the carrying amount of the hedged assets and liabilities is adjusted for changes in fair value regarding the hedged risks (fair value hedge). If the hedge criteria cease to be met, the accumulated value adjustments of the hedged items are amortised over the term to maturity.

2020	Carrying amount	Fair value	Nominal value
	DKKkm	DKKkm	DKKkm
Liabilities			
Issued bonds at amortised cost	400	400	400
Interest risk-hedging financial instruments			
Derivatives (swap contracts)	0	0	400
	Within 1 year	1- 5 years	Over 5 years
	DKKkm	DKKkm	DKKkm
Shown by term to maturity			
Nominal value of issued bonds at amortised cost	0	400	0
Interest risk-hedging financial instruments, derivatives (synthetic principal)	0	400	0
2019			
	Carrying amount	Fair value	Nominal value
	DKKkm	DKKkm	DKKkm
Liabilities			
Issued bonds at amortised cost	397	397	400
Interest risk-hedging financial instruments			
Derivatives (swap contracts)	-3	-3	400
	Within 1 year	1- 5 years	Over 5 years
	DKKkm	DKKkm	DKKkm
Shown by term to maturity			
Nominal value of issued bonds at amortised cost	0	400	0
Interest risk-hedging financial instruments, derivatives (synthetic principal)	0	400	0

The Bank pursues a strategy of mitigating the interest rate risk on its strategic funding either by using the interest rate risk from strategic funding to hedge the interest rate risk on fixed-rate agreements in other business areas outside the Trading Division or, secondarily, to hedge the interest rate risk on strategic loans using derivatives and applying the rules on hedge accounting.

The Bank assesses the potential hedging of interest rate risk in connection with each loan, partly to ensure that the Bank hedges fixed-rate agreements outside the Trading Division, and partly to avoid unnecessary interest rate exposure on its strategic funding.

The Bank does not expect the Ciber transition to have any material impact on this hedging activity.

Financial liabilities meeting the criteria for hedged items are regularly monitored. For issued bonds at amortised cost/fair value, hedging is made at the time of issuance with an interest rate swap with the same yield/maturity profile.

The effectiveness of such hedging is measured on a continuing basis.

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

	2020	2019
	DKKkm	DKKkm
Hedging of fixed-interest assets		
Hedging of issued bonds	-3	3
Hedging derivatives	3	-3
Impact on profit/loss	0	0

Section 6

Other notes

6.6 Off-balance sheet items



Accounting policies

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

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

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

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

6.6.1 Contingent assets

	2020	2019
	DKKm	DKKm
Unrecognised deferred tax assets	18	17

6.6.2 Contingent liabilities

	2020	2019
	DKKm	DKKm
Guarantees	15,591	14,766
Other binding commitments	1,200	515
Total contingent liabilities	16,791	15,281

Guarantees

Financial guarantees	6,508	5,482
Loss guarantees for mortgage loans	5,834	5,458
Registration and refinancing guarantees	2,459	3,121
Other contingent liabilities	790	705
Total guarantees	15,591	14,766

Financial guarantees largely consist of payment guarantees.

Loss guarantees for mortgage loans have been granted for the highest-risk portion of mortgage loans to personal customers and on business properties. There is a full right of set-off against future income concerning Totalkredit and DLR.

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

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

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

Spar Nord is taxed jointly with its Danish subsidiary in the Spar Nord Group. As management company, Spar Nord has unlimited, joint and several liability together with the subsidiary for the Danish corporate income tax payable. Due to the payment of tax on account, no tax was payable at 31.12.2020 and 31.12.2019. The corporate income tax receivable within the tax pool amounted to DKK 98 million at 31.12.2020 (31.12.2019: DKK 54 million). Any adjustments to the taxable income subject to joint taxation might entail an increase in the Parent Company's liability.

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

Section 6

Other notes

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

The Guarantee Fund covers depositors' eligible deposits in the Bank under EUR 100,000 (see section 9(1) of the Danish Act on a Depositor and Investor Guarantee Scheme). The Bank's costs for the Guarantee Fund are calculated based on the Bank's pro-rata share. The amount of the contribution will be adjusted by an individual risk factor. The Bank made no contributions to the Guarantee Fund in 2020, as the Guarantee Fund's assets exceed its target level of 0.8% of the covered deposits in the sector. The Bank may be required to pay contributions in future if the Guarantee Fund's assets fall below 0.8% of the covered deposits in the sector.

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

The Bank's costs for the Resolution Fund are calculated based on the Bank's pro-rata share of the sector's total equity and liabilities less own funds and covered deposits. This contribution will also be adjusted by an individually determined risk factor. The Bank's contribution to the Resolution Fund for 2020 amounted to DKK 16 million (2019: DKK 7 million). The Bank's contribution has increased because Finansiel Stabilitet has informed the banks that an error has been identified in the calculation of the above risk factors. The error results in an adjustment of the Bank's contributions for the period 2015-2019 totalling DKK 3.4 million, which is recognised at 31.12.2020.

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

Other binding commitments

	2020	2019
	DKKm	DKKm
Other binding commitments		
Data-processing centre	1,179	500
Lease liabilities, Spar Nord as lessee	21	15
Other binding commitments, total	1,200	515

Data-processing centre

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

Spar Nord's membership of Bankernes EDB Central a.m.b.a. means that in case of termination of the Bank's membership, it is liable to pay an exit fee.

Lease liabilities, Spar Nord as lessee

The lease liabilities below concern leases concluded at the balance sheet date but for which the lease asset has not yet been made available.

In addition, a capital contribution to Bankernes EDB Central a.m.b.a. has been recognised under Other assets.

The Spar Nord Group has no other significant binding agreements.

Reference is also made to note 3.7.1, domicile properties, leasing, and note 3.11.1, lease liabilities.

	2020	2019
	DKKm	DKKm
Maturity distribution of minimum lease payments		
Up to 1 year	2	2
1 - 5 years	9	8
Over 5 years	9	6
Total operating lease liabilities	21	15

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

6.7 Legal proceedings

Spar Nord is party to a number of legal proceedings. The proceedings are assessed regularly and necessary provisions are made based on an assessment of the risk of loss.

The pending legal proceedings are not expected to materially affect the Group's financial position.

Section 6

Other notes

6.8 Related parties

	Parties with significant influence		Associates		Board of Directors		Executive Board	
	2020	2019	2020	2019	2020	2019	2020	2019
	DKKkm	DKKkm	DKKkm	DKKkm	DKKkm	DKKkm	DKKkm	DKKkm
Loans, advances and loan commitments	50	50	15	15	28	40	3	6
Deposits	4	73	48	31	24	22	8	7
Guarantees issued	-	-	-	-	-	0	0	-
Other binding commitments	-	-	-	-	13	6	0	0
Collateral accepted	123	151	-	-	11	12	-	-
Interest income	0	0	0	0	1	0	0	0
Interest expenses	-	-	-	-	0	0	0	0
Fees, charges and commissions received	1	0	0	0	3	1	0	0
Dividends received from equity investments	-	-	49	14	-	-	-	-
Other income	1	1	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-	-	-
Dividends paid	-	81	-	0	-	0	-	1

Related parties with significant influence are shareholders with holdings exceeding 20% of Spar Nord Bank A/S, or where significant influence is otherwise considered to exist.

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

	Board of Directors		Executive Board	
	2020	2019	2020	2019
Loans and advances	27	27	3	3
Unutilised loan and guarantee commitments	1	13	0	4
Guarantees issued	-	0	0	-
Total loans and advances, loan commitments and guarantees	28	40	3	6
Interest rate, loans	1.00 - 6.75	1.00 - 5.00	1.00 - 3.95	2.25 - 2.50

No transactions were concluded during the year with members of the Board of Directors, the Executive Board or executive staff members, other than transactions involving salary, remuneration, etc., securities trading and loans and provision of collateral. More details regarding the remuneration of the Board of Directors, the Executive Board and executive staff members appear from note 2.7.

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

The respective shareholdings of the Executive Board and the Board of Directors are shown in note 6.9.

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

There were no credit-impaired exposures with related parties.

Related parties holding at least 5% of the Bank's share capital at end-2020 comprised the Spar Nord Foundation, Aalborg, with a holding of 19.3% (2019: 18.9%) and Nykredit Realkredit A/S, Copenhagen, with a holding of 14.0% (2019: 11.4%)

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

Section 6

Other notes

6.9 Spar Nord shares held by management

	2020	2019
	No. of shares	No. of shares
Board of Directors		
Kjeld Johannesen	80,000	80,000
Per Nikolaj Bukh	27,200	27,200
Lene Aaen	4,750	3,835
Kaj Christiansen	21,100	21,100
Morten Bach Gaardboe	7,505	7,505
Henrik Sjøgreen (took office on 17 June 2020)	3,500	-
Laila Mortensen (retired on 17 June 2020)	-	0
Jannie Skovsen	0	2,366
Gitte Holmgaard Sørensen (retired on 1 April 2020)	-	3,960
John Sørensen	5,160	5,160
Kim Østergaard (took office on 1 April 2020)	26	-
Executive Board		
Lasse Nyby	75,179	64,332
John Lundsgaard	93,725	79,499
Lars Møller	93,800	82,406
Martin Kudsk Rasmussen (took office on 1 April 2020)	4,160	-

6.10 Events after the balance sheet date

No significant events have occurred after 31.12.2020, except that Spar Nord has received the approval of the authorities of its acquisition of BankNordik's Danish business as described in note 6.12.

6.11 Overview of group companies

		Share capital, year-end	Equity year-end	Profit/loss for the year	Ownership interest
	Activity	DKKm	DKKm	DKKm	%
Spar Nord Bank A/S	Banking	1,230	10,390	738	-
Subsidiary					
Aktieselskabet Skelagervej 15, Aalborg	Properties	27	265	12	100

Section 6

Other notes

6.12 Business combinations

On 22 December 2020, Spar Nord announced an agreement for the conditional acquisition of BankNordik's Danish business.

The intention with the acquisition is to strengthen Spar Nord's market position in the retail customer segment in the Greater Copenhagen area and in the cities of Aarhus, Odense, Kolding and Haderslev. The agreement will also allow Spar Nord to achieve the potential for efficiency enhancement and improved earnings power which arises from the ability to serve a greater number of customers using the same production and support platform. Furthermore, Spar Nord expects to achieve positive synergies from the combination of BankNordik's branches with Spar Nord's branches in relevant geographical areas.

Closing of the transaction was subject to the approval of the Danish FSA and the Danish Competition and Consumer Authority. As Spar Nord received both regulatory approvals before the end of January 2021, the acquisition was finalised at 1 February 2021.

Spar Nord's profit, comprehensive income, balance sheet and cash flows for 2020 are therefore not affected by the acquisition of BankNordik's Danish business.

BankNordik's Danish business will be recognised in 2021

The preliminary fair values at the acquisition date are based on an estimated purchase price. When the final purchase price and fair value adjustments have been calculated, the fair values of net assets acquired will be adjusted.

BankNordik's Danish business is expected to contribute moderately to Spar Nord's profit before impairment in 2021, as one-off costs associated with the transaction are expected to amount to around DKK 60 million. From 2022, the acquired business is expected to contribute to a profit before impairment of around DKK 110 million.

Income and profit for 2021 in the period after the acquisition of BankNordik's Danish business will be disclosed in quarterly reports and in the annual report for 2021.

Income for Spar Nord for 2021 calculated on a pro forma basis as if BankNordik's Danish business had been acquired at 1 January 2021 will be disclosed in quarterly reports and in the annual report for 2021.

The total purchase consideration is DKK -2,954 million, corresponding to Spar Nord receiving a net payment for BankNordik for acquiring net debts at the transaction because customer deposits and, by extension, total liabilities exceed the acquired loans, advances and total assets including goodwill. Concurrently with the settlement of the purchase consideration, Spar Nord has granted financing as a part of the agreement. In the form of standard senior debt with terms to maturity of up to 18 months.

Spar Nord is not under any obligation to pay any additional purchase consideration.

Spar Nord does not take over any obligation to pay severance amounts to BankNordik's data processing centre.

Spar Nord has so far incurred transaction costs relating to the acquisition of DKK 2 million for advisers, which amount has been recognised in operating expenses in the income statement for the 2020 financial year.

In connection with the acquisition, goodwill has been made up at DKK 277 million after recognition at fair value of preliminary identifiable assets, liabilities and contingent liabilities. Goodwill represents the value of the existing employees and know-how as well as expected synergies from the combination with Spar Nord. Customer relationships have so far not been separated from goodwill, see below.

The final agreed and paid goodwill of DKK 255 million is amortisable for tax purposes. The difference between this amount and goodwill for accounting purposes is explained by differences between the purchase price and the fair values of net assets acquired.

	Preliminary fair value at the date of acquisition DKKm
Cash balances and demand deposits with central banks	15
Due from credit institutions and central banks	53
Loans, advances and other receivables at amortised cost	2,249
Shares, etc.	45
Assets linked to pooled schemes	800
Land and buildings	31
Other property, plant and equipment	25
Other assets	29
Prepayments and deferred income	0
Total assets	3,247
Deposits and other payables	5,628
Deposits in pooled schemes	800
Other liabilities	54
Prepayments and deferred income	1
Deferred tax	-6
Provisions	0
Total liabilities	6,478
Acquired net assets	-3,232
Goodwill	277
Purchase consideration	-2,954
Consideration in the form of shares in Spar Nord Bank A/S	0
Cash consideration	-2,954
Purchase consideration	-2,954

Calculation of preliminary fair values of acquired assets and liabilities.

The fair value of loans and advances is based on an assessment of the market value of BankNordik's total lending. The fair value of loans and advances of DKK 2,249 million is measured at the present value of the cash flows expected to be received. The contractual receivable gross amount is tentatively calculated at DKK 2,387 million, of which DKK 124 million is not expected to be received. Total guarantees acquired amount to DKK 1,439 million for which no provisions for losses or fair value adjustments have been made. The guarantees are primarily mortgage credit guarantees.

The fair value of unlisted shares is based on the company's equity (net asset value) for accounting purposes, as the sale of such shares is governed by the shareholders' agreement for the company.

Section 6

Other notes

In connection with the acquisition, Spar Nord has still not calculated identifiable intangible assets in the form of customer relationships because Spar Nord does not have adequate data to calculate the value hereof. The fair value of customer relationships will be recognised in 2021, reflecting the value of the acquired customer base from BankNordik.

The fair value of customer relationships will be determined using recognised methods in which the expected future earnings from the acquired customers are assessed.

The fair value of domicile properties is estimated at the acquisition date using a return model.

The fair value of other property, plant and equipment is estimated on the basis of depreciated recoverable amount because they are not traded in an active market.

The value of deferred tax assets/liabilities comprises the tax value of fair value adjustments of, primarily, property plant and equipment and intangible assets. No deferred tax or tax losses have been acquired from BankNordik.

The fair value of deposits has been calculated as the contractual debt because the interest rate on deposits tracks the market rate and no material fixed-rate deposits are acquired.

Acquired litigation, appeals and complaints are recognised at fair value, which is calculated on the basis of weighted probabilities of assessed possible outcomes of such cases. At the present time, we are not familiar with any material cases to be recognised at the date of acquisition.

The calculation of the purchase price and the fair value of acquired assets and liabilities at the date of acquisition at 1 February 2021 is preliminary, as the final calculation of the purchase price with BankNordik remains pending, and it will require more information and time to ensure a verification of the fair values. We expect fair values to be finally calculated at 31 December 2021.

Section 6

Other notes

6.13 Performance indicators and financial ratios (Danish FSA's layout and ratio system)

Accounting policies

The Group's performance indicators and financial ratios (core earnings) appearing from the Management's review may differ from the layout below. The relationship between Core earnings and the format below is shown in note 2.1, Business segments.

Ratio definitions are set out in note 6.13.1.

Performance indicators

DKK m	2020	2019	2018	2017	2016
Income statement					
Net interest and fee income	2,882	2,858	2,730	2,716	2,771
Market value adjustments	374	320	214	381	386
Staff costs and administrative expenses	2,000	1,917	1,859	1,863	1,789
Impairment of loans, advances and receivables etc.	309	22	173	-7	292
Income from investments in associates	29	110	36	32	30
Profit/loss for the year	737	1,059	920	989	838

Balance sheet

Loans and advances	52,312	51,312	44,330	46,747	41,346
Equity	10,390	9,761	9,241	8,975	8,627
Total assets	102,077	93,113	82,793	80,367	78,473

Key figures

Own funds

Own funds ratio	21.0	18.5	18.0	18.2	17.7
Tier 1 capital ratio	18.6	16.1	15.6	16.0	15.6

Earnings

Return on equity before tax	%	9.1	13.7	12.1	14.2	12.5
Return on equity after tax	%	7.3	11.1	10.2	11.2	10.2
Income/cost ratio		1.38	1.64	1.52	1.65	1.47
Return on assets	%	0.7	1.1	1.1	1.2	1.1

Market risk and liquidity

Interest rate risk	%	1.1	0.6	0.2	0.7	1.2
Foreign exchange position	%	0.9	1.0	1.4	3.3	3.2
Foreign exchange risk	%	0.1	0.1	0.1	0.1	0.1
Liquidity Coverage Ratio (LCR)	%	241	195	174	187	171
Excess coverage relative to statutory liquidity requirement	%	-	-	-	326.4	308.3
Loans and advances as % of deposits	%	66.3	72.7	67.6	72.7	67.8

Credit risk

Loans and advances relative to equity		5.0	5.3	4.8	5.2	4.8
Increase in loans and advances for the year	%	-1.5	9.1	6.7	6.2	3.6
Sum of large exposures	%	78.1	83.6	79.2	17.2	14.5
Impairment ratio for the year		0.4	0.1	0.2	0.0	0.5

The Spar Nord Bank share

DKK per share of DKK 10

Profit/loss for the year		6.0	8.6	7.5	8.1	6.8
Net asset value (NAV)		78	72	68	66	63
Dividend		1.5	0.0 *)	3.5	3.5	5.0
Share price/profit/loss for the period		10.0	7.6	6.9	9.0	11.9
Share price/NAV		0.8	0.9	0.8	1.1	1.3

*) To support the political intentions to ensure an appropriate mitigation of the effects of the COVID-19 pandemic and its consequences for the Danish economy, it was adopted by the general meeting on 17 June 2020, as recommended by the Board of Directors, that no dividends would be distributed for the 2019 financial year.

Section 6

Other notes

6.13.1 Ratio definitions

Own funds ratio *)	Own funds in per cent of total risk exposure amount
Tier 1 capital ratio *)	Tier 1 Capital in per cent of total risk exposure amount
Common equity tier 1 capital ratio *)	Common equity tier 1 capital in per cent of total risk exposure amount
Return on equity before tax *)	Profit/loss before tax in per cent of average equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year.
Return on equity after tax *)	Profit/loss after tax in per cent of average equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year.
Income/cost ratio *)	Net interest and fee income, Market value adjustments, Other operating income and Profit/loss on equity investments in associates and group enterprises / Staff costs and administrative expenses, Depreciation, amortisation and impairment of intangible assets and property, plant and equipment, Other operating expenses and Impairment of loans, advances and receivables.
Return on assets *)	Profit/loss after tax in per cent of total assets.
Interest rate risk *)	Interest rate risk in per cent of tier 1 capital
Foreign exchange position *)	Foreign exchange indicator 1 in per cent of tier 1 capital
Foreign exchange risk *)	Foreign exchange indicator 2 in per cent of tier 1 capital
Loans and advances as % of deposits *)	Loans and advances in per cent of deposits.
Excess coverage relative to statutory liquidity requirement *)	Cash balances, Demand deposits with Danmarks Nationalbank (the central bank), Absolutely secure and liquid demand deposits with credit institutions and insurance companies, Uncollateralised certificates of deposit issued by Danmarks Nationalbank and Secure and marketable (listed) uncollateralised securities in per cent of 10% of Reduced payables and guarantee commitments.
Liquidity Cover Ratio (LCR) *)	Liquid assets in per cent of the net value of cash inflows and cash outflows viewed over a 30-day period of heightened corporate financial stress.
Sum of large exposures *) (2017 and earlier)	Sum of large exposures in per cent of own funds, adjusted for exposures to credit institutions, etc. below EUR 150 million after making allowance for credit risk reduction and exceptions, etc.
Sum of large exposures *) (from 2018)	Sum of large exposures (20 largest exposures below 175% of common equity tier 1 capital)
Impairment ratio for the year *)	Impairment of loans, advances and guarantees for the year in per cent of loans and advances + guarantees + impairment of loans, advances and receivables etc.
Increase in loans and advances for the year *)	Increase in loans and advances from the beginning of the year to the end of the year, excl. repos,
Loans and advances relative to equity *)	Loans and advances/equity.
Earnings per share for the year *)	Profit/loss for the year after tax(parent company)/average number of shares in circulation excl. treasury shares. The average number of shares is calculated as a simple average of the shares at the beginning of the year and at the end of the year.
Net asset value per share *)	Shareholders' equity/number of shares excl. treasury shares Shareholders' equity is calculated as if the additional tier 1 (AT1) capital were treated as a liability.
Dividend per share *)	Proposed dividend/number of shares.
Share price relative to earnings per share for the year *)	Share price/earnings per share for the year.
Share price relative to net asset value (NAV) *)	Share price/NAV per share.
Return, %	Year-end price – year-end price the year before + dividend the year before + extraordinary dividend for the year in per cent of the year-end price the year before.
Price/earnings	Year-end price/Earnings per share for the year. Profit/loss for the year is calculated as if the additional tier 1 (AT1) capital were treated as a liability.
Earnings per share for the year	Profit/loss for the year after tax(parent company)/average number of shares in circulation excl. treasury shares. The average number of shares is calculated as a simple average of the shares at the beginning of the year and at the end of the year. Profit/loss for the year after tax (parent company) is calculated as if the additional tier 1 (AT1) capital were treated as a liability.
Diluted earnings per share for the year	The profit/loss for the year after tax(parent company)/average number of shares in circulation excl. treasury shares including dilutive effect of share options and conditional shares. The average number of shares is calculated as a simple average of the shares at the beginning of the year and at the end of the year. Profit/loss for the year after tax (parent company) is calculated as if the additional tier 1 (AT1) capital were treated as a liability.

*) Danish FSA's ratio definitions.

A definition of alternative performance measures is shown on page 39 of the consolidated financial statements.

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Parent Company

Income statement

Note	2020 DKKm	2019 DKKm
7.2 Interest income	1,747	1,702
7.3 Interest expenses	163	129
Net interest income	1,584	1,573
Dividends on shares, etc.	60	60
7.4 Fees, charges and commissions received	1,396	1,395
Fees, charges and commissions paid	158	169
Net interest and fee income	2,881	2,858
7.5 Market value adjustments	373	320
Other operating income	34	42
7.6 Staff costs and administrative expenses	2,007	1,924
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	78	84
Other operating expenses	19	12
Income from investments in associates and group enterprises	41	120
7.2.3 Impairment of loans, advances and receivables etc.	309	22
Profit/loss before tax	916	1,299
7.7 Tax	178	240
Profit/loss for the year	738	1,060
Appropriation:		
The shareholders of the Parent Company Spar Nord Bank A/S	688	1,011
Holders of additional tier 1 (AT1) capital instruments	49	49
Profit/loss for the year	738	1,060
Proposed dividend DKK 1.50 per share (2019: DKK 3.50 – subsequently suspended by the general meeting *)	185	0
Reserve for net revaluation according to the equity method	41	120
Retained earnings	446	891
Total distribution	672	1,011

*) To support the political intentions to ensure an appropriate mitigation of the effects of the COVID-19 pandemic and its consequences for the Danish economy, it was adopted by the general meeting on 17 June 2020, as recommended by the Board of Directors, that no dividends would be distributed for the 2019 financial year.

Statement of comprehensive income

Profit/loss for the year	738	1,060
Other comprehensive income		
Items that cannot be reclassified to the income statement:		
Adjustment relating to associates	-1	-6
Net revaluation of domicile property	6	-11
Other comprehensive income after tax	5	-17
Total comprehensive income	743	1,043
Appropriation:		
The shareholders of the Parent Company Spar Nord Bank A/S	694	994
Holders of additional tier 1 (AT1) capital instruments	49	49
Total comprehensive income	743	1,043

Parent Company

Balance sheet

Note	2020 DKKm	2019 DKKm
Assets		
	1,126	1,152
	1,259	1,588
7.8	52,312	51,312
7.9	21,647	16,498
7.10	1,785	1,735
7.11	529	470
	265	327
7.14	20,464	17,323
	171	174
	69	71
	383	391
	137	132
7.12	590	594
7.13	112	113
	101	57
	5	11
	1,675	1,780
	115	111
	102,155	93,246
Equity and liabilities		
7.15	4,167	4,062
7.16	58,497	53,420
	20,464	17,323
7.17	2,670	2,637
	835	960
	3,673	3,661
	28	24
	90,333	82,088
7.18	21	21
	57	40
	21	13
	99	75
7.19	1,333	1,322
	91,765	83,484
	1,230	1,230
	92	86
	0	0
	185	431
	8,089	7,155
	9,596	8,901
	794	860
	10,390	9,761
	102,155	93,246
Off-balance sheet items		
	18	16
7.20	15,591	14,766
7.21	1,200	515

Statement of changes in equity

	Share capital	Revaluation reserve	Statutory reserves	Proposed dividend	Retained earnings	Shareholders of Spar Nord Bank A/S	Additional tier 1 (AT1) capital	Total equity
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Equity at 31.12.2019	1,230	86	0	431	7,155	8,901	860	9,761
Comprehensive income in 2020								
Profit/loss for the year	-	-	41	185	463	688	49	738
Other comprehensive income								
Adjustment relating to associates	-	-	-29	-	27	-1	-	-1
Adjustment relating to group enterprises	-	-	-12	-	12	0	-	0
Net revaluation of properties	-	6	-	-	-	6	-	6
Other comprehensive income, total	0	6	-41	0	39	5	0	5
Total comprehensive income	0	6	0	185	502	694	49	743
Transactions with owners								
Issue of additional tier 1 (AT1) capital, net transaction costs	-	-	-	-	0	0	330	330
Redemption of additional tier 1 (AT1) capital	-	-	-	-	-	-	-400	-400
Interest paid on additional tier 1 (AT1) capital	-	-	-	-	-	-	-49	-49
Suspended dividend payment	-	-	-	-431	431	0	-	0
Dividends paid	-	-	-	0	-	0	-	0
Dividends received, treasury shares	-	-	-	-	0	0	-	0
Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	-431	-431	-	-431
Addition upon sale of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	433	433	3	436
Total transactions with owners	0	0	0	-431	432	2	-116	-114
Equity at 31.12.2020	1,230	92	0	185	8,089	9,596	794	10,390
Equity at 31.12.2018	1,230	97	0	431	6,622	8,380	861	9,241
Amortisation, additional fees and commissions received	-	-	-	-	-40	-40	0	-40
Equity at 01.01.2019	1,230	97	0	431	6,582	8,340	861	9,201
Comprehensive income in 2019								
Profit/loss for the year	-	-	120	431	460	1,011	49	1,060
Other comprehensive income								
Adjustment relating to associates	-	-	-110	-	104	-6	-	-6
Adjustment relating to group enterprises	-	-	-11	-	11	0	-	0
Net revaluation of properties	-	-11	-	-	0	-11	-	-11
Other comprehensive income, total	0	-11	-120	0	115	-17	0	-17
Total comprehensive income	0	-11	0	431	575	994	49	1,043
Transactions with owners								
Issue of additional tier 1 (AT1) capital, net transaction costs	-	-	-	-	0	0	0	0
Interest paid on additional tier 1 (AT1) capital	-	-	-	-	-	-	-49	-49
Dividends paid	-	-	-	-431	-	-431	-	-431
Dividends received, treasury shares	-	-	-	-	0	0	-	0
Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	-372	-372	-1	-373
Addition upon sale of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	369	369	-	369
Total transactions with owners	0	0	0	-431	-2	-433	-50	-483
Equity at 31.12.2019	1,230	86	0	431	7,155	8,901	860	9,761

At the end of 2020, the share capital was made up of 123,002,526 shares of DKK 10 each (2019: 123,002,526 shares of DKK 10 each).

The Bank has only one share class.

No shares carry any special rights. No shares are subject to restrictions on transferability or voting rights.

Parent Company

Capital position

Treasury shares	2020	2019
Treasury share portfolio		
Number of shares	58,063	79,179
Nominal value, DKKm	1	1
Fair value, DKKm	3	5
Percentage of share capital	0.0	0.1

Treasury share portfolio, fair value, DKKm

Portfolio, beginning of year	5	2
Acquisition of treasury shares	431	372
Sale of treasury shares	433	369
Market value adjustments	0	1
Portfolio, end of year	3	5

The Bank uses treasury shares for trading with customers.

Own funds

	2020	2019
	DKKm	DKKm
Equity	10,390	9,761
Phasing in of IFRS 9	433	188
Additional tier 1 (AT1) capital included in equity	794	860
Proposed dividend	185	431
Intangible assets	141	143
Other primary deductions	53	47
Deduction – Holdings of insignificant CET1 instruments	132	205
Deduction – Holdings of significant CET1 instruments	95	71
Common equity tier 1 capital	9,422	8,192
Additional tier 1 (AT1) capital *)	773	843
Other deductions	2	3
Tier 1 capital	10,193	9,032
Subordinated debt, excl. Additional Tier 1 (AT1) capital *)	1,324	1,308
Other deductions	3	5
Own funds	11,514	10,335
Weighted risk exposure amount, credit risk etc.	45,352	47,198
Weighted risk exposure amount, market risk	3,994	3,340
Weighted risk exposure amount, operational risk	5,575	5,519
Total risk exposure amount	54,921	56,057
Common equity tier 1 capital ratio	17.2	14.6
Tier 1 capital ratio	18.6	16.1
Own funds ratio	21.0	18.4

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

Section 7

Notes parent company

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Notes parent company

§ 7.1 Accounting policies

The financial statements of the Parent Company Spar Nord Bank A/S have been prepared in accordance with the provisions of the Danish Financial Business Act, including the Danish FSA's Executive Order on financial reports presented by credit institutions and investment companies (Executive Order on the presentation of financial statements).

The Parent Company's accounting policies are identical to those of the Group.

For a description of accounting policies and changes thereto, please see accounting policies in the notes to the consolidated financial statements.

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

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

	Profit/loss		Equity	
	2020	2019	2020	2019
	DKKm	DKKm	DKKm	DKKm
Spar Nord Group	737	1,059	10,390	9,761
Net depreciation and impairment, Group domicile properties	1	1	0	0
Spar Nord Parent Company	738	1,060	10,390	9,761

7.2 Interest income

	2020	2019
	DKKm	DKKm
Due from credit institutions and central banks	-10	-2
Loans, advances and other receivables	1,411	1,519
Bonds	74	82
Foreign-exchange contracts	19	-12
Interest-rate contracts	8	-8
Total derivatives	27	-19
Other interest income	0	4
Total interest income after offsetting negative interest income	1,502	1,584
Negative interest income offset against interest income	67	39
Negative interest expenses offset against interest expenses	178	80
Total interest income before offsetting negative interest income	1,747	1,702
Of which, interest income from reverse repo transactions booked under		
Due from credit institutions and central banks	-15	-11
Loans, advances and other receivables	-35	-28

Negative interest income amounts to DKK 67 million (2019: DKK 39 million) and relates to repo transactions and bonds.

Negative bond yields of DKK 17 million (2019: DKK 17 million) is offset against interest income from bonds.

In the table above, negative interest income is offset against interest income. In the income statement, negative interest income is presented as interest expenses, and negative interest expenses are presented as interest income.

For accounting policies, see note 2.3 to the consolidated financial statements.

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7.3 Interest expenses

	2020	2019
	DKKm	DKKm
Credit institutions and central banks	-6	14
Deposits and other payables	-137	-41
Issued bonds	25	2
Subordinated debt	35	34
Other interest expenses	1	2
Total interest expenses after offsetting negative interest expenses	-82	10
Negative interest expenses offset against interest expenses	178	80
Negative interest income offset against interest income	67	39
Total interest expenses before offsetting negative interest expenses	163	129
Of which, interest expenses from repo transactions booked under		
Credit institutions and central banks	-15	-12
Deposits and other payables	-4	-2

Negative interest expenses amount to DKK 178 million (2019: DKK 80 million) and relate partly to deposits, partly to repo transactions.

In the table above, negative interest expenses are offset against interest expenses. In the income statement, negative interest expenses are presented as interest income, and negative interest income is presented as interest expenses.

For accounting policies, see note 2.3 to the consolidated financial statements.

7.4 Fees, charges and commissions received

	2020	2019
	DKKm	DKKm
Securities trading and custody accounts	444	417
Payment services	155	168
Loan transaction fees	568	600
of which mortgage credit institutions	434	430
Guarantee commission	30	27
Other fees, charges and commissions	199	183
Total fees, charges and commissions received	1,396	1,395
Total fees, charges and commissions paid	158	169
Total net fees, charges and commissions received	1,238	1,225

For accounting policies, see note 2.4 to the consolidated financial statements.

7.5 Market value adjustments

	2020	2019
	DKKm	DKKm
Other loans, advances and receivables at fair value	-3	3
Bonds	146	74
Shares, etc.	153	141
Investment properties	-1	1
Currency	64	58
Foreign exchange, interest, share, commodity and other contracts and derivatives	14	44
Assets linked to pooled schemes	2,089	1,926
Deposits in pooled schemes	-2,089	-1,926
Other assets	-	-
Other liabilities	-	-
Total market value adjustments	373	320

For accounting policies, see note 2.5 to the consolidated financial statements.

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7.6 Staff costs and administrative expenses

	2020	2019
	DKKm	DKKm
Staff costs	1,293	1,218
Administrative expenses	714	706
Total staff costs and administrative expenses	2,007	1,924
Salaries	1,040	975
Pensions	116	111
Social security costs	138	132
Total staff costs	1,293	1,218
Of which, remuneration to members of the Executive Board and Board of Directors:		
Board of Directors	4.2	4.0
Executive Board	16.5	12.6
Total remuneration	20.6	16.6

For additional information on remuneration to members of the Board of Directors, Executive Board and material risk takers, see note 2.7 to the consolidated financial statements.

Number of employees

Average number of employees in the financial year converted into full-time equivalents	1,553	1,535
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For a description of accounting policies, see notes 2.7 and 2.8 to the consolidated financial statements.

7.6.1 Audit fees

	2020	2019
	DKKm	DKKm
Fees to the audit firm appointed at the General Meeting	1.8	1.4
Fees to other audit firms for non-audit services	0.6	0.7
Total audit fees	2.4	2.1
Total fees to the audit firm appointed at the General Meeting break down as follows:		
Statutory audit	0.9	0.9
Other assurance engagements	0.2	0.2
Tax and VAT assistance	0.1	0.0
Non-audit services	0.7	0.3
Total fees to the audit firm appointed at the General Meeting	1.8	1.4

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7.7 Tax

	2020	2019
	DKKm	DKKm
Tax on profit/loss for the year	178	240
Tax on other comprehensive income	0	0
Tax on changes in equity	0	-11
Total tax	178	228

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

Current tax	179	380
Deferred tax for the year	-1	-141
Adjustment of deferred tax, prior years	1	-1
Adjustment of current tax for prior years	0	1
Tax on profit/loss for the year	178	240

Specification of the effective tax rate:

Current tax rate	22.0	22.0
Income from investments and market value adjustment of shares, %	-3.9	-3.2
Non-deductible expenses and non-taxable income, %	1.3	-0.4
Adjustment of prior-year taxes, %	0.1	0.0
Total effective tax rate	19.5	18.4

For accounting policies, see note 2.10 to the consolidated financial statements.

7.8 Due from credit institutions and central banks

	2020	2019
	DKKm	DKKm
Due from credit institutions and central banks		
Balances at notice with central banks	61	0
Due from credit institutions	1,198	1,588
Total due from credit institutions and central banks	1,259	1,588

Of which, subordinated receivables	0	0
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Shown by term to maturity

Demand deposits	263	279
Up to 3 months	996	1,309
Over 3 months and up to 1 year	0	0
Between 1 year and 5 years	0	0
Over 5 years	0	0
Total	1,259	1,588

Repo transactions hereof	343	924
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For accounting policies, see note 3.1 to the consolidated financial statements.

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7.9 Loans, advances and other receivables at amortised cost

	2020	2019
	DKKkm	DKKkm
Lending, reverse repo transactions	9,819	8,155
Lending, banking and leasing activities	42,494	43,157
Loans, advances and other receivables at amortised cost, total	52,312	51,312

Shown by term to maturity		
Demand deposits	1,832	1,297
Up to 3 months	11,149	9,464
Over 3 months and up to 1 year	16,797	19,057
Between 1 year and 5 years	7,953	8,494
Over 5 years	14,582	13,000
Total	52,312	51,312

Gross loans, advances and guarantees broken down by sectors and industries, %

Public authorities	1.4	1.8
Business customers		
Agriculture, hunting, forestry and fisheries	4.5	4.3
Industry and raw materials extraction	3.7	4.4
Energy supply	2.7	2.5
Building and construction	3.7	3.7
Trade	5.0	6.2
Transport, hotels and restaurants	3.6	3.9
Information and communication	0.4	0.4
Financing and insurance	18.7	16.8
Real estate	9.8	10.8
Other business areas	5.7	5.5
Business customers, total	57.6	58.6
Retail customers	40.9	39.6
Total	100.0	100.0

For accounting policies, see note 3.2 to the consolidated financial statements.

7.10 Bonds at fair value

	2020	2019
	DKKkm	DKKkm
Mortgage bonds	19,639	14,420
Government bonds	686	723
Other bonds	1,322	1,354
Bonds at fair value, total	21,647	16,498
Of which, subordinated receivables	41	41

For accounting policies, see note 3.3 to the consolidated financial statements.

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7.11 Equities

	2020	2019
	DKKm	DKKm
Shares/unit trust certificates listed on NASDAQ Copenhagen A/S	144	146
Shares/unit trust certificates listed on other stock exchanges	91	41
Unlisted shares at fair value	1,550	1,548
Total shares, etc.	1,785	1,735

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

For accounting policies, see note 3.3 to the consolidated financial statements.

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

7.12 Land and buildings

7.12.1 Investment properties

	2020	2019
	DKKm	DKKm
Fair value, beginning of period	71	70
Additions during the year, including improvements	1	0
Disposals during the year	0	0
Unrealised fair value adjustment	-1	1
Fair value, end of year	70	71

Required rate of return used in calculating the fair value, %

5.5 - 9.0	5.5 - 9.0
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The fair-value method (Level 3 in the fair-value hierarchy) has been chosen for measuring investment properties. Investment properties consist mainly of business leases. The periods of non-terminability for Spar Nord in the leases do not exceed 20 years.

For accounting policies, see note 3.7.1 to the consolidated financial statements.

7.12.2 Domicile properties

	2020	2019
	DKKm	DKKm
Restated value beginning of year	391	418
Additions during the year, including improvements	1	9
Disposals during the year	8	18
Depreciation	13	15
Changes in value recognised in other comprehensive income	1	-11
Changes in value recognised in the income statement	6	-2
Other changes, incl. properties transferred to temporary assets	4	9
Restated value, year-end	383	391

Required rate of return used in calculating the fair value, %

5.8 - 9.0	5.8 - 9.0
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The fair value method (Level 3 in the fair value hierarchy) has been chosen for measuring domicile properties. Fair value has been determined based on observable prices and other valuation methods.

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

For accounting policies, see note 3.7.1 to the consolidated financial statements.

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7.12.3 Domicile properties, leasing

	2020	2019
	DKKm	DKKm
Balance, 1 January	132	0
Effects of transition, 1 January	-	111
Adjusted balance, 31 December	132	111
Additions	15	0
Disposals	0	1
Remeasurement of lease liability	15	46
Depreciation for the year	25	24
Balance sheet at 31 December	137	132

For accounting policies, see note 3.7.1 to the consolidated financial statements.

7.13 Other property, plant and equipment

	2020	2019
	DKKm	DKKm
Total cost, beginning of year	357	365
Additions	37	37
Disposals	15	45
Total cost, end of year	380	357
Depreciation and impairment, beginning of year	244	238
Depreciation and impairment for the year	35	36
Reversal of depreciation and impairment for the year	12	30
Depreciation and impairment, end of year	268	244
Carrying amount, end of year	112	113

For accounting policies, see note 3.7.2 to the consolidated financial statements.

7.14 Pooled schemes

	Pension pools	Other pools	Total	
	2020	2020	2020	2019
	DKKm	DKKm	DKKm	DKKm
Assets				
Cash deposits	423	5	428	684
Bonds	3,956	49	4,005	6,048
Shares, etc.	10,939	123	11,061	7,129
Unit trust certificates	4,888	62	4,950	3,429
Other assets	19	0	20	34
Total assets	20,225	239	20,464	17,323
Equity and liabilities				
Total deposits	20,225	239	20,464	17,323
Total equity and liabilities	20,225	239	20,464	17,323

For accounting policies, see note 3.5 to the consolidated financial statements.

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7.15 Due to credit institutions and central banks

	2020	2019
	DKKm	DKKm
Due to central banks	2,182	94
Due to credit institutions	1,985	3,968
Total due to credit institutions and central banks	4,167	4,062
Shown by term to maturity		
Demand deposits	283	283
Up to 3 months	3,884	3,753
Over 3 months and up to 1 year	0	27
Between 1 year and 5 years	0	0
Over 5 years	0	0
Total	4,167	4,062
Repo transactions hereof	985	2,764

For accounting policies, see note 3.9 to the consolidated financial statements.

7.16 Deposits and other payables

	2020	2019
	DKKm	DKKm
Demand deposits	53,712	48,649
Subject to notice	1,899	1,651
Time deposits	334	40
Special types of deposits	2,552	3,078
Total deposits and other payables	58,497	53,420
Shown by term to maturity		
Demand deposits	53,712	48,649
Up to 3 months	2,014	1,521
Over 3 months and up to 1 year	107	140
Between 1 year and 5 years	540	562
Over 5 years	2,123	2,547
Total	58,497	53,420
Repo transactions hereof	333	0

For accounting policies, see note 3.10 to the consolidated financial statements.

7.17 Issued bonds at amortised cost

	2020	2019
	DKKm	DKKm
Shown by contractual term to maturity		
Demand deposits	-	-
Up to 3 months	0	0
Over 3 months and up to 1 year	1	1
Between 1 year and 5 years	2,668	2,636
Over 5 years	0	0
Total	2,670	2,637

For accounting policies, see note 4.8 to the consolidated financial statements.

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7.18 Provisions for deferred tax

	2020	2019
	DKKm	DKKm
Beginning of period	21	173
Deferred tax for the year recognised in profit/loss for the year	0	-142
Deferred tax for the year recognised in other comprehensive income	0	0
Deferred tax for the year recognised in changes in equity	0	-11
End of year	21	21

	Beginning of period	Recognised in profit for the year	Recognised in other comprehensive income etc.	End of year
	DKKm	DKKm	DKKm	DKKm
Changes in deferred tax in 2020				
Intangible assets	30	0	0	30
Property, plant and equipment, incl. leased assets	26	-8	0	18
Loans, advances and other receivables at amortised cost	-29	-3	0	-31
Payables and subordinated debt	12	12	0	24
Provisions	-13	-1	0	-14
Claw-back loss	4	0	0	4
Miscellaneous	-8	-1	0	-9
Total	21	0	0	21

Changes in deferred tax in 2019				
Intangible assets	29	0	0	30
Property, plant and equipment, incl. leased assets	176	-151	0	26
Loans, advances and other receivables at amortised cost	-17	0	-11	-29
Payables and subordinated debt	3	9	0	12
Provisions	-13	0	0	-13
Claw-back loss	4	0	0	4
Miscellaneous	-8	0	0	-8
Total	173	-142	-11	21

All deferred tax liabilities are recognised in the balance sheet.

The temporary differences in 2020 and 2019 relating to losses on properties with deductibility restricted to gains from the same source arose on the sale of properties.

For accounting policies, see note 3.12 to the consolidated financial statements.

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7.19 Subordinated debt

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

The issuance of additional tier 1 capital under CRR with a perpetual term and with voluntary payment of interest and repayments of principal is treated as equity for accounting purposes. For further details, please see note 4.6 to the consolidated financial statements.

Spar Nord Bank is the borrower with respect to all loans.

Currency	Note	Principal		Received	Maturity	2020	2019
		millions	Interest rate			DKKm	DKKm
DKK	a	350	CIBOR6 + 2.40%	2018	29.05.2029	349	349
DKK	b	150	2.9298%	2018	29.05.2029	150	149
DKK	c	400	2.5348%	2018	19.06.2028	400	400
SEK	d	600	STIBOR3 + 2.50%	2017	18.10.2027	443	428
Supplementary capital contributions, total						1,342	1,326
Portfolio of own bonds relating to subordinated debt						-9	-5
Total subordinated debt						1,333	1,322
Interest on subordinated debt						34	33
Costs of raising subordinated debt						1	1

7.20 Contingent liabilities

	2020	2019
	DKKm	DKKm
Financial guarantees	6,508	5,482
Loss guarantees for mortgage loans	5,834	5,458
Registration and refinancing guarantees	2,459	3,121
Other contingent liabilities	790	705
Total contingent liabilities	15,591	14,766

Financial guarantees largely consist of payment guarantees.

Loss guarantees for mortgage loans have been granted for the highest-risk portion of mortgage loans to personal customers and on business properties. There is a full right of set-off against future income concerning Totalkredit and DLR.

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

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

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

Spar Nord is taxed jointly with its Danish subsidiary in the Spar Nord Group. As management company, Spar Nord has unlimited, joint and several liability together with the subsidiary for the Danish corporate income tax payable. Due to the payment of tax on account, no tax was payable at 31.12.2020 and 31.12.2019. The corporate income tax receivable within the tax pool amounted to DKK 98 million at 31.12.2020 (31.12.2019: DKK 54 million). Any adjustments to the taxable income subject to joint taxation might entail an increase in the Parent Company's liability.

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

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

The Guarantee Fund covers depositors' eligible deposits in the Bank under EUR 100,000 (see section 9(1) of the Danish Act on a Depositor and Investor Guarantee Scheme). The Bank made no contributions to the Guarantee Fund in 2020, as the Guarantee Fund's assets exceed its target level of 0.8% of the covered deposits in the sector. The Bank may be required to pay contributions in future if the Guarantee Fund's assets fall below 0.8% of the covered deposits in the sector.

The Resolution Fund covers the costs associated with the possible winding-up of financial institutions under the auspices of Finansielt Stabilitet (the Winding-Up Company). The Bank's contributions to the Resolution Fund are calculated based on the Bank's pro-rata share of the sector's total equity and liabilities less own funds and the deposits covered by the Guarantee Fund, adjusted by a risk factor. The Bank's contribution to the Resolution Fund for 2020 amounted to DKK 16 million (2019: DKK 7 million). The Bank's contribution has increased because Finansielt Stabilitet has informed the banks that an error has been identified in the calculation of the above risk factors. The error

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results in an adjustment of the Bank's contributions for the period 2015-2019 totalling DKK 3.4 million, which is recognised at 31.12.2020.

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

For accounting policies, see note 6.6 to the consolidated financial statements.

7.21 Other binding commitments

Other binding commitments of DKK 1,200 million (2019: DKK 515 million) consist of lease obligations in which Spar Nord Bank is lessee, and the liability to pay a withdrawal fee on potential withdrawal from Bankernes EDB Central a.m.b.a. See note 6.6.2 to the consolidated financial statements for a description hereof.

For accounting policies, see note 6.6 to the consolidated financial statements.

7.22 Risk Management

Spar Nord is exposed to a number of risks in various categories, the most important one being:

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

Notes 5.1, 5.2, 5.3 and 5.4 to the consolidated financial statements provide a description of the financial risks and policies and targets for managing credit, market, liquidity and operational risks.

7.23 Credit risk

7.23.1 Loans at amortised cost and unutilised credit lines and loan commitments

	2020	2019
	DKKm	DKKm
Loans and advances at amortised cost before impairment	53,955	52,764
Unutilised credit lines and loan commitments before impairment	27,323	23,412
Impairment of loans and advances and provisions on unutilised credit lines	1,660	1,462
Carrying amount	79,618	74,715

The following tables show the credit quality and exposures before impairment based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating groups and impairment model is provided in accounting policies note 5.1.1 to the consolidated financial statements.

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Loans at amortised cost before impairment, by rating category

2020

	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
Rating category 1	8,092	3	0	8,095
Rating category 2	6,986	281	0	7,267
Rating category 3	5,827	1,574	0	7,402
Rating category 4	5,821	1,798	0	7,619
Rating category 5	1,370	1,176	0	2,546
Rating category 6	311	510	0	821
Rating category 7	59	313	0	372
Rating category 8	37	183	0	221
Rating category 9	1	789	5	795
Default	18	163	1,675	1,855
Unrated	987	3	0	989
Reverse repo transactions	9,819	0	0	9,819
SparXpres	503	27	83	612
Leasing	4,830	606	105	5,541
Total	44,661	7,426	1,868	53,955

2019

	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
Rating category 1	7,967	17	0	7,985
Rating category 2	7,358	156	0	7,514
Rating category 3	8,180	1,592	0	9,772
Rating category 4	4,453	1,657	0	6,110
Rating category 5	1,014	698	0	1,711
Rating category 6	286	587	1	874
Rating category 7	153	452	0	605
Rating category 8	85	410	0	495
Rating category 9	0	432	8	440
Default	86	465	1,871	2,422
Unrated	1,249	1	0	1,250
Reverse repo transactions	8,155	0	0	8,155
SparXpres	533	38	70	641
Leasing	4,254	487	49	4,790
Total	43,773	6,992	1,999	52,764

Unutilised credit lines and loan commitments before impairment and provisions, by rating group

The rating breakdown of Spar Nord's unutilised credit lines and loan commitments before impairment and provisions generally follow the rating breakdown for loans at amortised cost before impairment shown above.

A description of Spar Nord's internal rating categories and impairment model is provided in note 5.1.1.

Impairment and provisions for losses

Analysis of changes in impairment and provisions for losses during the period broken down by stage and correlated to recognised impairment, etc. A summary of total recognised impairment, etc. is provided in note 5.1.6 to the consolidated financial statements.

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2020	Stage 1	Stage 2	Stage 3	Recognised	
	DKKm	DKKm	DKKm	Total impairment etc. DKKm	DKKm
Impairment at 1 January, loans at amortised cost	134	258	1,061	1,453	-
Impairment at 1 January, unutilised credit lines and loan commitments	3	3	3	9	-
Impairment re. new exposures during the year, including new accounts to existing customers	53	18	31	102	102
Reversed impairment re. repaid accounts	-19	-27	-87	-133	-133
Change in impairment at 1 January, transfer to/from stage 1	82	-45	-37	-	-
Change in impairment at 1 January, transfer to/from stage 2	-16	60	-43	-	-
Change in impairment at 1 January, transfer to/from stage 3	-2	-13	15	-	-
Impairment during the year due to change in credit risk	-56	295	112	350	350
Change in impairment due to model changes and risk parameters, net	0	0	0	0	0
Previously impaired, now finally lost	0	0	-138	-138	-
Other movements (interest rate correction etc.)	0	0	16	16	-
Loss without prior impairment	-	-	-	-	37
Amounts recovered on previously impaired receivables	-	-	-	-	-64
Impairment and provisions for losses at 31 December	177	549	933	1,660	293
Impairment at 31 December, loans at amortised cost	170	543	929	1,643	285
Impairment at 31 December, unutilised credit lines and loan commitments	7	6	4	17	8
Impairment and provisions for losses at 31 December	177	549	933	1,660	293
2019	Stage 1	Stage 2	Stage 3	Recognised	
	DKKm	DKKm	DKKm	Total impairment etc. DKKm	DKKm
Impairment at 1 January, loans at amortised cost	89	298	1,402	1,789	-
Impairment at 1 January, unutilised credit lines and loan commitments	4	4	69	76	-
Impairment re. new exposures during the year, including new accounts to existing customers	46	51	150	247	247
Reversed impairment re. repaid accounts	-16	-37	-145	-199	-199
Change in impairment at 1 January, transfer to/from stage 1	195	-149	-46	-	-
Change in impairment at 1 January, transfer to/from stage 2	-15	157	-141	-	-
Change in impairment at 1 January, transfer to/from stage 3	-2	-8	10	-	-
Impairment during the year due to change in credit risk	-163	-25	208	19	19
Change in impairment due to model changes and risk parameters, net	0	-30	0	-30	-30
Previously impaired, now finally lost	0	0	-463	-463	-
Other movements (interest rate correction etc.)	0	0	21	21	-
Loss without prior impairment	-	-	-	-	88
Amounts recovered on previously impaired receivables	-	-	-	-	-65
Impairment and provisions for losses at 31 December	137	261	1,064	1,462	61
Impairment at 31 December, loans at amortised cost	134	258	1,061	1,453	128
Impairment at 31 December, unutilised credit lines and loan commitments	3	3	3	9	-67
Impairment and provisions for losses at 31 December	137	261	1,064	1,462	61

The change in impairment charges is related to uncertainty due to COVID-19.

Loss without prior impairment expresses Spar Nord's recognised loans for which the loss is greater than impairment at the beginning of the year.

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

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7.23.2 Due from credit institutions and central banks

	2020	2019
	DKKm	DKKm
Due from credit institutions and central banks before impairment	1,259	1,588
Impairment	1	1
Carrying amount	1,259	1,588

The following tables show the credit quality and exposures before impairment based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating groups and impairment model is provided in accounting policies note 5.1.1 to the consolidated financial statements.

Due from credit institutions and central banks before impairment

2020	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
Credit institutions	1,198	0	0	1,198
Central banks	61	0	0	61
Total	1,259	0	0	1,259

2019	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
Credit institutions	1,588	0	0	1,588
Central banks	0	0	0	0
Total	1,588	0	0	1,588

Impairment

Analysis of changes in impairment for the period broken down by stage and correlated to recognised impairment, etc. is set out in note 5.1.6 to the consolidated financial statements.

2020	Stage 1	Stage 2	Stage 3	Total	Recognised impairment etc.
	DKKm	DKKm	DKKm	DKKm	DKKm
Impairment, beginning of year	1	0	0	0	-
Impairment re. new exposures during the year, including new accounts to existing customers	1	0	0	1	1
Reversed impairment re. repaid accounts	0	0	0	0	0
Change in impairment at 1 January, transfer to/from stage 1	0	0	0	-	-
Change in impairment at 1 January, transfer to/from stage 2	0	0	0	-	-
Change in impairment at 1 January, transfer to/from stage 3	0	0	0	-	-
Impairment during the year due to change in credit risk	-1	0	0	-1	-1
Impairment, end of year	1	0	0	0	0

2019	Stage 1	Stage 2	Stage 3	Total	Recognised impairment etc.
	DKKm	DKKm	DKKm	DKKm	DKKm
Impairment, beginning of year	0	0	0	0	-
Impairment re. new exposures during the year, including new accounts to existing customers	1	0	0	1	1
Reversed impairment re. repaid accounts	0	0	0	0	0
Change in impairment at 1 January, transfer to/from stage 1	0	0	0	-	-
Change in impairment at 1 January, transfer to/from stage 2	0	0	0	-	-
Change in impairment at 1 January, transfer to/from stage 3	0	0	0	-	-
Impairment during the year due to change in credit risk	-1	0	0	-1	-1
Impairment, end of year	1	0	0	1	0

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7.23.3 Guarantees

	2020	2019
	DKKm	DKKm
Guarantees before provisions for losses	15,648	14,807
Provisions for losses	57	40
Carrying amount	15,591	14,766

The following tables show the credit quality and exposures before impairment based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating groups and impairment model is provided in accounting policies note 5.1.1 to the consolidated financial statements.

Guarantees before provisions, by rating category

2020	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
Rating category 1	6,900	2	0	6,902
Rating category 2	3,365	36	0	3,401
Rating category 3	1,855	218	0	2,073
Rating category 4	1,041	203	0	1,244
Rating category 5	453	103	0	557
Rating category 6	77	48	0	125
Rating category 7	17	17	0	34
Rating category 8	6	12	0	18
Rating category 9	1	135	0	135
Default	15	64	139	218
Unrated	940	0	0	940
Total	14,671	838	139	15,648

2019	Stage 1	Stage 2	Stage 3	Total
	DKKm	DKKm	DKKm	DKKm
Rating category 1	5,825	1	0	5,826
Rating category 2	2,943	44	0	2,987
Rating category 3	1,824	172	0	1,996
Rating category 4	1,031	151	0	1,182
Rating category 5	208	70	0	279
Rating category 6	117	65	0	182
Rating category 7	31	18	0	49
Rating category 8	33	52	0	85
Rating category 9	0	32	0	32
Default	45	102	192	340
Unrated	1,850	0	0	1,850
Total	13,907	707	192	14,807

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Provisions for losses

Analysis of changes in impairment during the period broken down by stage and correlated to recognised impairment, etc. A summary of total recognised impairment, etc. is provided in note 5.1.6 to the consolidated financial statements.

2020	Stage 1	Stage 2	Stage 3	Recognised	
	DKKm	DKKm	DKKm	Total impairment etc.	DKKm
Provisions for losses at 1 January	17	5	18	40	-
Provisions for losses re. new exposures during the year	20	1	4	24	24
Reversed provisions for losses re. repaid exposures	-14	-6	-10	-29	-29
Change in provisions for losses at 1 January, transfer to/from stage 1	1	-1	0	-	-
Change in provisions for losses at 1 January, transfer to/from stage 2	-1	4	-3	-	-
Change in provisions for losses at 1 January, transfer to/from stage 3	0	0	0	-	-
Provisions for losses during the year due to change in credit risk	-5	29	-3	21	21
Provisions for losses at 31 December	18	32	7	57	17

2019	Stage 1	Stage 2	Stage 3	Recognised	
	DKKm	DKKm	DKKm	Total impairment etc.	DKKm
Provisions for losses at 1 January	14	6	60	80	-
Provisions for losses re. new exposures during the year	20	0	6	26	26
Reversed provisions for losses re. repaid exposures	-13	-5	-52	-69	-69
Change in provisions for losses at 1 January, transfer to/from stage 1	4	-2	-2	-	-
Change in provisions for losses at 1 January, transfer to/from stage 2	-1	2	-1	-	-
Change in provisions for losses at 1 January, transfer to/from stage 3	0	0	0	-	-
Provisions for losses during the year due to change in credit risk	-7	3	7	3	3
Provisions for losses at 31 December	17	5	18	40	-39

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

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7.24 Hedge accounting

2020	Carrying amount	Fair value	Nominal value
	DKKkm	DKKkm	DKKkm
Liabilities			
Issued bonds at amortised cost	400	400	400
Interest risk-hedging financial instruments			
Derivatives (swap contracts)	0	0	400
Shown by term to maturity			
	Within 1 year	1– 5 years	Over 5 years
	DKKkm	DKKkm	DKKkm
Nominal value of issued bonds at amortised cost	0	400	0
Interest risk-hedging financial instruments, derivatives (synthetic principal)	0	400	0
2019	Carrying amount	Fair value	Nominal value
	DKKkm	DKKkm	DKKkm
Liabilities			
Issued bonds at amortised cost	397	397	400
Interest risk-hedging financial instruments			
Derivatives (swap contracts)	-3	-3	400
Shown by term to maturity			
	Within 1 year	1– 5 years	Over 5 years
	DKKkm	DKKkm	DKKkm
Nominal value of issued bonds at amortised cost	0	400	0
Interest risk-hedging financial instruments, derivatives (synthetic principal)	0	400	0

The Bank pursues a strategy of mitigating the interest rate risk on its strategic funding either by using the interest rate risk from strategic funding to hedge the interest rate risk on fixed-rate agreements in other business areas outside the Trading Division or, secondarily, to hedge the interest rate risk on strategic loans using derivatives and applying the rules on hedge accounting.

The Bank assesses the potential hedging of interest rate risk in connection with each loan, partly to ensure that the Bank hedges fixed-rate agreements outside the Trading Division, and partly to avoid unnecessary interest rate exposure on its strategic funding.

The Bank does not expect the Cibor transition to have any material impact on this hedging activity.

Financial liabilities meeting the criteria for hedged items are regularly monitored. For issued bonds at amortised cost/fair value, hedging is made at the time of issuance with an interest rate swap with the same yield/maturity profile.

The effectiveness of such hedging is measured on a continuing basis.

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

	2020	2019
	DKKkm	DKKkm
Hedging of fixed-interest assets		
Hedging of issued bonds	-3	3
Hedging derivatives	3	-3
Impact on profit/loss	3	-3

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7.25 Related parties

	Parties with significant influence		Associates		Group entities		Board of Directors		Executive Board	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm	DKKm
Loans, advances and loan commitments	50	50	15	15	-	-	28	40	3	6
Deposits	4	73	48	31	81	141	24	22	8	7
Guarantees issued	-	-	-	-	-	-	-	0	0	-
Other binding commitments	-	-	-	-	-	-	13	6	0	0
Collateral accepted	123	151	-	-	48	48	11	12	-	-
Interest income	0	0	0	0	-	-	1	0	0	0
Interest expenses	-	-	-	-	-	-	0	0	0	0
Fees, charges and commissions received	1	0	0	0	-	-	3	1	0	0
Dividends received from equity investments	-	-	49	14	75	0	-	-	-	-
Other income	1	1	-	-	0	0	-	-	-	-
Other expenses	-	-	-	-	7	7	-	-	-	-
Dividends paid	-	81	-	0	-	-	-	0	-	1

Related parties with significant influence are shareholders with holdings exceeding 20% of Spar Nord Bank A/S, or where significant influence is otherwise considered to exist.

Note 6.11 to the consolidated financial statements contains a list of group enterprises.

The Danish companies in the Group are jointly taxed, which means that the Parent Company is liable for the payment of Danish corporate income tax. In 2020, joint tax contributions in the amount of DKK 3 million (2019: DKK 3 million) were transferred between the companies.

A demand balance exists between Aktieselskabet Skelagervej 15 and the Spar Nord Parent Company, carrying interest at the market rate.

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

	Board of Directors		Executive Board	
	2020	2019	2020	2019
Loans and advances	27	27	3	3
Unutilised loan and guarantee commitments	1	13	0	4
Guarantees issued	-	0	0	-
Total loans and advances, loan commitments and guarantees	28	40	3	6
Interest rate, loans	1.00 - 6.75	1.00 - 5.00	1.00 - 3.95	2.25 - 2.50

No transactions were concluded during the year with members of the Board of Directors, the Executive Board or executive staff members, other than transactions involving salary, remuneration, etc., securities trading and loans and provision of collateral. More details regarding the remuneration of the Board of Directors, the Executive Board and executive staff members appear from note 2.7.

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

The respective shareholdings of the Executive Board and the Board of Directors are shown in note 6.9 to the consolidated financial statements.

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

Related parties holding at least 5% of the Bank's share capital at end-2020 comprised the Spar Nord Foundation, Aalborg, with a holding of 19.3% (2018: 18.9%) and Nykredit Realkredit A/S, Copenhagen, with a holding of 14.0% (2018: 11.4%)

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

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7.26 Performance indicators and financial ratios

Performance indicators

DKKm	2020	2019	2018	2017	2016
Income statement					
Net interest and fee income	2,881	2,858	2,730	2,711	2,736
Market value adjustments	373	320	214	379	340
Staff costs and administrative expenses	2,007	1,924	1,865	1,869	1,795
Impairment of loans, advances and receivables etc.	309	22	173	-7	292
Income from investments in associates and group enterprises	41	120	50	51	105
Profit/loss for the year	738	1,060	921	991	839

Balance sheet

Loans and advances	52,312	51,312	44,330	46,747	41,219
Equity	10,390	9,761	9,241	8,975	8,627
Total assets	102,155	93,246	82,917	80,597	79,758

Key figures

Own funds

Own funds ratio	21.0	18.4	18.0	18.1	17.3
Tier 1 capital ratio	18.6	16.1	15.6	15.9	15.3

Earnings

Return on equity before tax	%	9.1	13.7	12.1	14.2	12.3
Return on equity after tax	%	7.3	11.2	10.2	11.3	10.2
Income/cost ratio		1.38	1.64	1.52	1.65	1.46
Return on assets	%	0.7	1.1	1.1	1.2	1.1

Market risk and liquidity

Interest rate risk	%	1.1	0.6	0.2	0.7	1.1
Foreign exchange position	%	0.9	1.0	1.4	3.3	3.2
Foreign exchange risk	%	0.1	0.1	0.1	0.1	0.1
Liquidity Coverage Ratio (LCR)	%	239	192	172	182	150
Excess coverage relative to statutory liquidity requirement	%	-	-	-	325.2	301.9
Loans and advances as % of deposits	%	66.3	72.5	67.5	72.4	66.1

Credit risk

Loans and advances relative to equity		5.0	5.3	4.8	5.2	4.8
Increase in loans and advances for the year	%	-1.5	9.1	6.7	6.6	3.6
Sum of large exposures	%	78.1	83.6	79.2	17.2	0.0
Impairment ratio for the year		0.4	0.1	0.2	0.0	0.5

The Spar Nord Bank share

DKK per share of DKK 10

Profit/loss for the year		6.0	8.6	7.5	8.1	6.8
Net asset value (NAV)		78	72	68	66	63
Dividend		1.5	0.0 *)	3.5	3.5	5.0
Share price/profit/loss for the period		10.0	7.6	6.9	8.9	11.9
Share price/NAV		0.8	0.9	0.8	1.1	1.3

*) To support the political intentions to ensure an appropriate mitigation of the effects of the COVID-19 pandemic and its consequences for the Danish economy, it was adopted by the general meeting on 17 June 2020, as recommended by the Board of Directors, that no dividends would be distributed for the 2019 financial year.

A definition of financial ratios is provided in note 6.13.1 to the consolidated financial statements.



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

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