



spar nord

spar Nord

Risk report 2021

CERES

The Risk Report has been prepared in accordance with the disclosure requirements under Part 8 of the Capital Requirements Regulation (CRR) and pertaining guidelines (ITS 2021/637 of 15 March 2021). Requirements on the disclosure of information about individual solvency need are anchored in the Executive Order on Calculation of Risk Exposure Amount, Own Funds and Solvency Need (Executive Order no. 2155 of 3 December 2020).

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

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

The disclosure requirements laid down in the CRR regulation and the pertaining guidelines are mainly published via this risk report. In addition, Spar Nord publishes quarterly "Additional Pillar 3 Disclosures" on its website at www.sparnord.com/investor-relations/finansiel-kommunikation/risikorapporter/.

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

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Sektion 1

Introduction

Spar Nord achieved business growth in 2021, both from the acquisition of BankNordik's Danish activities and the growth in the existing business. This growth was further underpinned by the opening of new banks in Solrød Strand and Korsør, and the Bank is also planning to open more new local banks in 2022.

As for the rest of the banking sector, the risk pattern for Spar Nord was marked by COVID-19 as the overriding theme. A mixed news flow characterised the year with volatile asset and energy prices and, not least, rising inflation. Despite our ever-changing world, the Bank performed quite well during the year.

Financial risks

The Bank experienced strong lending growth from both new and existing customers during 2021. The increase in lending was driven by both the acquisition of BankNordik's Danish business and organic growth, which was underpinned by a very high level of activity in the housing market. Risk factors such as housing market regulation and rising interest rates could potentially affect the buoyant housing market. As a result, the Bank retains strong focus on credit risk attached to new loans, supported by an increased level of in-house monitoring and control, which demonstrated an adequate risk level at the Bank in 2021. In addition, the Bank set aside DKK 65 million as a management impairment estimate due to uncertainty as to whether of the rising house prices are sustainable.

In 2021, the Bank suffered only moderate loan losses as a consequence of COVID-19, which was partly the result of the government relief packages, which helped underpin Danish businesses. At the end of 2021, the Bank had still a substantial management impairment estimate relating to the continuing COVID-19 uncertainty of DKK 295 million.

In terms of market risk, the year saw growing uncertainty with periods of strong financial market fluctuations, and rising inflation was the main topic of conversation throughout the year. This is expected to continue into 2022, and it will be interesting to see how the central banks will react. The Bank generally performed quite well during the year owing to buoyant equity markets and sensible investments in interest-bearing instruments.

The Bank retains a comfortable level of cash resources. The short-term Liquidity Coverage Ratio (LCR) has been calculated at 280%, and the long-term Net Stable Funding Ratio at 125%. Both liquidity ratios are thus well above both the statutory requirements and the Bank's own targets.

Retained focus on non-financial risks

Throughout the pandemic, the Bank has taken a cautious approach, as a result of which there have been no major infection outbreaks. Under the circumstances, the day-to-day operations have been relatively unaffected, especially because of

the use of digital tools, which is also confirmed by operational losses reported. Moreover, a number of proactive steps against scammers are starting to take effect, and the Bank's losses relating to external fraud were reduced from 2020 to 2021.

In 2021, the Bank scaled up its IT security efforts as the cybercrime threat remains elevated. There are by now numerous examples of large Danish companies that were struck by cyber-attacks, suffering major financial and reputational consequences, and the Bank is making a dedicated effort in this area.

The increasingly important area of Environmental, Social and Governance (ESG) is reflected in the activities pursued by the Bank. The Bank is focusing on both the product and value propositions offered to our customers and our own climate footprint.

Capital requirement

Spar Nord had a strong capital position at the end of 2021. The common equity tier 1 capital ratio and the own funds ratio were 16.3% and 20.8%, respectively, which is a good deal higher than the Bank's capital targets of 13.5% and 17.5%, respectively. Relative to the capital requirement, the excess coverage is 7.4%-points, or DKK 4.5 billion.

The Bank's capitalisation was affected by positive lending growth in 2021, including the acquisition of BankNordik's Danish business. Profit for the year after tax and before interest on additional tier 1 capital added DKK 1.4 billion. Spar Nord intends to pay a total dividend of DKK 5.00 per share for 2021, equal to DKK 615 million.

The Board of Directors recommends to the shareholders at the Annual General Meeting that initial dividends of DKK 2.50 per share be paid, and that the Board of Directors be authorised to pay up to an additional DKK 2.50 per share before the end of H1 2022.

Overall, the Bank is estimated to have a solid capital position, poised for continued business growth, while also capable of dealing with potential strong fluctuations in macroeconomic trends.

Outlook

In 2022, we will closely monitor customers' ability to repay the government relief packages, and the Bank will do its utmost to help viable companies to survive.

Moreover, we will closely monitor inflation trends, including how interest rates are affected by the inflationary pressure. It is important that we monitor these trends to be able to realign to a potential shift in market rates.

Despite several risk factors, we note that macroeconomic indicators and expectations show that 2022 is likely to bring economic growth and falling unemployment, which would point to a positive outlook for our customers and for our Bank.

Sektion 2

Business model

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

Since 2002, Spar Nord has been dedicated to establishing, and has on several occasions acquired, local banks outside northern Jutland and now has a nationwide distribution network totalling 58 local banks.

Spar Nord's business model is inspired by the franchise concept, in which strongly anchored local ownership is the driver of customer relations and business volume. Our business model thus supports setting up local teams independently and addressing the market through initiatives and marketing. The business model builds on decentralised decision-making powers with a high degree of local autonomy.

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

The Spar Nord Group consists of two earnings entities: Spar Nord's Local Banks, including leases for the business segment and the Trading Division. The Group also has a number of staff and support divisions at the Aalborg headquarters.

Vision and strategy

Spar Nord's starting point is that the Bank's greatest strength, also in an increasingly digital world, remains its ability to be a personal and attentive bank. No matter what tomorrow brings, people will always desire a bank that is close to its customers in every sense of the term, and which knows and understands their needs and wants.

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

As part of its efforts to bring the vision within reach, Spar Nord pursues a strategy that builds on the current trends in the banking market, including digitalisation, low interest rate levels and stricter requirements resulting from new regulation.

Spar Nord bases its strategy on an increasingly digital world and banking market, but a market in which many future customers will still wish to speak personally with an adviser about their important financial decisions.

Customers

Spar Nord's two primary target groups are retail customers and small and medium-sized businesses in the local areas where the Bank has a presence.

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

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

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

Spar Nord generally aims to be the customer's primary banker and that customers conduct their basic banking business with the Bank.

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

Sektion 3

Risk management

Risk assumption is a natural component of banking operations, placing heavy demands on the Bank's risk management organisation and risk management environment. As a result of business activities, Spar Nord is exposed to credit, market and liquidity risk as well as operational risk, including IT, compliance and reputational risk. Risk attaching to climate change is included in the management of the individual types of risk. Strategic and regulatory risk is also a significant focus area.

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.

Disclosure obligations with respect to management systems, cf. Article 435(2)(a)-(c) of the CRR Regulation, are described on pages 28-37 of Spar Nord's Annual Report.

3.1 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 based on the Institute of Internal

Auditors' (IIA) three lines model and is shown in figure 3.1.

3.2 Board of Directors

The Board of Directors handles 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.

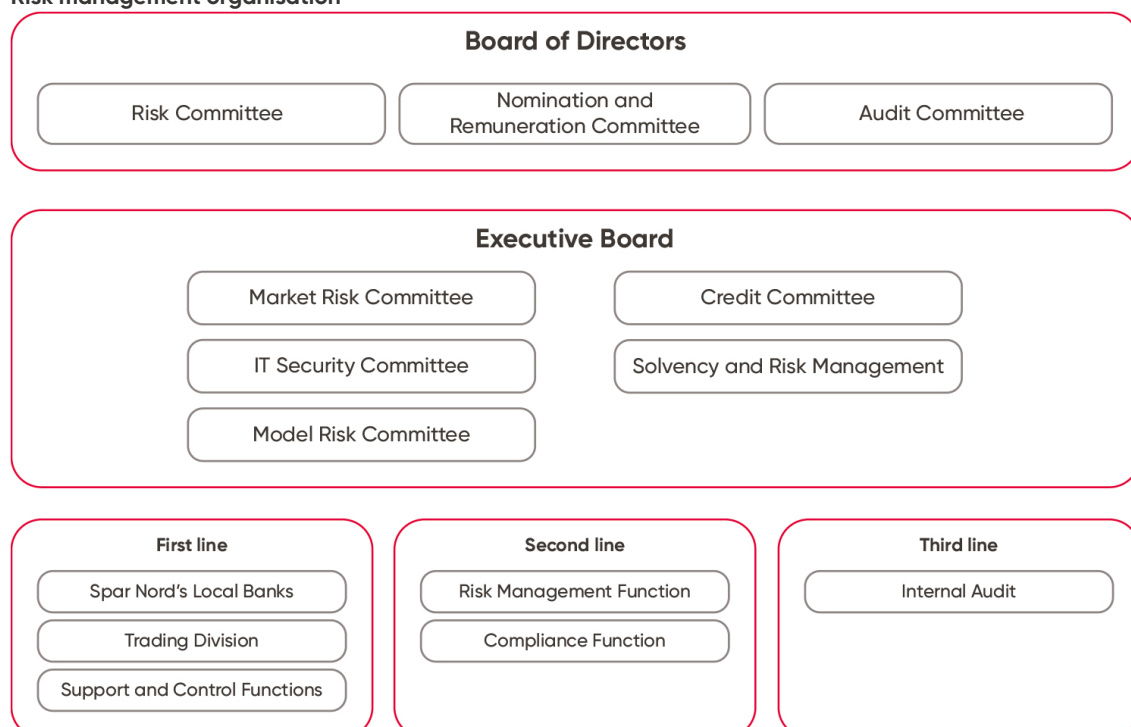
The objective is to ensure cohesion between Spar Nord's vision and strategy while ensuring that the risk profile is appropriate at all times, having regard to the Bank's capital and liquidity situation.

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 and when required, the Board of Directors will assess and update these guidelines.

Figure 3.1

Risk management organisation



Risk management

3.3 Board committees

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

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. A presentation of the board members and their qualifications is provided on pages 33–35 of the Annual Report.

3.3.1 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, guidelines 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 five meetings in 2021.

3.3.2 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 candidates for the Board of Directors and Executive Board.

Regularly, and at least once a year, the Committee evaluates the Board of Directors' and Executive Board's structure, size, composition and results and prepares recommendations for the Board of Directors for any changes.

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 2021.

3.3.3 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 consists of three board members, one of whom is independent and one elected by the employees. The Committee held six meetings in 2021.

3.4 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.

3.5 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.

3.5.1 Solvency and Risk Management Committee

The Solvency and Risk Management Committee is composed of a member of the Executive Board, Trading Division, Credit Department, Finance & Accounts and the risk management function, respectively. 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.

3.5.2 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 the risk management function. 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.

Risk management

3.5.3 IT Security Committee

The IT Security Committee is composed of a member of the Executive Board, the IT department, the risk management function and selected heads of business areas. The Committee serves to advise on and deal with any issues that may arise in relation to the IT security policy and related rules, procedures and contingency plans. The IT Security Committee also addresses the Bank's IT risk profile.

3.5.4 Model Risk Committee

The Model Risk Committee is composed of a member of the Executive Board and representatives from the risk management function and the Credit Department. 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.

3.5.5 Credit Committee

The Credit Committee is composed of two members of the Executive Board and one member from the Credit Department. The Committee deals with credit facilities that exceed the Credit Department'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.

3.6 First line

The business units Spar Nord's Local Banks and Trading Division together with the support and control functions represent the first line. The Bank's day-to-day risk management is handled through risk policies, guidelines, 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, the Bank also has an Anti-Money Laundering (AML) function, which is part of the first line.

3.7 Second line

The second line consists 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.

3.7.1 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 attaching to 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.

3.7.2 Compliance Function

The Compliance Function is charged with assessing and checking Spar Nord's compliance with applicable 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.

3.8 Third line

The Internal Audit Department serves as the third line of defence, which on the basis of the annual plan adopted by the Board of Directors is responsible for planning and performing an operational audit. An operational audit encompasses sample audits of internal processes, business procedures and internal controls in significant and high-risk areas, including in connection with preparing the financial statements.

The Internal Audit Department is also 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 Audit Committee.

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

3.9 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.

Figure 3.2 shows the risk reports submitted to the Board of Directors, including their frequency, use and the primary contents of the reports. The Board of Directors is continually involved in defining the contents to be reported on.

Sektion 3

Risk management

Figure 3.2

Risk policies and guidelines		
Governance	Frequency	
Risk policy	Annually	Data protection policy
		Data governance policy
		Insurance policy
		IT security policy
		Capital policy and Capital contingency plan
		Credit policy
		Liquidity and funding policy and Funding and liquidity contingency plan
		Market risk policy
		Model risk policy
		IT risk management policy
		Operational risk policy
		Policy on risk tolerance and risk-mitigating anti-money laundering measures
		Policy on outsourcing of activity areas
		Policy on Spar Nord's disclosure obligations
		Product policy
Guidelines	Annually	Section 70 instruction – Board guidelines to the Executive Board
Risk reporting		
Risk area	Frequency	
Overall risk management	On an ongoing basis	Audit report: Review of risk areas
	Quarterly	Internal Risk Report: Combined overview of developments in key risks, including strategic and regulatory risks. Monitoring of Spar Nord's risk profile. Follow-up on indicators defined in the recovery plan.
	Quarterly	Individual solvency need (ICAAP): Assessment of the risk profile and calculation of adequate own funds. Conclusions reached in respect of stress test and an assessment of the capital needs in respect of the individual risks. Once a year, an extended version of the report is prepared.
	Quarterly	AML Function: Review of status of controls in relation to compliance with the Danish AML Act.
	Semi-annually	Compliance report: Review of the most significant compliance controls. Progress on ongoing tasks. DPO Report: Review of the most important controls relative to compliance with the GDPR and the Danish Data Protection Act. Progress on ongoing tasks.
Credit risk	Annually	Credit and balance sheet report: Review and analysis of assets, including a specific review of individual exposures. Analysis and assessment of future trends for important lines of business and asset areas.
	Semi-annually	Reporting on credit-weak exposures: Review of weak credit-weak exposures larger than DKK 50 million.
	Monthly	Reporting on credit facility extensions in excess of DKK 10 million. Credit facility extensions in excess of DKK 10 million that have not been considered by the Board of Directors.
	Monthly	Reporting on individual unauthorised overdrafts in excess of DKK 1 million. Overview of all individual unauthorised overdrafts in excess of DKK 1 million.
	Monthly	Reporting on losses in excess of DKK 1 million
	Monthly	Reporting on statistics of unauthorised overdrafts: Overview of unauthorised overdraft statistics in all banking areas.
Market risk	Monthly	Market risk report: Overview of and developments in current interest, equity and foreign-exchange risks Trend in utilisation of the frameworks and instructions defined
Liquidity risk	Monthly	Liquidity report: Overview of and developments in short-term and long-term liquidity risk
	Annually	Calculation and assessment of liquidity position and liquidity risks – internal liquidity adequacy assessment process (ILAAP): Combined calculation and assessment of Spar Nord's liquidity position and liquidity risks. The assessment supports Spar Nord's liquidity management and is a component of the statement of the individual solvency need.
IT risk	Quarterly	Reporting from IT security Significant events after breach of IT security Awareness activities carried out

Capital and solvency need

Developments in 2021

Spar Nord's capital position was affected by business volume growth in 2021, which resulted in mounting risk exposure.

The Bank realised a highly satisfactory results in 2021, which contributed to a continued strong capital position as measured by the realised capital ratios and excess coverage.

The result also entails that the Bank retains a comfortable excess coverage relative to the capital requirement, in spite of a historically high business volume.

On the basis of the highly satisfactory results for 2021, and in accordance with the bank's dividend policy, Spar Nord intends to pay total dividends of DKK 5.00 per share for 2021, equal to 45% of the profit for the year.

The Board of Directors recommends to the shareholders at the Annual General Meeting that initial dividends of DKK 2.50 per share be paid, and that the Board of Directors be authorised to pay up to an additional DKK 2.50 per share.

Total dividends including interest on issued additional tier 1 capital represented 26.5% of profit for the year when assuming a dividend payment of DKK 2,5 per share.

The excess coverage was reduced from 7.6%-points at end-2020 to 7.4%-points at end-2021. The lower excess coverage was primarily the result of a higher business volume. The

Definition of capital requirements

The regulatory capital requirements express the capital a bank must reserve to cover the risk undertaken by the bank as part of its operations in the fields of credit risk, market risk and operational risk.

Spar Nord must ensure that it has access at all times to sufficient capital to support its future business activities and growth. At the same time, Spar Nord must be able to overcome cyclical downturns. The Bank should thus be able to absorb unexpected substantial credit losses, substantial negative changes in the value of market-risk-related positions or losses caused by operational risk events.

TOTAL RISK EXPOSURE AMOUNT

DKK 60.5 billion

2020: DKK 54.9 billion

COMMON EQUITY TIER 1 CAPITAL RATIO

16.3%

2020: 17.2%

OWN FUNDS RATIO

20.8%

2020: 21.0%

INDIVIDUAL SOLVENCY NEED

9.6%

2020: 9.9%

EXCESS CAPITAL COVERAGE IN PERCENT POINTS

7.4

2020: 7.6

LEVERAGE RATIO

8.2%

2020: 8.6%

Capital and solvency need

4.1 Capital policy

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

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

The capital policy defines targets for the common equity tier 1 ratio and the own funds ratio. The capital targets at end-2021 are:

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

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

The capital policy also defines a target for the leverage ratio of at least 6%.

Lastly, the capital policy covers Spar Nord's dividend policy, which in 2021 expressed an intention to distribute ordinary dividends in the range of 30–50% of the net profit for the year.

4.2 Development in capital ratios

Applying the IFRS 9 transitional arrangements, at year-end 2021 Spar Nord had a common equity tier 1 capital ratio of 16.3%, an own funds ratio of 20.8% and an individual solvency need ratio of 9.6%. The excess coverage relative to the capital requirement on both the common equity tier 1 capital ratio and the capital ratio is 7.4%-points.

The calculated capital ratios are shown in figure 4.1 and illustrated in figure 4.3. The excess coverage ratio is also shown in figure 4.1 and further specified in figure 4.12 and figure 4.13.

Figure 4.2 shows the ratios on full phasing-in of IFRS 9.

Figure 4.1

Capital ratios and excess coverage using the IFRS 9 transitional arrangement

%	2021	2020
Common equity tier 1 capital ratio	16.3	17.2
Tier 1 capital ratio	18.3	18.6
Own funds ratio	20.8	21.0
Individual solvency need	9.6	9.9
Percentage points		
Excess coverage, common equity tier 1 capital ratio	7.4	7.6
Excess coverage, own funds ratio	7.4	7.6

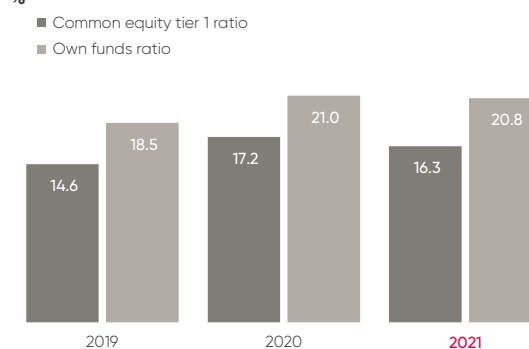
Figure 4.2

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

%	2021	2020
Common equity tier 1 capital ratio	16.1	16.5
Tier 1 capital ratio	18.0	17.9
Own funds ratio	20.5	20.4
Individual solvency need	9.5	9.9
Percentage points		
Excess coverage, common equity tier 1 capital ratio	7.2	6.9
Excess coverage, own funds ratio	7.2	6.9

Figure 4.3

Common equity tier 1 ratio and own funds ratio



4.3 Own funds

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

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

Capital and solvency need

4.3.1 IFRS 9

Spar Nord implemented IFRS 9 in 2018. The new accounting rules resulted in an increase in the total impairment account from 31 December 2017 to 1 January 2018.

As a result of the new accounting rules, a transitional arrangement in relation to the IFRS 9 effect has been incorporated in CRR. This transitional arrangement has subsequently been adjusted due to COVID-19. The transitional arrangement may be applied in order to phase-in the effect of IFRS 9 when calculating own funds. The transition arrangement was originally divided into a static and a dynamic component, but now consists of two dynamic components and one unchanged static component.

- The static component: Reflects the initial cost of changing accounting rules
- Two dynamic components: Reflect the costs caused by any deterioration of the macroeconomic outlook, calculated as current developments in the impairment account for stages 1 and 2 for two different periods. The two periods are 1 January 2018 to 31 December 2019 and 1 January 2020 to the date of calculation.

For capital adequacy purposes, Spar Nord has opted to apply the transitional arrangement relative to both the static and the dynamic component. The Bank has also opted to address the risk exposure by increasing the original exposure by the IFRS 9 effects.

Using the transitional arrangement means that the effect of IFRS 9 after tax is recognised in own funds according to a fixed transitional arrangement that expires at the end of 2024.

The transitional arrangement is shown in figure 4.4. The figure shows that 50% and 100%, respectively, of the calculated IFRS 9 effects after tax could be recycled to common equity tier 1 capital in 2021.

The effect of the selected transitional arrangement is shown in figure 4.4, which shows that the common equity tier 1 capital increased by DKK 174 million at end-2021.

Reference is made to "Additional Pillar 3 Disclosures Q4 2021", tab 4, regarding the impact of IFRS 9.

Figure 4.4

IFRS 9 transitional arrangement

	2019	2020	2021	2022	2023	2024
Transitional arrangement (%)	85	70	50	25	0	0
Transitional arrangement (%) – COVID-19 initiative	-	100	100	75	50	25
Static component in DKKm*	166	136	97	49	0	0
Dynamic component (18-19) in DKKm*	22	18	13	6	0	0
Dynamic component (20-) in DKKm*	0	278	64	-	-	-
Total effect	188	433	174	0	0	0

*) After tax

4.3.2 Issued capital instruments

Spar Nord has issued additional tier 1 capital with a total principal of DKK 1.2 billion, distributed on three loans of DKK 330 million, DKK 600 million and DKK 250 million, respectively. The two latter issuances were made in 2021.

In 2021, additional tier 1 (AT1) capital with a principal of DKK 450 million was repaid. The issued loan was repaid in connection with first call.

Spar Nord has issued tier 2 capital with a total principal of DKK 1.5 billion, distributed on five issues of DKK 436 million (SEK 600 million), DKK 400 million, DKK 350 million, DKK 150 million and DKK 200 million, respectively. The latter issuance was made in 2021.

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

Figure 4.5 provides an overview of capital issues, which are included in the calculation of own funds. See "Additional Pillar 3 Disclosures Q4 2021", tab 3, for more information on issued capital instruments.

Figure 4.5

Additional tier 1 capital and tier 2 capital issued

DKKm	Principal	First call date	Expiry date
Additional tier 1 capital – DK0030465083	330	15.04.2025	Perpetual
Additional tier 1 capital – DK0030484464	600	08.09.2026	Perpetual
Additional tier 1 capital – DK0030495668	250	30.09.2027	Perpetual
Tier 2 capital – NO0010808033	436	18.10.2022	18.10.2027
Tier 2 capital – DK0030422357	400	19.06.2023	19.06.2028
Tier 2 capital – DK0030431341	150	29.05.2024	29.05.2029
Tier 2 capital – DK0030432075	350	29.05.2024	29.05.2029
Tier 2 capital – DK0030495742	200	30.09.2028	30.09.2033

Capital and solvency need

4.3.3 Calculated own funds

As shown in figure 4.6, own funds increased by DKK 1.0 billion in 2021 to DKK 12.6 billion. Own funds were primarily affected by developments in the following areas:

- Profit for the year after tax
- Adjustment for transitional arrangement for dynamic IFRS 9 component and developments in the impairment account
- Provision for expected dividends for 2021
- Increased deductions for intangible assets
- Lower total deductions for insignificant investments in CET1 instruments issued by financial sector entities
- Growth in the value of significant investments in CET1 instruments issued by financial sector entities
- Redemption and issuance of additional tier 1 (AT1) capital
- Issue of tier 2 capital

Profit for the year after tax and before interest on additional tier 1 capital added DKK 1.4 billion. In accordance with the Bank's dividend policy, Spar Nord intends to pay total dividends of DKK 5.00 per share for 2021, equal to DKK 615 million or 45% of the profit for the year.

The Board of Directors recommends to the shareholders at the Annual General Meeting that initial dividends of DKK 2.50 per share be paid, which is why in the calculation of own funds for 2021 only DKK 308 million is set aside. It is the intention that the remaining DKK 2.50 per share be paid before the end of H1 2022 if the Board of Directors assess that no need will arise to strengthen the Bank's own funds due to potential acquisitions.

The deduction for intangible assets increased by DKK 258 million relative to end-2020, mainly due to developments in recognised goodwill, which rose on account of the addition of BankNordik's Danish business.

Spar Nord's combined impairment account in stages 1 and 2 was reduced by DKK 274 million in 2021. Furthermore, the original transitional arrangement will be phased in, as shown in figure 4.4. After tax, the effect of the transitional arrangement applied is reduced by DKK 258 million.

In 2021, net issuance of additional tier 1 (AT1) capital increased by DKK 400 million, and another DKK 200 million was issued in the form of tier 2 capital.

In 2021, DKK 54 million was paid on issued additional tier 1 capital.

As shown in figure 4.6, the total deduction for capital shares increased by DKK 73 million. The increase was mainly driven by a DKK 238 million increase in the value of holdings of significant CET instruments.

The deduction is reduced because of a higher deduction threshold due to an increase in common equity tier 1 capital after deductions. Holdings of insignificant CET1 instruments issued by financial sector entities were at the same level as at year-end 2020.

The distinction between insignificant and significant holdings is defined by the ownership interest. An ownership interest of less than 10% is defined as insignificant holdings, while ownership interests of more than 10% are defined as significant holdings.

Figure 4.6

Calculation of own funds

DKKm	2021	2020
Share capital	1,230	1,230
Retained earnings	9,384	8,266
IFRS 9 transitional arrangement	174	433
Revaluation reserves	113	100
Proposed dividend	-308	-185
Intangible assets	-348	-141
Deduction for NPE Backstop	-17	0
Deduction – Holdings of insignificant CET1 instruments	-56	-132
Deduction – Holdings of significant CET1 instruments	-247	-95
Prudent valuation	-24	-26
Adjustment, permitted holding of treasury shares	-28	-27
Customer holdings of Spar Nord shares based on loan financing	0	0
Common equity tier 1 capital after primary deductions	9,872	9,422
Additional tier 1 (AT1) capital	1,173	773
Deduction – Holdings of insignificant CET1 instruments	-1	-2
Tier 1 capital (incl. additional tier 1 capital) after deductions	11,045	10,193
Tier 2 capital	1,516	1,324
Deduction – Holdings of insignificant CET1 instruments	-2	-3
Own funds	12,558	11,514

Capital and solvency need

4.4 Total risk exposure amount

The total risk exposure amount (REA) is used for determining the minimum capital requirement and also for calculating capital ratios, buffer requirements and the individual solvency need. The risk exposure represents the basis for determining the capital that must be reserved relative to the risk undertaken.

As shown in figure 4.7, the calculation of the total risk exposure amount for credit and market risk is made using the standardised approach. Counterparty risk is measured pursuant to the rules of SA CCR, which was implemented by way of CRR11 30/6 2021, while the exposure to operational risk is calculated using the basic indicator approach. In addition, the comprehensive approach is used for financial collateral.

Figure 4.7

Spar Nord's use of capital models

Credit risk	Standardised approach
Counterparty risk	SA-CRR
Valuation of collateral security	Comprehensive method
Market risk	Standardised approach
Operational risk	Basic indicator approach
CVA – Credit Value Adjustment	Standardised approach
Prudent valuation	The simplified approach

4.4.1 Calculated risk exposure

In 2021, Spar Nord's total risk exposure amount increased by DKK 5.6 billion to stand at DKK 60.5 billion at end-2021. Figure 4.8 shows the calculation of the capital requirement and the total risk exposure amount.

In 2021, the total risk exposure amount for credit risk increased by DKK 4.9 billion to stand at DKK 50.2 billion at end-2021. Of this amount, risk exposure from OTC derivatives with financial counterparties (CVA risk) accounted for DKK 365 million.

The amounts take into consideration the fact that the IFRS 9 transitional arrangement results in higher risk exposure. The effect was calculated at DKK 183 million at end-2021.

Figure 4.8 shows that the increased risk exposure was attributable to developments in exposures primarily against retail customers and secondarily businesses. The main explanation for this development is general business volume growth, including the addition of BankNordik's Danish business.

Risk exposure derived from market risk increased by DKK 146 million to DKK 4.1 billion in 2021, primarily because of a small increase in gross interest rate risk.

See section 7 for a review of developments in market risk. The risk exposure amount for operational risk rose by DKK 580 million to DKK 6.2 billion.

Figure 4.8

Calculation of capital requirements and risk exposure

DKKm	Capital requirement		Risk exposure	
Credit risk, incl. CVA	2021	2020	2021	2020
Central governments or central banks	0	0	0	0
Regional governments or local authorities	0	0	0	3
Public-sector entities	3	3	42	37
Institutions	67	48	840	596
Corporates	1,504	1,410	18,794	17,619
Retail customers	1,554	1,334	19,429	16,681
Exposures secured by mortgage on real property	300	248	3,746	3,105
Exposures in default	64	88	796	1,101
Items associated with particularly high risk	57	67	712	832
Exposures in units or CIU	2	0	19	2
Equity exposures	283	266	3,535	3,325
Other items	151	137	1,886	1,715
CVA risk	29	21	365	262
Total credit risk, incl. CVA	4,013	3,622	50,165	45,277
Market risk				
Debt instruments	300	285	3,744	3,563
Shares, etc.	26	27	319	334
Foreign exchange risk	6	7	75	91
Commodity risk	0	0	2	6
Total market risk	331	320	4,140	3,994
Total operational risk	494	448	6,174	5,594
Total	4,838	4,389	60,479	54,865

4.5 Individual solvency need

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

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

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

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Capital and solvency need

amount of the add-on within the individual risk areas.

Based on the guidelines issued by the Danish Financial Supervisory Authority, the Board of Directors determines Spar Nord's adequate own funds and individual solvency need based on the recommendation of the Solvency and Risk Management Committee. The calculation method follows the guidelines issued by the Danish Financial Supervisory Authority and is based on an assessment of risks within the following areas:

1. Earnings
2. Growth in lending
3. Credit risks
 - Large customers in financial difficulty
 - Concentration risk: Individual customers
 - Concentration risk: Industries
 - Concentration, collateral
 - Concentration, geography
 - Other credit risks
4. Market risks
 - Interest rate risk
 - Equity risk
 - Foreign exchange risk
 - Credit spread risk
5. Liquidity risk
6. Operational risk
7. Leverage
8. Regulatory maturity of capital instruments
9. Large corporates – sensitivity matrix for borrower interest rate risk
10. Other risks
 - The Bank's business profile
 - Strategic risks
 - Reputational risks
 - Properties
 - IFRS 9 transitional arrangement phase-out
 - Deduction in own funds for non-performing exposures

The impact of the individual areas on the solvency need has been calculated in part using the methods designated by the Danish FSA in its guidelines, and partly by making supplementary calculations and own methods.

As shown in figure 4.9, the adequate own funds amounted to DKK 5.8 billion at end-2021, which is DKK 413 million up on end-2020. The increase was attributable to the higher level of risk exposure, while the add-ons were reduced by DKK 36 million.

The total risk exposure amount rose from DKK 54.9 billion at end-2020 to DKK 60.5 billion at end-2021. At end 2021, the solvency need ratio amounted to 9.6%, which means the ratio fell by 0.3 of a percentage point relative to end-2020.

Figure 4.9

Adequate own funds by risk area

DKKm/% of REA*	2021		2020	
Minimum 8% requirement				
Credit risk, incl. CVA	4,013	6.6	3,622	6.6
Market risk	331	0.5	320	0.6
Operational risk	494	0.8	448	0.8
Total	4,838	8.0	4,389	8.0
Add-on to solvency need				
Credit risk	243	0.4	236	0.4
Market risk	430	0.7	505	0.9
Operational risk	250	0.4	242	0.4
Other risks	65	0.1	41	0.1
Any add-on, if required by law	0	0.0	0	0.0
Total add-on	988	1.6	1,024	1.9
Total	5,826	9.6	5,413	9.9

*) Risk Exposure Amount

4.6 Capital buffers

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

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

The capital conservation buffer requirement serves to ensure a more robust financial sector in terms of a strengthened common equity tier 1 capital ratio. The capital conservation buffer requirement has been set at 2.5% of the total risk exposure amount.

The Minister for Industry, Business and Financial Affairs may determine the countercyclical buffer requirement if financial matters are considered to result in higher socio-economic risks.

The institution-specific countercyclical buffer requirement has been released for Danish exposures since March 2020. Following up on a recommendation by the Systemic Risk Council, in June 2021 the Danish Minister for Industry, Business and Financial Affairs decided to reactive the countercyclical capital buffer at a rate of 1.0% for Q3, effective from 30 September 2022. In December 2021, the Minister stated that he intends to raise the countercyclical capital buffer by an additional 1.0%-point from Q4 2021, so

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Capital and solvency need

that the countercyclical capital buffer at end-2022 will be 2.0% for Danish exposures.

As a SIFI institution, Spar Nord must also comply with an additional capital buffer requirement determined on the basis of how systemically important Spar Nord is in the Danish banking sector. The SIFI buffer requirement at end-2021 is set at 1.0% of the total risk exposure amount.

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

4.6.1 Calculated combined buffer requirement

At end-2021, the combined capital buffer requirement consists of the requirements for the capital conservation buffer, the countercyclical buffer and the SIFI buffer. The calculated combined buffer requirement is shown in figure 4.10.

Figure 4.10

Combined buffer requirement

	2021	2020
Total risk exposure amount (DKKm)	60,479	54,865
Capital conservation buffer requirement (%)	2.5	2.5
Institution-specific countercyclical buffer requirement (%)	0.0	0.0
SIFI buffer requirement (%)	1.0	1.0
Capital conservation buffer requirement (DKKm)	1,512	1,372
Institution-specific countercyclical buffer requirement (DKKm)	2	2
SIFI buffer requirement (DKKm)	605	549
Combined buffer requirement (DKKm)	2,119	1,922

As shown in figure 4.10, the combined buffer requirement increased by DKK 197 million in 2021. This was a combination of an increase in the capital conservation buffer requirement and the SIFI buffer requirement, which are both raised because of a greater risk exposure.

The capital conservation buffer requirement is calculated on the basis of the total risk exposure amount, and at end-2021 it stood at 2.5% of the total risk exposure amount. The percentage requirement was unchanged compared with end-2020.

The institution-specific countercyclical buffer requirement was DKK 2 million at end-2021. The buffer was calculated on the basis of the geographic distribution of the Bank's credit exposure. The breakdown of credit exposures relevant for calculating the countercyclical buffer is shown in figure 4.11. The figure shows that the Bank is principally exposed to Denmark.

Figure 4.11

Geographical breakdown of credit exposures

%	2021		2020	
	Exposure	Buffer rate	Exposure	Buffer rate
Denmark	96.8	0.0	96.8	0.0
Germany	1.1	0.0	1.0	0.0
Sweden	0.2	0.0	0.3	0.0
Norway	0.3	1.0	0.4	1.0
United Kingdom	0.1	0.0	0.3	0.0
USA	0.2	0.0	0.1	0.0
Other countries	1.4	0.0	1.2	0.0

The SIFI buffer requirement has been set at 1.0% of the total risk exposure amount.

The standard layout to be used for publishing information regarding compliance with the requirement as to a countercyclical capital buffer appears from "Additional Pillar 3 Disclosures Q4 2021", tabs 16-17.

4.7 Excess coverage relative to capital requirement

Figure 4.12 shows that the common equity tier 1 capital ratio at end-2021 was 16.3%, which equates to an excess coverage of 7.4 percentage points relative to the CET1 capital requirement.

At end-2021, the own funds ratio stood at 20.8%, corresponding to an excess coverage of 7.4 percentage points relative to the total capital requirement, as shown in figure 4.13.

Figure 4.12

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

DKKm/% of REA*	2021		2020	
Basic requirement of 4.5%	2,722	4.5	2,469	4.5
Add-on to solvency need	556	0.9	576	1.0
Combined buffer requirement	2,119	3.5	1,922	3.5
Capital requirement from additional tier 1 capital	0	0.0	244	0.4
Capital requirement from tier 2 capital	0	0.0	33	0.1
Capital requirements	5,396	8.9	5,244	9.6
Common equity tier 1 capital	9,872	16.3	9,422	17.2
Excess coverage	4,476	7.4	4,178	7.6

*) Risk Exposure Amount

Figure 4.13

Excess coverage relative to capital requirement

DKKm/% of REA*	2021		2020	
Minimum 8% requirement	4,838	8.0	4,389	8.0
Add-on to solvency need	988	1.6	1,024	1.9
Combined buffer requirement	2,119	3.5	1,922	3.5
Capital requirements	7,945	13.1	7,335	13.4
Own funds	12,558	20.8	11,514	21.0
Excess tier 2 capital	-137	-0.2	0	0.0
Excess coverage	4,476	7.4	4,178	7.6

*) Risk Exposure Amount

Capital and solvency need

4.8 Leverage ratio

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

The implementation of CRR II 30/6 2021 resulted in a 3.0% threshold, corresponding to a maximum leverage of about 33 times the tier 1 capital. Spar Nord complies with this target and with its own minimum target of 6% by a fair margin, as its leverage ratio was calculated at 8.2% at end-2021, as shown in figure 4.14. This calculation was made based on the calculated own funds, which complies with the rules for a transitional IFRS 9 arrangement. Using a core capital calculated relative to a fully phased-in set of rules, the leverage ratio would be calculated at 8.1%.

Figure 4.14

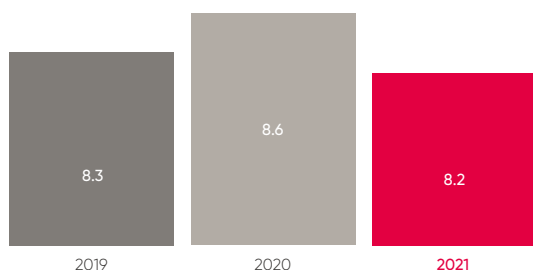
Leverage ratio

%	2021	2020
Leverage ratio – IFRS transitional arrangement	8.2	8.6
Leverage ratio – fully phased-in IFRS 9	8.1	8.3

Figure 4.15 shows the calculated leverage ratio for the period 2019–2021.

Figure 4.15

Leverage ratio



4.9 Minimum requirement for eligible liabilities

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

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

BRRDII is an updated Bank Recovery and Resolution Directive implemented in Danish legislation at the end of 2020 and resulting in additional adjustments to the phasing in of the MREL requirement as from the beginning of 2022. The MREL requirement is divided into two components:

- Loss absorption amount: Determined as the solvency need
- Recapitalisation amount: Determined as the solvency need plus the combined buffer requirement with the exception of the countercyclical buffer requirement.

In addition, Spar Nord must comply with a special requirement equal to the combined buffer requirement. See section 4.6.

At the beginning of 2022, the MREL requirement was phased in by 80% and will be phased in by another 10%-points in early 2023. At the beginning of 2024, the MREL requirement will be fully phased in. The separate requirement has been fully phased in equal to the combined buffer requirement, which is described in section 4.6.

The Danish FSA has determined Spar Nord's MREL at 19.9% at 1 January 2022. Fully phased-in, the MREL has been determined at 23.2% at 1 January 2024. The MREL requirement is calibrated in an ongoing process so that the calibrated requirement is adjusted to applicable buffer requirements and the currently calculated solvency requirements. The calibrated MREL requirement at 1 January 2022 is higher than the requirement determined by the Danish FSA and is shown in figure 4.16.

At 1 January 2022, the MREL requirement was calibrated to 20.1%, and a fully phased-in MREL requirement is calculated at 22.8%. The fully-phased in calibrated MREL requirement is calculated at a lower amount than the requirement set by the Danish FSA.

Figure 4.16

MREL and buffer requirement – calibrated

%	01/01/2022	01.01.24
Solvency ratio	9.6	9.6
Requirement for loss-absorption amount	9.6	9.6
Solvency ratio	9.6	9.6
Capital conservation buffer requirement	2.5	2.5
SIFI buffer requirement	1.0	1.0
Phasing in	-2.6	0.0
Requirement for recapitalisation amount	10.5	13.1
Total MREL	20.1	22.8
Capital conservation buffer requirement	2.5	2.5
SIFI buffer requirement	1.0	1.0
Countercyclical buffer requirement	0.0	2.0
Total MREL and combined buffer requirement	23.6	28.3

Capital and solvency need

It is expected that the MREL in all material aspects will be met with convertible instruments ("contractual bail-in"), including common equity tier 1 capital 1, additional tier 1 and tier 2 capital, with a term to maturity of more than 12 months. In addition, capital defined as Senior Non-Preferred may be used. Senior Non-Preferred ranks ahead of the existing capital instruments (common equity tier 1 (CET1) capital, tier 1 and tier 2 capital), and must also have a term to maturity of more than 12 months.

It is also possible to comply with the requirement by partly using senior issues, always provided that the subordination requirement is complied with in accordance with BRRDII.

The subordination requirement defines the scope of how large a proportion of the capital base which must be subordinated. Compliance with the separate requirement by way of the combined capital buffer requirement forms part of the compliance with the subordination requirement. The Danish FSA has Spar Nord's subordination requirement at 19.9% at 1 January 2022 and 24.2% at 1 January 2024.

Spar Nord had not recognised senior issues in its eligible liabilities at end-2021. At end-2021, Spar Nord had issued Senior Non-Preferred (SNP) bonds for DKK 4.8 billion. In 2022, the Bank expects to issue additional Senior Non-Preferred bonds to the tune of DKK 2 billion.

Spar Nord's issue of Senior Non-Preferred is distributed on seven issues in the currencies DKK, SEK and NOK. The issue amounts were DKK 1.8 billion, SEK 2.1 billion (DKK 1.5 billion) and NOK 2.2 billion (DKK 1.6 billion).

Figure 4.17 provides an overview of Spar Nord's Senior Non-Preferred issues.

Figure 4.17

Issued Senior Non-Preferred (SNP)

DKKm	Principal	First call date	Expiry date
SNP bonds - DK0030454129	1,350	05.12.2024	05.12.2025
SNP bonds - DK0030454202	400	05.12.2024	05.12.2025
SNP bonds - DK0030489349	581	26.05.2025	26/05/2026
SNP bonds - DK0030454046	908	05.12.2022	05.12.2023
SNP bonds - NO0011002537	560	26.05.2027	26.05.2028
SNP bonds - NO0011002602	709	26.11.2025	26.11.2026
SNP bonds - NO0011037434	373	30.06.2031	30.06.2032

On the basis of Spar Nord's total risk exposure amount at end-2021, the excess coverage with respect to the total MREL and combined buffer requirement is calculated at DKK 3.1 billion, which equals an excess coverage of 5.1 percentage points relative to the calibrated MREL requirement at 1 January 2022. This is shown in figure 4.18. The defined and calibrated requirements were both met at 1 January 2022.

Figure 4.18

Excess coverage, calibrated MREL requirement

DKKm/%	01/01/2022
Own funds	12,558
Non-preferred senior capital	4,822
Other MREL-eligible liabilities	0
Total capital	17,380
Deduction – separate combined buffer requirement	-2,119
Total MREL-eligible liabilities	15,261
MREL and combined buffer requirement	14,299
MREL requirement	12,181
Excess coverage, MREL requirement	3,081
MREL and combined buffer percentage	28.7
NEP (%)	25.2
Excess coverage, MREL requirement in %-points	5.1

Capital and solvency need

4.10 Internal ratings-based models

Spar Nord has applied internal models in its credit risk management for more than ten years, and since 2018 the Bank has worked intensively to prepare an application for permission to switch to the use of internal ratings-based models (IRB) for calculating risk exposure derived from credit risk. This is based on the SIFI designation, which has resulted in a wish to further balance the Bank's credit risk management approach.

The Bank currently employs the standard method for calculating its risk exposure. By using internal ratings-based models, the Bank may allocate appropriate risk weights for its credit risk assets. Owing to the generally strong credit quality of Spar Nord's exposures, it is expected that Spar Nord may achieve lower risk weights, thus attaining a more appropriate capital application. These expected lower risk weights will contribute to underpinning the Bank's competitive strength going forward.

In 2022, Spar Nord expects to complete the strategic project, which in 2023 is to pave way for implementing internal rating-based models (IRB) and from 2024 provide the basis for a more optimum capital application.

4.11 Future legislation

In Q4 2021, a bill was published regarding new rules for calculating risk exposure. The new rules (CRR III) will entail significant changes to the current practice.

CRR III will lead to regulatory changes in all areas related to the calculation of risk exposure.

- Credit risk
- Market risk
- Operational risk
- CVA (Credit Valuation Adjustment)
- Leverage ratio requirements for SIFI institutions
- Handling of IRB modelling

Spar Nord expects it must be able to handle new regulatory requirements concerning credit risk, market risk, operational risk and CVA at the beginning of 2025.

Liquidity risk and funding

Developments in 2021

At end-2021, Spar Nord's liquidity situation has been strengthened relative to 2020. The LCR thus stood at 280% at end-2021, against 241% at end-2020. At end-2021, NSFR was calculated at 125%. The strategic liquidity is calculated at DKK 33.0 billion, which is an increase of DKK 3.0 billion compared with 2020.

At end-2021, Spar Nord's total funding amounted to DKK 84.5 billion, which is an increase of DKK 7.5 billion relative to 31 December 2020. Deposits at end-2021 accounted for 75% of the total funding, thus remaining the Bank's most significant source of funding.

LIQUIDITY COVERAGE RATIO (LCR)

280%

2020: 241%

NET STABLE FUNDING RATIO (NSFR)

125 %

STRATEGIC LIQUIDITY

DKK 33 billion

2020: DKK 30 billion

ASSET ENCUMBRANCE RATIO

1.7%

2020: 4.3%

Definition of liquidity risk

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.

Spar Nord Bank is generally exposed to liquidity risks when lending, investment and funding activities result in a cash flow mismatch.

5.1 Liquidity and funding policy

The liquidity and funding 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 the business model.

The aim of the liquidity and funding policy is to ensure that the Bank has a liquidity risk that always bears a natural relation to Spar Nord's overall risk profile. In addition, the liquidity and funding policy is intended to ensure that the Bank 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 Bank's Liquidity Coverage Ratio (LCR) to amount to at least 125% in compliance with the regulation on LCR. The Bank has defined a target of maintaining a Net Stable Funding Ratio (NSFR) above 105%. In addition, Spar Nord aims to stay below the funding ratio and liquidity benchmark threshold values in the Supervisory Diamond.

Liquidity risk and funding

Figure 5.1

Liquidity management at Spar Nord

	Short-term liquidity management		Liquidity stress test	Management of funding sources and needs	Funding profile	Long-term liquidity management	Long-term liquidity management
Area	Management of intraday liquidity	Ratio 30-day rule	Liquidity stress test	Liquidity projection	Funding structure	Strategic liquidity	Net Stable Funding Ratio
Management tool	Calculation of intraday liquidity	GAP analysis/ Simulation tool	GAP analysis/ projection	GAP analysis/ projection	GAP analysis	GAP analysis	GAP analysis
Objective	Ensuring that, in the short operational term, the Bank will be able to meet its obligations at all times	Ensuring that, in the short term (30 days), the Bank has adequate high-quality liquid assets to withstand a tough stress scenario	Ensuring that the Bank becomes aware in due time of future liquidity and refinancing risks	Ensuring that the Bank has a diversified and balanced funding structure and refinancing risk	Ensuring that the Bank has a funding structure that matches its risk appetite on the funding side	Ensuring that the Bank has hedged any long-term mismatch between deposits and lending	Ensuring that the Bank maintains a balance between available stable funding relative to the need for stable funding
	Ensure compliance with intraday liquidity	Ensuring compliance with the Liquidity Coverage Ratio (LCR), see CRR	Stress tests are prepared for a 12-month term	Ensuring that the Bank maintains an overview of future funding needs broken down by funding sources		Ensuring compliance with the Danish FSA's Funding Ratio (as per the Diamond Test Model)	Ensuring compliance with the Net Stable Funding Ratio (as per CRR)
Determination of risk level	Decentralised instruction target	Decentralised instruction target	Decentralised instruction target	Decentralised instruction target	Decentralised instruction target	Decentralised instruction target	Decentralised instruction target
Transactional entity	Markets	Markets	Executive Board	Executive Board	Executive Board	Executive Board	Executive Board
Controlling entity	Market risk and liquidity	Market risk and liquidity	Market risk and liquidity	Finance and accounting	Finance and accounting	Finance and accounting	Market risk and liquidity
Reporting entity	Risk management	Risk management	Risk management	Risk management	Risk management	Risk management	Risk management
Reporting frequency	Monthly	Monthly	Quarterly	Quarterly	Monthly	Monthly	Quarterly

5.2 Management, monitoring and reporting

Based on 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.

5.3 Short-term Liquidity

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

As shown in figure 5.3 and illustrated in figure 5.2, LCR was calculated at 280% at end-2021, which is well above the target LCR of at least 125%. The excess coverage of 155 percentage points relative to the target corresponds to DKK 14.2 billion in excess liquidity. Calculated relative to the statutory requirement of 100%, the excess liquidity amounted to DKK 16.5 billion. At end-2020, LCR was calculated at 241%.

Figure 5.2

Liquidity Coverage Ratio (LCR)

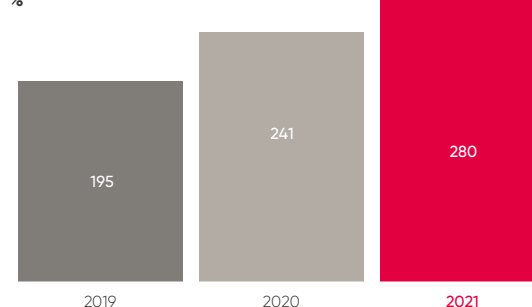


Figure 5.3

Liquidity Coverage Ratio (LCR)

DKKm	2021	2020
Liquidity resources	25,688	23,844
Liquidity Coverage Requirement	9,161	9,876
LCR (%)	280	241

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).

Reference is made to "Additional Pillar 3 Disclosures Q4 2021", tab 30, regarding Liquidity Coverage Ratio.

Liquidity risk and funding

5.4 Long-term liquidity

Strategic liquidity is calculated as deposits excl. repo transactions, senior loans, issued bonds, subordinated debt and equity less lending excl. reverse repo transactions. However, subordinated debt, additional tier 1 capital, senior loans and issued bonds with a contractual due date within 12 months are not included in the calculation of strategic liquidity.

At end-2021, Spar Nord had strategic liquidity of DKK 33.0 billion. This level reflects strengthened liquidity of DKK 3.0 billion relative to end-2020, when strategic liquidity was calculated at DKK 30.0 billion.

Developments in strategic liquidity in 2021 are illustrated in figure 5.4, and figure 5.5 shows developments in the period 2019-2021.

Compared with 2020, the Bank increased its deposits by DKK 5.7 billion, while senior loans and bond issues increased by DKK 2.2 billion. During the same period, there was an increase in lending, which reduces strategic liquidity by DKK 6.6 billion. Finally, equity and subordinated debt adds DKK 1.7 billion to strategic liquidity.

Figure 5.4
Development in strategic liquidity
DKKbn

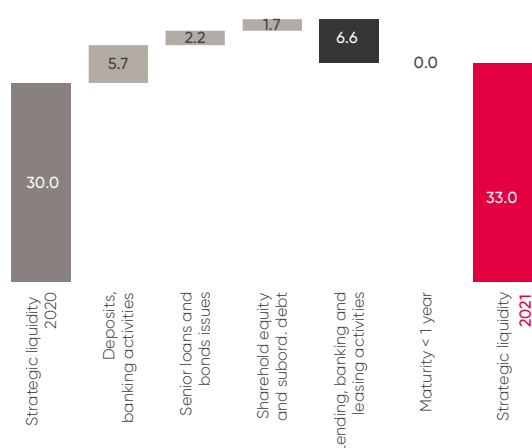
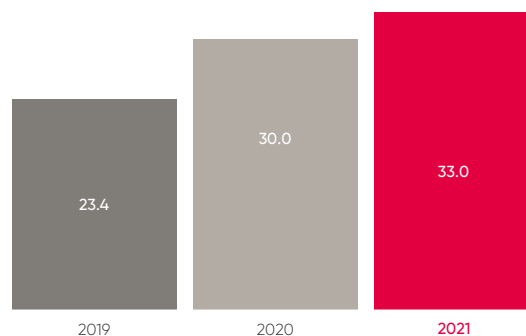


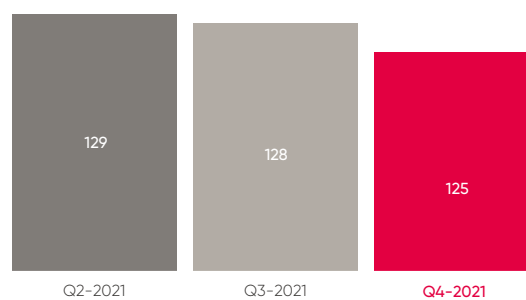
Figure 5.5
Strategic liquidity
DKKbn



NSFR has been calculated and reported since the end of June 2021 in accordance with applicable legislation and is reported each quarter to the Danish FSA. Figure 5.6 shows an overview of NSFR for the past three quarters.

At end-2021, NSFR was calculated at 125%, which is comfortably above the Bank's target of 105%. The excess coverage of 20 percentage points relative to the target corresponds to DKK 15.5 billion in excess liquidity. Calculated relative to the statutory requirement of 100%, the excess liquidity amounted to DKK 19.3 billion.

Figure 5.6
Net Stable Funding Ratio (NSFR)
%



Liquidity risk and funding

5.5 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 the Bank's internal targets throughout the period.

Figure 5.7 and figure 5.8 show the result of a liquidity projection in a severe stress scenario, in which Spar Nord operates with a 3-month survival period in its liquidity management. In addition to money and capital market funding falling due, the stress scenario includes a massive stress on the deposit base, continued lending growth and stress on the bond portfolio.

At end-2021, the projection in figure 5.7 shows that liquidity resources will be reduced by DKK 7.7 billion over the 12-month projection period, and figure 5.8 also shows that in a severe stress scenario the Bank complies with the LCR statutory requirement in the full 12-month projection period.

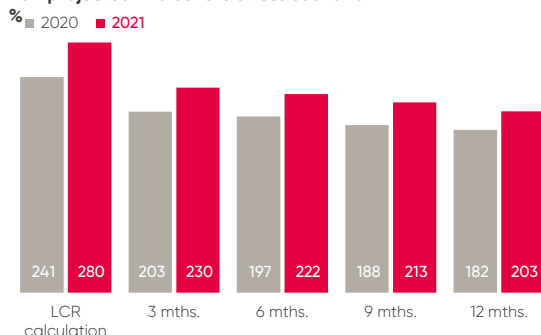
Figure 5.7

Run-off of liquidity resources in a severe stress scenario

DKKm / %	Liquidity resources		Accumulated run-off	
	2021	2020	2021	2020
Calculation period	25,688	23,844		
3 months	22,258	19,407	-13.4	-18.6
6 months	21,179	18,441	-17.6	-22.7
9 months	19,785	17,046	-23.0	-28.5
12 months	17,976	16,111	-30.0	-32.4

Figure 5.8

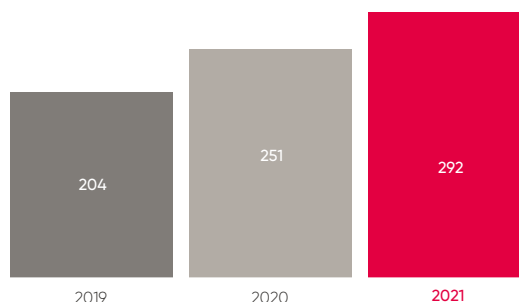
LCR projected in a severe stress scenario



5.6 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, as witnessed by the historical comparison in figure 5.9.

Figure 5.9
Liquidity indicator %

5.7 Funding and maturity structure

Spar Nord's operations are predominantly funded through four funding sources:

- Customer deposits
- Loans or repo transactions from other credit institutions and Danmarks Nationalbank (the central bank of Denmark)
- Issued bonds and senior loans, including Senior Non-Preferred
- Subordinated debt and equity

Spar Nord's funding structure is shown in figure 5.10. From an overall perspective, the Bank's funding at end-2021 increased by DKK 7.5 billion to DKK 84.5 billion compared with end-2020. The principal change in Spar Nord's funding is a DKK 5.4 billion increase in deposits (incl. repo), which was primarily driven by the acquisition of BankNordik's Danish business. Deposits remain Spar Nord's largest source of funding, and at end-2021 it represented 75% of Spar Nord's total funding.

Figure 5.10

Funding structure

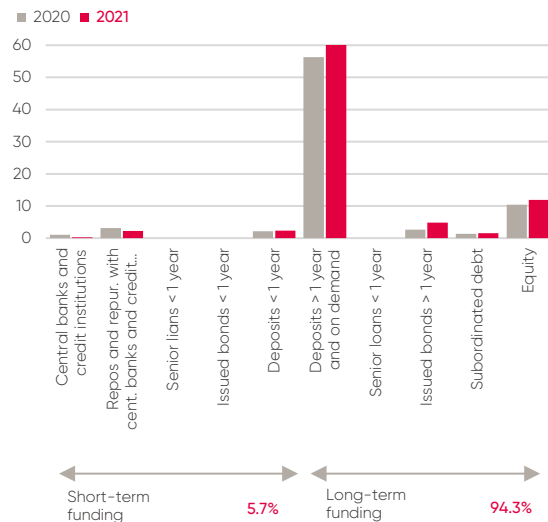
DKKm/%	2021	2020	2021	2020
Central banks and credit institutions	267	1,065	0.3	1.4
Repos and repurchases with central banks and credit institutions	2,185	3,102	2.6	4.0
Senior loans < 1 year	0	0	0.0	0.0
Issued bonds < 1 year	0	0	0.0	0.0
Deposits < 1 year	2,363	2,121	2.8	2.8
Deposits > 1 year and on demand	61,412	56,295	72.7	73.1
Senior loans > 1 year	0	0	0.0	0.0
Issued bonds > 1 year	4,845	2,670	5.7	3.5
Subordinated debt	1,523	1,333	1.8	1.7
Equity	11,924	10,390	14.1	13.5
Total	84,519	76,976	100.0	100.0

Liquidity risk and funding

As shown in figure 5.11, Spar Nord's total long-term funding (deposits on demand and funding with a term to maturity of more than 12 months) amounted to 94.3% at year-end 2021, which is close to the level of year-end 2020.

Figure 5.11

Funding structure
DKKbn

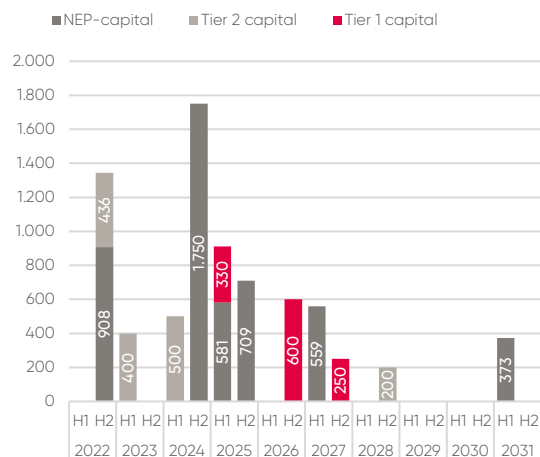


The work to ensure a balanced future maturity structure on capital market funding represents a key element in the Bank's management of long-term liquidity and funding risk.

Figure 5.12 shows the Bank's maturity structure for capital market funding at end-2021. The maturity structure was prepared based on first call date on the capital market issues.

Figure 5.12

Maturity structure for capital market funding
DKKm



5.8 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 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 guidelines with difficulty and with resulting sharply increased funding costs.

5.9 Encumbered assets

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

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

The primary sources of asset encumbrance are:

1. Encumbrance triggered by activities in the securities market:
 - Repo and reverse repo transactions
 - Repurchase transactions with Danmarks Nationalbank
 - Securities lending
2. Collateral for derivative transactions:
 - CSA collateral for the market value of derivative transactions
 - CSA collateral for the clearing of derivative transactions
 - Collateral for stock lending
3. Other assets:
 - Collateral furnished with clearing systems
 - Paid-in margins and default funds
 - Offsetting, cf. netting agreements
 - Security provided for mortgage loans

The primary collateral received derives from reverse repo transactions, which is lending against security – most often Danish mortgage bonds.

Sektion 5

Liquidity risk and funding

Figure 5.13 shows the asset encumbrance ratio at year-end and an average for 2021 and 2020.

Figure 5.13

Asset encumbrance ratio

DKKm	End of year		Average	
	2021	2020	2021	2020
Encumbered assets	2,847	4,643	2,214	4,515
Assets and collateral	131,431	112,533	127,390	106,201
Asset encumbrance ratio	2.2	4.1	1.7	4.3

The average asset encumbrance ratio amounts to 1.7% of the total assets plus collateral received that can form the basis for encumbrance in 2021. This is 2.6 of a percentage points lower than in 2020, when the average ratio was 4.3%.

Reference is made to "Additional Pillar 3 Disclosures Q4 2021", tabs 33–36, regarding encumbered assets.

5.10 Rating

Spar Nord's rating with Moody's is unchanged with a stable outlook and the following ratings:

- Baseline credit assessment: baa1
- Bank deposit rating: A1 / P-1
- Senior unsecured: A1
- Senior Non-Preferred: A3

Sektion 6

Credit risk

Developments in 2021

Spar Nord experienced an increase in gross lending of DKK 6.5 billion excl. reverse repo business in 2021. The increase covers an increase of DKK 2.2 billion to retail customers and DKK 1.0 billion in lease loans as well as a DKK 3.2 billion increase in loans to business customers, including public-sector companies and financial customers.

The increase in retail customer activity was driven by factors such as customer inflows, including the acquired BankNordik activities, and a high level of activity especially in the housing market. The increase in business customer loans was mainly driven by drawings on operating credit lines and the expiry of various COVID-19 relief packages.

Spar Nord does not have substantial exposure to individual industries that are particularly challenged by COVID-19.

The management estimate to accommodate potential losses due to COVID-19 has been reduced by DKK 25 million relative to end-2020 to DKK 295 million at end-2021.

The facilitation of mortgage loans developed favourably in 2021 with an increase of DKK 17.3 billion (18.3%), driven principally by positive trends in lending to retail customers, including acquired BankNordik business.

The total profit impact from losses and impairment charges was an income of DKK 120

Definition of credit risk

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

Credit risk also includes settlement and counterparty risk. Settlement risk is the risk arising when payments are settled, such as payments in respect of currency transactions and transactions in financial instruments. The risk arises when Spar Nord transfers payments before it has attained full assurance that the counterparty has met all its obligations. Counterparty risk is the risk of loss resulting from a customer's default on over-the-counter derivatives and securities financing instruments.

RISK EXPOSURE, CREDIT

DKK 50.2 billion

2020: DKK 45.3 billion

LOANS EXCL. REVERSE (GROSS)

DKK 50.6 billion

2020: DKK 44.1 billion

IMPAIRMENT RATIO (IMPACT ON OPERATIONS)

-0.15%

2020: 0.44%

TOTAL IMPAIRMENT RATIO (EXCL. REVERSE REPO BUSINESS)

2.3%

2020: 2.9 %

NPL RATIO

2.8%

2020: 3.4%

SUSPENDED-INTEREST LOANS

0.3%

2020: 0.4%

UNSECURED SHARE (EXCL. REVERSE REPO TRANSACTIONS)

27.7%

2020: 29.7%

Credit risk

6.1 Credit policy

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

It is the Bank'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. In addition, the Bank applies the basic rule of not granting loans and credit facilities based on collateral alone. Thus, the customer should show the determination and have the ability to repay loans without the Bank having to realise the collateral. 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. The Bank only wants to conclude transactions that conform to good banking practice and do not jeopardise the Bank's reputation or professional image.

Climate and sustainability considerations are included in the assessment of retail and business customers. 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 better foundation for tackling the challenges imposed by rising climate considerations. A satisfactory climate profile is considered a favourable component in the assessment of customers.

In the efforts to ensure sound risk diversification of the Bank's credit exposure, a number of internal credit targets have been defined.

In order not to lose its ability to act 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 in the first bullet.
- 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.

The Bank pursues the policy that business customers' share of total loans, advances and guarantees excl. reverse lending cannot exceed 70% of total loans, advances and guarantees.

This means the Bank has set a minimum limit of 30% for retail customers' share of total loans and advances guarantees. There is 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.

To ensure an adequately diversified customer portfolio and prevent large concentration risks in individual industries, targets have been set for the maximum distribution of loans, advances and guarantees to selected industries. The exposure targets are shown in figure 6.1.

Figure 6.1

Exposure target for industries

%	Maximum share of total loans, advances and guarantees
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)

Sektion 6

Credit risk

In addition, Spar Nord has defined a target that the sum of the 20 largest customers must not account for more than 150% of the Bank's common equity tier 1 capital, which at end-2021 was calculated at DKK 9.5 billion. See figure 4.6 in section 4.

The credit policy includes a principle that the Bank wants insight into any exposures that its customers may have towards other financial institutions.

Spar Nord has defined rules for the financing of rental properties and commercial properties, which are shown in figure 6.2.

Figure 6.2

Threshold values for property rental

	Solvency ratio (%)	Return on debt (%)	Debt service ability
Residential rental property	> 20	> 5	> 1.2
Rental all-year residences with less than 4 units	> 50	> 10	> 2.5
Office/retail	> 25	> 6	> 1.4
Other (industry/skilled trades, etc.)	> 30	> 7	> 1.4

The main rules for project financing of properties are shown in figure 6.3.

Figure 6.3

Project financing of properties

%	Maximum loan-to-value ratio (LTV)*
Projects sold	100
Projects rental	80
Projects not sold or rentet	50
Land purchase – crude soil	50
Land purchase – developed soil	50

*) Maximum LTV of cost price

6.2 Management, monitoring and reporting

Although Spar Nord's business model is characterised by decentralised decision-making powers, the credit process is managed centrally.

The decentralised lending powers are structured in such a way that there is a strongly reduced facilitation authorisation right for new business customers compared with existing business customers. In the retail customer segment, the right to authorise facilities builds on the application score (when required) or the customer's rating. The powers of authority to grant loans in the credit area are governed by two factors:

- The individual local managers' ability and requirements with respect to customer base.
- Ensuring that large exposures and/or more risky exposures from the local banks are always dealt with and granted by the Credit Department.

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 the Credit Department, the Credit Committee or the Board of Directors. The Credit Department may authorise credit lines up to DKK 50 million for existing customers and DKK 25 million for new customers. 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 credit risk exposure is managed by the risk management function, which oversees changes in the credit quality of all exposures and undertakes systematic credit quality control of the credit portfolio.

New exposures to recently defined retail customers in excess of DKK 100,000 and business customer exposures in excess of DKK 300,000 are systematically screened in order to analyse credit quality and risk to the customers in question. This development is reported at the Bank's quarterly credit quality meetings, at which the Executive Board, the Credit Department and the risk management function are represented. The need for additional sampling/examination of new retail and business customers is assessed on an ongoing basis.

The Bank's rating system regularly calculates a statistically based rating of both retail and business customers. This monthly updated rating 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 over-drafts 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.

Sektion 6

Credit risk

The probability of default is estimated on the basis of statistical models adapted to the individual customer segment. On the 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) with no breach of contract or need for writedown in the most likely scenario 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 remaining customers with exposures that have still not been rated and customers who exclusively have unutilised credit facilities or only have guarantees, are placed in the "Unrated" rating category.

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 history.
- A cyclical component that adjusts the risk classification to current and expected cyclical developments.

New business customers are classified based on the accounting and cyclical components during the first sixth months, after which time the behavioural component is also applied in the overall rating.

New retail customers are risk-classified according to an application scoring model that is based on classical credit performance indicators, such as assets, pay, debt factor and disposable income. This model is based on a combination of a statistical and an expert model (application score). An application score is active for six months, after which the customer rating is transferred to the behavioural model (statistical model).

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 repeated unauthorised overdrafts or critical illness. For business customers, the signs of default could be earnings challenges, mistrust in management, the loss of key employees, repeated unauthorised overdrafts or loss of major supplier agreements and customers. 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.

Retail customers flagged as having a weak credit quality but are not in default will automatically be

downgraded by one rating category; However, a customer flagged as having a weak credit quality can never be placed in one of the two 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 separately 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).

6.3 Credit Exposure

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

Figure 6.4 shows total credit exposure (carrying amount) at end-2021 and end-2020.

Figure 6.4

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

DKKm	2021	2020
Lending, reverse repo transactions	12,850	9,819
Lending, banking and leasing activities	49,086	42,494
Loans, advances and other receivables at amortised cost	61,936	52,312
Contingent liabilities	17,566	15,591
Net credit exposure relating to loans, advances and guarantees	79,502	67,903
Impairment of loans and provisions against guarantees, etc.	1,582	1,699
Gross credit exposure relating to loans, advances and guarantees	81,084	69,603
Cash balances and demand deposits with central banks	1,855	1,126
Balances at notice with the central bank	0	61
Reverse repo transactions with credit institutions	1,515	343
Due from credit institutions and central banks	971	855
Credit exposure for financial reporting purposes lending activities	83,842	70,289
Positive fair value of derivatives, etc.	542	777
Credit exposure relating to assets in the trading book	19,169	21,791
Assets in strategic business partners	1,678	1,554
Associates	663	529
Credit exposure for financial reporting purposes	105,893	94,939

Sektion 6

Credit risk

Spar Nord's impairment account amounted to a total of DKK 1.6 billion at 31 December 2021, as shown in figure 6.5. Of this amount, provisions for unutilised credit lines amounted to DKK 9 million. In addition to the impairment account comes reversed impairment on customers taken over (impairment charges taken over). At end-2021, reversal of impairment was DKK 62 million, which concerns the acquisition of BankNordik's Danish business.

Figure 6.5

Impairment account and discount on loans, advances and guarantees

DKKm	2021	2020
Impairment account	1,591	1,717
Discount on exposures taken over	62	0
Impairment account and discount, total	1,653	1,717

6.4 Loans, advances and guarantees

Spar Nord's total loans, advances and guarantees were DKK 81.1 billion at end-2021, which is an increase of DKK 16.5 billion on 2020. The total loans, advances and guarantees are illustrated in figure 6.6 broken down by the five customer groups used in the ongoing risk monitoring:

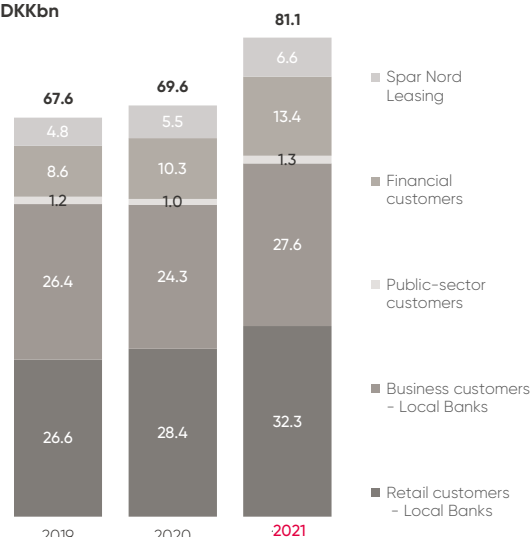
- Retail customers with Spar Nord's Local Banks
- Business customers with Spar Nord's Local Banks
- Public-sector customers
- Financial customers
- Spar Nord leasing customers

Of total loans, advances and guarantees of DKK 81.1 billion, acquired BankNordik customers amounted to DKK 3.6 billion. Without the BankNordik customers, the Bank's loans, advances and guarantees rose 11.3% in 2021.

As shown in figure 6.6, loans, advances and guarantees to retail customers at Spar Nord's Local Banks rose DKK 3.8 billion during 2021, equal to 13.4%, while loans, advances and guarantees to business customers increased by DKK 3.2 billion, or 13.2%. Loans, advances and guarantees to public-sector customers rose from DKK 1.0 billion to DKK 1.3 billion in 2021. Loans, advances and guarantees to financial customers rose by DKK 3.1 billion during 2021, with reverse repo business accounting for DKK 3.0 billion. Lastly, loans, advances and guarantees to leasing customers increased 18.9% to DKK 1.0 billion in 2021.

Figure 6.6

Loans and advances by category DKKbn



Loans and advances excl. reverse repo transactions increased by DKK 6.5 billion to DKK 50.6 billion at end-2021, corresponding to lending growth of 14.7% in 2021. Of this amount, BankNordik customers accounted for DKK 2.1 billion. Bank lending excl. the addition of BankNordik customers thus rose by 9.8%. Developments in lending are illustrated in figure 6.7 by customer group.

As shown in figure 6.7, lending to retail customers rose DKK 2.2 billion in 2021, which was 13.5% higher than at end-2020. Of this amount, acquired BankNordik customers accounted for DKK 2.1 billion at end-2021. Net of the BankNordik customers, the Bank's lending to retail customers thus increased by around 1%.

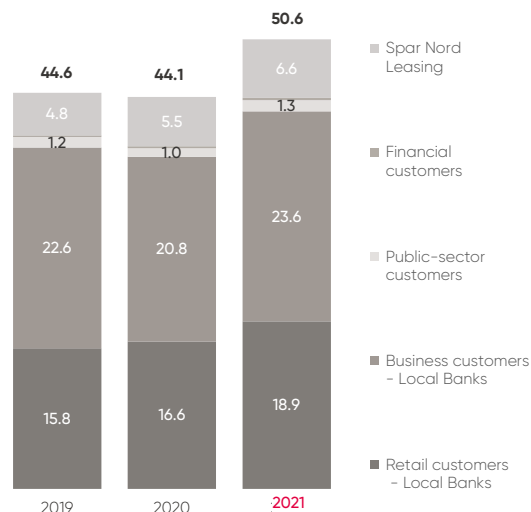
Lending to business customers increased by DKK 2.8 billion during 2021, equal to 13.7%. The development reflects changes to the unutilised part of the credit facilities, the volume of which rose in 2020 and then declined again in 2021. This results in a decrease in lending in 2020 and an increase in 2021.

Reverse repo transactions increased by DKK 3.0 billion to DKK 12.8 billion at end-2021. Furthermore, guarantees increased by DKK 2.0 billion in 2021 to DKK 17.6 billion, of which acquired BankNordik customers accounted for DKK 1.5 billion.

Sektion 6

Credit risk

Figure 6.7
Loans and advances excl. reverse repos by category
DKKbn



6.4.1 Breakdown of loans, advances and guarantees by industry

Figure 6.8 shows the breakdown of loans, advances and guarantees by industry at end-2021 and end-2020 and the average industry breakdown at sector level at end-2020.

Figure 6.8 shows that retail customers account for more than 40% of the Bank's loans, advances and guarantees and that the Bank has as a higher proportion of retail customers than the sector as a whole.

Figure 6.8
Loans, advances and guarantees by industry

DKKm/%	Spar Nord		Sector	
	2021	2021	2020	2020
Public authorities	1,259	1.6	1.4	2.6
Agriculture, hunting and forestry	2,743	3.4	4.3	3.8
Fisheries	114	0.1	0.2	0.0
Industry and raw materials extraction	3,055	3.8	3.7	7.1
Energy supply	1,905	2.3	2.7	2.9
Building and construction	2,993	3.7	3.7	2.0
Trade	4,191	5.2	5.0	4.3
Transport, hotels and restaurants	2,897	3.6	3.6	3.3
Information and communication	389	0.5	0.4	1.0
Financing and insurance	16,459	20.3	18.7	23.5
Real estate	7,343	9.1	9.8	12.6
Other business areas	5,008	6.2	5.7	4.1
Business customers, total	48,356	59.6	59.1	67.2
Total retail customers	32,727	40.4	40.9	32.8
Total	81,084	100.0	100.0	100.0

Figure 6.9
Loans, advances and guarantees by industry net of reverse repo transactions

DKKm/%	2021	2021	2020
Public authorities	1,259	1.8	1.6
Agriculture, hunting and forestry	2,743	4.0	5.0
Fisheries	114	0.2	0.2
Industry and raw materials extraction	3,055	4.5	4.3
Energy supply	1,842	2.7	3.0
Building and construction	2,993	4.4	4.3
Trade	4,191	6.1	5.8
Transport, hotels and restaurants	2,897	4.2	4.2
Information and communication	389	0.6	0.4
Financing and insurance	4,139	6.1	5.5
Real estate	7,343	10.8	11.4
Other business areas	5,008	7.3	6.7
Business customers, total	35,973	52.7	52.3
Total retail customers	32,260	47.3	47.7
Total	68,234	100.0	100.0

Loans, advances and guarantees by exposure size are shown in figure 6.10 by customer group.

Figure 6.10
Loans, advances and guarantees by exposure size*
by customer group

Number/%	Number		Share	
	2021	2020	2021	2020
DKK 0 - 0.1 million	53,625	49,974	0.8	0.9
DKK 0.1 - 0.5 million	39,995	36,530	10.4	10.3
DKK 0.5 - 1 million	16,582	14,763	12.6	12.3
DKK 1 - 5 million	11,187	10,106	27.3	27.3
DKK 5 - 10 million	1,192	1,110	9.5	9.7
DKK 10 - 20 million	478	458	7.5	8.0
DKK 20 - 50 million	275	275	9.8	10.9
DKK 50 - 100 million	93	94	7.6	8.3
>DKK 100 million	57	44	14.5	12.3
Total	123,484	113,354	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, as a little more than 60% of the total loans, advances and guarantees is attributable to loans, advances and guarantees below DKK 10 million each, and the Bank only has 57 loans, advances and guarantees that exceed DKK 100 million.

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Credit risk

Figure 6.11
Loans, advances and guarantees broken down by region (%)

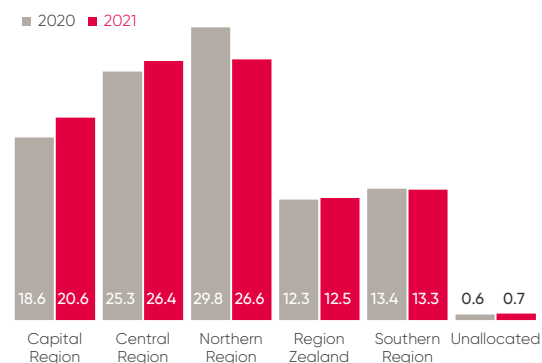


Figure 6.11 also shows a satisfactory geographical spread in the credit portfolio. At end-2021, the Northern Region accounted for 26.6% of total loans, advances and guarantees, and developments in 2021 have contributed to a more even geographical diversification.

6.4.2 Retail customers with Spar Nord's Local Banks

The total loans, advances and guarantees to retail customers at Spar Nord's Local Banks amounted to DKK 32.3 billion at end-2021 compared with DKK 28.4 billion at end-2020, which is an increase of DKK 3.8 billion. Loans, advances and guarantees to retail customers accounted for 39.8% of total loans, advances and guarantees.

As shown in figure 6.12, home loans for retail customers amounted to DKK 8.1 billion, equal to 15.9% of total loans and advances net of reverse and guarantees. Of this amount, mortgage loans accounted for DKK 2.8 billion, or 34.4%.

The geographical breakdown of retail lending for property finance is also shown in figure 6.12 and is in line with the Bank's business volume, as the largest proportion is located in the Northern Region (DKK 2.4 billion, or 29.6% of total home loans).

Figure 6.12
Home loans – gross residual debt and mortgage share broken down by region

DKKm/mortgage share	2021		2020	
	DKKm	share	DKKm	share
Capital Region	1,212	37.1	706	30.7
Zealand region	1,208	33.5	1,086	34.4
Southern Region	1,348	26.6	979	26.4
Central Region	1,910	30.8	1,689	28.0
Northern Region	2,393	40.8	2,188	34.5
Total	8,071	34.4	6,648	31.3

Figure 6.13 illustrates loans, advances and guarantees to retail customer by rating category, and figure 6.14 shows the average rating since 2019.

Figure 6.14 shows a stable development in average rating since 2019, with a marginal increase in 2021, as shown in figure 6.13.

Figure 6.13
Exposures to retail customers by rating categories excl. SparXpres

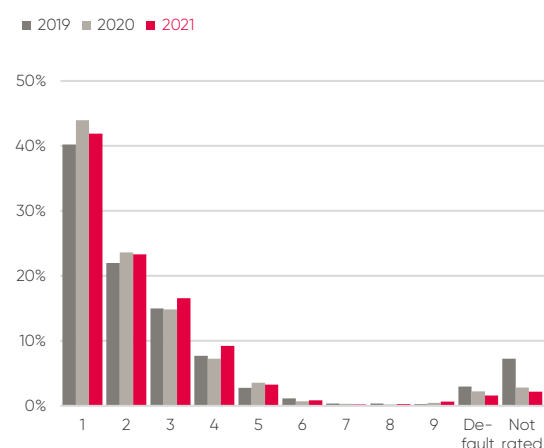


Figure 6.14
Retail customers: Average rating*

	2021	2020	2019
Average rating	2.3	2.2	2.4

*Loans, advances and guarantees after impairment

As appears from figure 6.14, the average credit quality of retail customers has developed favourably over the past few years. However, some uncertainty attaches to the rating model for retail customers, primarily as a result of volatile business cycle indicators included in the model.

Spar Nord takes the above-mentioned model uncertainty into consideration by closely monitoring model performance and regularly adjusting a dedicated management estimate to cover the expected losses despite the model uncertainty.

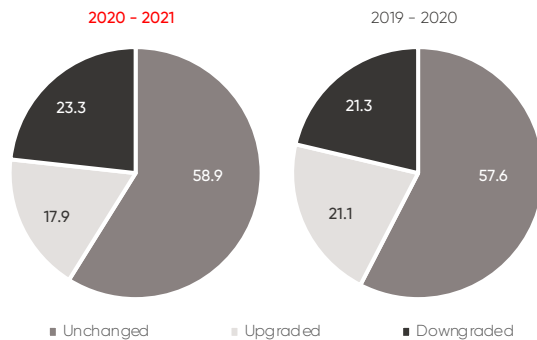
Figure 6.15 shows the share of retail customer exposures which migrated into better rating categories (upgraded), the share with an unchanged rating category and the share of retail customer exposures which migrated into higher-risk rating categories (downgraded) in 2021 and 2020.

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Credit risk

Figure 6.15

Migration rating – loans, advances and guarantees – retail customers (%)

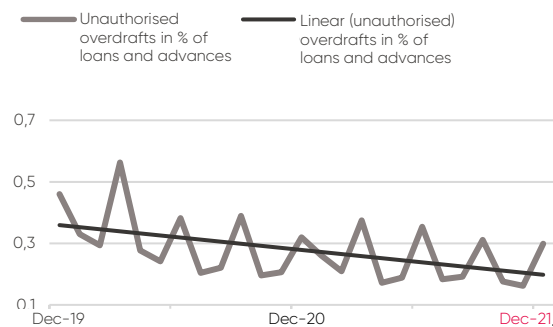


Measured by loans, advances and guarantees, the share of retail customers who in 2021 migrated towards weaker rating categories was slightly larger than the share migrating towards stronger rating categories, which explains the marginal fall in average rating for retail customers.

Looking instead at retail customer unauthorised overdrafts, shown in figure 6.16 in % of loans and advances, there was an improvement in 2021 compared with 2020. The overdraft percentage for retail customers averaged 0.3% in 2020 and 0.2% in 2021.

Figure 6.16

Retail customers – Local Banks – Developments in unauthorised overdrafts/arrears excl. SparXpres



6.4.3 Business customers at the local banks

The total loans, advances and guarantees to business customers at Spar Nord's Local Banks amounted to DKK 27.6 billion at end-2021 compared with DKK 24.3 billion at end-2020, which is an increase of DKK 3.2 billion. Loans, advances and guarantees to business customers in the local banks amounted to 34.0% of total loans, advances and guarantees.

Figure 6.17 illustrates loans, advances and guarantees to business customer by rating category, and figure 6.18 shows the average rating since 2019. As illustrated by the figures, credit quality in the

portfolio of business customers showed a positive development in 2021 with a drop in average ratings.

The Bank's rating model for business customers includes a business cycle component. The component includes forward-looking expectation variables, which are to take account of business cycle expectations.

In recent years, the business cycle component has proven to be unintentionally volatile and positively affects the end-2021 risk level in the overall rating model for business customers. Currently, the model variables concerning consumption expectations and industrial confidence give rise to the volatile effect.

The Bank is regularly monitoring developments and has continually made a management estimate (relating to model uncertainty) to address the uncertainty attaching to the business cycle variable in order to give a true and fair representation of expected losses. In 2021, an extra amount was allocated on the basis of the positive effect of the overall risk level. The calculated ratings have not been adjusted to reflect this.

Figure 6.17

Exposures to business customers by rating category excl. public-sector customers

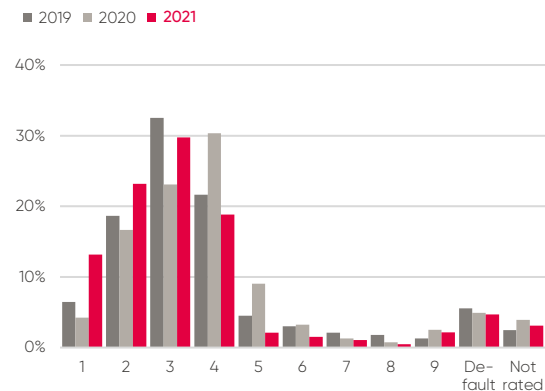


Figure 6.18

Business customers: Average rating*

	2021	2020	2019
Average rating	3.2	3.9	3.6

*) Loans, advances and guarantees after impairment excl. public-sector customers.

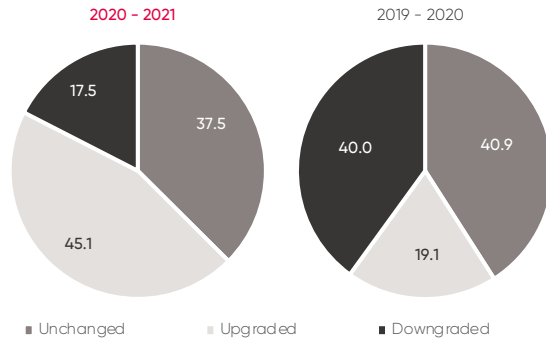
Figure 6.19 shows the share of business customers who migrated into better rating categories (upgraded), the share of business customers with unchanged credit quality and the share of business customers who migrated into higher-risk rating categories (downgraded) in 2020-2021 against 2019-2020.

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Credit risk

Figure 6.19

Migration rating – loans, advances and guarantees – business customers (%)

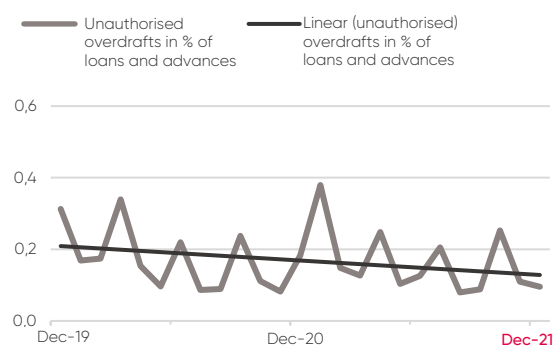


Measured by loans, advances and guarantees, more customers migrated towards better rating categories in 2021 than customers who migrated to weaker rating categories. The main reason is the effect of the business cycle variable described above.

As was the case for retail customers, business customers' unauthorised overdrafts and arrears developed favourably during the period 2020 to 2021, as shown in figure 6.20. The figure shows business customers' unauthorised overdrafts in % of total loans and advances, with an average of 0.2% for 2021.

Figure 6.20

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



6.4.4 Agriculture

Loans, advances and guarantees to agricultural customers amounted to DKK 2.7 billion, equal to 3.4% of total loans, advances and guarantees. Of this amount, leasing loans amounted to DKK 823 million. Loans, advances and guarantees to the agricultural sector fell by DKK 244 million from 2020 to 2021, despite a DKK 34 million increase in leasing loans.

Figure 6.21 and figure 6.22 show developments in credit quality among agricultural customers at Spar Nord's Local Banks in the period from 2019 to 2021.

As appears from figure 6.22, the average credit quality of agricultural customers has improved since 2019, but was marginally reduced in 2021.

Figure 6.21

Agricultural exposures by rating category excl. leasing

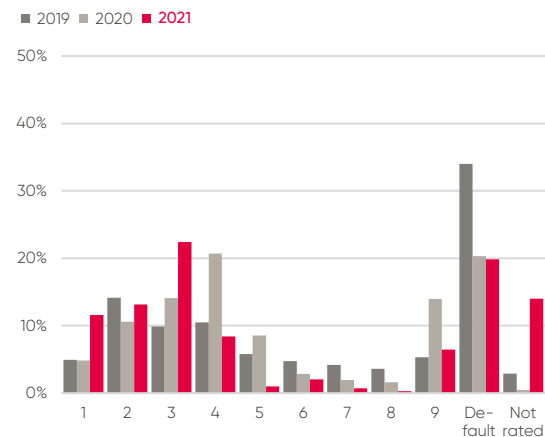


Figure 6.22

Agricultural customers: Average rating*

	2021	2020	2019
Average rating	5.6	5.5	5.9

* Loans, advances and guarantees after impairment

In some parts of the agricultural sector, earnings were satisfactory throughout 2021, but in the second half earnings were significantly impaired for pig producers. Pig production earnings reached record-highs in 2019 and 2020, allowing pig producers to reduce their debts. This trend continued into 2021 with prices for slaughter pigs reaching DKK 11.90 per kg in early June, after which they fell DKK 3 per kg over the course of two months. Selling prices thus fell below Spar Nord's required production price of DKK 9.50 per kg (breakeven price). The decline was caused primarily by falling demand from China, which has squeezed markets throughout Europe, both for weaners and slaughter pigs. For 2021 as a whole, the settlement price is higher than DKK

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9.50 per kg, but earnings were under pressure during the autumn months.

Prices of grain, purchased feed and fertiliser have increased, which especially affects domestic animal producers who have limited production of own grain.

Milk producers continue to receive decent settlement prices, which had risen by a fair margin by the end of 2021.

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 the Bank of DKK 9.50/kg (without supplementary payment) for pork, and DKK 2.20/kg for milk (without supplementary payment), this is defined as OEI.

The breakeven price of "DKK 2.20/kg without supplementary payment for milk" has been changed to DKK 2.35/kg in 2022. The increase was of a technical nature because of a changed principle from Arla Foods regarding the fixing of their on-account milk prices. It has no financial impact for the customers or the Bank, nor for the number of exposures marked with OEI.

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 individual impairment calculation.

Spar Nord anticipates that conditions for milk producers will become more favourable in 2022 compared with 2021. For pig producers, the Bank expects lower earnings due to extensive uncertainty as to whether demand will recover to normal levels and the spread of African swine fever and COVID-19-related impacts.

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 the Bank'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.

Previously, a management estimate was made to offsets any valuation uncertainty. The management estimate is calculated as a reduction of DKK 15,000 per hectare of eligible land relative to recommended prices. The total management estimate for agricultural is DKK 118 million, of which DKK 105

million relates to land prices, DKK 12 million to discounting of collateral and DKK 1 million to model uncertainty.

Figure 6.23 shows loans, advances and guarantees to the agricultural sector by production line, and figure 6.24 shows the impairment account and amounts written off by production line.

Figure 6.23 show a decrease in total loans, advances and guarantees to the agricultural sector excl. of leasing in 2021. Loans, advances and guarantees to all production lines were reduced relative to 2020.

Figure 6.23

Agricultural customers: Loans, advances and guarantees by production line

2021

DKKm	Loans, advances and guarantees	Non-performing loans	Of which impaired	Share impaired
Cattle producers	546	4	149	27.3
Pig producers	337	0	82	24.3
Crop producers	552	8	44	8.0
Mink producers	55	0	5	9.5
Leasing	823	0	19	2.2
Miscellaneous	431	0	7	1.6
Total	2,743	13	305	11.1

2020

DKKm	Loans, advances and guarantees	Non-performing loans	Of which impaired	Share impaired
Cattle producers	554	3	171	30.9
Pig producers	451	0	133	29.5
Crop producers	624	8	74	11.8
Mink producers	103	1	16	15.1
Leasing	789	1	6	0.8
Miscellaneous	466	2	27	5.8
Total	2,987	14	426	14.3

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Credit risk

Figure 6.24

Agricultural customers: Impairment account and amounts written off by production line

2021

DKKm/%	Impairment account	Written off	Impairment for the year	Impairment ratio of loans, advances and guarantees	Percentage of impaired
Cattle producers	106	1	-46	19.5	71.4
Pig producers	69	8	-2	0.4	16.3
Crop producers	41	2	-26	7.5	93.6
Mink producers	10	0	-15	19.2	202.0
Leasing	3	1	0	20.6	84.6
Miscellaneous	12	0	1	2.7	174.8
Total	242	11	-88	8.8	79.3

2020

DKKm/%	Impairment account	Written off	Impairment for the year	Impairment ratio of loans, advances and guarantees	Percentage of impaired
Cattle producers	150	7	-22	27.1	87.4
Pig producers	78	2	-37	17.3	72.2
Crop producers	60	4	-11	9.5	88.0
Mink producers	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

Figure 6.24 shows that Spar Nord's total impairment of agricultural loans amounted to DKK 242 million at end-2021, equal to 8.8% of total loans, advances and guarantees to the industry. At 31 December 2020, the corresponding figures were DKK 334 billion and 11.2%.

6.4.5 Leasing activities

Spar Nord's total loans, advances and guarantees in the leasing area amounted to DKK 6.6 billion at end-2021. Of this amount, DKK 2.3 billion was for customers affiliated with Spar Nord Leasing. Total loans, advances and guarantees in the leasing area rose by DKK 1.0 billion, which is 18.9% higher than at year-end 2020. Loans, advances and guarantees in the leasing area equal 8.1% of Spar Nord's total loans, advances and guarantees.

In the context of risks, it is important to note that leasing loans are always backed by security in the assets through ownership.

Figure 6.25 shows leasing loan percentages broken down by industry and the relevant impairment account.

The impairment account for customers with both bank and leasing loans is shown in the combined impairment account in figure 6.37. The impairment account for customers who only have lease business is DKK 25.7 million.

Figure 6.25

Leasing loans by industry

%	Lending		Impairment account	
	2021	2020	2021	2020
Public authorities	0.0	0.0	0.0	0.0
Agriculture, hunting and forestry	12.5	14.2	11.8	10.4
Fisheries	0.0	0.0	0.0	0.0
Industry and raw materials extraction	11.3	12.3	12.1	16.2
Energy supply	8.9	9.0	4.8	5.8
Building and construction	15.4	14.7	15.8	5.9
Trade	7.7	8.5	3.3	7.0
Transport, hotels and restaurants	21.9	22.7	31.5	28.0
Information and communication	0.4	0.6	0.8	0.7
Financing and insurance	2.4	1.3	1.5	1.3
Real estate	1.0	1.9	0.6	8.4
Other business areas	18.5	13.8	18.0	15.9
Business customers, total	100.0	99.1	100.0	99.6
Total retail customers	0.0	0.9	0.0	0.4
Total	100.0	100.0	100.0	100.0

The volume of repossessed leasing equipment remains at a very low level below 0.02% of leasing loans, equal to DKK 1 million in 2021. See figure 6.26.

Figure 6.26

Repossessed equipment

DKKm	2021	2020
Repossessed equipment, total	1	3

6.4.6 Financial customers

Loans, advances and guarantees to financial customers cover reverse repo transactions and own commitments and key customers. As shown in figure 6.27, these amounted to DKK 13.4 billion at end-2021. This equals 16.5% of Spar Nord's total loans, advances and guarantees. Loans, advances and guarantees consist primarily of reverse repo transactions of DKK 12.8 billion and own commitments, etc. in the amount of DKK 561 million.

Figure 6.27

Credit exposure to financial customers

DKKm	2021	2020
Reverse repo transactions	12,850	9,819
Own commitments and key customers, etc.	561	475
Total financial customers	13,411	10,294

Credit risk

6.5 Facilitation of mortgage loans

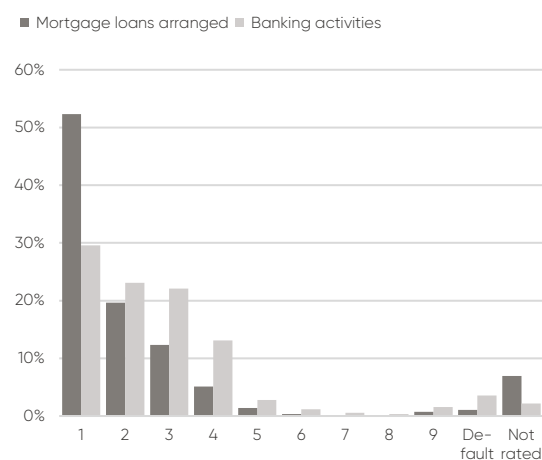
In addition to lending on Spar Nord's own books, a major part of the Bank's business consists of facilitating mortgage loans on behalf of Totalkredit and DLR Kredit.

At end-2021, the Bank had facilitated mortgage loans for a total of DKK 111.9 billion to its customers. Of this amount, mortgage loans facilitated from Totalkredit amounted to DKK 100.5 billion and from DLR Kredit DKK 11.3 billion.

The facilitation of mortgage loans developed favourably in 2021 with an increase of 18.3% relative to end-2020, equal to DKK 17.3 billion. Retail customers accounted for DKK 17.2 billion, and business customers for DKK 0.1 billion.

Figure 6.28 shows the breakdown of customers who have taken out mortgage loans with Totalkredit and DLR Kredit. As appears, mortgage loans facilitated for customers in the best rating categories represent the bulk of the group.

Figure 6.28
Mortgage loans arranged DLR and Totalkredit and bank exposure, by rating category



The cooperation with Totalkredit and DLR Kredit is based on the principle that in case of losses on the loans arranged by Spar Nord, a full or partial setoff will be made against the commission paid to Spar Nord for its loan-facilitation services.

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

6.6 Collateral

An important component of the credit risk management efforts is to reduce the risk attaching to individual exposures by accepting collateral, such as mortgages and charges over physical assets, securities and guarantees, etc. Mortgages and charges on real property, securities and vehicles

make up the most common type of collateral. Mortgages on property are by far the most important collateral type provided.

Mortgages on real property consist mainly of mortgages on private housing. Figure 6.29 shows the geographical breakdown of mortgages on property, and figure 6.30 sets forth the distribution of property mortgage by property type. The figures are based on registered collateral values.

Figure 6.29
Geographical breakdown of mortgages %

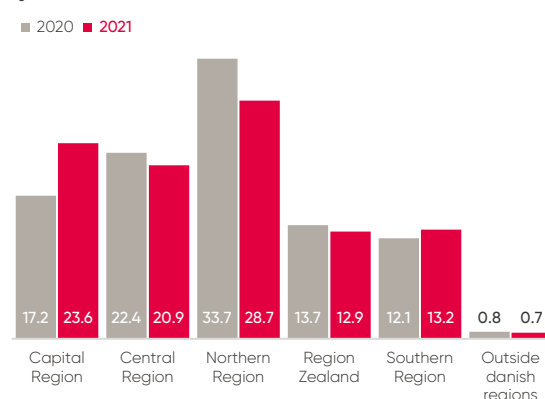


Figure 6.30
Mortgages broken down by property type

DKKm/%	2021		2020	
Private housing	25,100	67.1	18,863	62.3
Holiday homes	1,402	3.7	1,153	3.8
Offices and businesses	4,753	12.7	4,495	14.8
Agriculture	2,088	5.6	2,168	7.2
Other	4,065	10.9	3,600	11.9
Total	37,409	100.0	30,278	100.0

Figure 6.31 shows a specification of credit-risk mitigation by virtue of collateral.

The property value under mortgages broken down by property type in figure 6.30 is calculated at DKK 37.4 billion, while in figure 6.31 only DKK 21.5 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. Moreover, a haircut of 5% is made when the property collateral is allocated to the exposures.

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Credit risk

Figure 6.31

CREDIT RISK MITIGATION BY VIRTUE OF COLLATERAL

DKKm	2021	2020
Properties	21,485	17,183
Custody accounts/securities	14,584	11,219
Guarantees/sureties	936	635
Vehicles	570	566
Cash	617	681
Other collateral	3,967	3,769
Other collateral, total	42,160	34,053
Mortgage credit institution guarantees	14,483	13,165
Total collateral, excluding Spar Nord Leasing	56,643	47,218
Collateral accepted, Spar Nord Leasing	5,537	4,603
Total	62,180	51,821

The Real Estate industry is monitored closely by Spar Nord. As shown in figure 6.9, the industry represents the largest share (10.8%) after Retail customers (47.3%) of total loans, advances and guarantees excl. reverse repo transactions.

Figure 6.32 shows exposure details and details on collateral received for the Real Estate industry.

Figure 6.32

Exposure and collateral for the Real Estate industry

DKKm	2021
Total exposure	7,343
- Of which loans and advances	6,167
- Of which guarantees	1,176
Total collateral	5,778
Mortgage on real property	4,318
- Of which first mortgage	3,247
- Of which second mortgage	1,071
Other collateral	1,460

Of the DKK 7.3 billion exposure to the Real Estate industry, see figure 6.32, Spar Nord has collateral totalling DKK 5.8 billion, with property mortgages accounting for 74.7%, or DKK 4.3 billion, of which 75.2% are first mortgages and 24.8% are second mortgages. The share of financing granted without corresponding security in the form of mortgaged property is primarily for subsidised housing associations and owner associations.

Figure 6.33 shows collateral broken down by rating category.

Figure 6.33

Collateral by rating category %

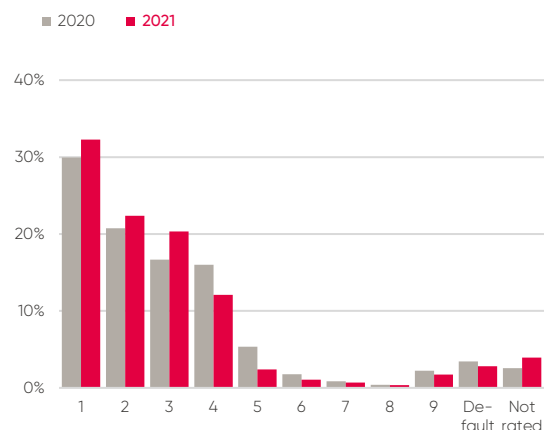


Figure 6.34 shows exposures broken down by various unsecured ranges, and figure 6.35 shows the breakdown by industry of unsecured amounts and percentages. The figures show that the total unsecured share at end-2021 was 23.3%, against 25.5% at end-2020. Net of reverse repo transactions, the total unsecured share amounted to 27.7% in 2021. At end-2020, the unsecured share without reverse repo transactions was 29.7%.

Figure 6.34

Unsecured shares for loans, advances and guarantees

%	2021	2020
< 10	61.6	57.7
10 - 50	17.4	19.5
50 - 75	5.2	6.0
> 75	15.8	16.8
Average unsecured share	23.3	25.5

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Credit risk

Figure 6.35

Unsecured amounts and unsecured share of exposure broken down by industry

DKKm/%	2021		2020	
Public authorities	1,259	100.0	978	100.0
Agriculture, hunting and forestry	438	16.0	530	17.7
Fisheries	13	11.6	24	19.4
Industry and raw materials extraction	876	28.7	597	23.3
Energy supply	485	25.5	489	26.1
Building and construction	649	21.7	638	24.6
Trade	1,312	31.3	944	27.4
Transport, hotels and restaurants	587	20.3	492	19.8
Information and communication	153	39.3	101	39.8
Financing and insurance	2,300	14.0	2,069	15.9
Real estate	1,565	21.3	1,898	27.9
Other business areas	1,672	33.4	1,412	35.5
Business customers, total	11,309	23.4	10,172	24.7
Total retail customers	7,595	23.2	7,610	26.7
Total	18,904	23.3	17,782	25.5

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.

6.7 Impairment and provisions – loans and advances

Spar Nord's impairment charges are calculated in accordance with the IFRS 9 accounting standard. See the Annual Report for a review.

As shown in figure 6.36, the combined impairment account fell by DKK 126 million in 2021, of which DKK 34 million was attributable to changes to management estimates. The remaining DKK 92 million mainly related to the improved COVID-19 outlook.

The improved ratings for business customers due to positive expectations for the future have resulted in the migration of exposures from stage 2 to stage 1.

Developments were also positive for retail customers. This is supported by the fact that the share of exposures and impairment in stage 3 declined during 2021, because only few of the Bank's customers have encountered financial difficulty caused by COVID-19.

Owing to the uncertainty relating to COVID-19, a management estimate of DKK 295 million has been retained. The estimate includes a migration from stage 2 to stage 3, see figure 6.42, which contributed to the increase in stage impairment, as shown in figure 6.36.

Figure 6.36

Development in loans, advances and guarantees excl. reverse and impairment by stage

DKKm	2021		2020	
	Loans, advances and guarantees	Impairment	Loans, advances and guarantees	Impairment
Stage 1	60,506	156	49,513	196
Stage 2	5,793	346	8,264	580
Stage 3	1,935	1,089	2,007	941
Total	68,234	1,591	59,784	1,717

As shown in figure 6.37, the combined impairment account amounted to DKK 1.6 billion, equal to 2.3% of total loans, advances and guarantees excl. reverse repo transactions at end-2021, which is an improvement relative to 2020, when the total impairment rate was 2.9%.

The Bank does not have substantial exposure to individual industries that are particularly challenged by the COVID-19 pandemic.

For single customers in certain industries, a substantial drop in revenue has been recorded, and in some cases large losses. However, the COVID-19-related restrictions have not resulted in a noticeable increase in bankruptcies.

Figure 6.37

Impairment – by industry

DKKm/%	Spar Nord			Sector	
	2021	2020	2021	2020	2020
Public authorities	0	0	0.0	0.0	0.0
Agriculture, hunting and forestry	242	334	15.2	19.5	17.1
Fisheries	3	2	0.2	0.1	0.0
Industry and raw materials extraction	95	84	5.9	4.9	7.2
Energy supply	14	30	0.9	1.7	1.0
Building and construction	49	62	3.1	3.6	4.4
Trade	146	146	9.1	8.5	9.2
Transport, hotels and restaurants	123	155	7.7	9.0	8.5
Information and communication	9	8	0.6	0.5	1.1
Financing and insurance	182	111	11.4	6.5	3.6
Real estate	89	175	5.6	10.2	7.7
Other business areas	169	126	10.6	7.3	10.6
Business customers, total	1,120	1,233	70.4	71.8	70.4
Total retail customers	471	484	29.6	28.2	29.5
Total	1,591	1,717	100.0	100.0	100.0

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Credit risk

Impairment losses are calculated individually for all customers with objective evidence of impairment. The expected cash flow is calculated, comprising conservatively assessed values and realisable costs for any assets that might have to be sold to cover outstanding debt.

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

In 2021, Spar Nord recorded a decline of DKK 72 million in loans, advances and guarantees to customers with individual impairment. At end-2021, the impaired claims represented 2.4% of total loans, advances and guarantees compared with 2.9% in 2020.

Figure 6.38 shows a calculation of impaired claims. Total value adjustment must be supplemented by calculated impairment in stages 1 and 2 of DKK 502 million.

Figure 6.38

Impaired claims

2021

DKKm	Loans, advances and guarantees	Impaired
Insolvent liquidation and bankruptcy	63	36
Debt collection and restructuring, etc.	84	26
Other financial difficulty	1,788	1,027
Total impairment	1,935	1,089
Impairment in stages 1 and 2		502
Total impairment		1,591

2020

DKKm	Loans, advances and guarantees	Impaired
Insolvent liquidation and bankruptcy	65	44
Debt collection and restructuring, etc.	94	40
Other financial difficulty	1,848	856
Total impairment	2,007	941
Impairment in stages 1 and 2		777
Total impairment		1,717

Model-calculated stage 3 impairment charges amounted to DKK 3.9 billion at end-2021.

Figure 6.39 shows a breakdown by industry of defaulted loans and guarantees with individual impairment and the relevant impairment account.

Figure 6.39

Development in exposure for customers with individual impairment

2021

DKKm	Loans, advances and guarantees	Impairment account
Public authorities	0	0
Agriculture, hunting and forestry	305	205
Fisheries	6	2
Industry and raw materials extraction	123	62
Energy supply	16	7
Building and construction	84	26
Trade	136	94
Transport, hotels and restaurants	124	74
Information and communication	7	6
Financing and insurance	271	146
Real estate	120	34
Other business areas	240	135
Business customers, total	1,432	791
Total retail customers	503	298
Total	1,935	1,089

2020

DKKm	Loans, advances and guarantees	Impairment account
Public authorities	0	0
Agriculture, hunting and forestry	426	289
Fisheries	2	1
Industry and raw materials extraction	138	44
Energy supply	19	9
Building and construction	116	25
Trade	145	84
Transport, hotels and restaurants	176	77
Information and communication	7	4
Financing and insurance	86	31
Real estate	214	66
Other business areas	142	67
Business customers, total	1,471	696
Total retail customers	536	245
Total	2,007	941

Sektion 6

Credit risk

Spar Nord's impairment account amounted to a total of DKK 1.6 billion at 31 December 2020, as shown in figure 6.40. In addition to the impairment account comes reversed impairment on customers taken over (impairment charges taken over). At end-2021, reversal of impairment was DKK 62 million, which concerns the acquisition of BankNordik's Danish business.

Figure 6.40

Impairment and discount by industry

2021

DKKm	Impairment account/discount	Discount on exposures taken over	Impairment account
Public authorities	0	0	0
Agriculture, hunting and forestry	242	0	242
Fisheries	3	0	3
Industry and raw materials extraction	95	0	95
Energy supply	14	0	14
Building and construction	50	1	49
Trade	146	0	146
Transport, hotels and restaurants	123	0	123
Information and communication	10	1	9
Financing and insurance	182	0	182
Real estate	89	0	89
Other business areas	172	3	169
Business customers, total	1,126	6	1,120
Total retail customers	527	56	471
Total	1,653	62	1,591

Figure 6.41 shows developments in profit impact from losses and impairment of loans, advances and guarantees as well amounts written off broken down by industry. In 2021, an amount of DKK 130 million was written off.

Figure 6.41

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

2021

DKKm	Profit impact	Depreciation
Public authorities	0	0
Agriculture, hunting and forestry	-88	11
Fisheries	1	0
Industry and raw materials extraction	17	9
Energy supply	-16	0
Building and construction	-8	5
Trade	0	5
Transport, hotels and restaurants	-21	12
Information and communication	0	0
Financing and insurance	67	1
Real estate	-58	26
Other business areas	31	6
Business customers, total	-74	75
Total retail customers	-46	55
Total	-120	130

2020

DKKm	Profit impact	Depreciation
Public authorities	0	0
Agriculture, hunting and forestry	-74	13
Fisheries	1	0
Industry and raw materials extraction	-1	1
Energy supply	14	0
Building and construction	2	2
Trade	59	12
Transport, hotels and restaurants	60	2
Information and communication	-1	0
Financing and insurance	30	6
Real estate	36	63
Other business areas	50	8
Business customers, total	176	107
Total retail customers	133	60
Total	309	167

The total profit impact from losses and impairment charges was an income of DKK 120 million in 2021, corresponding to 0.1% of total loans, advances and guarantees. The DKK 120 million profit impact breaks down into income of DKK 46 million on retail customers (incl. SparXpres), an expense of DKK 13 million on business customers (ex. agriculture) and an income of DKK 88 million on agricultural customers.

Credit risk

The profit impact of the management estimates is an income of DKK 34 million, of which business and retail customers both amount to an expense of DKK 5 million. Agricultural customers represent an income of DKK 43 million, most of which is attributable to estimates concerning land prices, as shown in figure 6.42.

Figure 6.42

Management estimates

	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
2021				
COVID-19	20	126	148	295
Land prices	0	0	105	105
Collateral value, properties	5	19	42	65
Model uncertainty	21	16	0	37
Discounting of collateral	0	0	34	34
Management estimates, total	46	161	329	536
2020				
DKKm				
COVID-19	10	284	27	320
Land prices	0	0	147	147
Collateral value, properties	0	0	0	0
Model uncertainty	23	43	0	66
Discounting of collateral	0	0	37	37
Management estimates, total	32	327	211	570

In 2021, the Bank reduced its management estimates by DKK 34 million to a total of DKK 536 million. The amount relates to five overall areas, as shown in figure 6.42.

The first area is COVID-19, for which the estimate is DKK 295 million. Despite relief packages, the socio-economic repercussions of COVID-19 are still subject to great uncertainty, which is reflected by this estimate. Developments in 2021 (-DKK 25 million) were driven by a shift from a macroeconomic model to calculations based on customer data. The estimate was retained in 2021 as it is believed that the risks relating to COVID-19 are best covered using the method at the present time.

The second area is land prices, for which the estimate is DKK 105 million. The assessment offsets valuation uncertainty. The estimate is calculated on the basis of a reduction of DKK 15,000 per hectare of eligible land relative to recommended prices. Developments in 2021 (-DKK 42 million) were driven by fewer agricultural customers flagged for OEI with lower exposures and less land. The estimate was retained in 2021 as the risk relating to land prices is believed to be covered.

The third area is the collateral value of properties with an estimate of a DKK 65 million. This estimate

covers uncertainty with respect to sustainability of price increases on properties and is a new estimate for 2021. The estimate has been made by changing the calculation of collateral values on private properties from 95% to 80% in the base scenario.

The fourth area is model uncertainty with an estimate of DKK 37 million. The Bank's rating models have historically shown an unintentional volatility in risk level adjustment via macroeconomic variables, and therefore an amount is allocated to cover the increased risk. Developments in 2021 (- DKK 29 million) were driven by a historically low PD level (probability of default) in the business model. Instead, an extra calculation has been added in the COVID-19 estimate as factors relating thereto are the reason for the low PD levels. The estimate and method was retained in 2021 as it is believed to accurately reflect uncertainty associated with the model calculation.

The fifth and last area is discounting of collateral with an estimate of a DKK 34 million. Until the end of 2021, Spar Nord's data processing centre did not have a solution to discount collateral in the individual impairment calculations in the correct manner, which results in too low impairment charges, which is offset by this estimate. Developments in 2021 (- DKK 3 million) relate to developments in collateral values. There were no significant changes during the year. The estimate and method were retained because the data processing centre's solution will only be implemented at Spar Nord during 2022, after which the estimate is expected to be excluded.

6.7.1 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. Forbearance must be approved by the Credit Department. Customers who have been granted forbearance are automatically flagged for OEI.

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.

Figure 6.43 shows a breakdown of loans and advances subject to forbearance broken down by performing and non-performing and by business, agricultural and retail customers.

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Credit risk

Figure 6.43

Loans and advances subject to forbearance

2021

DKKm	Business customers	Agriculture	Retail customers	Total
Non-Performing	117	24	181	323
Performing	0	0	2	3
Total	118	24	183	325

2020

DKKm	Business customers	Agriculture	Retail customers	Total
Non-Performing	199	28	145	372
Performing	5	6	5	16
Total	204	34	151	388

Figure 6.44 shows a calculation of Non-Performing-Loans (NPL). An exposure is defined as "Non-performing" 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, a stage 3 exposure is always defined as NPL in IFRS 9 even if the above criteria are not met.

Figure 6.44

NPL ratio

	2021	2020
NPL (DKK millions)	1,818	1,873
Exposure (DKKm)	65,817	54,884
NPL ratio	2.8	3.4

Stage 3 loans were reduced by a total of DKK 55 million due to improvement of customer credit quality, settlement of loans or write-offs. Overall, NPL loans were reduced to DKK 1,818 million, and the share of non-performing loans (NPL ratio) was thus 2.8% at end-2021.

Figure 6.45 shows the accounting correlation to the profit impact of DKK 120 million at 31 December 2021.

Figure 6.45

Accounting calculation of profit impact

DKKm	2021	2020
Losses, including losses covered by provisions/impairment and discount	136	167
Covered by provisions/impairment and impairment charges taken over	-81	-138
Losses not covered by provisions/impairment	55	29
New provisions/impairment charges, excluding sector-targeted solutions	412	758
Reversal of provisions/impairment	-457	-406
Interest accrued on loans subject to impairment	-16	-16
Net provisions/impairment	-60	336
Recoveries of prior losses	-71	-64
Losses and impairment for the year	-77	300
Other losses	0	9
Total losses and impairment for the year	-77	309
Adjustment of discount on exposures taken over from BankNordik	-43	0
Profit impact	-120	309

As shown in figure 6.46, exposures for which interest accrual has been suspended fell from DKK 275 million at end-2020 to DKK 257 million at end-2021.

Figure 6.46

Developments in losses and value adjustments and suspended-interest loans

DKKm	2021	2020
Gross loans, advances and guarantees, end of year	81,084	69,603
Total losses and impairment for the year	-120	309
- in % of loans, advances and guarantees	-0.1	0.4
Impairment account on exposures taken over	1,591	1,717
- in % of loans, advances and guarantees	2.0	2.5
Contractual non-performing loans, year-end	257	275
- in % of loans, advances and guarantees	0.3	0.4
Impairment account in % of contractual non-performing loans	619	625

6.8 Credit risk exposure to financial counterparties

As part of its trading in securities, foreign currency and derivative instruments and its payment services, etc., the Bank will experience credit risk exposure to financial counterparties.

Spar Nord's Management allocates lines for credit risk exposure to financial counterparties, based on the specific counterparty's risk profile, rating, amount of exposure and solvency. For counterparties subject to supervision by the Danish FSA, the exposure is capped at DKK 1.0 billion. However, this cap does not apply to exposures to the Danish state, regions, municipalities, unit trusts that are entirely equity financed, and customers subject to supervision and who have an official investment grade rating. For this type of exposure, the

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Credit risk

statutory limit applies. The risks and lines of financial instruments are monitored on a day-to-day basis.

A major source of financial credit risk is the Bank's balances with credit institutions. The credit risk relates to Danish and international credit institutions which are the Bank's trading partners.

Figure 6.47 shows Spar Nord's amounts due from credit institutions by product type, and figure 6.48 shows a breakdown by rating category.

Figure 6.47

Due from credit institutions by product type

DKKm/%	2021	2020	2021	2020
Certificates of deposit	0	61	0.0	4.2
Reverse repo transactions	1,515	343	56.2	23.6
Deposits and unlisted bonds	500	0	18.5	0.0
Current accounts	166	263	6.1	18.1
CSA accounts, etc.	306	592	11.3	40.8
Market value, derivatives	212	194	7.9	13.3
Due from credit institutions	2,697	1,452	100.0	100.0

Figure 6.48

Due from credit institutions by rating

DKKm/%	2021	2020	2021	2020
AAA	1,515	404	56.2	27.8
AA	114	179	4.2	12.3
A	437	754	16.2	51.9
BBB	120	103	4.5	7.1
BB-B	0	0	0.0	0.0
Not rated	510	13	18.9	0.9
Due from credit institutions	2,697	1,452	100.0	100.0

Figure 6.48 shows that 76.6% of Spar Nord's receivables from credit institutions concerns banks with an A rating or higher. Balances with unrated credit institutions are attributable mainly to Danish credit institutions. Other risks are mainly attributable to clearing centres.

6.9 Counterparty risk for derivatives trading

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

Utilisation of lines with respect to financial counterparties, see figure 6.49, is calculated on a gross basis as weighted principals of all transactions concluded, to which is added the sum of all positive market values, while negative market values are not offset. The weighting of the principal of the individual financial transaction is based on the volatility of the interest rate and currency, and the term to maturity of the transaction is also taken into account.

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

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

Figure 6.49

Counterparty risk for derivatives trading

DKKm	2021	2020
Derivatives with positive market value	542	777
Netting*	207	196
Exposure after netting	336	581
Collateral received	44	13
Exposure after netting and collateral	292	568

*) Netting under CSA agreements

6.9.1 Counterparty risk against financial and institutional customers

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

If the rating of a credit institution or institutional customer is lowered or withdrawn, the exposure will be reassessed. In addition, the financial statements of unrated credit institutions/institutional customers are regularly controlled, and any drop in the counterparty's equity of more than 5% will lead to a reassessment of the exposure. All exposures are reassessed at least every three years, and all exposures with size requiring the approval of Spar Nord's Board of Directors are reviewed at least once a year.

6.9.2 Framework and collateral agreements

To mitigate counterparty risk, Spar Nord will clear as many transactions as possible through a Central Clearing Counterparty (CCP) and makes framework, netting and collateral agreements to the extent possible.

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

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Credit risk

will have to be exchanged, most frequently by way of cash deposits in EUR or DKK.

As concerns small Danish credit institutions, such agreements will be based on the framework agreement prepared by Finance Denmark for forex and securities transactions. When deemed necessary, the Bank will also conclude a collateral agreement, according to which it is agreed that if the net market value of the concluded financial contracts exceeds an individually fixed maximum for each credit institution, then appropriate collateral must be furnished, in most cases by way of cash deposits.

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

Spar Nord currently only has one agreement in which the amount of collateral depends on Spar Nord's or the counterparty's rating or equity. Agreements are generally concluded without this clause.

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

6.10 ECAI

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

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

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

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

Figure 6.50 shows ECAI exposure before and after deductions

Figure 6.50

ECAI exposure before and after deductions

2021

DKKm	Exposure after ECAI	
	Exposure	risk-weighted
Institutions	2,113	745
Other	254	107
Total	2,367	852

2020

DKKm	Exposure after ECAI	
	Exposure	risk-weighted
Institutions	1,691	572
Other	192	61
Total	1,883	633

Market risk

Developments in 2021

Compared with end-2020, the net interest rate risk was reduced by DKK 18 million to DKK 98 million at end-2021. The change was mainly driven by a DKK 19 million decline in net interest rate risk in the trading book, which also reflects a year of great uncertainty and a resulting lower appetite for interest rate risk.

In 2021, the net interest rate risk was mainly positive, averaging around DKK 59 million, which was an decrease of DKK 21 million relative to 2020.

The net portfolio of bonds was reduced by DKK 3.6 billion relative to end-2020. In 2021, the portfolio of mortgage bonds was reduced by DKK 2.8 billion, the portfolio of government bonds was reduced by DKK 0.7 billion, while there was a small change between credit bonds and bonds issued by financial issuers.

The exchange rate risk was higher than in 2020, but it remains at a low level.

The portfolio of shares in the banking book and in associates was increased by DKK 287 million in 2021 to DKK 2.5 billion, which was mainly due to market value adjustments of the holding, and additional share purchases in DAB and BI-Holding.

The market value of shares held in the trading book fell by DKK 6 million to DKK 138 million in 2021.

The total risk exposure amount rose from DKK 4.0 billion to DKK 4.1 billion. The increase was primarily attributable to a small increase in gross interest rate risk.

RISK EXPOSURE, MARKET RISK

DKK 4.1 billion

2020: DKK 4.0 billion

NET INTEREST RATE RISK

DKK 98 million

2020: DKK 116 million

FOREIGN EXCHANGE RISK

DKK 4.1 million

2020: DKK 1.3 million

EQUITY PORTFOLIO

DKK 2.6 billion

2020: DKK 2.3 billion

Definition of market risk

Market risk is an umbrella heading for the risk of loss caused by changes in the value of a portfolio of financial instruments due to fluctuations in exchange rates or prices in financial markets.

Market risk breaks down into:

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

Spar Nord deals and takes positions in products that involve a number of market-based risks. Most of Spar Nord's activities regarding trading and position-taking comprise relatively simple products, of which interest-based products are the most frequently traded. Spar Nord also deals and takes positions in shares and foreign exchange instruments, whereas trading in commodity derivatives is very limited.

Market risk

7.1 Market risk policy

The market risk policy determines Spar Nord's overall risk profile for market risk, as well as the overall organisational delegation of responsibilities in the market risk area with a view to profitably supporting the 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 risk is composed of:

- 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

The policy establishes the methods to be used in calculating the various risk targets.

7.2 Management, monitoring and reporting

For its day-to-day management of market risks, the Bank has established a three-tier set of guidelines. 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 the Bank, with the Trading Division being the largest entity. At the third and last tier, the executives of the Trading Division are granted the limits within which they must operate.

The Finance & Accounts Department is responsible for measuring, monitoring, controlling and reporting market risks. Market risks are controlled and monitored through an integrated risk management system, with day-to-day follow-up on all market risks subject to the guidelines. Follow-up is made intra-day and end-of-day.

If the guidelines are exceeded, the responsible entity will be informed. Information is also conveyed to the head of the Trading Division, the Executive Board and, ultimately, the Board of Directors, depending on which of the above-mentioned limits are breached. The Bank's risk management function will be informed about all breaches.

Developments in risk levels and gains or losses are regularly reported to the Executive Board and Board of Directors.

In 2021, Spar Nord replaced its data platform used for risk and position management in the area of market risk. Thus, Spar Nord now has a front-to-back solution for market risk management.

7.3 Interest rate risk

The interest rate risk is the risk of loss due to interest rate fluctuations. Spar Nord's primary source of

interest rate risk 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.

Interest rate risk both within the trading book and the banking book is calculated on the basis duration targets. For managing its portfolio of callable Danish mortgage bonds, the Bank 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.

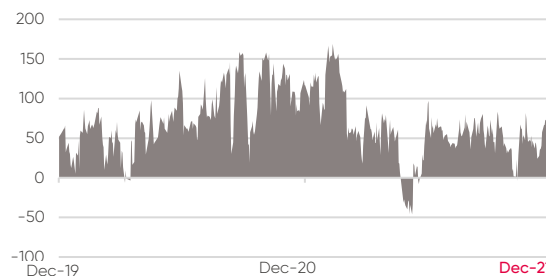
For interest rate risk in the banking book the Bank seeks to hedge the risk by raising subordinated loans with fixed rate of interest. Interest rate swaps are also used to hedge interest rate risk in the banking book.

The interest rate risk is assessed on a daily basis, and decisions are made in light of expectations for macroeconomic developments and cyclical trends. Spar Nord converts the interest rate risk in foreign currencies into Danish kroner and offsets the negative interest rate risk against the positive one to calculate the net interest rate risk.

7.3.1 Developments in interest rate risk

Figure 7.1 shows the total net interest rate risk that Spar Nord will encounter if interest rates rise by 1.0 percentage point. This implies a parallel shift of all yield curves.

Figure 7.1
Development in net interest rate risk



In 2021, the net interest rate risk was mainly positive, which means the Bank loses money if interest rates go up and make money if they fall. The interest rate risk was briefly neutralised at the beginning of June due to market jitters.

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

Market risk

Figure 7.2

Interest rate risk by duration and currency

2021

DKKm	Less than 3 months	3 months – 1 year	1– 3 years	3– 7 years	More than 7 years	Total
DKK	13	19	40	27	18	117
EUR	3	1	-15	-3	1	-14
Other	-3	0	-1	-1	1	-5
Total	12	19	24	23	21	98

2020

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

Figure 7.2 shows the interest rate risk broken down on the individual time intervals, given a 1.0 percentage point increase in interest rates. At the end of 2021, Spar Nord was exposed to a positive interest rate risk in Danish kroner and a negative interest rate risk in euro and other currencies of DKK 19 million. The total interest rate risk amounted to DKK 98 million at end-2021, which is a DKK 18 million decrease compared with end-2020.

7.3.2 Interest rate risk in the trading book

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

As appears from figure 7.3, the net interest rate risk attaching to the trading book was positive in the amount of DKK 90 million at end-2021, which is a DKK 19 million decrease compared with 2020. At the end of 2021, Spar Nord was exposed to a negative interest rate risk in euro and a positive interest rate risk in other currencies of DKK 3 million.

Figure 7.3

Interest rate risk in the trading book

2021

DKKm	Less than 3 months	3 months – 1 year	1– 3 years	3– 7 years	More than 7 years	Total
DKK	13	18	37	42	8	118
EUR	3	0	-18	-11	-5	-31
Other	2	0	0	0	1	3
Total	18	18	19	30	5	90

2020

DKKm	Less than 3 months	3 months – 1 year	1– 3 years	3– 7 years	More than 7 years	Total
DKK	16	28	42	3	13	102
EUR	1	-2	-3	22	-15	2
Other	5	0	0	0	0	6
Total	22	25	39	25	-2	109

7.3.3 Interest rate risk in the banking book

The interest rate risk attaching to positions in the banking book derives from fixed-rate deposits and lending from ordinary banking transactions, repo and reverse repo transactions, monetary policy loans, bonds, interest rate risk related to the Bank's funding, incl. subordinated debt and issued bonds.

Figure 7.4 shows the net interest rate risk in the banking book, given a 1.0 percentage point increase in interest rates broken down by maturity and currency. The interest rate risk in the banking book was positive in the amount of DKK 8 million at end-2021, against a positive interest rate risk of DKK 7 million at end-2020.

Figure 7.4

Interest rate risk in the banking book

2021

DKKm	Less than 3 months	3 months – 1 year	1– 3 years	3– 7 years	More than 7 years	Total
DKK	0	0	3	-15	10	-1
EUR	0	0	3	8	6	17
Other	-6	0	-1	-1	0	-8
Total	-6	1	5	-7	16	8

2020

DKKm	Less than 3 months	3 months – 1 year	1– 3 years	3– 7 years	More than 7 years	Total
DKK	-1	0	3	0	1	4
EUR	0	0	2	4	0	6
Other	-4	0	0	0	0	-3
Total	-4	0	5	4	1	7

Spar Nord applies two risk measures to manage interest rate risk in the banking book, changes in net interest income (NII) and net interest rate exposure (EVE). NII measures the impact on the income statement of a 1.0 percentage point change in interest rates on all balance sheet items in the banking book over a period of 365 days. EVE is based on a stress scenario defined by the EBA and calculated as the change in the market value of assets and liabilities in the balance sheet and derivatives in the banking book. At year-end 2021, NII was calculated at DKK -134 million, against DKK 84 million at the end of 2020. Note that NII below zero equal positive earnings in net interest income. EVE was calculated at DKK 58 million at end-2021, against DKK 16 million at end-2020.

7.3.4 Credit spread risk

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

Market risk

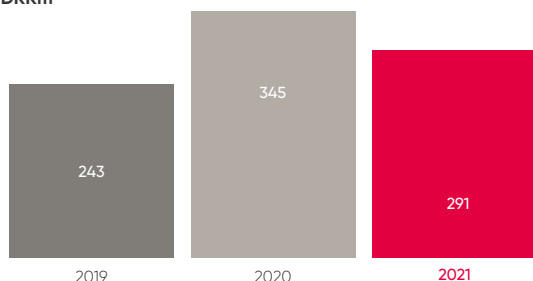
Credit spread risk is the risk that credit spreads on issuers on the bond portfolio should change. Losses may arise because of an increase in the credit risk (credit spread) on mortgage bonds relative to government bonds. The risk is also relevant for bonds for which the overall interest rate risk has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

Spar Nord applies the Danish FSA's model to measure credit spread risk. The model provides different stress values for widening credit spreads, depending on the bond type. Government bonds are given a stress value of 25bp, mortgage bonds 50bp and credit and financial bonds 100bp. Based on the above-mentioned stress scenario, the credit spread risk has been calculated at DKK 291 million at end-2021. The decline relative to 2020 is partly explained by a lower bond portfolio. Furthermore, the development reflects that Spar Nord previously applied its own model to calculate credit spread risk, which with respect to the Bank's portfolio composition had a higher average stress value.

Developments in credit spread risk are illustrated in figure 7.5.

Figure 7.5

Credit spread risk
DKKm



7.3.5 Other interest rate risk targets

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

7.3.6 Bond portfolio

As shown in figure 7.6, the bond portfolio is composed of 94.1% mortgage bonds, 5.0% bonds from financial issuers, 2.0% corporate bonds and -1.1% government bonds.

The combined bond portfolio was reduced by DKK 3.6 billion compared with end-2020. The change covers a modest shift in the composition as the holding of mortgage bonds was increased by 3%-points. The holding of government bonds was reduced and was held as a short position at end-2021.

As shown in figure 7.7, 87.1% of the Bank's bond portfolio had an AAA rating at end-2021.

Figure 7.6

Bond portfolio by issuer type*

DKKm/%	2021	2020	2021	2020
Mortgage bonds	16,279	19,041	94.1	91.1
Financial issuers	865	986	5.0	4.7
Credit bonds	345	335	2.0	1.6
Government bonds	-191	532	-1.1	2.5
Total bonds	17,299	20,895	100.0	100.0

*) Bond portfolio plus spot and forward purchases and sales

Figure 7.7

Bond portfolio by rating*

DKKm/%	2021	2020	2021	2020
AAA	15,067	18,571	87.1	88.9
AA	3	546	0.0	2.6
A	1,278	1,059	7.4	5.1
BBB	342	394	2.0	1.9
BB	130	110	0.7	0.5
B	16	17	0.1	0.1
CCC	1	2	0.0	0.0
CC	0	0	0.0	0.0
C	0	0	0.0	0.0
Not rated	462	196	2.7	0.9
Unallocated	0	0	0.0	0.0
Total bonds	17,299	20,895	100.0	100.0

*) Bond portfolio plus spot and forward purchases and sales

Sektion 7

Market risk

Figure 7.8 shows a more detailed breakdown of the bond portfolio.

Figure 7.8

Bond portfolio

2021

DKKm/%	Origin	Rating category		
Mortgage bonds	Denmark	AAA	14,621	84.5
		A	1,011	5.8
		Unrated	9	0.1
	Norway	AAA	637	3.7
			16,279	94.1
Financial issuers	Denmark	A	59	0.3
		BBB-Unrated	475	2.7
	Norway	A-BBB	61	0.4
	Sweden	Unrated	52	0.3
	Finland	A-Unrated	193	1.1
	Rest of Europe	AAA-Unrated	25	0.1
			865	5.0
Credit bonds	Denmark	BBB-Unrated	52	0.3
	Other	AA-Unrated	294	1.7
			345	2.0
Government bonds	Denmark	AAA-AA	-217	-1.3
	Europe	AAA	24	0.1
	Outside Europe	AAA	2	0.0
			-191	-1.1
			17,299	100.0
Own bonds	Denmark	Unrated	18	

Bond portfolio

2020

DKKm/%	Origin	Rating category		
Mortgage bonds	Denmark	AAA	17,562	84.1
		A	590	2.8
		Unrated	-29	-0.1
	Norway	AAA	903	4.3
	Sweden	AA	15	0.1
			19,041	91.1
Financial issuers	Denmark	A	77	0.4
		BBB-Unrated	392	1.9
	Norway	AA-BBB	266	1.3
	Sweden	A	75	0.4
	Finland	A	90	0.4
	Rest of Europe	AAA-Unrated	87	0.4
			986	4.7
Credit bonds	Denmark	BBB-Unrated	58	0.3
	Other	AA-Unrated	277	1.3
			335	1.6
Government bonds	Denmark	AAA-AA	506	2.4
	Europe	AAA	26	0.1
	Outside Europe	AAA	0	0.0
			532	2.5
			20,895	100.0
Own bonds	Denmark	Unrated	11	

7.4 Foreign exchange risk

Foreign exchange risk is the risk of loss on positions in foreign currency due to exchange rate fluctuations. Currency options are included in the calculation at the Delta-adjusted position.

Foreign exchange risk is shown in figure 7.9. The calculation is based on the assumption that all exchange rates change unfavourably by 2% which at end-2021 will result in a loss of DKK 4.1 million.

Figure 7.9 shows that the Bank's foreign exchange position was increased from DKK 64 million in 2020 to DKK 204 million in 2021. Foreign exchange risk generally remains at a low level.

Figure 7.9

Currency

	Foreign exchange position		Foreign exchange risk	
DKKm	2021	2020	2021	2020
EUR	137	51	2.7	1.0
SEK	3	0	0.1	0.0
USD	11	1	0.2	0.0
GBP	5	1	0.1	0.0
CHF	1	1	0.0	0.0
NOK	33	0	0.7	0.0
JPY	1	4	0.0	0.1
Other currencies	11	6	0.2	0.1
Total	204	64	4.1	1.3

7.5 Equity risk

Equity risk is the risk of losses caused by changes in equity prices. Equity positions are the calculated net value of long and short equity positions and equity-related instruments.

The calculation of equity positions is broken down by positions in the banking book and in the trading book.

7.5.1 Shares in the trading book

Shares in the trading book are held for trading purposes.

Figure 7.10 shows that the holding of shares in the trading book was reduced from DKK 144 million at end-2020 to DKK 138 million at end-2021, which is due to a reduction in the portfolio of both listed and unlisted shares.

Figure 7.10

Equity risk in the trading book

DKKm	2021	2020
Listed shares in the trading book	115	134
Unlisted shares in the trading book	22	10
Total	138	144

Market risk

7.5.2 Shares in the banking book

A salient feature of shares in the banking book is that they have not been acquired for trading purposes. In addition, a distinction is made between shares in strategic partners, including sector companies, associates and other shares in the banking book.

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 the Bank's operations.

In several of the sector companies, the shares are redistributed to the effect that the ownership interest of the respective institution will reflect its business volume with the sector company.

The shares are typically redistributed on the basis of the sector company's equity value. In light of this, Spar Nord adjusts the recognised value of these shares when new information is available that warrants a change of fair value measurement. In other sector companies, the shares are not redistributed, but are measured based on a fair value corresponding to the net asset value or another recognised valuation method (including discounting of cash flows and market expectations with respect to equity return requirements). The adjustments of the values of the shares in these companies are recognised in the income statement.

Figure 7.11 shows a calculation of equity risk in the banking book. The total holding of shares in the banking book increased by DKK 282 million to DKK 2,456 million at end-2021.

Figure 7.11

Equity risk in the banking book

DKKm	2021	2020
Shares in credit and financing institutions	1,278	1,274
Shares in unit trust man. companies	280	214
Shares in pension institutions	1	2
Shares in payment services business	20	7
Other equities	99	57
Total shares in strategic business partners	1,678	1,554
Realised gain	0	12
Unrealised gain	157	83
Associates	663	529
Other shares in the banking book	115	91
Total	2,456	2,174

Shares in strategic partners rose by DKK 128 million relative to end-2020, primarily owing to additional share purchases in BI Holding and a sale of shares in DLR. To this should be added price appreciation in connection with value adjustments of the portfolio.

The DKK 134 million increase in the value of associates was mainly due to additional share purchases and market value adjustments of Spar Nord's ownership interest in Danske Andelskassers Bank.

7.6 Commodity risk

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

7.7 Option risk

Derivatives are used to hedge and manage Spar Nord's risks. These include options and products that contain an embedded option. Option risks originate primarily from interest and currency options and positions in callable mortgage bonds.

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

7.8 Sensitivity analysis

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

It appears from figure 7.12 that the impact of an interest rate increase will be a loss equal to 0.7% 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.

Figure 7.12

Sensitivity analysis*

DKKm/%	Impact on operating profit		Impact on equity	
	2021	2020	2021	2020
Interest rate increase of 1%-point	-77	-85	-0.7	-0.9
Interest rate decrease of 1%-point	77	85	0.7	0.9
Share price decrease of 10% in the trading book	-11	-11	-0.1	-0.1
A fair value decrease of 10% for shares in the banking book	-233	-206	-2.2	-2.1
Unfavourable 2% ex-change rate fluctuation	-3	-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.

Market risk

7.9 Own properties

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

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

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

In 2021, positive value adjustments totalling DKK 14 million were made on domicile properties, such adjustments being recognised directly in equity under other comprehensive income. Impairment losses totalling DKK 4 million (net) have been recognised under depreciation and impairment in the income statement. Reference is made to Annual Report 2021 for a more detailed description of the accounting treatment of properties.

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

Figure 7.13

Yield/return

DKKm	2021		2020	
	No. of properties	Value year-end	No. of properties	Value year-end
-> 7%	13	220	11	203
7% - 8%	15	310	15	318
8% - 9%	7	86	13	124
9% - >	7	31	0	0
Total	42	647	39	645

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

Other things being equal, an increase of the required rate of return of 0.5 percentage point will reduce the fair value by DKK 44 million at end-2021, against DKK 43 million at end-2020.

Other things being equal, a decrease of the rent level of 5% will reduce the fair value by DKK 32 million at end-2021, against DKK 32 million at end-2020.

Operational risk

Developments in 2021

In 2021, the Bank successfully worked to implement solutions to detect fraud against its customers and system-supportive anti-money laundering (AML) and combating financing of terrorism (CFT) processes.

Moreover, IT security is a special focus area in which the Bank continuously works to ensure the required contingencies to mitigate threats against the Bank.

While COVID-19 continued to affect our society in 2021, working from home, online meetings, etc. have become part of our everyday lives, and the Bank's operational risk level has not been affected.

Definition of operational risk

Operational risk is the risk of loss resulting from inefficient or deficient internal procedures, from human or systemic errors or from external events, including legal risks.

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.

The risk exposure relating to operational risk is based on the basic indicator approach, as described in section 4.4.

RISK EXPOSURE, OPERATIONAL RISK

DKK 6.2 billion

2020: DKK 5.6 billion

8.1 Operational risk policy

Spar Nord's Board of Directors defines the Bank's operational risk policy. This includes determining risk tolerance in the area.

The purpose of the 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.

8.2 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 the Bank 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 segregation of controlling and operational functions.

Operational risk

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 incidents that could potentially have resulted in a loss, but did not do so (near-miss incidents). To enhance awareness and promote an open culture in the organisation, awareness activities are regularly undertaken aimed at operational risk management.

Figure 8.1
Number of operational loss events broken down by risk type
%

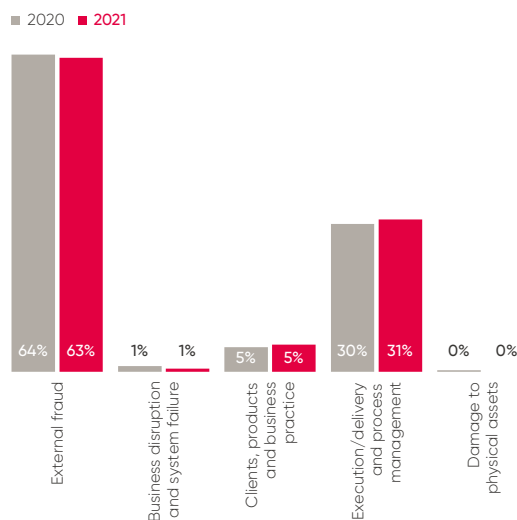
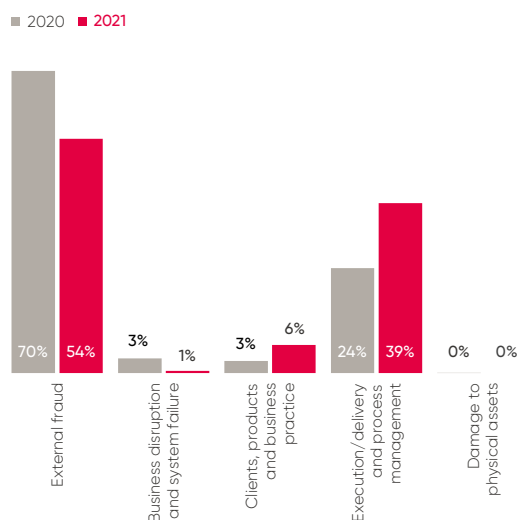


Figure 8.2
Operational loss amounts broken down by risk type
%



8.3 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 operational losses are illustrated as a percentage distribution on risk types measured by number of events and loss amounts, respectively, in figure 8.1 and figure 8.2.

Most of the loss events are events involving a limited financial effect. As shown in figure 8.1 and figure 8.2, 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.

8.4 IT security

As Spar Nord is a digital business, data and IT systems security are paramount to its credibility and existence and involves managing a number of business-critical IT risks.

The Bank's central IT security function teams up with the business and IT to ensure that the threat scenarios are 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 purpose is to ensure that the day-to-day operations reflect the risk tolerance accepted by the Board of Directors. The Bank's risk profile is regularly reported to the Bank's Executive Board and Board of Directors.

The IT security function is responsible for reporting on compliance with the Bank's adopted IT security risk tolerance, as defined in the IT security policy, and for the objective of the IT contingency plan. The Bank's IT security efforts also include the preparation of business continuity plans and recovery plans and for arranging 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, requirements and customer expectations in terms of the Bank's availability, confidentiality and integrity.

The risk management function, the Executive Board and the Board of Directors regularly review the IT security and the IT risk profile. These are also regularly addressed by the IT Security Committee.

Operational risk

In order to protect the Bank against the growing threat in the area of cyber security, the IT security function has regularly carried out awareness activities for employees and other risk-based tests of the Bank's security measures. The function has also participated in sector-specific collaborative initiatives to build internal knowledge about information security.

8.5 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.

The Bank continues to focus on enhancing and optimising existing processes and systems.

The number of filings with the State Prosecutor for Serious Economic and International Crime (SØIK) is at a stable level, which is a trend witnessed in the rest of the Danish financial sector. In 2021, Spar Nord had 2,194 filings with SØIK as compared with 2,048 cases in 2020.

The AML function is anchored in the Legal Department and reports quarterly to the Executive Board and Board of Directors.

8.6 GDPR

The DPO function (data protection officer) forms part of the Bank's second line and is anchored in the compliance function.

As with the rest of the Bank's compliance function, one of the duties of the data protection adviser is to control, assess and report on whether the Bank complies with current legislation and practice in the area of data protection.

The data protection adviser applies a risk-based approach to identifying areas to review. The areas form part of an annual plan approved by the Board of Directors.

In 2021, the adviser focused on areas such as compliance with the basic principles of the GDPR, especially the requirement for storage limitation, handling of data breaches and entering into agreements with data processors.

The data protection adviser reports directly to the Executive Board and Board of Directors. Reports are made every six months.

8.7 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 Finance Department, Legal Department and the risk management function, help ensure comprehensive insight into the risks faced by the Bank and its customers. The risk management function must at all times be able to demand 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 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.

Sektion 9

Risk statement

Spar Nord's Board of Directors approved Spar Nord's 2021 Risk Report on 10 February 2022.

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

We believe that Spar Nord's general risk profile with respect to the business strategy, business model and key performance indicators provides a fair representation of the Bank's risk management, including of the adopted risk profile and risk appetite. Selected financial ratios are shown in figure 9.1 and figure 9.2.

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

Figure 9.1

Financial ratios

Capital	2021	2020
Common equity tier 1 capital ratio	16.3	17.2
Own funds ratio	20.8	21.0
Individual solvency need	9.6	9.9
Excess capital coverage in percentage points	7.4	7.6
Leverage ratio	8.2	8.6
Liquidity		
LCR (%)	280	241
NSFR (%)	125	-
Asset Encumbrance (%)	1.7	4.3
Bank deposit rating and outlook (Moody's)	A1/Stable	A1/Stable
Credit		
Impairment account (DKKm)	1,591	1,717
Impairment ratio (impact on operations)	-0.15	0.44
NPL ratio	2.8	3.4
Total assets (DKKm)	116,626	102,077

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

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

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

Figure 9.2

The Supervisory Diamond

%	Threshold values	2021	2020
Sum of large exposures	<175	81.7	78.1
Growth in lending	<20	15.5	-1.5
Property exposure	<25	9.7	10.5
Funding ratio	<1		0.5
Liquidity benchmark	>100	292.0	251.0

Risk statement

Executive Board



Lasse Nyby

Chief Executive Officer



John Lundsgaard
Managing Director



Lars Møller
Managing Director



Martin Kudsk Rasmussen
Managing Director

Board of Directors



Kjeld Johannesen

Chairman of the Board of Directors



Per Nikolaj Bukh

Deputy Chairman of the Board of Directors



Lene Aaen



Kai Christiansen



Morten Bach Gaardboe



André Rogaczewski



Henrik Sjøgreen



Jannie Skovsen



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