spar nord

Risk report 2023

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.dk/investor-relations/.

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.

Contents

Sektion 1

Introduction

From a risk perspective, 2023 was characterised by significant challenges with economic uncertainty, geopolitical tensions and confidence in the financial sector among the risk topics.

The Danish economy proved quite robust seen in light of the central banks struggle to curb inflation and the related higher levels of interest rates, which also applies to Spar Nord's customers. However, economic indicators are pointing to challenges in several industries, notably the industry and commercial real estate, where the level of risk is not expected to fall in the next 12 months.

Financial risks

In 2023, Spar Nord also experienced the cyclical changes by way of weaker demand for credit, including a reduced level of activity in the housing market. Based on its strategy of actively growing through the establishment of new local banks, the Bank has generated organic growth in its lending operations of 3.9%, primarily driven by an increase in lending to new and existing retail and leasing customers.

Due to the economic uncertainty, the Bank has focused its advisory services on ensuring that customers navigate well through changes in their financial situation. The Bank has not yet recorded any significant increase in arrears, which is believed to be attributable to a strong labour market, overall strong loan portfolio credit quality and the fact that consumers have adjusted their spending habits.

However, the Bank has made some considerations to reflect the risk environment, making additional provisions in 2023 to cover the risk of expected losses relating to factors such as a cyclical downturn, commercial real estate and ESG. The total management estimates amounted to DKK 662 million at end-2023.

Financial markets were characterised by macroeconomic uncertainties, high interest rate volatility and subsiding growth expectations. In response to these trends, Spar Nord actively reduced its equity and interest rate exposure throughout the year. The Bank has increased its bond portfolio due to rising excess liquidity, which has primarily been placed in investment-grade Danish mortgage bonds with low maturities.

Spar Nord's retains a comfortable level of cash resources. The short-term Liquidity Coverage Ratio (LCR) has been calculated at 246%, and the long-term Net Stable Funding Ratio at 131%. Both liquidity ratios are well above both the statutory requirements and the Bank's own targets.

In the funding area, the general market uncertainty and crisis of confidence in the financial system, mainly with respect to US and Swiss banks, was reflected in volatile market liquidity, which adversely affected the price of capital market funding. Despite market instability, the Bank adhered to its capital sourcing plans in 2023 and is assessed to be well positioned for coming issues in 2024.

Non-financial risks

In 2023, Spar Nord worked intensively to further strengthen its IT security because of the very high level of threat in relation to cyber-attacks against the financial sector. The threat has been exacerbated by external factors, notably by the war in Ukraine.

For a number of years, the Bank has worked effectively to reduce losses relating to online banking and card fraud. In a historical context, the Bank's losses in the area remains low, but there is a growing number of cases relating to card fraud.

The increasing importance of the Environmental, Social and Governance area (ESG risk) is reflected in the activities pursued by the Bank. In 2023, the Bank intensified its sustainability risk efforts, identifying how these risks may be incorporated further into the credit assessment process and in connection with investment in the financial markets.

Capital requirement

Spar Nord had a strong capital position at the end of 2023. The common equity tier 1 capital ratio and the own funds ratio were 17.7% and 22.3%, respectively, which is well above the Bank's capital targets of 13.5% and 17.5%, respectively. Relative to the capital requirement, the excess coverage is 6.2%-points, or DKK 3.8 billion.

Overall, the Bank is estimated to have a solid capital position, poised for entering 2024 and capable of dealing with a potential deterioration of the Danish economy.

Outlook

The outlook for 2024 reflects a high level of uncertainty, and the central banks are expected to keep interest rates high for large parts of the year. This will put a damper on the Danish economy, which appears to be ahead of the other European countries in terms of combating inflation.

Spar Nord will dedicate its resources and risk management efforts to the most cyclical industries, including commercial real estate, which is expected to be particularly sensitive to the elevated interest rates, which are believed to have yet to pass through to prices in the market.

The Bank is keeping a close eye on overall labour market developments, which are believed to be crucial for the Bank's risk exposure in 2024. The prospect of rising real wages are expected to underpin consumer spending and favourably impact the Bank's customers.

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 62 local banks.

Spar Nord is a bank built on strong customer relationships. The Bank believes relations and business are best cultivated through a local presence and decentralised decision-making powers. That is why Spar Nord operates its business based on the local bank model – which builds on local autonomy combined with an efficient centralised engine room.

The local bank model is inspired by the franchise concept, in which strongly anchored local ownership and responsibility help drive customer relations and business volume. The local bank model supports a high degree of local autonomy in terms of picking a team and process the market through initiatives and marketing.

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 its Aalborg headquarters.

Vision and strategy

At Spar Nord, we believe that personal relations are also important for our ability to attract and retain customers in an increasingly digitalised world. 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.

With the local bank model as its foundation, Spar Nord works with 3-year strategy periods. The strategy for 2023-2025 operates with a vision, a diagnosis of the current situation, a strategic direction and specific actions – with the broad aim of strengthening decentralised decision-making powers as the Bank's distinctive features. That is why we have named the strategic direction for the period 2023-2025 A COMMITTED BANK.

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 risk areas. Strategic and regulatory risk is also a significant focus area.

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

Disclosure obligations with respect to management systems, cf. Article 435(2)(a)-(c) of the CRR Regulation, are described on pages 42-49 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 monitoring and managing the Bank's risks.

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.

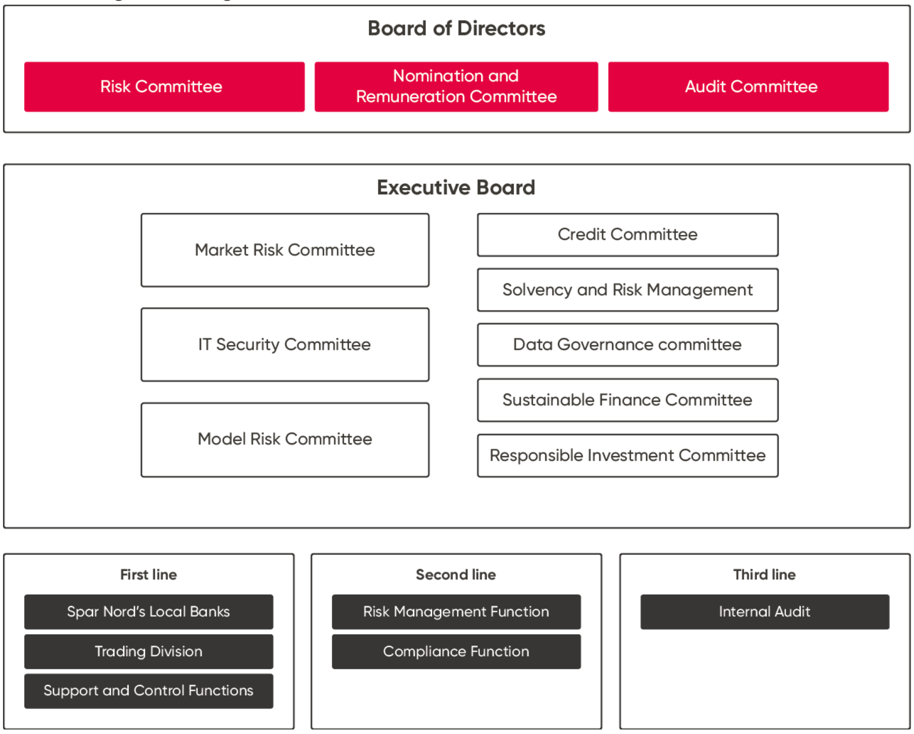
In order to underpin the management structure, the Board of Directors has drafted written guidelines for the Executive Board, specifying the areas of responsibility and scope of action. As and when required, the Board of Directors will assess and update these guidelines.

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'

Figure 3.1

Risk management organisation



Sektion 3

Risk management

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 purpose of the committees is to facilitate the transaction of business by the Board of Directors.

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 55-57 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 ten meetings in 2023.

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 Bank's diversity policy, 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 four meetings in 2023.

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 consist of three board members, one of whom is independent and one elected by the employees. The Committee held eight meetings in 2023.

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.

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.

3.4.1 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 other committees at executive board level to ensure that any capital consequences are dealt with by the primary capital and solvency authority.

3.4.2 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.

3.4.3 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 deal with relevant topics within information security and IT risk management. Moreover, the IT Security Committee supports the Bank's management system for information security.

3.4.4 Model Risk Committee

The Model Risk Committee is composed of a member of the Executive Board and representatives from the risk management function, the IRB department 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

Sektion 3

Risk management

developed and revised models prior to approval and implementation.

3.4.5 Credit Committee
The Credit Committee is composed of two members of the Executive Board and two members 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.

3.4.6 Data Governance Committee
The Data Governance Committee is composed of a member of the Executive Board and selected data owners (business area managers). The Committee meets twice a year. The Data Governance Committee was set up to ensure a cross-disciplinary focus on data governance and data quality in Spar Nord and it serves to define the strategic direction and focus for the area in the Bank's data strategy within the framework of the Bank's data governance policy, which is defined by the Board of Directors.

3.4.7 Committee for sustainable finance
The committee for sustainable finance consists of members of the Executive Board and heads of the Bank's business units represented to ensure the committee is anchored across the organisation. The committee deals with activities relating to the Bank's loan portfolio and ESG risks.

3.4.8 Committee for responsible investment
The committee for responsible investment consists of one member of the Executive Board and selected executives from the Trading Division and the head of business development. The committee is focused on responsibility and sustainability risks in the investments offered and made by Spar Nord.

3.5 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 a centralised department AML & Fraud, which is part of the first line.

3.6 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.

3.6.1 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.

3.6.2 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.

3.7 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 the financial reporting process.

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.

3.8 Reporting
To ensure an adequate decision-making basis for the Executive Board and the Board of Directors, management regularly 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 4

Capital and solvency need

Figure 3.2

Risk policies and guidelines

Governance	Frequency	
Risk policy	Annually	Data protection policy
		Data governance policy
		Insurance policy
		IT policy
		Information security policy
		Capital policy
		Credit policy
		Liquidity and funding policy
		Market risk policy
		Model risk policy
		Stewardship policy
		Responsible investment policy and policy for sustainability risk
		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	Board guidelines to the Executive Board

Risk reporting

Risk area	Frequency	
Overall risk management	Annually	Annual audit minutes from the Internal Audit Department Overall assessment of whether the Bank's risk management, compliance function, business procedures and internal controls in critical audit areas have been organised and are working satisfactorily.
	Annually	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.
	Semi-annually	Risk report: Overall risk assessment of the individual risk areas with a focus on the overall level of risk and first-line risk management capabilities. Monitoring of risk profile and recovery indicators.
	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.
	Quarterly	Risk presentation: Combined overview of developments in key risks, which is presented in connection with the publication of the quarterly financial statements, including the Bank's capital and solvency
	Quarterly	AML & Fraud: Review of status of controls in relation to compliance with the Danish AML Act.
	Quarterly	Reports by the Internal Audit Department Summary of key matters, audits performed and status of audit observations
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 and developments of market risks Trend in utilisation of frameworks, cf. Board guidelines to the Executive Board.
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.
	Monthly	Liquidity report: Overview of and developments in short-term and long-term liquidity risk

Sektion 4

Capital and solvency need

Developments in 2023

Spar Nord's capital position was affected by strong earnings in spite of an unchanged risk exposure and impairment level, which contributed to further strengthening the Bank's capital position.

A historically strong financial performance in 2023 enabled Spar Nord to maintain a solid capital position with a total capital ratio of 22.3%, which was 1.4%-points higher than at end-2022. The capital ratio was well above the regulatory capital requirement and internal targets, and the excess coverage was thus at a satisfactory level.

Spar Nord's total risk exposure amount remained similar to year-end 2022.

One the basis of the strong consolidation in 2023, the Board of Directors proposes paying a dividend of DKK 10.0 per share and establishing a share buyback programme of DKK 500 million in 2024, equivalent to total payout ratio og 69% of the profit for the year.

The DKK 300 million share buyback program for 2022 established in early 2023 was completed after full utilization at the end of January 2024.

The excess coverage was increased by 0.8%-point to 6.2%-points at end-2023. The higher excess coverage was driven by a 1.4%-point increase in the capital ratio and a 0.5%-point increase in the capital requirement. The higher capital requirement was primarily the result of the re-establishment of the countercyclical capital buffer on Danish exposures to the target of 2.5% in Q1 2023.

The excess coverage to the regulatory requirement and internal targets is still believed to be solid. Entering a period of economic uncertainty, Spar Nord is reassured by its strong capital position.

TOTAL RISK EXPOSURE AMOUNT

DKK 60.4 billion

2022: DKK 60.5 billion

COMMON EQUITY TIER 1 CAPITAL RATIO

17.7%

2022: 16.4%

OWN FUNDS RATIO

22.3%

2022: 20.9%

INDIVIDUAL SOLVENCY NEED

9.8%

2022: 9.8%

EXCESS CAPITAL COVERAGE IN PCT. POINTS

6.2

2022: 5.5

LEVERAGE RATIO

9.8%

2022: 9.7%

Sektion 4

Capital and solvency need

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.

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-2023 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, where the intention is to distribute 40-60% of the net profit for the year. The Bank intends to the make distributions in the form of cash dividends and share buybacks, to the effect that at least 30% of the net profit will be distributed as cash dividends.

4.2 Development in capital ratios

The common equity tier 1 ratio and the own funds ratio reflect common equity tier 1 capital and total capital as a percentage of the total risk exposure amount. These capital ratios show how much of the two types of capital Spar Nord has at its disposal and may be compared to the capital requirements and internal targets.

Figure 4.1 shows Spar Nord's principal capital ratios applying the IFRS 9 transitional arrangements. The figure shows that, at year-end 2023, Spar Nord had a common equity tier 1 capital ratio of 17.7% and an own funds ratio of 22.3%. Relative to the capital requirement, this results in an excess coverage of 6.2%-points for both the common equity tier 1 capital ratio and the own funds ratio. The individual solvency need was calculated at 9.8% at end-2023. A specification of own funds, risk exposure and capital requirements is provided in the following sections.

The common equity tier 1 ratio and the own funds ratio for the past three years are illustrated in figure 4.2. The figure shows Spar Nord's solid capital position and historically strong capital position at end-2023.

Figure 4.1
Capital ratios and excess coverage using the IFRS 9 transitional arrangement

%	2023	2022
Common equity tier 1 capital ratio	17.7	16.4
Tier 1 capital ratio	19.7	18.4
Own funds ratio	22.3	20.9
Individual solvency need	9.8	9.8
Percentage points		
Excess coverage, common equity tier 1 capital ratio	6.2	5.5
Excess coverage, own funds ratio	6.2	5.5

Figure 4.2
Common equity tier 1 ratio and own funds ratio
%

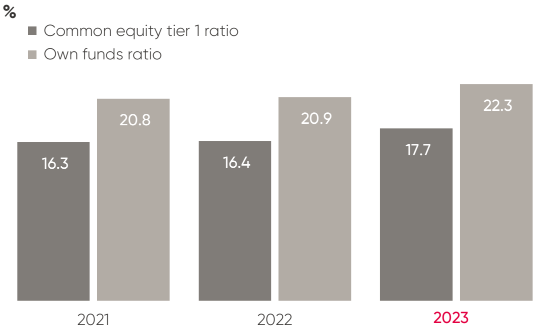


Figure 4.3 shows a calculation of the capital ratios on full phasing-in of the IFRS 9 transitional arrangement. As shown in the figure, the current capital ratio will be reduced by about 0.3%-point without the use of the transitional arrangement. The transitional arrangement for IFRS 9 will continue until the

Sektion 4

Capital and solvency need

beginning of 2025. See section 4.3.1 for additional information.

Figure 4.3

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

%	2023	2022
Common equity tier 1 capital ratio	17.4	16.0
Tier 1 capital ratio	19.4	18.0
Own funds ratio	22.0	20.6
Individual solvency need	9.6	9.6
Percentage points		
Excess coverage, common equity tier 1 capital ratio	6.0	5.2
Excess coverage, own funds ratio	6.0	5.2

4.3 Own funds

In accordance with the Executive Order on Calculation of Risk Exposure Amount, Own Funds and Solvency Need (Executive Order no. 2155 of 3 December 2020), the calculation of Spar Nord's own funds must comply with (Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 and supplementary implementing regulations known as the Capital Requirements Regulation, or CRR.

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

4.3.1 IFRS 9

The implementation of the IFRS 9 accounting standard affects the calculation of own funds because of the possibility of applying a transitional arrangement in relation to the IFRS 9 effect, which is incorporated in the CRR. The transition to the IFRS 9 standard resulted in an increase in the total impairment account from 31 December 2017 to 1 January 2018.

The transitional arrangement may be applied in order to phase-in the effect of IFRS 9 when calculating own funds.

The original transitional arrangement, which contained a static and a dynamic component, expired in March 2023 and has thus been fully phased in. The COVID-19 pandemic resulted in an adjustment to the arrangement in the form of a new dynamic component, which will be phased in until March 2025.

The dynamic COVID-19 component must reflect the costs caused by any deterioration of the macroeconomic outlook in the period from 1 January 2020 to the time of calculation, calculated as developments in the impairment account for stages 1 and 2 for the period.

For capital adequacy purposes, Spar Nord has opted to apply the transitional arrangement and is aware that the risk exposure amount must be increased by an amount corresponding to the positive effect contributed by the transitional arrangement in own funds.

Using the transitional arrangement means that the effect of IFRS 9 after tax is recognised in own funds with a predetermined phase-in percentage..

The transitional arrangement and its overall effect are shown in figure 4.4 for the period 2021-2024. The figure shows that 50% of the calculated IFRS 9 effects after tax from the COVID-19 component is added to common equity tier 1 capital in 2023. The effect of the transitional arrangement is thus calculated at DKK 199 million in 2023.

Reference is made to "Additional Pillar 3 Disclosures Q4 2023 – IFRS9-FL".

Figure 4.4

IFRS 9 transitional arrangement

	2021	2022	2023	2024
Original transitional arrangement (%)	50	25	0	0
COVID-19 transitional arrangement (%)	100	75	50	25
Static component in DKKm*	97	49	0	0
Dynamic component (2018-19) in DKKm*	13	6	0	0
Dynamic component (2020-23) in DKKm*	64	230	199	
Total effect	**174**	**286**	**199**	

*) After tax

4.3.2 Issued capital instruments

The Bank can include issued additional tier 1 and tier 2 capital when calculating its own funds provided the issues were made on terms that meet the requirements for inclusion in own funds under CRR.

Spar Nord has issued additional tier 1 capital with a total principal of DKK 1.2 billion, distributed on three issues of DKK 330 million, DKK 600 million and DKK 250 million, respectively, as shown in figure 4.5. No issues or redemptions were made of additional tier 1 capital in 2023.

Spar Nord has also issued tier 2 capital with a total principal of DKK 1.6 billion, distributed on five issues as shown in figure 4.5. The DKK 400 million tranche was issued in 2023 to refinance a first call redemption of an issue of the same size.

The issues of additional tier 1 capital and tier 2 capital are recognised in tier 1 capital and in own funds, respectively, with the principal adjusted for the treasury holding permitted by the Danish FSA and any related expenses not expensed.

Sektion 4

Capital and solvency need

As shown in figure 4.5, Spar Nord may redeem at the first call date the two tier 2 capital issues in a total amount of DKK 500 million at the end of May 2024. This option is expected to be exercised, and the redemption is expected to be refinanced by a new issue of the same size in Q1 2024.

See "Additional Pillar 3 Disclosures Q4 2023 – EU CCA" for additional information about the issued capital instruments.

Figure 4.5
Additional tier 1 capital and tier 2 capital issued

	Principal DKKm	First call date*	Expiry date
Additional tier 1 capital - DK0030465083	330	15.4.25	Perpetual
Additional tier 1 capital - DK0030484464	600	8.9.26	Perpetual
Additional tier 1 capital - DK0030495668	250	30.9.27	Perpetual
Tier 2 capital - DK0030431341	150	29.5.24	29.5.29
Tier 2 capital - DK0030432075	350	29.5.24	29.5.29
Tier 2 capital - DK0030510219	500	7.7.27	7.7.32
Tier 2 capital - DK0030524277	400	11.4.28	11.4.33
Tier 2 capital - DK0030495742	200	30.9.28	30.9.33

*) First option of early redemption.

4.3.3 Calculated own funds

As shown in figure 4.6, own funds increased by DKK 780 million in 2023 to DKK 13.4 billion. Own funds were primarily affected by developments in the following areas:

- Profit for the year after tax
- Adjustment for the transitional arrangement for IFRS 9
- Provision for expected dividends for 2023
- Increased deduction for NPE Backstop
- Reduced deduction for insignificant investments in CET1 instruments issued by financial sector entities
- Increased deduction for significant investments in CET1 instruments issued by financial sector entities

Profit for the year after tax and before interest on additional tier 1 capital added DKK 2.4 billion, which is recognised in equity.

In accordance with its dividend policy, Spar Nord intends to pay total dividends of DKK 10.0 per share for 2023, equivalent to DKK 1.2 billion. Furthermore, given the Bank's solid capital position, the Board of Directors has found it possible and appropriate to launch a share buyback programme of DKK 500 million in 2024. The total dividends for 2023 correspond to a pay-out ratio of 69% of the profit for the year.

The DKK 500 million share buyback programme for 2023 has not been deducted from own funds for 2023, but on recognition in Q1 2024 it is expected to reduce the own funds ratio by 0.9 of a percentage point.

The DKK 300 million share buyback programme for 2022 established in early 2023 was completed after full utilisation at the end of January 2024. The deduction for share buybacks of DKK 10 million, shown in figure 4.6, is the unexercised part of this buyback programme at 31 December 2023.

The phasing in of IFRS 9 effects results in a DKK 199 million increase in own funds in 2023, which is DKK 87 million less than in 2022. The reason is that more stage 1 and 2 impairment charges were added in 2023 and further phasing-in of the transitional arrangement.

The deduction for non-performing exposures (NPE-Backstop), implemented in the CRR in 2021, is calculated at DKK 183 million in 2023, which is DKK 10 million more than in 2022. This was in part due to accelerated phasing-in of the deduction and replacement of the exposures underlying the deduction.

Figure 4.6 shows that the deduction for holdings of CET1 instruments in entities in the financial sector where Spar Nord has an insignificant holding, is calculated at DKK 0 in 2023, against DKK 116 million in 2022. Developments in 2023 were driven by the fact that the permitted holding of these capital instruments has increased, while the value of the actual holding has decreased. This also explains developments in the deduction of holdings of insignificant holdings of additional tier 1 capital instruments and tier 2 capital instruments.

The deduction for holdings of CET1 instruments in entities in the financial sector where Spar Nord has a significant holding, is calculated at DKK 500 million in 2023, against DKK 352 million in 2022. Developments in 2023 primarily reflect that the market value of Spar Nord's strategic holdings of these CET1 instruments has increased, which is partly offset by the fact that the permitted holding has also increased.

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

As described in section 4.3.2, the Bank issued tier 2 capital of DKK 400 million in 2023 to refinance an issue of the same size. Developments in tier 2 capital after deduction of the permitted limit for holding of own issues were due to higher costs payable for the issue of tier 2 capital.

Sektion 4

Capital and solvency need

Figure 4.6

Calculation of own funds

DKKm	2023	2022
Equity	13,979	12,469
Phasing-in of IFRS 9	199	286
Additional tier 1 capital recognised in equity	-1,202	-1,199
Proposed dividend	-1,205	-554
Intangible assets	-329	-341
Share buybacks, non-utilised portion	-10	-30
Deductions for NPE (Non Performing Exposures)	-183	-173
Other primary deductions	-60	-60
Deduction – Holdings of insignificant CET 1 instruments	0	-116
Deduction – Holdings of significant CET1 instruments	-500	-352
Common equity tier 1 capital	**10,691**	**9,930**
Additional tier 1 (AT1) capital *)	1,173	1,173
Deduction – Holdings of insignificant CET 1 instruments	0	-1
Tier 1 capital	**11,864**	**11,103**
Tier 2 capital *)	1,578	1,579
Deduction – Holdings of insignificant CET 1 instruments	0	-19
Own funds	**13,442**	**12,662**

*) Limit for holding of own issues has been deducted.

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 thus represents the basis for determining the capital that must be reserved relative to the risk undertaken.

The Executive Order on Calculation of Risk Exposure Amount, Own Funds and Solvency Need (Executive Order no. 2155 of 3 December 2020) stipulates that the calculation of Spar Nord's total risk exposure amount must comply with the CRR. This entails a number of methodology limitations in relation to the specific sub-components of the REA, which is listed in figure 4.8.

As shown in figure 4.8, the calculation of the total risk exposure amount derived from credit risk incl. credit valuation adjustments (CVA) and market risk is made using the standardised approach. Counterparty risk is measured pursuant to the rules of SA-CCR, which was implemented in the CRR On 30 June 2021, while the exposure derived from operational risk is calculated using the basic indicator approach. In addition, the comprehensive approach is used for financial collateral and the simplified approach for prudent valuation, which is a component of the calculation of own funds.

Figure 4.7

Calculation of own funds requirements and risk exposure

DKKm	Own funds requirement		Risk exposure amount	
Credit risk, incl. CVA	2023	2022	2023	2022
Central governments or central banks	0	0	0	0
Regional governments or local authorities	2	1	26	17
Public-sector entities	0	3	0	41
Institutions	63	58	782	723
Corporates	1,526	1,533	19,076	19,167
Retail customers	1,274	1,292	15,922	16,152
Exposures secured by mortgage on real property	440	418	5,501	5,226
Exposures in default	52	77	653	960
Items associated with particularly high risk	25	32	318	402
Covered bonds	84	54	1,051	677
Short-term credit assessment	15	27	191	342
Claims in the form of CIU	0	0	0	0
Equity exposures	309	289	3,864	3,615
Other items	146	195	1,822	2,435
CVA risk	29	25	356	307
Total credit risk, incl. CVA	**3,965**	**4,005**	**49,563**	**50,063**
Market risk				
Debt instruments	292	290	3,646	3,622
Shares, etc.	21	17	258	206
Foreign exchange risk	4	6	51	69
Commodity risk	0	0	3	3
Total market risk	**317**	**312**	**3,958**	**3,901**
Total operational risk	**548**	**520**	**6,848**	**6,499**
Total	**4,830**	**4,837**	**60,369**	**60,463**

Sektion 4

Capital and solvency need

Figure 4.8

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

At end-2023, Spar Nord's total risk exposure amount was calculated at DKK 60.4 billion, which was DKK 94 million lower than at end-2022. The moderate developments in the total risk exposure amount cover opposite movements between the exposure classes. Figure 4.7 shows the calculation of the total risk exposure amount and the own funds requirement, which is 8% of the risk exposure amount.

Most of the total risk exposure amount derives from credit risk incl. CVA, which accounts for DKK 49.6 billion at end-2023, equal to 82% of the total risk exposure amount. Risk exposure derived from credit risk incl. CVA was reduced by DKK 500 million in 2023. Most of the risk exposure derived from credit risk comes from companies and ordinary retail customers, and exposures to these customers secured by mortgages on immovable property.

Risk exposure from OTC derivatives and repo/reverse transactions with financial counterparties (CVA risk) was calculated at DKK 356 million.

Risk exposure derived from market risk amounted to DKK 4.0 billion at end-2023, equal to a little over 7%, which is an increase of DKK 57 million relative to end-2022.

Risk exposure derived from operational risk rose by DKK 349 million in 2023 to DKK 6.8 billion, corresponding to 11%. Developments were driven by higher income in the three-year historical period included in the basic indicator approach.

The amounts take into consideration the fact that the IFRS 9 transitional arrangement results in higher risk exposure. The effect was calculated at DKK 199 million at end-2023.

4.5 Individual solvency need

Consolidated Act no. 1731 of 5 December 2023 on financial business 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 on adequate own funds and solvency needs for credit institutions (Guidance no. 10055 of 15 December 2023). 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 Spar Nord has additional risks that necessitate an add-on to the calculated solvency need (Pillar 2).

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

Based on the guidelines issued by the Danish Financial Supervisory Authority, the Board of Directors determines Spar Nord's adequate own funds and individual solvency need based on the recommendation of the Solvency and Risk Management Committee. 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
   - Credit risk concentration
   - Other credit risks
   - NPE deductions
4. Market risks
   - Interest rate risk
   - Equity risk
   - Foreign exchange risk
   - Credit spread risk
   - Interest rate risk in the banking book
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
    - Real estate risks
    - IFRS 9 transitional arrangement phase-out

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.

Sektion 4

Capital and solvency need

As shown in figure 4.9, the adequate own funds amounted to DKK 5.9 billion at end-2023, which is on a level with the adequate own funds at end-2022.

The total add-on to the solvency need at end-2023 of DKK 1.1 billion was unchanged from the end of 2022. However, there was a change in the add-on composition, as the add-ons for credit risk and operational risk increased by DKK 29 million, while the add-on relating to other risks was reduced correspondingly.

The add-on relating to market risk was unchanged overall, but the new solvency guidelines from the Danish FSA include adjustments to the composition, introducing the component of interest rate risk in the banking book, which was previously placed under interest rate risk.

At end 2023, the solvency need ratio amounted to 9.8%, which was unchanged relative to end-2022.

Figure 4.9

Adequate own funds by risk area

DKKm/% of REA*	2023		2022	
Minimum 8% requirement				
Credit risk, incl. CVA	3,965	6.6	4,005	6.6
Market risk	317	0.5	312	0.5
Operational risk	548	0.9	520	0.9
Total	**4,830**	**8.0**	**4,837**	**8.0**
Add-on to solvency need				
Credit risk	261	0.4	251	0.4
Market risk	425	0.7	425	0.7
Operational risk	304	0.5	285	0.5
Other risks	92	0.2	121	0.2
Any add-on, if required by law	0	0.0	0	0.0
Total add-on	**1,082**	**1.8**	**1,082**	**1.8**
Total	**5,912**	**9.8**	**5,919**	**9.8**

*) Risk Exposure Amount

4.6 Capital buffers

Danish banks must comply with a number of capital buffer requirements in addition to the individual solvency need. The capital buffer requirements are described in Consolidated Act no. 1731 of 5 December 2023 on financial business, which incorporates elements from the common European capital requirements directive/CRD (Directive (EU) No. 36/2013 of 26 June 2013 of the European Parliament and of the Council).

A common feature of all capital buffer requirements is that only common equity tier 1 (CET1) capital may be used for meeting the 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 capital buffer requirements consist of the elements set out below, which are determined on the basis of the total risk exposure amount. The sum of these is referred to as the combined buffer requirement:

- Capital conservation buffer
- Institution-specific countercyclical buffer
- SIFI buffer
- Systemic buffer

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

The institution-specific countercyclical buffer requirement serves to ensure the accumulation of capital during periods of high credit growth. The countercyclical capital buffer is to be used during periods of financial stress. The purpose is to build the capital buffer before risks materialise. The countercyclical capital buffer requirement is country-specific.

The institution-specific countercyclical capital buffer on Danish exposures was re-established through 2022 and 2023 to the target of 2.5% of the total risk exposure amount after the release due to the COVID-19 pandemic in March 2020.

As a SIFI institution, Spar Nord must also comply with the SIFI buffer requirement of 1% of the total risk exposure amount.

The Minister for Industry, Business and Financial Affairs may determine a systemic capital buffer requirement to counteract and limit long-term non-cyclical systemic or macro-prudential risks that are not comprised by CRR. At end-2023, the systemic capital buffer was 0%, but the Systemic Risk Council has for the first time recommended to the Minister that a sector-specific systemic capital buffer be activated effective 30 June 2024. The Minister is expected to follow the recommendation.

The recommended sector-specific systemic capital buffer is set at 7% of the risk-weighted exposures to real estate companies. The Systemic Risk Council made its recommendation because it finds there is a risk that problems in the real estate sector may affect financial stability.

At end-2023, Spar Nord's risk-weighted exposure to real estate companies was DKK 5.1 billion, which means this new systemic buffer requirement is expected to account for around 0.6% of the total risk exposure amount from the end of June 2024.

4.6.1 Calculated combined buffer requirement

At end-2023, the combined capital buffer requirement consists of the requirements for the capital conservation buffer, the institution-specific countercyclical capital buffer and the SIFI buffer. The

Sektion 4

Capital and solvency need

calculated combined buffer requirement is shown in figure 4.10.

Figure 4.10

Combined buffer requirement

	2023	2022
Total risk exposure amount (DKKm)	60,369	60,463
Capital conservation buffer requirement (%)	2.5	2.5
Institution-specific countercyclical buffer requirement (%)	2.5	2.0
SIFI buffer requirement (%)	1.0	1.0
Capital conservation buffer requirement (DKKm)	1,509	1,512
Institution-specific countercyclical buffer requirement (DKKm)	1,483	1,187
SIFI buffer requirement (DKKm)	604	605
Combined buffer requirement (DKKm)	**3,596**	**3,303**

As shown in figure 4.10, the combined capital buffer requirement in 2023 was calculated at DKK 3.6 billion, which is close to DKK 300 million higher than in 2022. The higher buffer requirement was primarily attributable to the increase of the institution-specific countercyclical capital buffer on Danish exposures from 2.0% to 2.5%. On top of this comes a small reduction of the other buffers due to the DKK 94 million reduction in the total risk exposure amount.

The institution-specific countercyclical buffer requirement was DKK 1.5 billion at end-2023. 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

	2023		2022	
%	Exposure	Buffer rate	Exposure	Buffer rate
Denmark	97.4	2.5	98.0	2.0
Germany	1.2	0.8	1.1	0.0
Sweden	0.1	2.0	0.1	1.0
Norway	0.2	2.5	0.1	2.0
United Kingdom	0.2	2.0	0.1	1.0
USA	0.0	0.0	0.0	0.0
Other countries	0.9	0.0	0.6	0.0

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 2023 - EU CCyB1 and EU CCyB2".

4.7 Excess coverage relative to capital requirement

The excess capital coverage shows the amount of capital Spar Nord has in excess of the calculated capital requirements, including an adjustment for the permitted recognition of additional tier 1 capital and tier 2 capital. The total capital requirement consists of the own funds requirement, add-on to the solvency need and the combined buffer requirement.

Figure 4.12 shows that the CET1 capital requirement was 11.5% at end-2023, which equates to an excess coverage of 6.2%-points as the common equity tier 1 capital ratio was calculated at 17.7%. The excess coverage was thus DKK 3.8 billion at end-2023, which is DKK 471 million higher than at end-2022. The higher excess coverage was due to growth in Spar Nord's common equity tier 1 capital, which was partly offset by a higher combined buffer requirement due to a higher countercyclical capital buffer in 2023.

Figure 4.12

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

DKKm/% of REA*	2023		2022	
Basic requirement of 4.5%	2,717	4.5	2,721	4.5
Add-on to solvency need	609	1.0	609	1.0
Combined buffer requirement	3,596	6.0	3,303	5.5
Capital requirement from additional tier 1 capital	0	0.0	0	0.0
Capital requirement from tier 2 capital	0	0.0	0	0.0
Capital requirement	**6,921**	**11.5**	**6,632**	**11.0**
Common equity tier 1 capital	10,691	17.7	9,930	16.4
Excess coverage	**3,769**	**6.2**	**3,298**	**5.5**

*) Risk Exposure Amount

Figure 4.13 shows that the total capital requirement at end-2023 was 15.7%. When calculating the excess coverage for the total capital requirement, excess additional tier 1 capital and tier 2 capital is deducted, as a result of which the excess coverage is calculated at 6.2%-points with a capital ratio of 22.3%.

Figure 4.13

Excess coverage relative to capital requirement

DKKm/% of REA*	2023		2022	
Minimum 8% requirement	4,830	8.0	4,837	8.0
Add-on to solvency need	1,082	1.8	1,082	1.8
Combined buffer requirement	3,596	6.0	3,303	5.5
Capital requirement	**9,508**	**15.7**	**9,222**	**15.3**
Own funds	13,442	22.3	12,662	20.9
Capital deducted from excess coverage	-165	-0.3	-142	-0.2
Excess coverage	**3,769**	**6.2**	**3,298**	**5.5**

*) Risk Exposure Amount

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.

Sektion 4

Capital and solvency need

The amendments to the CRR on 30 June 2021 resulted in the introduction of a leverage ratio threshold of at least 3.0%, 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 6.0% by a fair margin, as its leverage ratio was calculated at 9.8% at end-2023, as shown in figure 4.14. This calculation was made on the basis of the calculated own funds, which complies with the rules for a transitional arrangement on IFRS 9. Using a core capital calculated relative to a fully phased-in set of rules, the leverage ratio would be calculated at 9.7%.

Figure 4.14

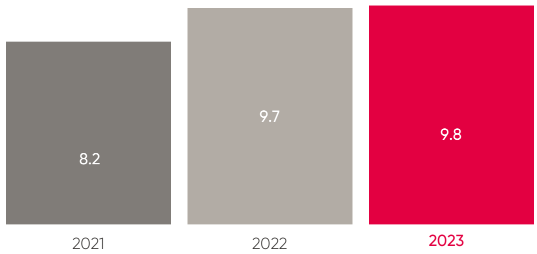
Leverage ratio

%	2023	2022
Leverage ratio – IFRS transitional arrangement	9.8	9.7
Leverage ratio – fully phased-in IFRS 9	9.7	9.5

Figure 4.15 shows the calculated leverage ratio for the period 2021-2023. The leverage ratio increase from 8.2% in 2021 to 9.7% in 2022 was driven primarily by a changed calculation method. Pooled assets were previously included in the exposure, which is not a regulatory requirement.

Figure 4.15

Leverage ratio



4.9 Minimum requirement for eligible liabilities

Pursuant to Consolidated Act no. 1731 of 5 December 2023 on financial business, the Danish FSA and Finansiel Stabilitet have prepared plans for the resolution of failing banks. In connection with such plans, minimum requirements for eligible liabilities (the MREL requirement) are defined. This represents the implementation of the joint European Bank Recovery and Resolution Directive, or BRRD (Directive (EU) No. 59/2014 of 15 May 2014 of the European Parliament and of the Council), which was most recently updated in 2022.

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.

The MREL requirement is divided into two components and has been fully phased in at the beginning of 2024:

- Loss absorption amount: Determined as the solvency need

Figure 4.16

Issued Senior Non-Preferred (SNP) and Senior Preferred (SP)

DKKm	ISIN	Principal (DKKm)	Currency	Value (DKKm)	First call date*	Maturity date
SP bonds	DK0030514559	750	DKK	750	15.5.24	15.5.25
SP bonds	DK0030528187	250	EUR	1,863	5.10.26	5.10.27
SNP bonds	DK0030454129	1,350	DKK	1,350	5.12.24	5.12.25
SNP bonds	DK0030454202	400	DKK	400	5.12.24	5.12.25
SNP bonds	DK0030489349	800	SEK	538	26.5.25	26.5.26
SNP bonds	NO0011002602	950	NOK	630	26.11.25	26.11.26
SNP bonds	DK0030530597	300	DKK	300	4.12.25	4.12.26
SNP bonds	DK0030511886	350	SEK	235	9.3.26	9.3.27
SNP bonds	DK0030523972	25	EUR	186	23.3.26	23.3.27
SNP bonds	NO0012694316	200	NOK	133		9.9.27
SNP bonds	NO0012694308	600	NOK	398		9.9.27
SNP bonds	DK0030515606	1,100	SEK	739	1.12.27	1.12.28
SNP bonds	NO0012775487	724	NOK	480	8.12.27	8.12.28
SNP bonds	NO0011002537	750	NOK	498	26.5.27	26.5.28
SNP bonds	NO0013077719	800	NOK	531	1.12.28	1.12.29
SNP bonds	NO0011037434	500	NOK	332	30.6.31	30.6.32

*) First option of early redemption.

Sektion 4

Capital and 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 seperate requirement equal to the combined buffer requirement. See section 4.6. As the common equity tier 1 capital used to meet the combined buffer requirement cannot concurrently be used to meet the MREL requirement, the Bank must in fact meet the MREL requirement plus the combined buffer requirement, which is referred to as the total MREL and combined buffer requirement

It is expected that the total MREL and combined buffer requirement 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 instruments of the type Senior Non-Preferred with a term to maturity of more than 12 months may be used. Debt issues of the type Senior Non-Preferred rank ahead of the capital instruments included in own funds, i.e. common equity tier 1 capital, additional tier 1 capital and tier 2 capital.

It is also possible to partly comply with the total MREL and combined buffer requirement by using senior debt (Senior Preferred), always provided that the subordination requirement is complied with in accordance with BRRD. Senior Preferred issues rank ahead of Senior Non-Preferred.

4.9.1 Issued senior debt

Figure 4.16 provides an overview of Spar Nord's senior debt in the form of Senior Non-Preferred and Senior Preferred issues. At end-2023, the total principal on issued senior debt was DKK 9.4 billion, distributed on 16 different issues in different currencies.

Senior Non-Preferred debt issues amount to DKK 6.8 billion in total, and the currency distribution hereof is as follows:

- DKK issues total DKK 2.1 billion, distributed on three issues.
- SEK issues total SEK 2.3 billion, distributed on three issues, equal to DKK 1.5 billion at end-2023.
- NOK issues total NOK 4.5 billion, distributed on seven issues, equal to DKK 3.0 billion at end-2023.
- EUR issues total NOK 25 million, in one single issue, equal to DKK 186 million at end-2023.

To this should be added two Senior Preferred issues totalling DKK 2.6 billion, distributed on two issues of DKK 750 million and DKK 1.9 billion, with the latter issue being in EUR and issued in autumn 2023.

In 2023, Spar Nord made four Senior Non-Preferred issues in various currencies with a combined principal of DKK 1.3 billion at end-2023.

Spar Nord did not redeem senior debt in 2023. As shown in figure 4.16, Spar Nord may redeem at the first call date the two Senior Non-Preferred issues with a total amount of DKK 1.8 million in December 2024.

In 2024, the Bank expects to issue additional senior debt for about DKK 2.7 billion to meet the MREL requirement. At the end of January 2024, Spar Nord made an issue for SEK 1.0 billion, which may be included as MREL capital from Q1 2024.

4.9.2 MREL requirements

The Danish FSA has determined Spar Nord's MREL requirement at 23.1% at 1 January 2024, based on the total risk exposure amount and the solvency need for year-end 2022 and current capital buffers. The MREL requirement is calibrated quarterly to reflect the current solvency need and applicable capital buffer requirements. As shown in figure 4.17, the calibrated MREL requirement at 1 January 2024 is calculated at 23.1%, which is consistent with the Danish FSA requirement.

Figure 4.17 also provides a calculation of the calibrated MREL requirement at 30 June 2024 because of the expected activation of the sector-specific systemic buffer requirement described in section 4.6. The systemic buffer requirement has a double impact on the total MREL and combined buffer requirement as it is included both in the recapitalisation requirement and in the combined buffer requirement. The implementation of the new systemic buffer requirement is thus expected to increase the total MREL and combined buffer requirement by 1.2%-point, leading to an increase in the funding need of about DKK 700 million. Spar Nord has covered this higher funding need by making two Senior Non-Preferred debt issues in December 2023 with a total principal of DKK 831 million.

The subordination requirement defines the scope of how large a proportion of the capital base must be subordinated to meet the MREL requirement. The subordination requirement thus entails an implied threshold for recognition of Senior Preferred capital. 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 determined Spar Nord's subordination requirement at 25.5% at 1 January 2024, based on the total risk exposure amount and the solvency need for year-end 2022 and current capital buffers. As with the MREL requirement, the subordination requirement is calibrated quarterly to reflect the latest figures. As shown in figure 4.18, the calibrated subordination requirement at 1 January

Sektion 4

Capital and solvency need

2024 is calculated at 25.5%, which is consistent with the Danish FSA requirement.

The implied threshold for recognition of Senior Preferred derived from the subordination requirement is the difference between the total MREL and combined buffer requirement and the subordination requirement, which by definition is the combined buffer requirement less the countercyclical buffer requirement. At 1 January 2024, the threshold for recognition of Senior Preferred to comply with the MREL requirement is therefore 3.5% of the total risk exposure amount, equal to DKK 2.1 billion. With the implementation of the systemic buffer requirement, which is expected to be around 0.6% at 30 June 2024, this threshold will be increased to 4.1%.

Figure 4.17

MREL and combined buffer requirement – calibrated

%	01.01.2024	30.06.24
Solvency ratio	9.8	9.8
Requirement for loss-absorption amount	**9.8**	**9.8**
Solvency ratio	9.8	9.8
Capital conservation buffer requirement	2.5	2.5
SIFI buffer requirement	1.0	1.0
Systemic buffer requirement	0.0	0.6
Requirement for recapitalisation amount	**13.3**	**13.9**
Total MREL	**23.1**	**23.7**
Capital conservation buffer requirement	2.5	2.5
SIFI buffer requirement	1.0	1.0
Systemic buffer requirement	0.0	0.6
Countercyclical buffer requirement	2.5	2.5
Total MREL and combined buffer requirement	**29.0**	**30.2**

Figure 4.18

Subordination requirement – calibrated

%	01.01.2024	30.06.24
Solvency need x2	19.6	19.6
Capital conservation buffer requirement	2.5	2.5
SIFI buffer requirement	1.0	1.0
Systemic buffer requirement	0.0	0.6
Countercyclical buffer requirement	2.5	2.5
Subordination requirement	**25.5**	**26.1**

4.9.3 Excess coverage relative to MREL requirement

Figure 4.19 shows a calculation of Spar Nord's capital for meeting the total MREL and combined buffer requirement, which consists of own funds and issued senior debt. The total value of Senior Preferred and Senior Non-Preferred has been adjusted to reflects costs related to the issues and the holding of own issues approved by the Danish FSA.

As described in section 4.9.1, Spar Nord has issued Senior Preferred debt totalling DKK 2.6 billion, and the subordination requirement therefore means that the Bank has issued DKK 493 million more of this type of capital than what may be included to meet the MREL requirement. No surplus MREL capital is expected to exist after May 2024, when it will be possible to redeem Senior Preferred debt for DKK 750 million.

As shown in figure 4.19, the total MREL and combined buffer percentage is calculated on the basis of the total risk exposure amount at end-2023 at 36.9% at 1 January 2024. The excess coverage to both the Danish FSA requirement and the calibrated requirement is thus DKK 4.7 billion, equal to 7.8%-points at 1 January 2024.

Figure 4.19

Excess coverage, calibrated MREL requirement

DKKm/%	01.01.2024
Own funds	13,442
Senior Non-Preferred*	6,716
Senior Preferred	2,606
Deduction, cf. subordination requirement	-493
Minimum requirement for eligible liabilities	**22,271**
Deduction – separate combined buffer requirement	-3596
MREL-eligible liabilities ex. combined buffer requirement	**18,675**
MREL and combined buffer requirement	17,532
MREL requirement	13,936
Excess coverage, MREL requirement	**4,739**
MREL and combined buffer percentage	36.9
NEP (%)	30.9
Excess coverage, MREL requirement in %-points	**7.8**

*) Permissible holding of own issues of DKK 25 million has been deducted.

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.

The Bank currently employs the standard method for calculating its risk exposure derived from credit risk. The use of internal ratings-based models (IRB) may provide a more precise calculation of credit risk exposure. Owing to the generally strong quality of Spar Nord's credit portfolios, 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.

On 4 July 2023, Spar Nord sent an application to the Danish FSA for approval to use own models for calculating risk exposure amounts. The Danish FSA is currently processing the application. The expected implementation of IRB models at the 2024/2025 annual changeover will provide the basis for a more optimum capital application for the Bank. Using IRB models requires the approval of the Danish FSA.

In 2024, Spar Nord expects to complete the implementation of the new IRB-compliant models in the

Sektion 4

Capital and solvency need

Bank's internal rating system and credit management – replacing the existing models.

The new PD models are expected to be phased into the Bank's rating system and credit management process during the first half of 2024. In this connection, the Bank will adjust its credit procedures, IT systems and internal and regulatory reporting comprising PD/ratings. The new PD values will be implemented in the Bank's modelled impairment charges.

4.11 Future legislation
A new joint European banking package in the form of an updated capital requirements regulation (CRR III) and an updated capital requirements directive (CRD VI) has been underway for some years. The banking package implements the globally agreed regulatory Basel III reforms.

At the end of 2023, the political negotiations under the auspices of the European Parliament and the European Council reached an accord on the contents to apply from 1 January 2025. The final version of CRR III and CRD VI are expected to be published in the Official Journal of the European Union in spring 2024.

The new rules will entail significant changes to the current practice and higher data requirements. 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

To this should be added a number of new requirements relating to ESG risks and an extension of the disclosure obligations, also known as the Pillar III requirements, and a number of other adjustments.

Spar Nord has initiated an in-house project to ensure that the Bank is ready to deal with the new regulatory capital requirements at the beginning of 2025.

Sektion 5

Liquidity risk and funding

Developments in 2023

At end-2023, Spar Nord's liquidity situation remained solid. The LCR stood at 246% at end-2023, against 211% at end-2022. At end-2023, NSFR was calculated at 131%, against 127% in 2022.

At end-2023, Spar Nord's total funding amounted to DKK 104.3 billion, which is an increase of DKK 9.8 billion relative to 31 December 2022. Deposits at end-2023 accounted for 71% of total funding, thus remaining the Bank's most significant source of funding.

In 2023, Spar Nord issued capital market funding totalling DKK 3.2 billion. Overall, this brings the Bank's Capital Market Funding to DKK 9.3 billion at end-2023.

LIQUIDITY COVERAGE RATIO (LCR)

246%

2022: 211%

NET STABLE FUNDING RATIO (NSFR)

131%

2022: 127%

ASSET ENCUMBRANCE RATIO

3.3%

2022: 1.7%

Definition of liquidity risk

Liquidity risk means that Spar Nord cannot meet its payment obligations while also meeting the statutory liquidity requirements. Additionally, liquidity risk arises if Spar Nord lacks sufficient financing or funding, which can prevent adherence to the adopted business model. It also occurs if Spar Nord's costs for procuring 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, aiming to support the business model profitably.

The liquidity and funding policy's goal is to ensure that the Bank has a liquidity risk that always bears a natural relation to Spar Nord's overall risk profile. It aims to guarantee that the Bank manages its liquidity effectively, meets payment obligations on time, complies with applicable legislation, and supports future activities and growth. Lastly, the policy seeks to establish a financing structure that aligns risk with 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 also defined a target of maintaining a Net Stable Funding Ratio (NSFR) above 105%. In addition, Spar Nord aims to stay below the liquidity benchmark threshold values set in the Supervisory Diamond.

Sektion 5

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
Area	Management of intraday liquidity	Ratio 30-day rule	Liquidity stress test	Liquidity projection	Funding structure	Net Stable Funding Ratio
Management tool	Calculation of intraday liquidity	GAP analysis/ Simulation tool	GAP analysis/ projection	GAP analysis/ projection	GAP analysis	GAP analysis
Objective	Ensuring that, in the short operational term, the Bank will be able to meet its obligations at all times Ensure compliance with intraday liquidity	Ensuring that, in the short term (30 days), the Bank has adequate high-quality liquid assets to withstand a tough stress scenario Ensuring compliance with the Liquidity Coverage Ratio (LCR), see CRR	Ensuring that the Bank becomes aware in due time of future liquidity and refinancing risks Stress tests are prepared for a 12-month term	Ensuring that the Bank has a diversified and balanced funding structure and refinancing risk Ensuring that the Bank maintains an overview of future funding needs broken down by funding sources	Ensuring that the Bank has a funding structure that matches its risk appetite on the funding side	Ensuring that the Bank maintains a balance between available stable funding relative to the need for stable funding 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
Transactional entity	Markets	Markets	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	Market risk and liquidity
Reporting entity	Risk management	Risk management	Risk management	Risk management	Risk management	Risk management
Reporting frequency	Monthly	Monthly	Quarterly	Quarterly	Monthly	Quarterly

5.2 ESG

Spar Nord regularly considers ESG risk when placing excess liquidity, which is a significant activity to reduce the loss of market values due to environmental, social and governance-related factors. This is further described in section 7.

Furthermore, Spar Nord has established an ESG rating with rating agency Sustainalytics, which in connection with capital market issues provides an external foundation for dialogue about the Bank's ESG position with both existing and potential investors and lenders. Concurrently with these efforts, Spar Nord pays attention to various other providers of ESG ratings used by banks and asset managers for the screening of investment portfolios, and we are regularly in dialogue with these providers to ensure an accurate ESG rating of Spar Nord.

5.3 Management, monitoring and reporting

on the basis of the policies and objectives defined by the Board of Directors, the Executive Board has defined operational frameworks and specific limits for the liquidity function in the Trading Division, which is responsible for managing Spar Nord's short-term liquidity. Funding in the Finance & Accounts Department is responsible for managing and monitoring Spar Nord's long-term liquidity.

The Finance & Accounts Department is responsible for calculating, monitoring and checking that Spar Nord's liquidity risk does not exceed the allocated limits. The department regularly reports to the Executive Board, the Board of Directors and the Danish FSA.

5.4 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 as well as ongoing preparation of stress tests.

As shown in figure 5.2 and illustrated in figure 5.3, LCR was calculated at 246% at end-2023, which is well above the target LCR of at least 125%. The excess coverage of 121%-points relative to the target corresponds to DKK 14.5 billion in excess liquidity. Calculated relative to the statutory requirement of 100%, the excess liquidity amounted to DKK 17.6 billion. At end 2022, LCR was calculated at 211%.

Figure 5.2 shows that the liquidity requirement has been reduced since end-2022. The LCR was thus higher because the liquidity requirement has been reduced, while the liquidity resources were at the same level as in 2022. Furthermore, rules on the asset composition of the liquidity resources at end-2023 has resulted in a reduction of the LCR of 29%-points.

Sektion 5

Liquidity risk and funding

Figure 5.2

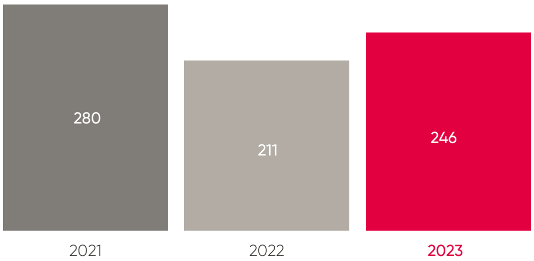
Liquidity Coverage Ratio (LCR)

DKKm	2023	2022
Liquidity resources	29,604	29,397
Liquidity Coverage Requirement	12,049	13,901
LCR (%)	**246**	**211**

Figure 5.3

Liquidity Coverage Ratio (LCR)

%



The liquidity reserve according to LCR basically consists of central bank reserves and government debt (Level 1A assets) and mortgage bonds offering high liquidity and high credit quality (Level 1B assets).

Reference is made to Additional Pillar 3 Disclosures Q4 2023 – EU LIQ1 og EU LIQB", regarding Liquidity Coverage Ratio.

5.5 Long-term liquidity

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 5.4 shows the calculation of NSFR, which is illustrated in figure 5.5. At end-2023, NSFR was calculated at 131%, which is comfortably above the Bank's target of 105%. The excess coverage of 26%-points relative to the target corresponds to DKK 21.8 billion in excess liquidity. Calculated relative to the statutory requirement of 100%, the excess liquidity amounted to DKK 26.0 billion.

Figure 5.4 shows that both available and required stable funding increased over the course of 2023. NSFR developments were thus explained by the fact that the available stable funding rose by relatively more than the required stable funding.

Figure 5.4

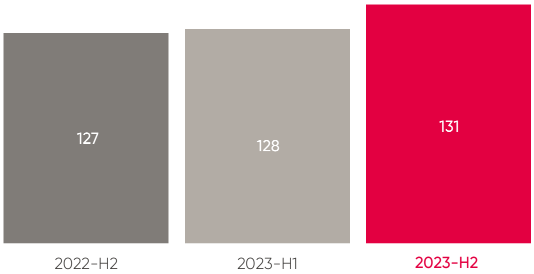
Net Stable Funding Ratio (NSFR)

DKKm	2023	2022
Available stable funding (ASF)	109,567	100,291
Required stable funding (RSF)	83,594	78,724
NSFR (%)	**131**	**127**

Figure 5.5

Net Stable Funding Ratio (NSFR)

%



The increase in the liquidity procurement under Available stable funding was driven mainly by consolidation during the period deposit growth and additional issues of MREL capital. The increase in liquidity has primarily financed an increase in lending and the bond portfolio under Required stable funding.

Reference is made to "Additional Pillar 3 Disclosures Q4 2023, EU LIQ2", regarding Net Stable Funding.

5.6 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 5.6 and figure 5.7 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-2023, the projection in figure 5.6 shows that liquidity resources will be reduced by DKK 17.5 billion over the 12-month projection period, and figure 5.7 also shows that in a severe stress scenario the Bank complies with the LCR statutory requirement in the full 12-month projection period. The liquidity resources are 29%-points higher in the stress test than in the LCR because limitations due to asset composition rules are not applied in the stress test.

Sektion 5

Liquidity risk and funding

Figure 5.6

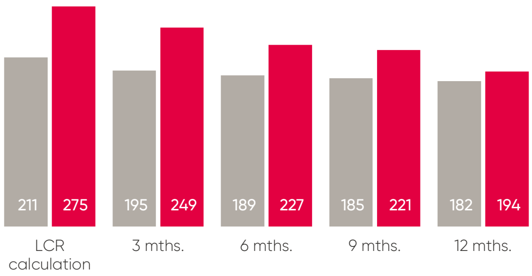
Run-off of liquidity resources in a severe stress scenario

	Liquidity resources		Accumulated run-off	
DKKm/%	**2023**	**2022**	**2023**	**2022**
Calculation period	33,166	29,397		
3 months	22,388	23,838	-32.5	-18.9
6 months	19,673	21,930	-40.7	-25.4
9 months	18,574	20,581	-44.0	-30.0
12 months	15,713	19,388	-52.6	-34.0

Figure 5.7

LCR projected in a severe stress scenario

% 2022 2023



5.7 Liquidity indicator

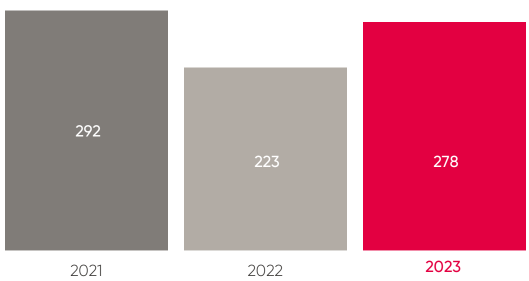
The liquidity indicator of the Danish FSA, which is a part of the Supervisory Diamond, is based on a projected version of LCR using an adjusted calculation of the liquidity resources, while the time horizon for the liquidity requirement is extended to cover the period up to 3 months inclusive.

Since the liquidity indicator was implemented, Spar Nord has realised a level notably above the 100% requirement, as witnessed by the historical comparison in figure 5.8.

Figure 5.8

Liquidity indicator

%



5.8 Funding and maturity structure

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

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

Spar Nord's funding structure is shown in figure 5.9. From an overall perspective, the Bank's funding at end-2023 increased by DKK 9.8 billion to DKK 104.3 billion compared with end-2022. Spar Nord's largest source of funding is deposits, which at end-2023 amounted to 73% of Spar Nord's total funding.

At end-2023, 64% of deposits excluding pooled schemes were covered by the Guarantee Fund, which is the Danish Deposit Guarantee Scheme for covering depositors. Simultaneously, the sum of the 20 largest deposits alone constituted 5% of the Bank's total deposits excluding pooled schemes.

Figure 5.9

Funding structure

DKKm/%	**2023**	**2022**	**2023**	**2022**
Central banks and credit institutions	852	354	0.8	0.4
Repos and repurchases with central banks and credit institutions	4,154	1,722	4.0	1.8
Deposits < 1 year	3,511	4,935	3.4	5.2
Deposits > 1 year and on demand	70,886	67,234	68.0	71.1
Issued bonds > 1 year	9,307	6,216	8.9	6.6
Subordinated debt	1,593	1,597	1.5	1.7
Equity	13,979	12,469	13.4	13.2
Total	**104,282**	**94,527**	**100.0**	**100.0**

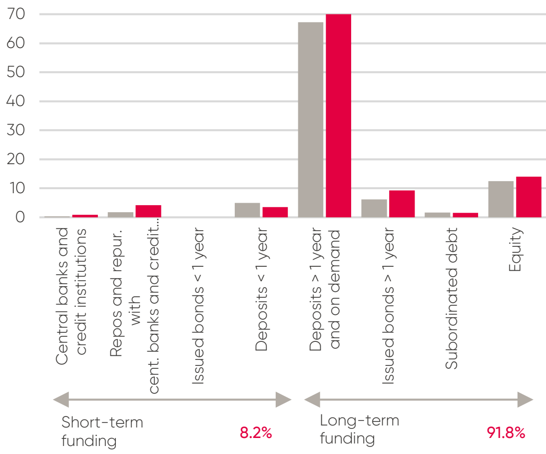
As shown in figure 5.10, Spar Nord's total long-term funding (deposits on demand and funding with a term to maturity of more than 12 months) amounted to 91.8% at year-end 2023, which is close to the level of year-end 2022.

Figure 5.10

Funding structure

DKKbn

2022 2023



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.

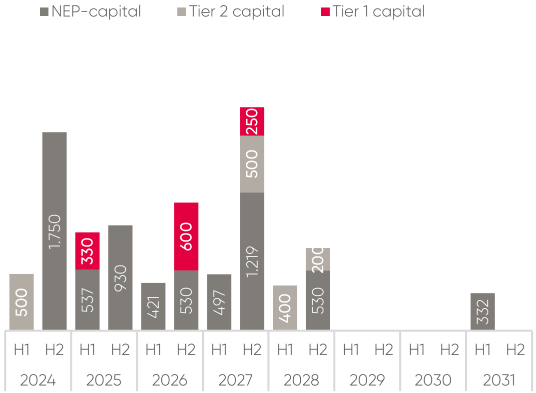
Sektion 5

Liquidity risk and funding

Figure 5.11 shows the Bank's maturity structure for capital market funding at end-2023. The maturity structure was prepared based on first call date for tier 2 capital and additional tier 1 capital and one year to final maturity for MREL capital.

Figure 5.11

Maturity structure for capital market funding
DKKm



5.9 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.

5.10 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
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.

Figure 5.12 shows the asset encumbrance ratio at year-end and an average for 2023 and 2022.

Figure 5.12

Asset encumbrance ratio

	End of year		Average	
DKKm	**2023**	**2022**	**2023**	**2022**
Encumbered assets	4,855	2,323	4,224	2,825
Assets and collateral	148,601	136,825	140,630	133,740
Asset encumbrance ratio	**3.3**	**1.7**	**3.0**	**2.1**

The asset encumbrance ratio amounts to 3.3% of the total assets plus collateral received that can form the basis for encumbrance in 2023. This is 1.6%-point higher than in 2022, when the asset encumbrance ratio was 1.7%.

Reference is made to "Additional Pillar 3 Disclosures Q4 2023 – EU AE1, EU AE2, EU AE3 og EU AE4", regarding encumbered assets.

5.11 Rating

Throughout 2023, Spar Nord's rating from rating agency Moody's was unchanged.

Spar Nord has the following stable outlook ratings:

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

Sektion 6

Credit risk

Developments in 2023

Spar Nord experienced an increase in gross lending of DKK 2.2 billion excl. reverse repo agreements in 2023. The development was driven by an increase of DKK 2.7 billion to retail customers and DKK 1.0 billion in leasing loans as well as a DKK 1.5 billion decrease in loans to business customers.

Growth in the retail customer segment was driven mainly by growth in bank mortgage loans. The decline in business customer loans is composed of an increase in leasing loans of DKK 1 billion, a decrease in loans to public customers of DKK 0.6 billion, and the remainder can be attributed to small withdrawals on credits.

Total impairment and provisions increased by DKK 7 million to DKK 1.7 billion in 2023, of which management estimates represent an increase of DKK 88 million. Most of the management estimates relate to macroeconomic uncertainties in relation to a cyclical downturn totalling DKK 375 million, out of total estimates of DKK 662 million.

Total facilitation of mortgage loans fell marginally by DKK 4.8 billion (4.3%) in 2023 to stand at DKK 106.3 billion. The reduction was driven by high remortgaging activity with capital gains and the fact that Spar Nord has recorded growth in its own bank mortgage loans.

The total profit impact from losses and impairment charges was an income of DKK 33 million in 2023.

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 derivatives and securities financing instruments.

LOANS EXCL. REVERSE REPO AGREEMENTS (GROSS)

DKK 59.1 billion

2022: DKK 56.9 billion

IMPAIRMENT RATIO (IMPACT ON OPERATIONS)

-0.04%

2022: 0.11%

IMPAIRMENT RATIO ON LOANS, ADVANCES AND GUARANTEES EXCL. REVERSE REPO AGREEMENTS

2.8%

2022: 2.4%

NPL ratio

2.0%

2022: 2.2%

SUSPENDED-INTEREST LOANS

0.2%

2022: 0.3%

UNSECURED SHARE (EXCL. REVERSE REPO AGREEMENTS)

24.9%

2022: 26.5%

Sektion 6

Credit risk

6.1 Credit policy

Spar Nord's overall credit risk is controlled on the basis of its credit policy, which is determined by the Board of Directors. 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.

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.

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 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.

6.1.1 Targets and limitations

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

Limitations to the size of individual exposures have been determined on the basis of the following rules:

- Exposure is capped at DKK 1 billion 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 1.25 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 customers subject to supervision by the Danish FSA, exposure is capped at DKK 1 billion.

The statutory limitations apply to trading partners in the financial sector with an external credit rating at investment grade level.

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.

Spar Nord does not aim to increase its exposure to such an extent that the customer would not be naturally creditworthy in other banks.

Spar Nord has defined a target that the sum of the 20 largest exposures must not account for more than 150% of the Bank's common equity tier 1 capital, which at end-2023 was calculated at DKK 10.7 billion. See figure 4.6 in sektion 4.

The credit policy sets out main credit-granting rules. Even if one or more of the main rules of the credit policy are breached, a loan may still be granted if one or more of the compensatory factors of the credit policy are complied with. It is a precondition that applicable compensatory factors are assessed to reduce the credit risk for the Bank and for the customer to the same extent that the main rules do.

To ensure an adequately diversified customer portfolio and prevent large concentration risks in individual industries, targets have been set for the maximum share of loans, advances and guarantees excl. reverse repo agreements to selected industries. This is shown in figure 6.1.

Figure 6.1

Maximum share of loans, advances and guarantees excl. reverse repo agreements for selected industries

%	Maximum share
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	10

* CRR 575/2013 Article 4(79)

The Bank pursues the policy that business customers' share of total loans, advances and guarantees excl. reverse repo agreements cannot exceed 70%. There is no upper limit for retail customers' share of total loans, advances and guarantees because a high proportion of loans, advances and guarantees to retail customers is considered a strength in terms of credit.

6.1.2 ESG risk

Spar Nord's credit granting is always made based on a risk assessment in accordance with the customer's interests and abilities to comply with any obligations undertaken, against appropriate collateral and with due consideration to environmental, social and governance (ESG) issues.

ESG risk is an inherent credit risk assessed together with other credit factors. Assessments of especially governance factors have always formed a part of the basic credit assessment of business customer exposures. Driven by both new ESG regulation and the current climate crisis, the inclusion of physical and transition risks related to climate change is also an important assessment of the credit risk – both in relation to the individual customer, but also at portfolio level.

Sektion 6

Credit risk

Businesses with significant CO2e emissions will 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 applying a more environmentally sustainable profile are estimated to potentially have a better foundation for tackling any challenges imposed by rising climate considerations.

In 2022 and 2023, the Bank's corporate advisers and corporate specialists improved their ESG capabilities by getting access to tools that enable them to start engaging with customers about sustainability. These customer dialogues are used for example to assess any significant ESG-related credit risks.

At 1 January 2023, the Bank also started to report on Pillar III ESG risks, initially focusing on physical and transition risks for residential buildings, vehicles and industries with the highest CO2e emissions.

6.2 Credit risk management

Spar Nord's business model builds on decentralised decision-making powers. In a decentralised effort, 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. Most of the credit process in the form of granting of large credits, risk signals, rating and the impairment process is centrally managed.

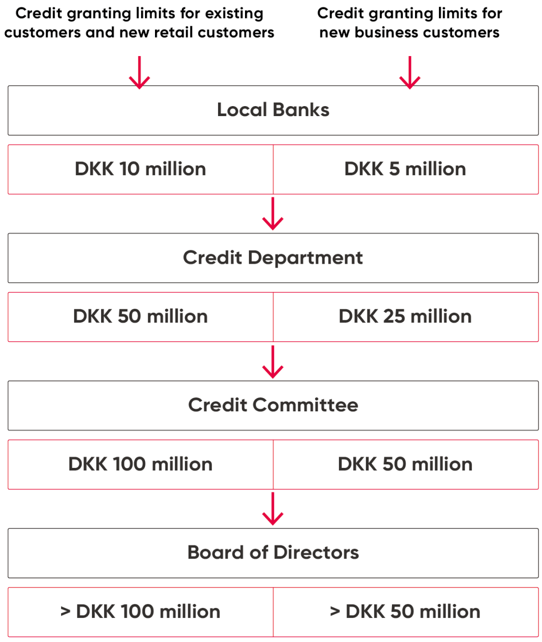
Spar Nord's impairment charges are calculated in accordance with the IFRS 9 accounting standard. See the Annual Report 2023 for a review.

6.2.1 Credit granting process

Spar Nord's credit granting hierarchy is structured so as to support local autonomy while ensuring centralised management and insight into large exposures and/or more risky exposures. The credit granting hierarchy is illustrated in figure 6.2.

Figure 6.2

Credit granting structure for existing and new customers



As shown in figure 6.2, the credit granting authority for new business customers is generally capped at half the authority for existing customers and new retail customers.

The cap in the decentralised credit granting authority is DKK 10 million for existing customers and new retail customers and DKK 5 million for new business customers. The actual decentralised credit granting authority depends on the individual local managers' ability and requirements with respect to the customer base. At the same time, the decentralised credit granting authority is graded according to the credit quality of the individual customer based on a central rating score for existing customers or application score for new customers. The weaker the credit quality, the lower the decentralised credit granting authority. If the local manager is not present, they may delegate their authority to specific middle-managers or employees.

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, as shown in figure 6.2.

Sektion 6

Credit risk

6.2.2 Rating system

For several years, Spar Nord has used proprietary statistically based rating models to risk-categorise all customers. The models categorise customers according to the calculated probability of default within the next 12 months, i.e. that the individual customer fails to meet their obligations towards the Bank.

The risk categorisation based on ratings is used in early warning processes, in the Bank's impairment process (IFRS 9), for managing overdrafts and for pricing purposes to help ensure a correlation between the risk assumed by the customer and the price paid.

The 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 rating model is generally based on three components, the first two of which are included in the retail customer model and all three in the business customer model.

- 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.
- An accounting component used to risk-classify the customer based on its most recent financial statements.

The structure of the behavioural and cyclical components depends on the customer segment.

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. An application score is active for six months, after which the statistical model takes over.

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. 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 lead to a lower rating.

If the adviser or another person believes that the rating of a major business customer with an exposure in excess of DKK 10 million 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).

6.2.3 Debt collection

Loan transactions involve the risk that the borrower is unable to repay the loan. In a small number of cases, the customer's inability to pay persists. If Spar Nord's collateral is insufficient to cover the risk of loss, the unrecoverable part of the debt is written off.

Customers whose debts have been written off will be further processed in Spar Nord's collection department, which pursues the claim if the customer's financial situation changes and they have a possibility of settling all or parts of the outstanding debt.

In 2023, DKK 107 million was written off (2022: DKK 107 million), of which DKK 87 million (2022: DKK 89 million) is still the object of collection efforts.

6.2.4 Monitoring and reporting

The risk management function performs the overall monitoring of credit risk exposure. This monitoring covers a range of activities, including credit quality control of new exposures, credit reviews in the local

Sektion 6

Credit risk

Figure 6.3

Composition and development in overall credits arranged excl. reverse repo agreements

	2023			2022		
DKKm	**Retail customers**	**Business customers**	**Total**	**Retail customers**	**Business customers**	**Total**
Loans and advances excl. reverse repo transactions	23,415	35,725	59,140	20,711	36,187	56,898
Guarantees	6,819	2,906	9,724	8,673	3,719	12,392
Loans, advances and guarantees	30,234	38,630	68,864	29,385	39,905	69,290
Unutilised credit facilities	9,514	16,420	25,934	9,753	15,341	25,095
Mortgage loan facilitation	93,322	13,020	106,342	97,120	14,024	111,144
Total credits arranged	**133,069**	**68,071**	**201,140**	**136,258**	**69,271**	**205,529**

banks, verification of credit policy compliance, document and credit granting control and analyses of customer advisers' portfolios. These activities are regularly supplemented with relevant thematic reviews.

New exposures to retail and business customers are systematically screened in order to analyse credit quality and risk for 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.

A credit review is made in the local banks, where customers are selected for review to ensure adequate credit quality. Moreover, the Bank performs a document and credit granting control to check that all relevant financial information about the customer has been obtained and that collateral security has been correctly registered.

Red flags for retail and business customers are handled through continuous reviews at the local banks, which assess whether the red flags, either separately or combined, represent an elevated risk to the Bank.

Analyses of customer advisers' portfolios are made centrally to ensure that no adviser undertakes risks that exceed the Bank's defined risk tolerance. These analyses are shared with the local area managers, who are contacted if the analyses give rise to concern.

Developments in the above monitoring activities are reported at the Bank's quarterly credit quality meetings, at which the Executive Board, the Credit Department and the risk management function are represented. Furthermore, the results of the monitoring activities are reported and processed in the Bank's Risk Committee and the Board of Directors.

6.3 Credit risk developments

Spar Nord's total credits arranged break down into loans, advances and guarantees excl. reverse repo agreements and unutilised credit facilities and facilitated mortgage loans, as illustrated in figure 6.3. Total credits arranged amounted to DKK 201.1 billion at end-2023, which is a DKK 4.4 billion decrease compared with end-2022. The decline, which is explained in the sections below, covers substantial growth in lending, which is offset by a drop in the volume of guarantees and facilitation of mortgage loans.

Of total credits arranged, business customers accounted for DKK 68.1 billion and retail customers DKK 133.1 billion at end-2023. Credits arranged for retail customers thus declined by DKK 3.2 billion in

Figure 6.4

Credit exposure for financial reporting purposes

DKKm	**2023**	**2022**
Loans, advances and guarantees	80,734	79,800
Loans and guarantees excl. reverse repo transactions	68,864	69,290
Loans and advances excl. reverse repo transactions	59,140	56,898
Impairment etc., end of year		
Stage 1, credit risk has not increased significantly	391	247
Stage 2, credit risk has increased significantly	540	567
Stage 3, credit-impaired	742	851
Total impairment	**1,673**	**1,666**

Sektion 6

Credit risk

2023, primarily because of a reduction in the value of facilitated mortgage loans and the volume of guarantees. Credits arranged for business customers declined by DKK 1.2 billion, primarily because of a drop in loans, advances and guarantees.

Unutilised credit facilities amounted to DKK 25.9 billion at end-2023, which is DKK 0.8 billion more than at year-end 2022. Of the unutilised credit facilities, retail customers accounted for DKK 9.5 billion and business customers DKK 16.4 billion, with business customers representing the increase in 2023.

A significant part of the credits consists of mortgage credit facilitation through Spar Nord's collaboration partners Totalkredit and DLR Kredit. Most of these activities are the facilitation of Totalkredit mortgage loans to retail customers.

Figure 6.4 shows the correlation to the credit exposure for financial reporting purposes which includes loans in the form of reverse repo agreements. In the following sections, all figures are net of reverse repo agreements. Reverse repo agreements amounted to DKK 11.9 billion in 2023.

6.3.1 Loans, advances and guarantees

Spar Nord's loans, advances and guarantees excl. reverse repo agreements totalled DKK 68.9 billion at end-2023, consisting of loans and advances of DKK 59.1 billion and guarantees of DKK 9.7 billion, as shown in figure 6.5. Loans and advances increased by DKK 2.2 billion, or 3.9%, in 2023, while guarantees were reduced by DKK 2.7 billion, or 21.5%. The substantial reduction in guarantees was ascribable primarily to lower housing market activity. Overall, Spar Nord's loans, advances and guarantees fell by 0.6% in 2023.

Loans and advances primarily consist of housing loans for retail customers and loans for businesses within a broad range of industries, as shown in figure 6.5, which means the Bank has a well-diversified loan portfolio with no specific concentrations in specific industries.

As shown in figure 6.5, retail customers accounted for 43.9% and business customers for 56.1% of Spar Nord's loans, advances and guarantees excl. reverse repo agreements in 2023, with real estate, other business areas and trade representing the three largest industries. At end-2022, the distribution in loans, advances and guarantees excl. reverse repo agreements between retail and business customers was 42.4% and 57.6%.

Regarding daily management, loans and advances can generally be broken down into five customer groups, as illustrated in figure 6.6, of which the two largest groups, which account for 82.4% of loans and advances, are retail and business customers with Spar Nord's Local Banks. A growing share of lending derives from Spar Nord Leasing, in which most customers are business customers. At end-2023, leasing loans amounted to DKK 9.0 billion, which is an increase of 12.8% on 2022. Moreover, the Bank has a small portfolio of loans to public-sector companies and financial customers of DKK 0.8 billion and DKK 0.6 billion, respectively.

Loans and advances at Spar Nord's local banks amounted to DKK 22.9 billion at end-2023, which is a significant share (38.7%) of total loans and

Figure 6.5

Loans, advances and guarantees excl. reverse repo agreements by industry

DKKm/%	2023				2022			
	Lending	Guarantees	Loans, advances and guarantees	Share	Lending	Guarantees	Loans, advances and guarantees	Share
Public authorities	757	2	760	1.1	1,356	2	1,358	2.0
Agriculture, hunting and forestry	2,384	258	2,643	3.8	2,490	313	2,802	4.0
Fisheries	54	2	56	0.1	86	6	93	0.1
Industry and raw materials extraction	2,981	435	3,416	5.0	3,173	493	3,666	5.3
Energy supply	1,775	97	1,872	2.7	2,070	89	2,159	3.1
Building and construction	2,687	359	3,046	4.4	2,652	454	3,106	4.5
Trade	4,162	302	4,465	6.5	4,583	394	4,977	7.2
Trans., hotels and restaurant	3,018	138	3,157	4.6	2,955	210	3,165	4.6
Information and communication	315	36	351	0.5	292	38	330	0.5
Financing and insurance	3,839	393	4,231	6.1	3,939	530	4,469	6.4
Real estate	7,847	546	8,393	12.2	7,427	774	8,200	11.8
Other business areas	5,904	337	6,241	9.1	5,165	415	5,580	8.1
Business customers, total	35,725	2,906	38,630	56.1	36,187	3,719	39,905	57.6
Total retail customers	23,415	6,819	30,234	43.9	20,711	8,673	29,385	42.4
Total	**59,140**	**9,724**	**68,864**	**100.0**	**56,898**	**12,392**	**69,290**	**100.0**

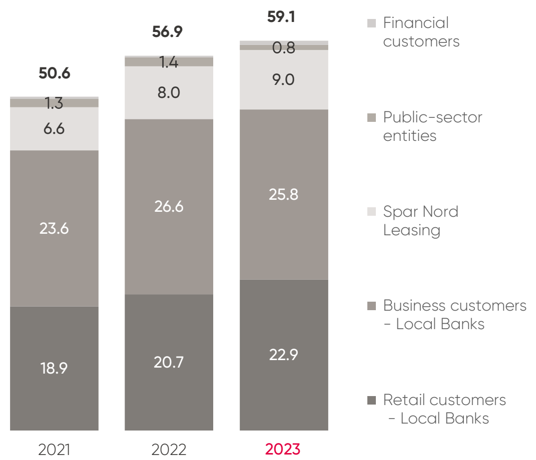
Sektion 6

Credit risk

advances of DKK 59.1 billion. Retail customer loans and advances have developed favourably over the past three years due to the acquisition of BankNordik's Danish business in 2021 and organic growth through existing and new local banks.

Business customers excl. public-sector customers and leasing amounted to DKK 25.8 billion in 2023, as shown in figure 6.6, which is a reduction of DKK 0.8 billion relative to 2022.

Figure 6.6
Loans and advances excl. reverse repo agreements by category
DKKbn



6.3.2 Concentration risk

A significant objective of Spar Nord's risk management in the credit area is to ensure sufficient diversification to avoid large concentrations in specific industries, geographical areas or individual customers.

Spar Nord's credit policy lays down limits for the maximum share of loans, advances and guarantees excl. reverse repo agreements for selected industries, see figure 6.1.

figure 6.5 shows that the share of loans, advances and guarantees to specific industries are within the Bank's own targets and the legislative requirements as per the Supervisory Diamond.

The credit policy defines a limit for exposures to the real estate sector of 15%, see figure 6.1. Exposures to the real estate sector is defined as the category real estate and development of building projects (DKK 0.2 billion) and construction of buildings (DKK 0.6 billion), which are sub-categories of the building and construction industry. The follow-up meets the calculation method, cf. the Supervisory Diamond. All limits have been met.

Figure 6.7 shows loans, advances and guarantees by exposure size. The figure shows that Spar Nord generally has a broad customer composition with a large number of small customers, but also a substantial proportion of large customers. The figure illustrates that more than half of total loans, advances and guarantees are attributable to customers with less than DKK 10 million in loans, advances and guarantees and that the Bank has 63 customers with loans, advances and guarantees of more than DKK 100 million.

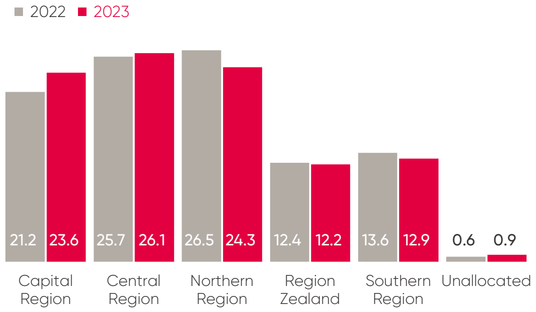
Figure 6.7
Loans, advances and guarantees by exposure size* by customer group

	Number		Share	
Number/%	**2023**	**2022**	**2023**	**2022**
DKK 0 - 0.1 million	48,492	52,642	0.8	0.9
DKK 0.1 - 0.5 million	35,244	37,895	9.0	9.8
DKK 0.5 - 1 million	13,347	14,529	10.1	10.9
DKK 1 - 5 million	11,592	11,068	27.9	26.3
DKK 5 - 10 million	1,154	1,107	8.8	8.7
DKK 10 - 20 million	466	453	7.2	7.1
DKK 20 - 50 million	280	306	10.1	10.9
DKK 50 - 100 million	117	99	9.5	8.1
>DKK 100 million	63	61	16.4	17.4
Total	**110,755**	**118,160**	**100.0**	**100.0**

*) Excl. reverse repo transactions and Sparxpres

figure 6.8 shows a geographical spread in the credit portfolio. At end-2023, there was a wider spread of loans, advances and guarantees on the regions. Historically, the North Denmark Region has had the largest concentration. At end-2023, loans, advances and guarantees to the Capital Region and Central Region were on a level with the North Denmark Region.

Figure 6.8
Loans, advances and guarantees broken down by region (%)



6.3.3 Rating developments

As described in section 6.2.2, Spar Nord has a rating system that contributes to risk-classify the Bank's customers, with the lowest risk levels found in the lowest rating categories (1-3).

In 2022 and 2023, the Bank's rating models were affected by strong macroeconomic uncertainty. The high level of uncertainty has caused substantial fluctuations in the business cycle component of the models, especially in the business customer segment, which has resulted in an improvement of the general rating level for both retail and business customers.

Sektion 6

Credit risk

The following sections provide more details on rating developments for Spar Nord's retail and business customers.

Retail customers

The rating level for Spar Nord's retail customers improved over the course of 2023, primarily due to developments in the business cycle component of the rating model, which reflects the macroeconomic outlook.

The average rating for Spar Nord's retail customers since 2021 is shown in figure 6.9. The figure shows that the average rating is 2.5 at year-end 2023, which is an improvement of the rating level from end-2022.

Figure 6.9

Retail customers: Average rating*

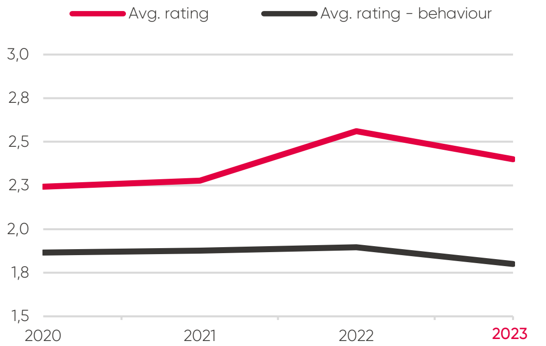
	2023	2022	2021
Average rating	2.5	2.6	2.3

*) Loans, advances and guarantees excl. reverse repo agreements and Sparxpres

Figure 6.10 illustrates developments in the average rating from the behavioural component and the total rating for retail customers.

Figure 6.10

Average rating and average behavioural rating for retail customers



*) Loans, advances and guarantees excl. reverse repo agreements and Sparxpres

Figure 6.10 shows that retail customer behaviour improved in 2023. However, developments in the average rating are also driven by the cyclical component. The cyclical component encompasses a range of expectations-based macroeconomic indicators, which improved during 2023 despite persistently higher uncertainty, which means rating levels remained elevated.

Figure 6.11 shows total loans, advances and guarantees to retail customers by rating category over the past three years. The figure shows that most of the retail customers are still placed in the best rating categories (1-3), but that the retail customer exposure has generally migrated to rating categories with an expected lower risk in 2023.

figure 6.11 shows that 79% the retail customer exposures are in the best rating categories from 1 to 3. Rating categories 4-5 cover 15% of the retail customer exposures, where the last part is distributed on the most risky rating categories 6-9 and exposures that are in default or have not yet received a rating.

Figure 6.11

Exposures to retail customers by rating categories excl. SparXpres

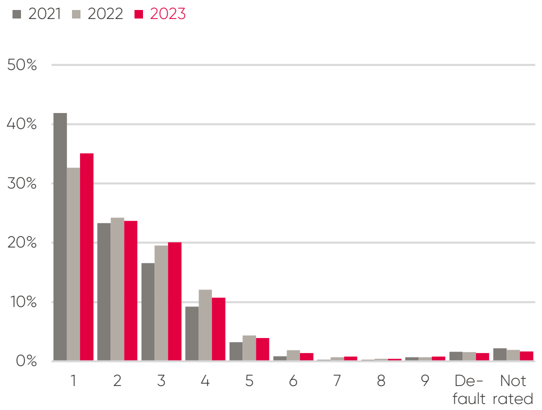
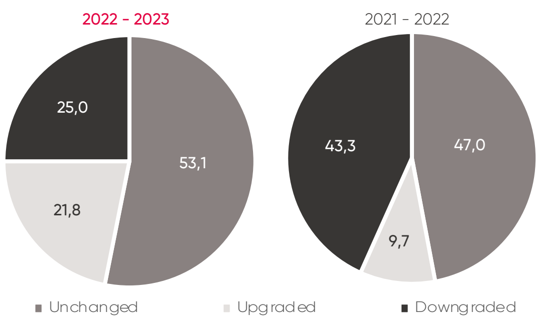


figure 6.12 shows the share of retail customer exposures which migrated into better rating categories, the share with an unchanged rating category and the share which migrated into more risky rating categories in 2023 and 2022. The figure for 2023 shows that 25% of customers had a worse rating, 21.8% had a better rating and 53.1% had an unchanged rating. Customers without a rating in 2022 are included in the figure and have a positive impact, see figure 6.10, on the average rating.

Figure 6.12

Migration rating – loans, advances and guarantees excl. reverse repo agreements for retail customers excl. Sparxpres (%)



Some uncertainty attaches to the rating models, primarily as a result of volatile business cycle indicators included in the model. To cover this model uncertainty, dedicated management estimates (provisions) have been made to reflect anticipated losses due to the model uncertainty. These provisions are monitored and adjusted in an ongoing process.

Sektion 6

Credit risk

Credit quality in the retail customer portfolio is not considered to be impaired in 2023.

Business customers

The rating level for Spar Nord's business customers was significantly higher than at end-2022, primarily due to developments in the cyclical component of the rating model, which reflects the macroeconomic outlook. There was a marginal deterioration in business customer behaviour and financial performance in 2023.

The average rating for Spar Nord's business customers since 2021 is shown in figure 6.13. The figure shows that the average rating has fallen from 4.4 at end-2022 to 3.2 at end-2023, which expresses an improvement of the rating level.

Figure 6.13

Business customers: Average rating*

	2023	2022	2021
Average rating	3.2	4.4	3.4

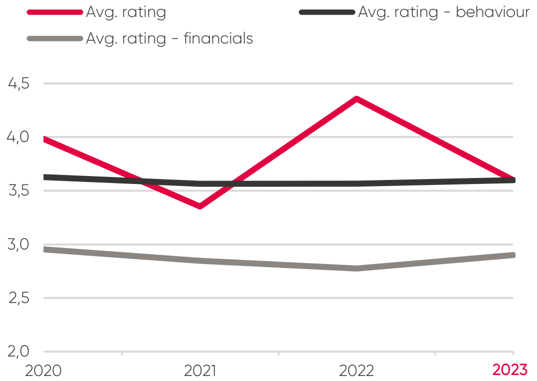
*) Loans, advances and guarantees excl. reverse and public-sector customers

Figure 6.14 illustrates developments in the average rating from the behavioural and financial performance components and the total rating for business customers. As shown in the figure, business customers' behavioural rating is largely unchanged in 2023, whereas their financial performance rating deteriorated slightly. In other words, Spar Nord's business customers generally reported decent financial performance and unchanged conduct in 2023.

Figure 6.14 shows that the conduct and financial performance of the business customers were relatively stable components of the model, and developments in the average rating are therefore driven mainly by the business cycle component. The business cycle component encompasses a range of soft (expectations-based) macroeconomic indicators such as consumer expectations, consumer confidence and industrial confidence. These indicators were very volatile in 2022 and 2023 due to generally higher macroeconomic uncertainties, with the components developing more favourably in 2023.

Figure 6.14

Average rating, behavioural rating and rating from financials for business customers



*) Loans, advances and guarantees excl. reverse repo agreements and public-sector customers

Figure 6.15 shows total loans, advances and guarantees to business customers by rating category over the past three years. The figure shows a clear tendency for business customer exposures to generally have migrated to rating categories with a lower expected risk in 2023.

Figure 6.15

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

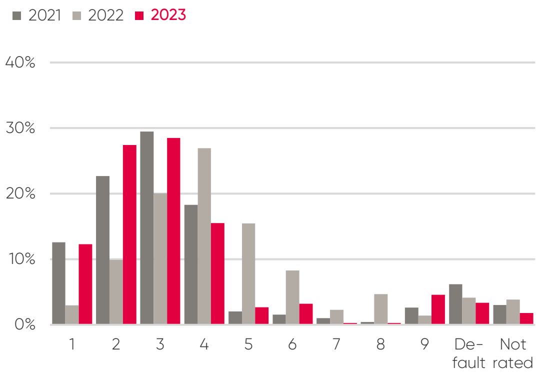


Figure 6.15 shows that 68% the business customer exposures are in the best rating categories from 1 to 3. Rating categories 4-5 cover 19% of the business customer exposures, where the last part is distributed on exposures in the most risky rating categories 6-9 and exposures that are in default or have not yet received a rating.

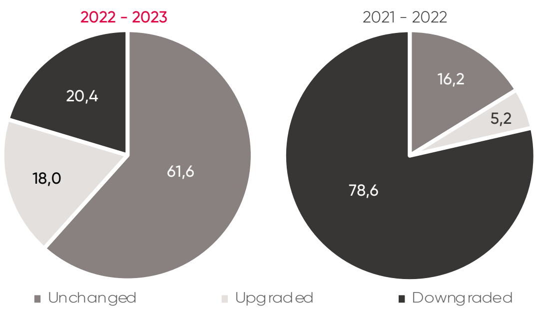
Figure 6.16 shows the share of business customer exposures which migrated into better rating categories, the share with an unchanged rating category and the share which migrated into more risky rating categories in 2022 and 2023. The figure for 2023 shows that 20.4% of business customers had a worse rating, 18.0% had a better rating and 61.6% had an unchanged rating. Customers without a rating in 2022 are included in the figure.

Sektion 6

Credit risk

Figure 6.16

Migration rating – loans, advances and guarantees excl. reverse repo agreements for business customers excl. public-sector companies (%)



The rating model for business customers is subject to considerable uncertainty, which is reflected in a management estimate that is regularly adjusted.

The model uncertainty relates primarily to the macroeconomic variables included in the business cycle component because the period 2021 to 2022 was characterised by above-normal macroeconomic uncertainty.

Credit quality in the business customer portfolio is not considered to be significantly impaired in 2023.

6.3.4 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-2023, Spar Nord's total mortgage loan facilitation amounted to DKK 106.3 billion, which was DKK 4.8 billion less than at 31 December 2022. Of this amount, mortgage loans facilitated from Totalkredit amounted to DKK 95.9 billion and from DLR Kredit DKK 10.4 billion.

The decrease in facilitation of mortgage loans should be seen against an increase in Spar Nord's bank mortgage loans of DKK 2.2 billion and remortgaging activity in 2023, which resulted in capital gains and thus allowed borrowers to reduce their outstanding bond debt. The decrease in facilitated mortgage loans covers a fall of DKK 3.8 billion in the retail customer segment and an increase of DKK 1.0 billion in the business customer segment.

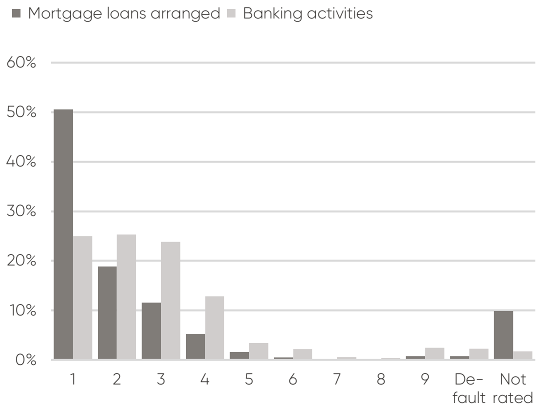
When facilitating mortgage loans, Spar Nord is responsible for customer services, facilitation and initial credit assessment in connection with the raising or remortgaging of a mortgage loans. Spar Nord then receives a share of the total income from the customer as payment.

With respect to the risk of mortgage facilitation, for Totalkredit retail loans Spar Nord is generally liable for losses on the cash part of the loan that exceeds 60% of the property's mortgage lending value. For Totalkredit business loans, Spar Nord is liable for one-third of the loan. On DLR Kredit mortgage loans, Spar Nord is liable for a 6% guarantee plus a right of setoff.

Figure 6.17 shows the breakdown of customers who have taken out mortgage loans with Totalkredit and DLR Kredit against Spar Nord's rating categories. As appears from the figure, mortgage loans facilitated for customers in the best rating categories represent the bulk of this group.

Figure 6.17

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 facilitated by Spar Nord, a full or partial set-off 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.

6.4 Collateral

An important component of the credit risk management efforts is to mitigate 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 and securities make up the most common type of collateral.

Figure 6.18 shows the different types of collateral received. As shown by the figure, property account for the largest part (74.9%) of the ordinary collateral accepted and they are thus a significant part of Spar Nord's collateral.

Sektion 6

Credit risk

Figure 6.18

Collateral accepted

DKKm	2023	2022
Properties	27,899	25,845
Custody accounts/securities	1,957	1,914
Guarantees/sureties	721	908
Vehicles	574	578
Cash	248	398
Other collateral	5,162	4,840
Ordinary collateral, total	**36,561**	**34,484**
Mortgage credit institution guarantees	7,768	9,756
Total collateral, excluding Spar Nord Leasing	**44,330**	**44,239**
Collateral accepted, Spar Nord Leasing	7,358	6,702
Total collateral accepted	**51,688**	**50,941**

Mortgage on real property

Mortgages on real property consist mainly of mortgages on private housing. Figure 6.19 shows mortgages on real property broken down by property type based on the registered collateral value.

The property value under mortgages broken down by property type in figure 6.19 is calculated at DKK 45.8 billion in 2023, while in figure 6.18 DKK 27.9 billion is recorded as collateral on properties. 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.

Figure 6.19

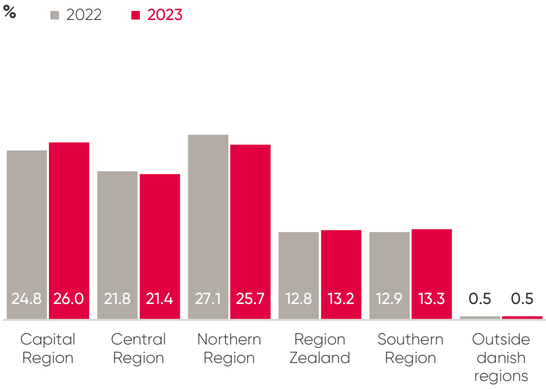
Mortgages broken down by property type

DKKm/%	2023		2022	
Private housing	32,684	71.4	29,727	69.8
Holiday homes	1,844	4.0	1,692	4.0
Offices and businesses	5,663	12.4	4,744	11.1
Agriculture	1,751	3.8	2,158	5.1
Other	3,817	8.3	4,297	10.1
Total mortgages on real property	**45,759**	**100.0**	**42,618**	**100.0**

Figure 6.20 shows the geographical breakdown of mortgages on real property based on the registered collateral value. The figure shows a generally good correlation to figure 6.8, which shows the geographical breakdown of loans, advances and guarantees.

Figure 6.20

Geographical breakdown of mortgages



Property sector

The real estate industry is monitored closely by Spar Nord. Spar Nord has defined the real estate sector as customers belonging to the real estate line of industry and the following sub-categories of the Building and construction industry: Development of building projects (DKK 0.2 billion) and Construction of buildings (DKK 0.6 billion). Total, loans, advances and guarantees for the Building and construction industry are shown in figure 6.5.

Figure 6.21 shows exposure details and details on collateral received for the real estate sector.

Figure 6.21

Exposure and collateral for the real estate industry

DKKm	2023	2022
Total exposure	**8,640**	**8,625**
- Of which loans and advances	8,078	7,841
- Of which guarantees	562	783
Total collateral	**7,235**	**6,994**
Mortgage on real property	5,971	5,655
- Of which first mortgage	4,475	4,222
- Of which second mortgage	1,496	1,433
Other collateral	1,264	1,340

Of the DKK 8.2 billion exposure to the real estate sector, Spar Nord has collateral totalling DKK 7.2 billion, with property mortgages accounting for 82.5%, or DKK 5.9 billion, as shown in figure 6.21. Of this collateral, 74.9% are first mortgages, and 25.1% 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.

Sektion 6

Credit risk

Figure 6.22

Unsecured amounts and unsecured share of exposure broken down by industry

DKKm/%	2023		2022	
	Unsecured amount	Unsecured share	Unsecured amount	Unsecured share
Public authorities	759	99.8	1,357	99.9
Agriculture, hunting and forestry	430	16.3	356	12.7
Fisheries	7	12.8	17	18.2
Industry and raw materials extraction	910	26.6	1,155	31.5
Energy supply	579	30.4	572	26.2
Building and construction	446	14.7	487	15.7
Trade	1,214	27.2	1,489	29.9
Transport, hotels and restaurants	738	23.4	669	21.1
Information and communication	121	34.5	120	36.5
Financing and insurance	2,045	13.0	2,405	16.5
Real estate	1,361	16.2	1,599	19.5
Other business areas	1,965	31.5	1,793	32.1
Business customers, total	**10,576**	**21.1**	**12,019**	**24.0**
Total retail customers	**6,600**	**21.6**	**6,331**	**21.3**
Total	**17,176**	**21.3**	**18,349**	**23.0**

Unsecured amounts and shares
Figure 6.22 shows unsecured amounts and unsecured share of exposure broken down by industry The figure shows that the total unsecured share at end-2023 was 21.3%, against 23.0% at end-2022.

The unsecured share expresses the unsecured part of the exposure, and a lower unsecured share is thus positive for the Bank's risk exposure. Figure 6.23 shows total loans, advances and guarantees excl. reverse repo agreements broken down by unsecured share.

The figure shows that 57.0% of loans, advances and guarantees (excl. reverse repo agreements) have an unsecured share of less than 10%, which means the risk of loss on this part of the exposures is limited. Furthermore, 16.1% of loans, advances and guarantees have an unsecured share above 75%, which expresses a higher risk of loss on this part of the Bank's exposures.

Figure 6.23

Unsecured shares for loans, advances and guarantees

%	2023	2022
< 10	57.0	55.8
10 - 50	21.4	20.9
50 - 75	5.5	6.3
> 75	16.1	17.0
Average unsecured share	**24.9**	**26.5**

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.

6.5 Impairment and losses on loans, advances and guarantees

In the following section, we describe developments in Spar Nord's impairment charges, including model-calculated and individual impairment charges as well as management estimates. We also show developments in customers whose loans are subject to forbearance, have been written off or are characterised as non-performing (NPL).

6.5.1 Impairment

Spar Nord's impairment charges are calculated in accordance with the IFRS 9 accounting standard. See the Annual Report 2023 for a review.

Figure 6.24 shows that the total impairment account rose by DKK 7 million in 2023. Of this amount, DKK 88 million was attributable to increased management estimates, which are explained in figure 6.26.

It appears from figure 6.24 that 6.8% of the impairment charges in 2023 related to the industry agriculture, hunting and forestry. In addition, industry and raw materials extraction represents a significant share at 15.5%, and real estate accounts for 11.1%.

In the agriculture, hunting and forestry industry, a few large impairment charges make up a large share. Furthermore, management estimates account for a significant share at DKK 61 million.

In the financing and insurance industry and industry and raw materials extraction, there are individual customers with large impairment charges.

The relatively large share of impairment charges in the real estate line of industry is explained by that industry's significant share of lending. This is witnessed by the low impairment percentage in the industry of 2.2%. This includes a management estimate of DKK 142 million mainly to cover business customers with property exposure in 2023..

Sektion 6

Credit risk

Figure 6.24

Impairment – by industry

DKKm/%	2023			2022		
	Impairment	Share	Impairment ratio*	Impairment	Share	Impairment ratio*
Public authorities	0	0.0	0.0	0	0.0	0.0
Agriculture, hunting and forestry	113	6.8	4.3	159	9.6	5.7
Fisheries	2	0.1	4.1	3	0.2	3.5
Industry and raw materials extraction	259	15.5	7.6	123	7.4	3.4
Energy supply	11	0.7	0.6	17	1.0	0.8
Building and construction	98	5.8	3.2	57	3.4	1.8
Trade	104	6.2	2.3	98	5.9	2.0
Transport, hotels and restaurants	90	5.4	2.9	124	7.4	3.9
Information and communication	12	0.7	3.6	11	0.7	3.5
Financing and insurance	124	7.4	2.9	187	11.2	4.2
Real estate	186	11.1	2.2	137	8.2	1.7
Other business areas	115	6.9	1.9	158	9.5	2.8
Business customers, total	**1,115**	**66.7**	**2.9**	**1,074**	**64.5**	**2.7**
Total retail customers	**558**	**33.3**	**1.8**	**591**	**35.5**	**2.0**
Total	**1,673**	**100.0**	**2.4**	**1,666**	**100.0**	**2.4**

*The impairment ratio expresses impairment in % of loans, advances and guarantees excl. reverse repo agreements

Impairment charges for business customers rose DKK 41 million in 2023, in part driven by a DKK 129 million increase in management estimates for business customers. This mainly relates to increased stress of business customers with real estate exposure. Without the management estimates, a decrease of DKK 88 million was observed for business customers in 2023.

Impairment charges for retail customers fell by DKK 33 million in 2023. The decrease was driven by a DKK 41 million reduction in management estimates for retail customers, which primarily relates to a reduction in the management estimate concerning cyclical downturn. Without the management estimates, an increase of DKK 8 million in impairment charges was observed for retail customers in 2023.

Spar Nord's loans, advances and guarantees excl. reverse repo agreements and impairment charges by stage are shown in figure 6.25.

At end-2023, stage 1 and 2 impairment charges accounted for a larger share (56%) than at end-2022 (49%). Stage 3 impairment charges fell by DKK 109 million in 2023, of which DKK 37 million relates to developments in management estimates. The development is explained both by a generally favourable trend among Spar Nord's weakest customers and by a re-allocation of the management estimates from stage 3 to stages 1 and 2.

Overall, stage 1 and 2 impairment charges rose by DKK 116 million. The re-allocation of management estimates contributed DKK 124 million of that amount.

Figure 6.25

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

DKKm	2023 Loans, advances and guarantees	2023 Impairment	2022 Loans, advances and guarantees	2022 Impairment
Stage 1	58,480	391	52,356	247
Stage 2	8,855	540	15,204	567
Stage 3	1,529	742	1,730	851
Total	**68,864**	**1,673**	**69,290**	**1,666**

In addition to the model-calculated impairment charges, the Bank makes a management estimate to supplement the impairment charges with amounts relating to special societal developments which the models cannot reflect.

In 2023, the Bank increased its management estimates by DKK 88 million to a total of DKK 662 million. The amount relates to four overall areas, as shown in figure 6.26.

Sektion 6

Credit risk

Figure 6.26

Management estimates

2023	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
DKKm				
Cyclical downturn	107	121	146	**375**
Commercial real estate	116	31	8	**155**
ESG	22	14	37	**73**
Model uncertainty	40	19	0	**59**
Land prices	0	0	0	**0**
Inflation, weak growth and property prices	0	0	0	**0**
Management estimates, total	**286**	**185**	**191**	**662**

2022	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
DKKm				
Cyclical downturn	0	0	0	**0**
Commercial real estate	0	0	0	**0**
ESG	0	0	0	**0**
Model uncertainty	34	65	0	**98**
Land prices	0	0	41	**41**
Inflation, weak growth and property prices	44	204	187	**434**
Management estimates, total	**78**	**268**	**228**	**574**

At DKK 375 million at end-2023, cyclical downturn represents by far the largest management estimate. The estimate covers enhanced credit risk due to economic uncertainty and is a re-labelling of the previous estimate of inflation, weak growth and property prices. Developments in 2023 (-DKK 60 million) were due to the fact that calculations for the new estimates Commercial real estate and ESG were separated out from the estimate, which means the estimate overall rose by a small margin (+DKK 6 million).

In 2023, the Bank added a management estimate relating to Commercial real estate, which at end-2023 amounted to DKK 155 million. This estimate is based on the higher level of interest rates and uncertainty with respect to future price levels. Previously, business customers with real estate exposure were stressed as part of the previous estimate of inflation, weak growth and property prices, but the estimate has now been separated out. In 2023, the estimate concerning business customers with real estate exposures was increased by DKK 125 million.

In addition, the Bank added a management estimate relating to ESG specified by the uncertainty with respect to how the agricultural sector and the transport industry will be affected by the implementation of CO_2 levies in 2025. This estimate amounted to DKK 73 million at end-2023. These industries were also a part of the previous estimate of inflation, weak growth and property prices, but ESG uncertainties are now assessed to be the largest for these two industries. The estimate concerning agriculture and the transport industry was increased by DKK 37 million in 2023.

Finally, the Bank has a management estimate relating to model uncertainty amounting to DKK 59 million at end-2023. The Bank's rating models have historically shown an unintentional volatility in risk level adjustment via macroeconomic variables, and therefore an amount has been allocated to cover the increased risk. Developments in 2023 (DKK -39 million) were driven by a lower probability of default, which results in reduced estimates. The method applied to calculate the estimate was retained in 2023 as it is believed to accurately reflect uncertainty associated with the model calculation.

The migration of stages of the management estimates mainly from stage 2 to stage 1 is explained by the fact that it has been assessed to be relevant, going forward, to standardise the stage in which the customers found themselves at the time. In some calculations, provisions have so far been made at the stage the customers migrate to after they were stressed.

In 2023, Spar Nord recorded a decline of DKK 201 million in loans, advances and guarantees to customers with individual impairment. At end-2023, the impaired claims represented 2.2% of total loans, advances and guarantees excl. reverse, against 2.5% in 2022.

Figure 6.27 shows a calculation of impaired clams. Total value adjustment must be supplemented by calculated impairment in stages 1 and 2 of DKK 931 million in 2023.

Figure 6.27

Impaired claims

2023

DKKm	Loans, advances and guarantees	Impaired
Insolvent liquidation and bankruptcy	41	18
Debt collection and restructuring, etc.	54	27
Other financial difficulty	1,434	697
Total impairment	**1,529**	**742**
Impairment in stages 1 and 2		931
Total impairment		**1,673**

2022

DKKm	Loans, advances and guarantees	Impaired
Insolvent liquidation and bankruptcy	25	12
Debt collection and restructuring, etc.	77	19
Other financial difficulty	1,628	820
Total impairment	**1,730**	**851**
Impairment in stages 1 and 2		814
Total impairment		**1,666**

6.5.2 Profit impact

The profit impact expresses the impact of the credit-granting process on the Bank's operating profit. The profit impact expresses the year's losses and impairment/provisions after reversals and adjustment of discount on exposures taken over and

Sektion 6

Credit risk

Figure 6.28

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

	2023		2022	
DKKm	**Profit impact**	**Loss**	**Profit impact**	**Loss**
Public authorities	0	0	0	0
Agriculture, hunting and forestry	-85	11	-79	7
Fisheries	-1	0	0	0
Industry and raw materials extraction	148	13	32	5
Energy supply	-6	0	2	0
Building and construction	40	2	6	2
Trade	21	18	-28	19
Transport, hotels and restaurants	-23	4	1	3
Information and communication	3	2	3	1
Financing and insurance	-78	7	6	6
Real estate	39	9	44	1
Other business areas	-44	2	-2	16
Business customers, total	**14**	**67**	**-15**	**59**
Total retail customers	**-47**	**39**	**92**	**48**
Total	**-33**	**107**	**78**	**107**

recognised interest accrued on loans subject to impairment as well as recoveries of prior losses. Figure 6.28 shows developments in the profit impact and losses by industry. Negative figures in the table express a positive effect (income), and positive figures express a negative effect (loss).

The total profit impact from losses and impairment charges was an income of DKK 33 million in 2023, corresponding to -0.04% of total loans, advances and guarantees. The DKK 33 million profit impact breaks down into an income of DKK 47 million on retail customers (incl. Sparxpres), an expense of DKK 100 million on business customers (ex. agriculture) and an income of DKK 85 million on agricultural customers.

In 2023, a loss of DKK 107 million was recognised, which was in line with 2022. Losses were recorded especially in the trade and manufacturing industry segments, which was due to a number of individual customers.

6.6 Non-performing loans

An exposure is defined as "Non-performing" (NPL), if:

- the exposure has been in arrears (i.e. if any amount of interest, fees or instalments remains unpaid) for more than 90 days; or
- it is considered unlikely that the debtor will fully meet its payment obligations without realising collateral.
- In addition, a stage 3 exposure is always defined as NPL in IFRS 9 even if the above criteria are not met.

Figure 6.29 shows a calculation of the Bank's NPL ratio.

Figure 6.29

NPL ratio

	2023	2022
NPL (DKKm)	1,458	1,627
Exposure (DKKm)	73,110	69,952
NPL ratio	2.0	2.3

The figure shows that the Bank had exposures categorised as NPL for DKK 1.5 billion in 2023, and relative to the Bank's total exposures, this results in an NPL ratio of 2.0.

Forbearance

Exposures flagged as NPL may be subject to forbearance to increase the likelihood of the customer being able to meet his obligations.

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

Sektion 6

Credit risk

Figure 6.30

Loans and advances subject to forbearance

2023

DKKm	Business customers	Retail customers	Total
Non-Performing	65	179	**245**
Performing	0	2	**2**
Total	**65**	**181**	**246**

2022

DKKm	Business customers	Retail customers	Total
Non-Performing	82	171	**253**
Performing	1	0	**1**
Total	**82**	**172**	**254**

As shown in figure 6.31, exposures for which interest accrual has been suspended fell from DKK 213 million at end-2022 to DKK 177 million at end-2023.

Figure 6.31

Developments in losses and value adjustments and suspended-interest loans

DKKm	2023	2022
Gross loans, advances and guarantees, end of year	80,734	79,800
Total losses and impairment for the year	**-33**	**78**
– in % of loans, advances and guarantees	0.0	0.1
Impairment account	**1,673**	**1,666**
– in % of loans, advances and guarantees	2.1	2.1
Contractual suspended-interest loans, year-end	**177**	**213**
– in % of loans, advances and guarantees	0.2	0.3
Impairment account in % of contractual non-performing loans	**943**	**782**

6.7 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 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 6.32 shows Spar Nord's amounts due from credit institutions by product type, and figure 6.33 shows a breakdown by rating category.

Figure 6.32

Due from credit institutions by product type

DKKm/%	2023	2022	2023	2022
Certificates of deposit	0	0	0.0	0.0
Reverse repo transactions	1,440	1,620	56.9	53.1
Deposits and unlisted bonds	375	649	14.8	21.3
Current accounts	141	217	5.6	7.1
CSA accounts, etc.	246	260	9.7	8.5
Market value, derivatives	329	306	13.0	10.0
Due from credit institutions	**2,530**	**3,052**	**100.0**	**100.0**

Figure 6.33 shows that 81.1% 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.

Figure 6.33

Due from credit institutions by rating

DKKm/%	2023	2022	2023	2022
AAA	1,440	1,620	56.9	53.1
AA	246	318	9.7	10.4
A	366	438	14.5	14.4
BBB	102	176	4.0	5.8
BB-B	0	0	0.0	0.0
Not rated	376	501	14.8	16.4
Due from credit institutions	**2,530**	**3,052**	**100.0**	**100.0**

6.8 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 6.34, 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.

Figure 6.34 shows Spar Nord's counterparty risk before and after netting and collateral accepted. At end-2023, the Bank's exposure after netting and collateral amounted to DKK 294 million, against DKK 103 million in at end-2022.

Sektion 6

Credit risk

Figure 6.34

Counterparty risk for derivatives trading

DKKm	2023	2022
Derivatives with positive market value	465	444
Netting*	70	208
Exposure after netting	**395**	**236**
Collateral received	101	133
Exposure after netting and collateral	**294**	**103**

*) Netting under CSA agreements

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 concerns the granting of lines, procedures and business procedures.

6.8.1 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. With respect to foreign and large Danish credit institutions, the Group also considers their rating by international rating agencies, such as Moody's, Standard & Poor's or Fitch.

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.

6.8.2 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 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 DKK.

In addition, Global Master Repurchase Agreements (GMRA) are concluded to secure reverse repo transactions.

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.

Sektion 6

Credit risk

6.9 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 6.35 shows ECAI exposure before and after deductions

Figure 6.35

ECAI exposure before and after deductions

2023

DKKm	Exposure	Exposure after ECAI risk-weighted
Institutions	1,931	703
Covered bonds	10,512	1,051
Short-term credit assessment	374	191
Other	993	876
Total	**13,810**	**2,821**

2022

DKKm	Exposure	Exposure after ECAI risk-weighted
Institutions	1,198	569
Covered bonds	6,773	677
Short-term credit assessment	725	342
Other	7	1
Total	**8,703**	**1,590**

Sektion 7

Market risk

Developments in 2023

2023 was a year of macroeconomic uncertainty, changes in interest rate structures and subsiding growth expectations, which caused substantial volatility in the financial markets.

Compared with end-2022, the net interest rate risk was reduced by DKK 21 million to DKK 38 million at end-2023. Throughout the year, Spar Nord actively mitigated interest rate risk due to substantial uncertainty about interest rate developments over the course of the year. The average interest rate risk for 2023 was DKK 20 million, against DKK 62 million in 2022.

The credit spread risk in the trading book has been calculated to DKK 251 million at end-2023, which is on a level with end-2022.

The net portfolio of bonds was increased by DKK 8.5 billion relative to end-2022. Of this amount, AAA-rated bonds accounted for DKK 7.8 billion.

The foreign exchange risk was reduced by DKK 67 million relative to end-2022. The foreign exchange risk in 2023 consisted primarily of exposure to EUR, which means the foreign exchange risk is considered low.

Equity risk in the trading book increased by DKK 34 million to DKK 121 million in 2023. Throughout 2023, Spar Nord remained underweight in equities and utilised only a limited proportion of the internal limits because of expectations of equity market developments.

The portfolio of equity investments in the banking book and shares in associates was increased by DKK 234 million in 2023 to DKK 2.6 billion, which was mainly due to positive developments in DLR Kredit and DAB.

NET INTEREST RATE RISK

DKK 38 million

2022: DKK 59 million

CREDIT SPREAD RISK

DKK 251 million

2022: DKK 252 million

BOND PORTFOLIO

DKK 31.2 billion

2022: DKK 22.7 billion

EQUITY PORTFOLIO

DKK 2.7 billion

2022: DKK 2.5 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
- Credit spread 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 only made on behalf of customers.

Sektion 7

Market risk

7.1 Market risk policy

The market risk policy determines Spar Nord's overall risk profile for market risk, as well as the overall organisational delegation of responsibilities in the market risk area with a view to profitably supporting 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 describes the types of risk the Bank includes in the market risk area. The Board of Directors has prepared guidelines for the Executive Board describing the methods to be used in calculating the various risk.

7.1.1 ESG risk

ESG risk is a natural component of the Bank's risk management in the market risk area. ESG risk refers to the risks associated with investing in businesses that fail to adapt to environmental, social and governance-related factors.

As part of the handling of the Bank's positions, an assessment is made of ESG issues, which is an important activity to reduce the loss of market values due to climate-related physical and transition risks or social and ethical issues that could impact businesses that fail to adapt to global developments.

The Bank's market risk policy stipulates that the Bank must work with involvement and stewardship in order to promote sustainability, and that it must use exclusion measures when necessary. The exclusion list includes companies in which the Bank may not invest. Spar Nord complies with UN and EU sanctions when investing in government bonds and excludes investment in government bonds and/or other securities from countries against which sanctions have been imposed.

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 intraday 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.

Spar Nord has a front-to-back solution for market risk management, which means that both risk-taking and risk-managing business entities work on the same platform, which contributes to ensuring effective market risk management.

7.3 Interest rate risk

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, bonds, 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 hedging strategy also incorporates fixed-rate deposit products.

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.

Sektion 7

Market risk

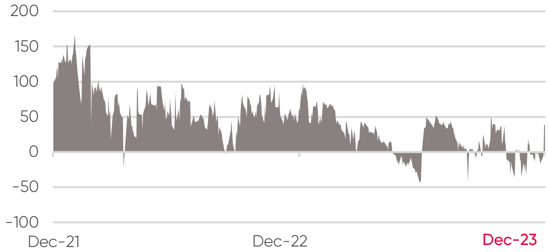
7.3.1 Developments in interest rate risk

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. A positive interest rate risk means the Bank's position would lose market value if interest rates move higher and would be positively affected by falling interest rates.

Figure 7.1

Development in net interest rate risk

DKKm



In a historical perspective, the Bank's net interest rate risk was neutralised in large parts of 2023 as a result of an active strategy of mitigating risk due to uncertainty in relation to interest rate developments.

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.

Figure 7.2

Interest rate risk by duration and currency

2023

DKKm	Short Up to 2 years	Between 2 and 7 years	Long More than 7 years	Total
DKK	1	2	17	**21**
EUR	13	8	-6	**15**
Other	3	-1	0	**3**
Total	**18**	**9**	**11**	**38**

2022

DKKm	Short Up to 2 years	Between 2 and 7 years	Long More than 7 years	Total
DKK	8	13	22	**43**
EUR	11	17	-12	**15**
Other	1	-1	0	**0**
Total	**20**	**29**	**10**	**59**

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 2023, Spar Nord was exposed to a positive interest rate risk in Danish kroner of DKK 21 million, in EUR of DKK 15 million and in other currencies of DKK 3 million. The total interest rate risk amounted to DKK 38 million at end-2023, which is a DKK 21 million decrease compared with end-2022.

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, interest rate 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 39 million at end-2023, which is a DKK 19 million decrease compared with 2022. At the end of 2023, Spar Nord was exposed to a positive interest rate risk in Danish kroner of DKK 34 million, in EUR of DKK 24 million and in other currencies of DKK 4 million.

Figure 7.3

Interest rate risk in the trading book

2023

DKKm	Short Up to 2 years	Between 2 and 7 years	Long More than 7 years	Total
DKK	21	1	12	**34**
EUR	12	-2	-8	**1**
Other	4	0	0	**4**
Total	**37**	**-2**	**4**	**39**

2022

DKKm	Short Up to 2 years	Between 2 and 7 years	Long More than 7 years	Total
DKK	12	28	13	**52**
EUR	9	9	-13	**5**
Other	1	0	0	**1**
Total	**22**	**36**	**0**	**58**

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, reverse and 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 negative in the amount of DKK 1 million at end-2023 with underlying negative interest rate risk in DKK of DKK 13 million and DKK 1 million in other currencies and a positive interest rate risk in EUR of DKK 14 million.

Sektion 7

Market risk

Figure 7.4

Interest rate risk in the banking book

2023

DKKm	Short Up to 2 years	Between 2 and 7 years	Long More than 7 years	Total
DKK	-20	1	6	**-13**
EUR	2	10	2	**14**
Other	-1	-1	0	**-1**
Total	**-19**	**11**	**7**	**-1**

2022

DKKm	Short Up to 2 years	Between 2 and 7 years	Long More than 7 years	Total
DKK	-3	-15	9	**-9**
EUR	1	8	1	**10**
Other	0	-1	0	**-1**
Total	**-2**	**-7**	**9**	**0**

Spar Nord furthermore applies two risk measures to manage interest rate risk in the banking book, changes in net interest income (NII) and the change in the economic value of equity (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. At year-end 2023, NII was calculated at DKK 86 million, against DKK -44 million at the end of 2022. Note that NII above zero equates to a negative earnings impact in net interest income, while NII below zero equals a positive earnings impact in net interest income.

EVE is based on a stress scenario defined by regulation and calculated as the change in the market value of assets and liabilities in the balance sheet and derivatives in the banking book. EVE was calculated at DKK 68 million at end-2023, against DKK 73 million at end-2022.

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 effective yield, which compared to a risk-free reference rate. The difference between the two rates equals the credit spread.

Credit spread risk is the risk that credit spreads on issuers on the bond portfolio should change. Losses may arise because of an increase in the credit risk (credit spread) on mortgage bonds relative to the risk-free reference rate. 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.

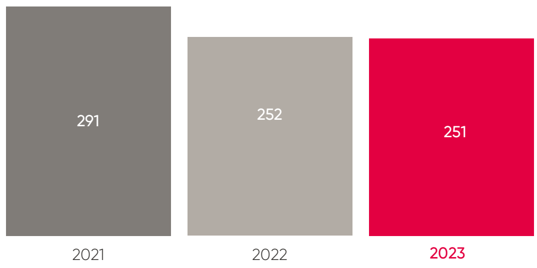
Based on the above-mentioned stress scenario, the credit spread risk in the trading book has been calculated at DKK 251 million at end-2023. This is on a level with 2022, when the credit spread in the trading book was DKK 252 million.

The Bank also monitors credit spread risk in the banking book.

Developments in credit spread risk in the trading book 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.

Sektion 7

Market risk

Figure 7.6

Bond portfolio

	Origin	Rating category	2023 DKKm	2023 Share	2022 DKKm	2022 Share
Mortgage bonds			**29,463**	**94.5**	**21,783**	**96.1**
	Denmark	AAA	27,843	89.3	20,888	92.2
		A	1,033	3.3	887	3.9
		Unrated	8	0.0	8	0.0
	Sweden	AAA-AA	156	0.5	0	0.0
	Norway	AAA	423	1.4	0	0.0
Financial issuers			**1,242**	**4.0**	**712**	**3.1**
	Denmark	AA-A	677	2.2	116	0.5
		BBB-Unrated	142	0.5	215	0.9
	Norway	A-BBB	37	0.1	118	0.5
	Sweden	Unrated	148	0.5	48	0.2
	Finland	A-Unrated	7	0.0	190	0.8
	Rest of Europe	AAA-Unrated	230	0.7	24	0.1
Credit bonds			**388**	**1.2**	**339**	**1.5**
	Denmark	A-Unrated	44	0.1	39	0.2
	Other	AA-Unrated	344	1.1	299	1.3
Government bonds			**87**	**0.3**	**-176**	**-0.8**
	Denmark	AAA	10	0.0	-218	-1.0
	Europe	AAA	76	0.2	42	0.2
	Outside Europe	AAA	1	0.0	1	0.0
Total			**31,180**	**100.0**	**22,657**	**100.0**
Own bonds	Denmark	A-Unrated	11		11	

7.3.6 Bond portfolio

Spar Nord's bond portfolio consists primarily of mortgage bond with a high credit rating. The portfolio also includes bonds from financial issuers, credit bonds and government bonds and a small holding of own bonds.

The Bank's total bond portfolio and its composition is shown in figure 7.6, and figure 7.7 shows the portfolio by rating.

The total bond portfolio rose by DKK 8.5 billion compared with end-2022 to DKK 31.2 billion in 2023. The change covers a modest shift in the composition, and the bond portfolio has primarily seen an inflow of AAA rated mortgage bonds.

The bond portfolio is composed of 94.5% mortgage bonds, 4.0% bonds from financial issuers, 1.2% credit bonds and 0.3% government bonds.

As shown in figure 7.7, 91.3% of the Bank's bond portfolio had an AAA rating at end-2023, which was on a level with 2022. The composition is the result of the elevated market uncertainty, which means the Bank places its funds in instruments with a lower credit risk.

Figure 7.7

Bond portfolio by rating*

DKKm/%	2023	2022	2023	2022
AAA	28,482	20,712	91.3	91.4
AA	485	67	1.6	0.3
A	1,615	1,189	5.2	5.2
BBB	285	207	0.9	0.9
BB	131	129	0.4	0.6
B	14	15	0.0	0.1
CCC	4	2	0.0	0.0
Not rated	164	336	0.5	1.5
Total bonds	**31,180**	**22,657**	**100.0**	**100.0**

*) Bond portfolio plus spot and forward purchases and sales

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 7.8. The calculation is based on the assumption that all exchange rates change unfavourably by 2.0% which at end-2023 will result in a loss of DKK 1.5 million.

Figure 7.8 shows that the Bank's foreign exchange position was reduced from DKK 141 million in 2022 to DKK 74 million in 2023. Foreign exchange risk generally remains at a low level.

Sektion 7

Market risk

Figure 7.8

Currency

	Foreign exchange position		Foreign exchange risk	
DKKm	2023	2022	2023	2022
EUR	18	109	0.4	2.2
SEK	4	2	0.1	0.0
USD	14	11	0.3	0.2
GBP	3	1	0.1	0.0
CHF	0	0	0.0	0.0
NOK	29	6	0.6	0.1
JPY	1	1	0.0	0.0
Other currencies	5	10	0.1	0.2
Total	**74**	**141**	**1.5**	**2.8**

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 trading book and the banking book.

7.5.1 Shares in the trading book

Shares in the trading book are held for trading purposes.

Figure 7.9 shows that the holding of shares in the trading book was increased from DKK 34 million to DKK 121 million at end-2023, primarily due to an increase in the portfolio of listed shares. Throughout 2023, Spar Nord maintained limited equity risk because of expectations of equity market developments.

Figure 7.9

Equity risk in the trading book

DKKm	2023	2022
Listed shares in the trading book	92	64
Unlisted shares in the trading book	29	23
Total	**121**	**87**

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 7.10 shows a calculation of equity risk in the banking book. The total holding of shares in the banking book increased by DKK 234 million to DKK 2.6 billion at end-2023.

Figure 7.10

Equity risk in the banking book

DKKm	2023	2022
Shares in credit and financing institutions	1,298	1,247
Shares in unit trust man. companies	240	284
Shares in payment services business	21	27
Other equities	86	88
Total shares in strategic business partners	**1,645**	**1,647**
Realised gain	0	11
Unrealised gain	109	116
Associates	973	736
Total	**2,617**	**2,383**

Shares in strategic business partners were on a level with 2022.

The DKK 237 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 does not assume any commodity risk and only makes transactions on behalf of customers.

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 measured and managed by computing the positions' Delta, Gamma, Vega and Theta risks.

7.8 Sensitivity analysis

Figure 7.11 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.

Sektion 7

Market risk

It appears from figure 7.11 that the impact of an interest rate increase will be a loss equal to 0.2% 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 2.0% of shareholders' equity.

Figure 7.11
Sensitivity analysis*

	Impact on operating profit		Impact on equity	
DKKm/%	**2023**	**2022**	**2023**	**2022**
Interest rate increase of 1%-point	-28	-46	-0.2	-0.4
Interest rate decrease of 1%-point	28	46	0.2	0.4
Share price decrease of 10% in the trading book	-9	-7	-0.1	-0.1
A fair value decrease of 10% for shares in the banking book	-249	-249	-1.9	-2.2
Unfavourable 2% exchange rate fluctuation	-1	-2	0.0	0.0

The sensitivity information includes positions in the trading book and the banking book with respect to interest rate and exchange rate risk. The impact on the operating profit and the impact on equity are calculated after tax.

7.9 Own properties

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

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

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

In 2023, the Bank sold two investment properties with a combined value of DKK 65 million. Reference is made to Annual Report 2023 for a more detailed description of the accounting treatment of properties.

Figure 7.12 Spar Nord's properties broken down by rate of return.

Figure 7.12
Yield/return

	2023		2022	
DKKm	**No. of properties**	**Value year-end**	**No. of properties**	**Value year-end**
-> 7 %	10	164	13	217
7% - 8%	12	242	12	284
8% - 9%	7	100	10	105
9% - >	9	39	5	16
Total	**38**	**546**	**40**	**622**

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%-point will reduce the fair value by DKK 36 million at end-2023, against DKK 41 million at end-2022.

Other things being equal, a decrease of the rent level of 5% will reduce the fair value by DKK 27 million at end-2023, against DKK 31 million at end-2022.

Sektion 8

Operational risk

Developments in 2023

During the past few years, Spar Nord has taken a number of steps to prevent its customers from being tricked by fraudsters. External fraud accounts for a large share of registered losses, which indicates that fraudsters are finding new methods and remain very active. The Bank remains committed to informing its customers and keeping them aware of the high level of fraudster activity and to finding new measures to reduce financial losses.

Being a digital business, IT security is a prioritised focus area, and the Bank is working continuously to strengthen its IT security level, as the threat from cyber criminals has only grown bigger with the war in Europe.

As a part of its operational risk management, the Bank is continuously working to strengthen processes and its controls, including in areas such as money laundering and terrorist financing, outsourcing, GDPR and data quality.

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.

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 risk 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 and developments.

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 identifying and 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.

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 risk culture in the organisation, awareness activities are regularly undertaken aimed at operational risk management.

Sektion 8

Operational risk

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.

Figure 8.1

Number of operational loss events broken down by risk type
%

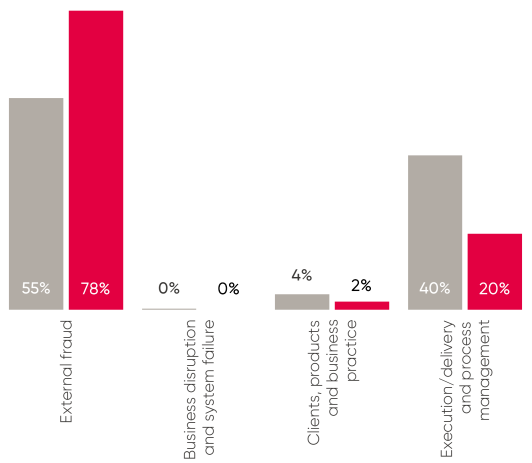
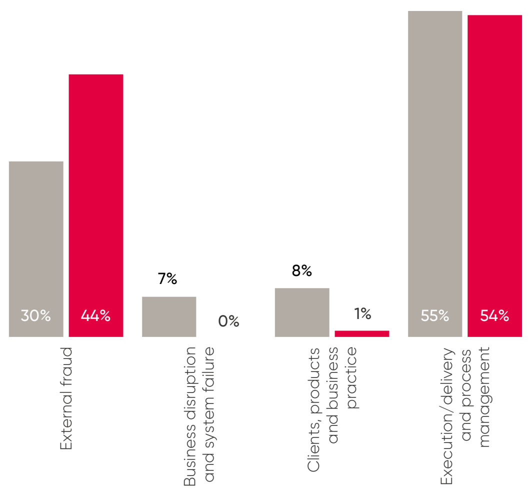


Figure 8.2

Operational loss amounts broken down by risk type
%



Most of the loss events are events involving a limited financial effect. As shown in figure 8.1 and figure 8.2, 78% of the operational losses in 2023 related to external fraud (2022: 55%), which in terms of amounts equal 44% in 2023 (2022: 30%). External fraud includes payment card abuse and online banking fraud. The rest of the loss events relate to traditional banking operations.

8.4 IT security and IT risk management

As Spar Nord is a digital business, data and IT systems security are paramount to its credibility and existence. Furthermore, Spar Nord is a systemically important financial institution (SIFI). This means the Bank also shares a responsibility for the stability of the combined financial sector.

On behalf of the Board of Directors, the Bank's IT security function, together with the business and the IT department, ensures that the Bank's maintains the risk level in the IT area decided by the Board of Directors. This means the Bank retains an overview of external threats and the Bank's IT risks, monitoring whether such risks are hedged through appropriate controls and risk-mitigating measures.

The IT security function is thus charged with providing a reporting basis to the Board of Directors, enabling the board to make decisions regarding the Bank's IT risk based on the adopted IT risk level. This level is set out in the Bank's IT risk management policy, information security policy and the objective of the IT contingency plan. The aim is to ensure continued operation of the Bank at a satisfactory level in the case of extraordinary events. 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.

To be able to report a true and fair view, the IT security function is charged with performing necessary and adequate controls regarding IT in the Bank's organisation, including various risk-based tests of the Bank's security measures. The function participates in sector-specific collaborative initiatives to help strengthen the overall robustness concerning IT in the Danish financial sector.

8.5 Data governance and data quality

The Bank's data governance and data quality measures are anchored in the data governance policy prepared by the Board of Directors. The data governance policy serves to ensure that the Bank has a well-organised and structured overview of the data used to make business solutions and assess the Bank's risks. The work is thus an important element of the Bank's strategy of having an efficient in-house engine room and a prerequisite for making effective and data-driven decisions. The Bank has a data governance function working to lay down the overall framework for the data governance and data quality initiatives within the framework of the data governance policy. The responsibility for safeguarding data quality has been decentralised by appointing data owners and

Sektion 8

Operational risk

data stewards. Topics relating to data governance and data quality are dealt with by the Bank's data governance committee, which is supported by the Bank's data governance committee. During the past year, the Bank has taken steps to define a data strategy setting the direction for the Bank's data and data quality work.

8.6 Money-laundering risk

The Bank retains a strong focus on preventing money-laundering and terrorist financing, including the risk-mitigating measures that must be implemented to prevent the Bank from being used for money-laundering activities, terrorism financing purposes or sanction breaches.

The AML & Fraud 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 and sanction regulations. The AML & Fraud function supports the Bank's business development in connection with ongoing implementation of the rules. In addition, AML & Fraud carries out regular controls to ensure compliance. The Bank continues to focus on enhancing and optimising existing processes and systems.

Spar Nord is continually monitoring transactions for irregularities and reports any suspicious issues to the State Prosecutor for Serious Economic and International Crime (SØIK), The number of filings was lower than in 2022. In 2023, Spar Nord had 2,738 filings with SØIK as compared with 3,934 cases in 2022.

AML & Fraud is an independent department reporting directly to the Executive Board. The Bank's AML Officer reports quarterly to the Executive Board and the Board of Directors.

8.7 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.

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

8.8 Outsourcing

Over the course of 2023, the Bank strengthened its framework and business procedures for identifying outsourcing risks.

Enhanced focus on the area is to help identify and manage risks arising from the activities outsourced to a third party. This will help strengthen the future processing of the activities and improve the decision-making basis when entering into agreements with third parties. Reports are made twice a year to the Executive Board and the Board of Directors on the Bank's use of critical/important outsourcing and sub-outsourcing, including suppliers and sub-suppliers providing services relating thereto. The reports include information on risk developments in this area. Once a year, a report is prepared for the Executive Board on all outsourcing activities in the Bank.

The responsibility for the report on the Bank's use of outsourcing to the Executive Board and Board of Directors lies with the Outsourcing Officer appointed by the Executive Board.

8.9 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 8

Operational risk

8.10 Model risk

Model risk is the operational risk of loss caused by erroneous model output. Model risk is an important and growing risk area in Spar Nord due to the need for effective, data-driven decisions.

At Spar Nord, the responsibility for the individual model lies with the business unit that either develops or is the primary user of the model. The risk management function, which is placed in the second line, is responsible for the classification and risk assessment of the model.

Model risk is reported twice a year to the Board of Directors, including the Risk Committee. The report summarises developments in Spar Nord's model risk.

Sektion 9

Risk statement

Spar Nord's Board of Directors approved Spar Nord's 2023 Risk Report on 7 February 2024.

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 overall 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	**2023**	**2022**
Common equity tier 1 capital ratio	17.7	16.4
Own funds ratio	22.3	20.9
Individual solvency need	9.8	9.8
Excess capital coverage in percentage points	6.2	5.5
Leverage ratio	9.8	9.7
Liquidity		
LCR (%)	246	211
NSFR (%)	131	127
Asset Encumbrance (%)	3.0	2.1
Bank deposit rating and outlook (Moodys)	A1/Stable	A1/Stable
Credit		
Impairment account (DKKm)	1,673	1,666
Impairment ratio (impact on operations)	-0.04	0.11
NPL ratio	2.0	2.2
Total assets (DKKm)	135,104	124,040

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**	**2023**	**2022**
Sum of large exposures	<175	79.4	83.8
Growth in lending	<20	4.0	12.7
Property exposure	<25	10.7	10.7
Liquidity indicator	>100	278.0	223.0

Executive Board

Lasse Nyby
Chief Executive Officer

Carsten Levring Jakobsen
Managing Director

John Lundsgaard
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

Morten Bach Gaardboe

Lisa Lund Holst

Henrik Sjøgreen

Jannie Skovsen

Michael Lundgaard Thomsen

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