Risk report 2024

spar Nord

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.

List of contents

1. Overview of risks and vulnerabilities

Risks are a natural and integral part of the Bank's operations. The Bank's risk management approach is described below.

Identification and measurement

The Bank ensures that all significant risks are identified by systematically reviewing and performing risk assessments of the Bank's principal business procedures.

The risks identified are placed in a risk matrix according to likelihood and impact. The Bank's business units are responsible for performing this process in accordance with the Bank's risk management policies. Risk assessments are evaluated at least annually or more frequently if incidents or external events warrant a reassessment. Actual and potential incidents are registered in order to identify new risks and qualify existing risk assessments.

The Bank measures risks on the basis of a risk matrix which initially assesses the inherent risk (before mitigating measures) and then assesses the residual risk (after mitigating measures).

Risk management

The Bank's risks are manged by implementing risk-mitigating measures. The business units are responsible for ensuring that risks are managed adequately. If a risk is considered not to be adequately mitigated, action plans will be drawn up to further mitigate the risk in question.

The Bank's risk organisation consists of three lines of defence, where the Bank's first line of defence is responsible for the day-to-day operations and for performing controls. The Bank's second line of defence performs a review of significant business procedures and tests controls in order to ensure that risks have been identified, measured, managed and reported correctly. Any shortcomings in the Bank's risk management are reported to the head of the relevant business Zarea with a requirement to address the identified shortcomings. Observations from the Bank's second and third lines of defence are recorded in a registration system, with structured follow-up and reporting to the Bank's executive management.

Reporting

The risk management functions prepares quarterly reports to the Executive Board and the Board of Directors, describing the Bank's risks and vulnerabilities. Identified risks outside the Bank's risk tolerance levels are immediately reported to the management.

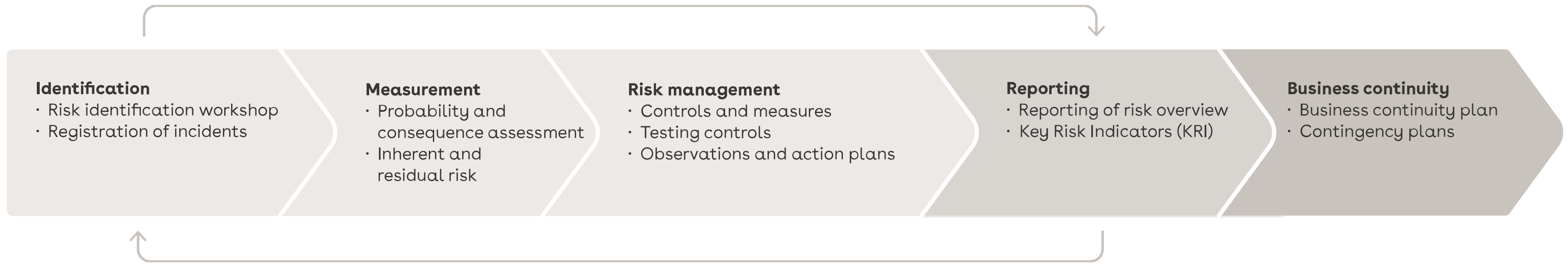
The Bank has defined Key Risk Indicators (KRI) in its policies, with quarterly follow-up and reporting to the management.

Business continuity

Based on the risk identification process, the Bank has specified business-critical processes that must remain operational to ensure business continuity in the event of an IT-related crisis. Business-critical processes are supported by business continuity plans designed to help ensure that vital business areas can operate sufficiently in the event of, for example, IT system failures. The Bank has also prepared contingency plans to handle crises.

Significant risks

The Bank is exposed to various internal and external risk factors, and it fundamentally works with the risk types described under the risk taxonomy. The most significant risks for the Bank are illustrated and further described on the next page. The risks are listed in a non-prioritised order:



Risk taxonomy

Business risk

The risk of loss caused by structural changes in society affecting Spar Nord's business model.

Credit risk:

The risk of loss because customers and other counterparties fail to meet all or part of their payment obligations.

Market risk:

The risk of loss because the fair value of Spar Nord's assets and liabilities varies with changes in market conditions.

Liquidity risk:

The risk that the Bank cannot meet its payment obligations while also meeting the statutory liquidity requirements.

Funding risk:

The risk of lack of financing/funding preventing the Bank from adhering to the adopted business model, and the risk that costs for procurement of liquidity rise disproportionately.

Operational risk:

The risk of financial loss owing to deficient or erroneous internal procedures and processes, human or system errors, or losses as a result of external events.

IT risk:

The risk of ICT systems failing, being compromised, or misused, which may lead to data loss, breaches of confidentiality, downtime, or other damage that could impact the Bank's business.

Compliance risk:

The risk of failing to comply with laws and regulations, which could have legal and financial consequences.

	Description of risk	Risk development	Risk category	Potential impact	Preventive actions
Cyberattacks	Risk of cyberattacks, such as ransomware attacks, that could compromise the Bank's IT systems and render systems and data inaccessible.	Rising	IT risk	Financial blackmail Loss of investor confidence Negative press and media coverage Operational impact and data loss	Robust cyber security systems IT contingency plans Internal controls
Recession or economic downturn	Risk of a recession or economic downturn, which poses a threat to the Bank due to reduced activity and rising unemployment, potentially affecting customers' creditworthiness.	Falling	Credit risk Market risk	Lower demand for bank products Increase in non-performing loans Lower market rates Widened credit spreads and price falls on several assets	Cost control and ensuring adequate capital and liquidity to withstand an economic downturn Credit policy Conservative investment strategy
Large customers in financial difficulty	Risks of major credit losses on large customers ending up in financial difficulty	Falling	Credit risk	Credit losses and impairment charges Higher capital charges	Identification of distressed customers Renegotiation of agreements Limits for single name and single industry concentration Credit policy
Geopolitical uncertainty	Risk that customers or investments are adversely impacted by political instability, including, for example, war in Ukraine or the Middle East	Rising	Credit risk Market risk IT risk	Credit losses and impairment charges Foreign currency, interest rate and credit risks Credit losses Cyberattacks	Conservative investment strategy Credit policy IT risk management
Money laundering and terrorist financing	Risk that the bank is misused for money laundering or terrorist financing	Unchanged	Operational risk	Fines and legal proceedings Loss of investor confidence Loss of customer confidence	Robust internal controls and compliance Know-your-customer procedure Transaction monitoring systems
Compliance	Risk that Spar Nord fails to comply with applicable legislation or guidelines	Unchanged	Operational risk Compliance risk	Loss of investor confidence Legal proceedings and reputational damage Working environment damage	Internal control to ensure compliance with applicable legislation and guidelines
Sustainability	Risk that Spar Nord finances or invests in companies that fail to adapt their business with due consideration to sustainability factors.	Rising	Credit risk Market risk Funding risk Operational risk	Impairment of assets due to environmental impacts Customers affected by extreme weather events such as flooding may impact the collateral value of the asset Loss of investor confidence due to a lack of transparency and inclusion	Compliance with environmental standards and new regulations Responsible lending and training of employees Transparent business decisions ESG screening Inclusion of ESG factors in decision-making processes

2. Credit risk

Developments in 2024
In 2024, Spar Nord experienced growth in loans, advances and guarantees excl. reverse repo transactions of DKK 5.5 billion. The increase covers an increase in loans and guarantees to retail customers of DKK 4.0 billion and DKK 1.5 billion to business customers. The Bank's leasing loans account for a significant part of the increase.

Bank mortgage loans emerged as the primary driver of growth within our retail banking customer segment. Lending in the business customer segment was composed of an increase in leasing loans of DKK 0.7 billion and a similar DKK 0.7 billion drop in loans to public-sector customers. Loans to the Bank's other business customers thus amount to DKK 1.5 billion.

The Bank's share of loans classified as non-performing (NPL) was 1.9% of the total exposure in 2024, which is lower than in 2023, when the NPL ratio was 2.0%.

The total impairment and loss provision account was reduced by DKK 21 million to DKK 1.7 billion in 2024 due to lower model-calculated and individual impairment charges. In 2024, the management estimates were increased by DKK 22.5 million. Most of the management estimates are related to geopolitical uncertainty and the market for commercial real estate.

Total mediation of mortgage loans fell marginally by DKK 0.4 billion (0.4%) in 2024 to stand at DKK 105.9 billion.

Impairment ratio

2.2%

NPL ratio

1.9%

Suspended-interest loans

0.2%

Credit policy

Spar Nord's overall credit risk is controlled on the basis of the Bank's credit policy, which is determined by the Board of Directors. The pivotal objective of the credit policy is to ensure that lending, earnings and risks are balanced, and that the risk of loss 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.

Management, monitoring and reporting

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.

The centralised monitoring of credit risk exposure is handled by a dedicated department named Credit Management. Monitoring covers a range of activities, including verifying that exposures are granted in accordance with the credit policy and ensuring that non-performing exposures are identified in due time. These activities are regularly supplemented with relevant thematic reviews. The Bank's second line of defence in the risk management function monitors and safeguards the adequacy of internal controls through ongoing monitoring and testing of controls in the first line of defence.

New exposures to retail and business customers are systematically reviewed to ensure that customers meet the Bank's credit policy and data quality requirements. The results of the regular controls are reported at the Bank's quarterly meetings in the credit risk committee, where the Executive Board, the Credit Department, Credit Management and the risk management function are represented. Results and conclusions are also reported to the Bank's Board of Directors.

Red flags for retail and business customers are monitored in an ongoing process with a view to identifying non-performing exposures, which are subsequently assessed and handled at the local banks, which assess whether the red flags, either separately or combined, represent an elevated risk to the Bank. A centralised function ensures that objective criteria for an elevated risk level will lead to a red flag for the customer in question.

Analyses of customer advisers' portfolios are made centrally to ensure that portfolios representing an elevated risk level are identified. This monitoring helps ensure that no customer adviser undertakes risks that exceed the Bank's defined risk tolerance.

Principal performance indicators

	2024	2023	2022	2021	2020
Lending					
Loans, advances and guarantees to retail customers (DKKm)	34,259	30,234	29,385	32,260	28,500
Loans, advances and guarantees to business customers excl. reverse repo transactions (DKKm)	40,118	38,630	39,905	35,973	31,284
Mediated mortgage loans (DKKm)	105,921	106,342	111,144	111,885	94,550
Impairment					
Accumulated impairment charges and provisions (DKKm)	1,652	1,673	1,666	1,591	1,717
Impairment ratio on loans, advances and guarantees excl. reverse repo transactions (%)	2.2	2.4	2.4	2.3	2.9
NPL ratio (%)	1.9	2.0	2.3	2.8	3.4
The Supervisory Diamond					
Sum of large exposures (%)	68.2	79.4	83.8	81.7	78.1
Lending growth (%)	7.4	4.0	12.7	15.5	-1.5
Property exposure (%)	11.5	10.7	10.7	9.7	10.5

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 unrated 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-2024 was calculated at DKK 12.5 billion. See figure 6.6 in section 6.

The credit policy sets out main credit-granting rules. There are tighter credit-granting rules for exposures that deviate from the credit policy. Specific deviation possibilities are set out in the credit policy. The Bank may apply other compensatory factors than those set out in the credit policy provided they are assessed to reduce the credit risk for the Bank and for the customer to the same extent as if the main rules had been observed.

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 2.1.

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 exposure to retail customers is considered a strength in terms of credit.

Figure 2.1
Maximum share of loans, advances and guarantees excl. reverse

%	Maximum share
Agricultural sector	10
Real estate sector	20
• The part of the exposure with an LTV/LTC above 50% cannot exceed 7% of the Bank's loans, advances and guarantees. Calculated exclusive of exposures to subsidised housing associations, private cooperative housing associations and owner associations.	
• The part of the exposure with an LTV/LTC above 70% cannot exceed 3% of the Bank's total loans, advances and guarantees. Calculated exclusive of exposures to subsidised housing associations, private cooperative housing associations and owner associations.	
• Construction financing for unsold projects cannot exceed 5% of the Bank's total loans, advances and guarantees.	
Financing and insurance	10
Industry and raw materials development	10
Trade	15
Energy supply	10

Sustainability risk

The Bank's credit granting is always made based on a pre-calculated 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.

Sustainability risk is an inherent credit risk assessed together with other credit factors. Assessments of especially governance factors have historically formed a part of the basic credit assessment of business customer exposures. Driven by both 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.

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.

Businesses with significant CO2e emissions will face special market terms and conditions, more stringent regulatory requirements and an increased requirement to invest in the transition to a more sustainable production. 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 sustainability-related credit risks.

To support small and medium-sized businesses in their sustainability efforts, Spar Nord has chosen to offer a free digital ESG tool (Valified) to all business customers. The tool supports the dialogue between advisor and business customer by gauging the customer's knowledge of and work with sustainability. In addition, the ESG tool enables customers to prepare climate accounting and transition plans and to publish a sustainability report that they can use in their own marketing.

In autumn 2024, the Bank started to collect data in the sustainability area at an overall level. A structured collection of strength profile data has been initiated – including the gathering of statements in the sustainability area – to identify any challenges related to environmental and climate issues and the management of sustainability risks.

The Bank also reports disclosure requirements for Pillar III sustainability risks, initially focusing on physical and transition risks for residential buildings and industries with the highest CO_2e emissions.

Relative to the Bank's impairment calculations, climate risk is a parameter in the individually calculated impairment charges to ensure the most accurate impairment calculation. This may be in relation to the future earnings capacity and the value of the customer's assets, if the customer is facing climate challenges.

Although it might be relevant, the model-calculated impairment charges do not yet incorporate climate risks because data in the area is still not sufficient to make qualified calculations.

The Executive Board and the Board of Directors receive quarterly reporting covering developments in the Bank's estimated CO_2e emissions broken down by industries and follow up on the Bank's targets for CO_2e emissions per DKK million lent.

Credit risk management

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.

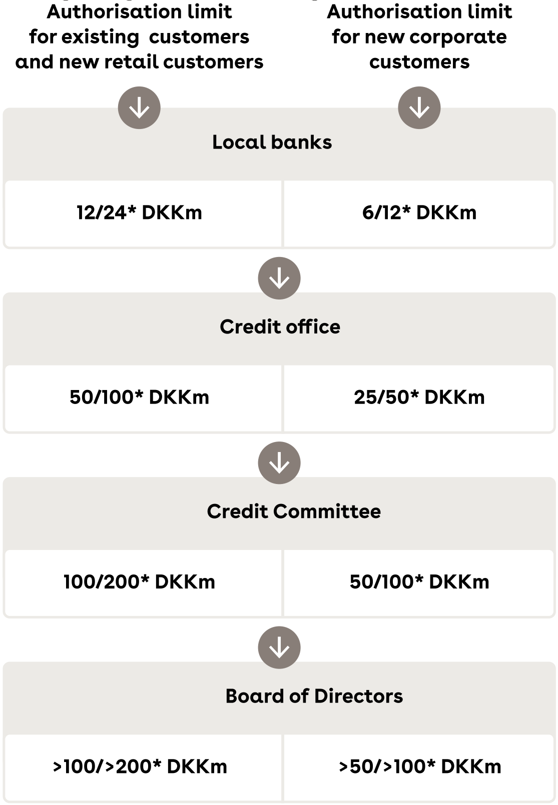
Spar Nord's impairment charges are calculated in accordance with the IFRS 9 accounting standard. See the Annual Report 2024 for a review.

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 2.2.

As shown in figure 2.2, 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 12 million for existing customers and new retail customers and DKK 6 million for new business customers. In cases where at least 50% of the grant is covered by type 1 collateral, the granting authority is DKK 24 million for existing customers and new retail customers and DKK 12 million for new business customers.

Figure 2.2
Credit granting structure for existing and new customers



**The limit is restricted by the fact that at least 50% of lending is covered by type 1 collateral, which is defined as collateral values based on low property LTV ratios, government/mortgage bonds or guarantees/sureties from municipalities, government or banks.*

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 2.2.

Rating classification – rating categories
The Bank's rating system regularly calculates a statistically based rating of both retail and business customers. This rating is included in the decentralised credit assessment of the individual loan case, and together with other credit parameters it decides the extent of the decentralised authorisation power. Customers in the rating categories accorded the least risk exposure are more likely to be given higher credit limits or extensions than those with the greatest risk exposure. The risk categorisation based on ratings is also used in early warning processes, in the Bank's impairment processes (IRFS 9), for managing overdrafts, profitability calculations and for pricing purposes to help ensure a correlation between the risk assumed by the customer and the price paid.

The Bank's rating system risk-classifies all non-defaulting customers into "rating categories" according to the probability that the individual customer defaults within the next 12 months.

The following events will trigger a default:

- 90-day significant overdraft/arrears
- Transfer to debt collection
- Full or partial write-off
- Bankruptcy-like proceedings
- Forbearance measures
- Individual impairment with stage 3 classification

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 9, with category 9 containing customers with the highest risk of default. Customers in default are placed in rating category 11.

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, OEI customers with a need for writedown and other default customers are placed in rating group 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.

For business customers, the rating model is based on an aggregation of:

- A component that classifies the customer based on annual accounts data
- A component that classifies the customer based on its account behaviour and credit history.
- Master customer data and, where relevant, flagged as weak and OEI

If the adviser or another person believes that the rating of a major business customer does not reflect their true creditworthiness, for example due to inefficiencies in the data or otherwise, a process will be identified to evaluate and, where relevant, change the "rating" (rating override).

New business customers are classified based on the accounting component and master customer data until the sixth month, at which time the behavioural component is also applied.

For retail customers, the model is similarly based on an aggregation of:

- A component used to risk-classify the customer based on its financial ratios
- A component that classifies the customer based on its account behaviour and credit history
- Master customer data and, where relevant, flagged as weak and OEI

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, and for business customers they could be earnings challenges, mistrust in management, the loss of key employees, repeated unauthorised overdrafts or loss of major supplier agreements and customers.

The flagging of weak credit quality is assessed and made as soon as it is considered likely that the customer will become financially challenged, which is thus often before the situation is discernible in data for the statistically based models. If customer is flagged as having a weak credit quality but is not in default, the customer will automatically be downgraded by one rating category; it should be noted that a customer flagged as having a weak credit quality can never qualify for rating in the best rating categories (1 and 2).

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.

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 mediated mortgage loans, as illustrated in figure 2.3. Total credits arranged amounted to DKK 204.9 billion at end-2024, which is a DKK 3.7 billion increase compared with end-2023.

Of total credits arranged, business customers accounted for DKK 67.6 billion and retail customers for DKK 137.3 billion at end-2024. Credits arranged for retail customers thus rose by DKK 4.2 billion in 2024, driven primarily by the Bank's distribution of bank mortgage loans. There was also a small decrease in the Bank's mediation of mortgage loans to retail customers, which comprises mortgage loans from Totalkredit. Credits arranged for business customers declined by DKK 0.5 billion, primarily because of a reduction in unutilised credit facilities.

Unutilised credit facilities amounted to DKK 24.6 billion at end-2024, which is DKK 1.4 billion less than at year-end 2023. Of the unutilised credit facilities, retail customers accounted for DKK 9.7 billion and business customers for DKK 14.9 billion.

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

Figure 2.4 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 14.5 billion in 2024.

Figure 2.3
Composition and development in overall credits arranged excl. reverse repo agreements

	2024			2023		
DKKm	Retail customers	Business customers	Total	Retail customers	Business customers	Total
Loans and advances excl. reverse repo transactions	25,987	37,336	63,323	23,415	35,725	59,140
Guarantees	8,272	2,782	11,054	6,819	2,906	9,724
Loans, advances and guarantees	34,259	40,118	74,377	30,234	38,630	68,864
Unutilised credit facilities	9,730	14,850	24,580	9,514	16,420	25,934
Mortgage loan mediation	93,290	12,631	105,921	93,322	13,020	106,342
Total credits arranged	**137,279**	**67,599**	**204,878**	**133,069**	**68,071**	**201,140**

Loans, advances and guarantees
Spar Nord's loans, advances and guarantees excl. reverse repo agreements totalled DKK 74.4 billion at end-2024, consisting of loans and advances of DKK 63.3 billion and guarantees of DKK 11.1 billion, as shown in **figure 2.5**. Loans and advances increased by DKK 4.2 billion in 2024, corresponding to lending growth of 7.1%, while guarantees increased by DKK 1.3 billion, or 13.7%. Overall, Spar Nord's loans, advances and guarantees rose by 8.0% in 2024.

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 2.5**, which means the Bank has a well-diversified loan portfolio with no specific concentrations in specific industries.

As shown in **figure 2.5**, retail customers accounted for 46.1% and business customers for 53.9% of Spar Nord's loans, advances and guarantees excl. reverse repo agreements in 2024, with real estate, other business areas and trade representing the three largest industries. At end-2023, the distribution in loans, advances and guarantees excl. reverse repo agreements between retail and business customers was 43.9% and 56.1%. The Bank thus recorded the strongest growth in the retail customer segment.

In terms of day-to-day management, loans and advances can generally be broken down into five customer groups, as illustrated in **figure 2.6**, of which the two largest groups, which account for 83.6% 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-2024, leasing loans amounted to DKK 9.7 billion, which is an increase of 8.2% on 2023. Moreover, the Bank has a small portfolio of loans to public-sector companies and financial customers of DKK 0.1 billion and DKK 0.6 billion, respectively.

Figure 2.6
Loans and advances excl. reverse repo agreements by category

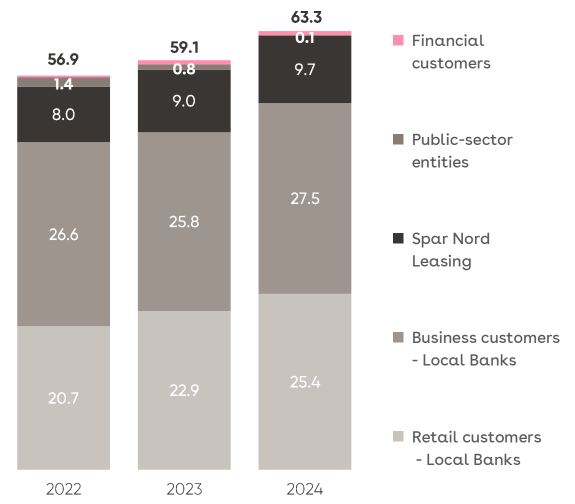


Figure 2.4
Credit exposure for financial reporting purposes

DKKm	2024	2023
Loans, advances and guarantees	88,865	80,734
Loans and guarantees excl. reverse repo transactions	74,377	68,864
Loans and advances excl. reverse repo transactions	63,323	59,140
Impairment etc., end of year		
Stage 1, credit risk has not increased significantly	413	391
Stage 2, credit risk has increased significantly	432	540
Stage 3, credit-impaired	807	742
Total impairment	**1,652**	**1,673**

Loans and advances at Spar Nord's local banks amounted to DKK 25.4 billion at end-2024, which is a significant share (40.1%) of total loans and advances of DKK 63.3 billion.

Business customers excl. public-sector and leasing customers amounted to DKK 27.5 billion in 2024, as shown in **figure 2.6**, which is an increase of DKK 1.7 billion relative to 2023.

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 2.1**.

figure 2.5 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 20%, see figure 2.1. Exposures to the real estate sector is defined as the category real estate and development of building projects (DKK 1.1 billion), which are sub-categories of the building and construction industry. The

Figure 2.5
Loans, advances and guarantees excl. reverse repo agreements by industry

DKKm/%	2024				2023			
	Lending	Guarantees	Loans, advances and guarantees	Proportion	Lending	Guarantees	Loans, advances and guarantees	Proportion
Public authorities	65	0	65	0.1	757	2	760	1.1
Agriculture, hunting and forestry	2,538	180	2,719	3.7	2,384	258	2,643	3.8
Fisheries	48	1	49	0.1	54	2	56	0.1
Industry and raw materials extraction	3,046	496	3,541	4.8	2,981	435	3,416	5.0
Energy supply	2,208	116	2,324	3.1	1,775	97	1,872	2.7
Building and construction	3,429	319	3,748	5.0	2,687	359	3,046	4.4
Trade	4,898	341	5,239	7.0	4,162	302	4,465	6.5
Trans., hotels and restaurant	3,294	105	3,399	4.6	3,018	138	3,157	4.6
Information and communication	336	44	380	0.5	315	36	351	0.5
Financing and insurance	3,138	421	3,560	4.8	3,839	393	4,231	6.1
Real estate	8,735	368	9,103	12.2	7,847	546	8,393	12.2
Other business areas	5,600	392	5,992	8.1	5,904	337	6,241	9.1
Business customers, total	37,336	2,782	40,118	53.9	35,725	2,906	38,630	56.1
Total retail customers	25,987	8,272	34,259	46.1	23,415	6,819	30,234	43.9
Total	**63,323**	**11,054**	**74,377**	100.0	**59,140**	**9,724**	**68,864**	**100.0**

follow-up meets the calculation method, cf. the Supervisory Diamond. All limits have been met.

Figure 2.7 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, which reduces the Bank's combined concentration risk to single 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. At end-2024, the Bank had 73 customers with loans, advances and guarantees of more than DKK 100 million.

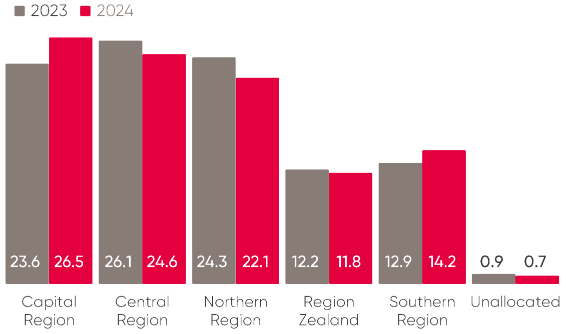
Figure 2.8 shows the geographical breakdown of the Bank's loan portfolio. In recent years, the Bank has opened several local banks in Zealand, which is also reflected in the figure, with 26.5% of the Bank's loans, advances and guarantees being in the Capital Region of Denmark (26.3% in 2023). Historically, the Bank's largest geographical concentration has been in the North Denmark Region, which at end-2024 accounted for 22.1% of the Bank's loans, advances and guarantees. Generally speaking, it is positive that the Bank has extended its geographical reach, as it reduces its vulnerability to e.g. falling house prices in specific geographical areas.

Figure 2.7
Loans, advances and guarantees by exposure size*
by customer group

Number/%	2024 Number	2023 Number	2024 Proportion	2023 Proportion
DKK 0 - 0.1 million	47,486	48,492	0.6	0.8
DKK 0.1 - 0.5 million	33,697	35,244	8.0	9.0
DKK 0.5 - 1 million	13,058	13,347	9.2	10.1
DKK 1 - 5 million	12,592	11,592	29.3	27.9
DKK 5 - 10 million	1,324	1,154	9.8	8.8
DKK 10 - 20 million	544	466	7.9	7.2
DKK 20 - 50 million	306	280	10.9	10.1
DKK 50 - 100 million	118	117	8.4	9.5
>DKK 100 million	73	63	15.9	16.4
Total	**109,198**	**110,755**	**100.0**	**100.0**

*) Excl. reverse repo transactions and Sparxpres

Figure 2.8
Loans, advances and guarantees broken down by region (%)



Rating developments

As described earlier, 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 2024, the Bank implemented new rating models because of the Bank's upcoming IRB approval. Ratings indicated in tables and charts in the following section are based on the new rating models, with historical data being restated to ensure year-on-year comparability.

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 was improved in 2024. The average rating for Spar Nord's retail customers since 2022 is shown in figure 2.9. The figure shows that the average rating improved from 3.2 at end-2023 to 3.1 at end-2024, driven by a combination of improved financial ratios for retail customers and behaviour in 2024. Expectations are that retail customers in 2025 will experience increased financial latitude as central banks cut policy rates. From a credit point of view, this is positive for the Bank, as it strengthens the customers' ability to pay.

Figure 2.9
Retail customers: Average rating*

	2024	2023	2022
Average rating	3.1	3.2	3.3

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

Figure 2.10 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).

Figure 2.10 shows that 69% of the retail customer exposures are in the best rating categories from 1 to 3. Rating categories 4-5 cover 21% 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 2.10
Exposures to retail customers by rating categories excl. Sparxpres

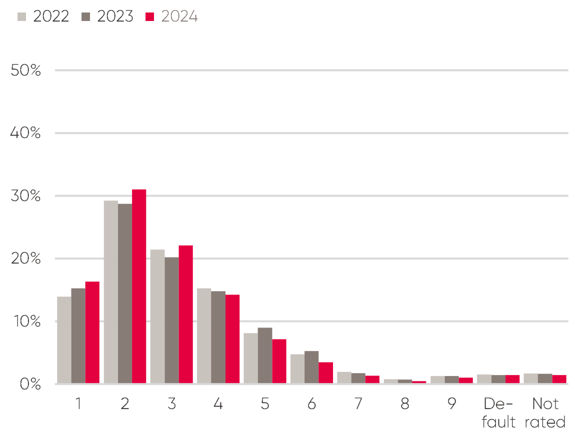
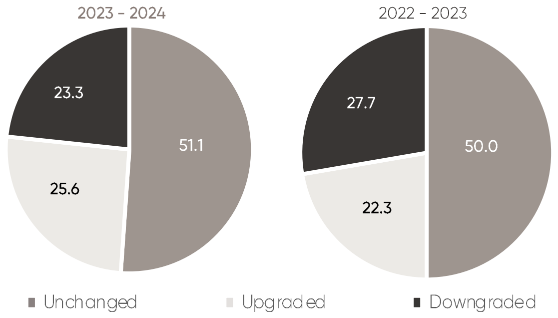


Figure 2.11 shows the share of retail customer exposures which migrated into better rating categories, the share with an unchanged rating category and the share which migrated into more risky rating categories in 2023 and 2024. The figure for 2024 shows that 23.3% of customers had a worse rating, 25.6% had a better rating and 51.1% had an unchanged rating.

Figure 2.11
Migration rating – loans, advances and guarantees excl. reverse repo agreements for retail customers excl. Sparxpres (%)



Some uncertainty attaches to the rating models, among other things as a result of macroeconomic variables included in the models. 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, and due to the implementation of new models they were reduced by DKK 42 million to DKK 17 million in 2024 (DKK 59 million in 2023).

Business customers

The rating level for Spar Nord's business customers was improved in 2024. The average rating for Spar Nord's business customers since 2022 is shown in figure **2.12**. The figure shows that the average rating has fallen from 3.6 at end-2022 to 3.1 at end-2024, which expresses an improvement of the rating level. The positive effect was mainly attributable to the macroeconomic variables included in the Bank's rating model. These include the positive growth prospects for the Danish economy and low unemployment. There are also a positive effect in strong financial data from the Bank's customers. Behavioural variables are at the same level as at the end of 2023 and therefore do not significantly impact the average rating.

Figure 2.12
Business customers: Average rating*

	2024	2023	2022
Average rating	3.1	3.5	3.6

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

Figure 2.13 shows total loans, advances and guarantees to business customers by rating category over the past three years. The figure shows a tendency for business customer exposures to generally have migrated to rating categories with a lower expected risk in 2024.

Figure 2.13 shows that 44% of the business customer exposures are in the best rating categories from 1 to 3. Rating categories 4-6 cover 41% of the business customer exposures, where the last part is distributed on exposures in the most risky rating categories 7-9 and exposures that are in default or have not yet received a rating.

Figure 2.13
Exposures to business customers by rating category excl. public-sector customers

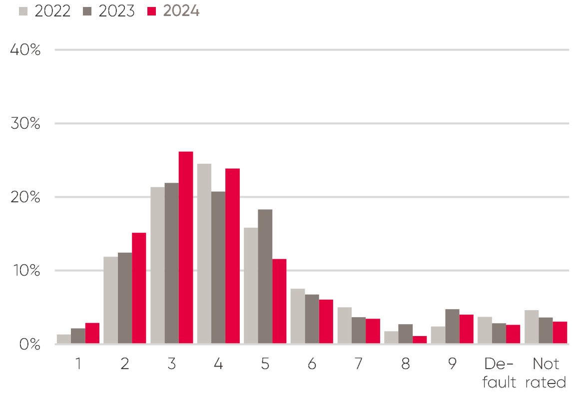
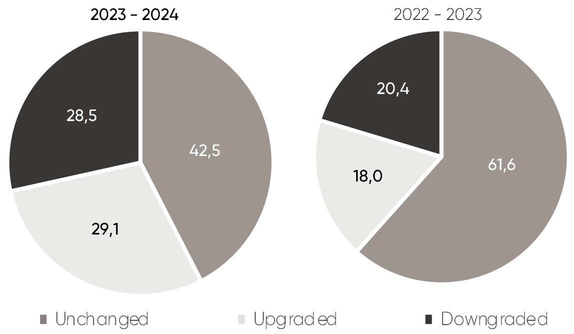


Figure 2.14 shows the share of business customer exposures which migrated into better rating categories, the share with an unchanged rating category and the share which migrated into more risky rating categories in 2023 and 2024. The figure for 2024 shows that 28.5% of business customers had a worse rating, 29.1% had a better rating and 42.5% had an unchanged rating. Customers without a rating in 2023 are included in the figure.

Figure 2.14
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 uncertainty, which is reflected in a management estimate that is regularly adjusted.

Mediation of mortgage loans

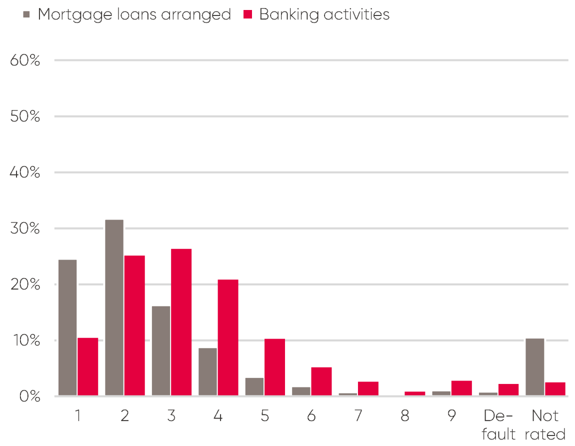
In addition to lending on Spar Nord's own books, a major part of the Bank's business consists of mediating mortgage loans on behalf of Totalkredit and DLR Kredit. At end-2024, Spar Nord's total mortgage loan mediation amounted to DKK 105.9 billion, which was DKK 0.4 billion less than at 31 December 2023. Of this amount, mortgage loans mediated from Totalkredit amounted to DKK 95.8 billion and from DLR Kredit DKK 10.1 billion.

When mediating mortgage loans, Spar Nord is responsible for customer services, mediation 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 through the administration margin.

With respect to the risk of mortgage mediation, 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 2.15 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 mediated for customers in the best rating categories represent the bulk of this group.

Figure 2.15
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 mediated by Spar Nord, a full or partial setoff will be made against the commission paid to Spar Nord for its loan-mediation 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.

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 2.16 shows the different types of collateral received. As shown by the figure, property account for the largest part (79.1%) of the ordinary collateral accepted and they are thus a significant part of Spar Nord's collateral.

Figure 2.16
Collateral accepted

DKKm	2024	2023
Properties	32,310	27,899
Custody accounts/securities	2,302	1,957
Guarantees/sureties	524	721
Vehicles	623	574
Cash	411	248
Other collateral	4,681	5,162
Ordinary collateral, total	**40,851**	**36,561**
Mortgage credit institution guarantees	8,704	7,768
Total collateral, excluding Spar Nord Leasing	**49,555**	**44,330**
Collateral accepted, Spar Nord Leasing	7,878	7,358
Total collateral accepted	**57,433**	**51,688**

Mortgage on real property

Residential mortgages dominate the real estate lending landscape, comprising the majority of loans secured by real property. Figure 2.17 illustrates the distribution of mortgage loans across various property types, categorized according to the registered collateral value.

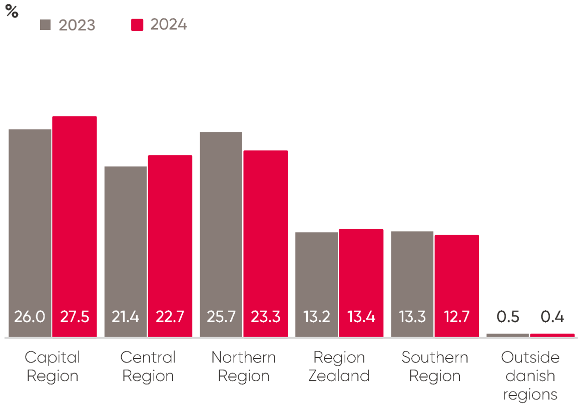
The property value under mortgages broken down by property type in figure 2.17 is calculated at DKK 51.5 billion in 2024, while in figure 2.16 DKK 32.3 billion is recorded as collateral on properties. This is because the former amount represents the amount mortgaged to Spar Nord and is recorded as collateral 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 2.17
Mortgages broken down by property type

DKKm/%	2024		2023	
Private housing	36,492	70.9	32,684	71.4
Holiday homes	2,028	3.9	1,844	4.0
Offices and businesses	8,007	15.6	5,663	12.4
Agriculture	1,742	3.4	1,751	3.8
Other	3,195	6.2	3,817	8.3
Total mortgages on real property	**51,464**	**100.0**	**45,759**	**100.0**

Figure 2.18 shows the geographical breakdown of mortgages on real property based on the registered collateral value. The figure has an obvious correlation to figure 2.8, which shows the geographical breakdown of loans, advances and guarantees.

Figure 2.18
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 sub-category development of building projects (DKK 1.1 billion), which is placed in the Building and construction line of industry. Total, loans, advances and guarantees for the Building and construction industry are shown in figure 2.6.

Figure 2.19 shows exposure details and details on collateral received for the real estate sector.

Of the DKK 10.2 billion exposure to the real estate sector, Spar Nord has collateral totalling DKK 8.6 billion, with property mortgages accounting for 90.3%, or DKK 7.8 billion, as shown in figure 2.19. Of this collateral, 79.6% are first mortgages, and 20.4% are second mortgages. The share of financing granted without corresponding security in the form of mortgaged property is primarily for subsidised housing associations and owner associations.

Figure 2.19
Exposure and collateral for the real estate sector

DKKm	2024	2023
Total exposure	**10,221**	**8,640**
- Of which loans and advances	9,845	8,078
- Of which guarantees	376	562
Total collateral	**8,625**	**7,235**
Mortgage on real property	7,790	5,971
- Of which first mortgage	6,202	4,475
- Of which second mortgage	1,588	1,496
Other collateral	835	1,264

Unsecured amounts and shares

Figure 2.21 shows unsecured amounts and unsecured share of exposure broken down by industry The figure shows that the total unsecured share at end-2024 was 19.1%, against 21.3% at end-2023. 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 2.20 shows total loans, advances and guarantees excl. reverse repo agreements broken down by unsecured share. The figure shows that 60.6% 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 significantly reduced. This represents an improvement of 3.6 percentage points relative to 2023. The figure also shows that 13.5% of the Bank's loans, advances and guarantees have an unsecured share of more than 75%, which indicates a greater risk of loss on these exposures.

Figure 2.20
Unsecured shares for loans, advances and guarantees

%	2024	2023
< 10	60.6	57.0
10 - 50	21.0	21.4
50 - 75	4.9	5.5
> 75	13.5	16.1
Average unsecured share	**22.8**	**24.9**

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.

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).

Impairment

Spar Nord's impairment charges are calculated in accordance with the IFRS 9 accounting standard. See the Annual Report 2024 for a review.

Figure 2.22 shows that the total impairment account stood at DKK 1.7 billion at end-2024. The total impairment account was reduced by DKK 21 million relative to end-2023.

It appears from figure 2.22 that 8.7% of the impairment charges in 2024 related to the industry agriculture, hunting and forestry. In this industry with a total impairment charge of DKK 144 million, DKK 88 million was attributable to a management estimate relating to ESG matters, which may affect the industry, including carbon taxes, which could impact customers' businesses.

Industry and raw materials extraction represents a significant share at 13%, and real estate accounts for 11.5%. 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 related to real estate exposure is explained by that sector's significant share of lending. As shown in figure 2.24, impairment related to the Bank's real estate exposure also comprises a management estimates of DKK 181 million relating to uncertainty associated with the market for commercial real estate.

Impairment charges for business customers rose by DKK 146 million in 2024, The increase was due to an increase of the management estimates relating to business customers of DKK 162 million. This is primarily attributable to the management estimate related to geopolitical uncertainty, commercial real estate and ESG.

Impairment charges for retail customers were reduced by DKK 164 million in 2024. The development was primarily due to lower modelled and individual impairment charges. Furthermore, the management estimate related to model uncertainty for the retail model was reduced by DKK 25.7 million because of the Bank's implementation of new rating models.

Spar Nord's loans, advances and guarantees excl. reverse repo agreements and impairment charges by stage are shown in figure 2.23.

Figure 2.23
Development in loans, advances and guarantees excl. reverse repo business and impairment by stage

DKKm.	2024 Loans, advances and guarantees	2024 Impairment	2023 Loans, advances and guarantees	2023 Impairment
Stage 1	66,945	413	58,480	391
Stage 2	5,896	432	8,855	540
Stage 3	1,537	807	1,529	742
Total	**74,377**	**1,652**	**68,864**	**1,673**

Figure 2.21
Unsecured amounts and unsecured share of exposure broken down by industry

DKKm/%	2024 Unsecured amount	2024 Unsecured share	2023 Unsecured amount	2023 Unsecured share
Public authorities	60	93.2	759	99.8
Agriculture, hunting and forestry	574	21.1	430	16.3
Fisheries	6	12.5	7	12.8
Industry and raw materials extraction	925	26.1	910	26.6
Energy supply	806	34.7	579	30.4
Building and construction	496	13.2	446	14.7
Trade	1,335	25.5	1,214	27.2
Transport, hotels and restaurants	749	22.0	738	23.4
Information and communication	118	31.2	121	34.5
Financing and insurance	1,755	9.9	2,045	13.0
Real estate	1,567	17.2	1,361	16.2
Other business areas	1,548	25.8	1,965	31.5
Business customers, total	**9,940**	**18.3**	**10,576**	**21.1**
Total retail customers	**7,004**	**20.3**	**6,600**	**21.6**
Total	**16,944**	**19.1**	**17,176**	**21.3**

Figure 2.22
Impairment - by industry

DKKm/%	2024 Impairment	2024 Proportion	2024 Impairment ratio*	2023 Impairment	2023 Proportion	2023 Impairment ratio*
Public authorities	0	0.0	0.0	0	0.0	0.0
Agriculture, hunting and forestry	144	8.7	5.3	113	6.8	4.3
Fisheries	2	0.1	4.8	2	0.1	4.1
Industry and raw materials extraction	214	13.0	6.1	259	15.5	7.6
Energy supply	26	1.6	1.1	11	0.7	0.6
Building and construction	150	9.1	4.0	98	5.8	3.2
Trade	163	9.9	3.1	104	6.2	2.3
Transport, hotels and restaurants	98	5.9	2.9	90	5.4	2.9
Information and communication	10	0.6	2.6	12	0.7	3.6
Financing and insurance	123	7.4	3.4	124	7.4	2.9
Real estate	190	11.5	2.1	186	11.1	2.2
Other business areas	140	8.5	2.3	115	6.9	1.9
Business customers, total	**1,261**	**76.3**	**3.1**	**1,115**	**66.7**	**2.9**
Total retail customers	**391**	**23.7**	**1.1**	**558**	**33.3**	**1.8**
Total	**1,652**	**100.0**	**2.2**	**1,673**	**100.0**	**2.4**

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

At end-2024, stage 1 impairment charges amounted to DKK 2,845 million, corresponding to 51.1%, which is lower than at end-2023 (55.6%). Stage 3 impairment charges were increased by DKK 65 million in 2024 due to individual impairment charges. The management estimate related to customers in stage 3 was reduced by DKK 14.6 million in 2024. Developments in stage 1 impairment were driven by an increase in management estimates of DKK 36.9 million in 2024. Overall, stage 1 and 2 impairment charges were reduced by DKK 86 million.

In addition to the modelled 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 2024, the Bank increased its management estimates by DKK 23 million to a total of DKK 684 million. The amount relates to four overall areas, as shown in figure 2.24.

At DKK 398 million at end-2023, geopolitical uncertainty represents the largest management estimate. This estimate relates to the uncertainty associated with the war in Ukraine, a potential increase in US tariffs and a weakening German economy.

The management estimate related to the real estate market has been increased by DKK 26 million, as there is still an elevated risk associated with this segment, in which interest rate levels have a material impact on profitability in this type of business model.

The management estimate concerning ESG has been increased by DKK 15 million and relates to agricultural customers and transport businesses, as these customers may be affected by CO2 levies or fuel taxes, which could have a financial impact on this type of businesses.

The second-highest management estimate relates to commercial real estate, which at end-2024 amounted to DKK 181 million.

Finally, the Bank has a management estimate relating to model uncertainty amounting to DKK 17 million at end-2024. In 2024, the Bank implemented new rating models that are more reliable, and the management estimate concerning model uncertainty was therefore reduced by DKK 42 million in 2024 to DKK 17 million.

Figure 2.25 shows a list of the Bank's impaired claims. As shown in the figure, the Bank has loans, advances and guarantees which were impaired by an amount of DKK 1.5 billion, of which DKK 1.2 billion relates to customers identified as being in financial difficulty. Loans, advances and guarantees totalling DKK 335 million are processed in the Bank's debt collection department or relate to customers in bankruptcy proceedings. The Bank has total impairment charges of DKK 1,652 million.

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 recognised interest accrued on loans subject to impairment as well as recoveries of prior losses. Figure 2.26 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 expense of DKK 25 million in 2024, corresponding to 0.04% of total loans, advances and guarantees. The DKK 25 million negative profit impact breaks down into an expense of DKK 164 million on retail customers (incl. Sparxpres), an income of DKK 109 million on business customers (ex. agriculture) and an income of DKK 30 million on agricultural customers.

An amount of DKK 67 million was written off in 2024. In particular, losses were recorded for industry and raw materials extraction, real estate and retail customers.

Non-performing loans

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

- 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 2.25
Impaired claims

	2024		2023	
DKKm	Loans, advances and guarantees	Impaired	Loans, advances and guarantees	Impaired
Insolvent liquidation and bankruptcy	128	56	41	18
Debt collection and restructuring, etc.	207	125	54	27
Other financial difficulty	1,201	629	1,434	697
Total impairment	**1,537**	**810**	**1,529**	**742**
Impairment in stages 1 and 2		842		931
Total impairment		**1,652**		**1,673**

Figure 2.24
Management estimates

	2024				2023			
	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
DKKm								
Geopolitical uncertainty	142	131	125	**398**	107	121	146	**375**
Commercial real estate	142	31	7	**181**	116	31	8	**155**
ESG	26	18	45	**88**	22	14	37	**73**
Model uncertainty	12	5	0	**17**	40	19	0	**59**
Management estimates, total	**322**	**185**	**177**	**684**	**286**	**185**	**191**	**662**

Figure 2.27 shows a calculation of the Bank's NPL ratio. The figure shows that the Bank had exposures categorised as NPL for DKK 1.5 billion in 2024, and compared with the Bank's total exposures, this results in an NPL ratio of 1.9, which is an improvement due to higher credit exposure without any substantial increase in the Bank's NPL.

Figure 2.27
NPL ratio

	2024	2023
NPL (DKK millions)	1,469	1,458
Exposure (DKKm)	79,193	73,110
NPL ratio (%)	1.9	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 forbearance will be monitored centrally and reported on periodically.

The Bank has loans subject to forbearance for DKK 461 million, with business customers accounting for DKK 241 million and retail customers for DKK 220 million. At end-2024, contractual suspended-interest loans accounted for 0.2% of the Bank's loans, advances and guarantees, equal to DKK 177 million, which was on a level with 2023.

Figure 2.26
Profit impact from losses and impairment on loans, advances and guarantees – by line of industry

	2024		2023	
DKKm	**Profit impact**	**Loss**	**Profit impact**	**Loss**
Public authorities	0	0	0	0
Agriculture, hunting and forestry	-30	1	-85	11
Fisheries	0	0	-1	0
Industry and raw materials extraction	39	8	148	13
Energy supply	-14	0	-6	0
Building and construction	-68	4	40	2
Trade	-41	1	21	18
Transport, hotels and restaurants	-9	2	-23	4
Information and communication	2	1	3	2
Financing and insurance	-2	1	-78	7
Real estate	11	6	39	9
Other business areas	-25	1	-44	2
Business customers, total	**-139**	**25**	**14**	**67**
Total retail customers	**164**	**42**	**-47**	**39**
Total	**25**	**67**	**-33**	**107**

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.

Figure 2.28
Due from credit institutions by product type

DKKm/%	2024	2023	2024	2023
Certificates of deposit	0	0	0.0	0.0
Reverse repo transactions	759	1,440	42.7	56.9
Deposits and unlisted bonds	339	375	19.1	14.8
Current accounts	109	141	6.2	5.6
CSA accounts, etc.	267	246	15.0	9.7
Market value, derivatives	304	329	17.1	13.0
Due from credit institutions	**1,779**	**2,530**	**100.0**	**100.0**

Figure 2.29
Due from credit institutions by rating

DKKm/%	2024	2023	2024	2023
AAA	759	1,440	42.7	56.9
AA	168	246	9.4	9.7
A	592	366	33.3	14.5
BBB	0	102	0.0	4.0
BB-B	0	0	0.0	0.0
Not rated	259	376	14.6	14.8
Due from credit institutions	**1,779**	**2,530**	**100.0**	**100.0**

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 2.28 shows Spar Nord's amounts due from credit institutions by product type, and figure 2.29 shows a breakdown by rating category.

Figure 2.29 shows that 85.4% 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.

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 2.30, 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 2.30 shows Spar Nord's counterparty risk before and after netting and collateral accepted. At end-2024, the Bank's exposure after netting and collateral amounted to DKK 159 million, against DKK 294 million at end-2023.

Figure 2.30
Counterparty risk for derivatives trading

DKKm	2024	2023
Derivatives with positive market value	311	465
Netting*	131	70
Exposure after netting	180	395
Collateral received	21	101
Exposure after netting and collateral	159	294

*) 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.

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.

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.

Figure 2.31
ECAI exposure before and after deductions

	2024		2023	
DKKm	Exposure	Exposure after ECAI risk-weighted	Exposure	Exposure after ECAI risk-weighted
Institutions	1,279	617	1,931	703
Covered bonds	12,941	1,294	10,512	1,051
Short-term credit assessment	548	226	374	191
Other	991	921	993	876
Total	**15,759**	**3,058**	**13,810**	**2,821**

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 2.31 shows ECAI exposure before and after deductions.

3. Market risk

Developments in 2024

Market expectations of interest rate developments fluctuated heavily in 2024, causing volatility in the financial markets. Throughout the year, the Bank maintained a conservative investment strategy, under which it actively seeks to mitigate interest rate risk and is affected by credit spread risk.

Compared with end-2023, the net interest rate risk increased by DKK 118 million to DKK 156 million at end-2024. The average interest rate risk for 2024 was DKK 39 million, against DKK 20 million in 2023.

The credit spread risk in the trading book was DKK 262 million at end-2024, which was an increase of DKK 11 million relative to end-2023. The net portfolio of bonds was reduced by DKK 0.8 billion relative to end-2023. The bond portfolio mainly consists of AAA-rated mortgage bonds, which account for 93% of the Bank's bond holding.

The foreign exchange risk was reduced by DKK 12 million relative to end-2023. The foreign exchange risk in 2024 consisted primarily of exposure to EUR, which means the foreign exchange risk is considered low. Equity risk in the trading book increased by DKK 16 million to DKK 137 million in 2024. Throughout 2024, Spar Nord maintained limited equity risk because of the internal limits.

Net interest rate risk

DKK **156** million

Credit spread risk

DKK **262** million

Bond portfolio

DKK **30.3** billion

Shareholding

DKK **2.9** billion

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.

Management, monitoring and reporting

For its day-to-day management of market risks, the Bank has established a two-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.

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 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.

Principal performance indicators

	2024	2023	2022	2021	2020
Key risk figures					
Net interest rate risk on a 1% change in interest rates (DKKm)	156	38	59	98	116
Interest rate risk, share of tier 1 capital (%)	1.1	0.3	0.5	0.9	1.1
Credit spread risk (DKKm)	262	251	252	291	345
Credit spread risk, share of tier 1 capital (%)	1.9	2.1	2.3	2.6	3.4
Securities holdings					
Bond portfolio (DKKm)	30,345	31,180	22,657	17,299	20,895
Bond portfolio, share of assets (%)	21.1	23.1	18.3	14.8	20.5
Equity portfolio (DKKm)	2,870	2,738	2,471	2,593	2,318
Equity portfolio, share of assets (%)	2.0	2.0	2.0	2.2	2.3

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.

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, monetary policy and strategic loans and possibly hedge operations in relation thereto. Furthermore, the Bank's interest rate risk in the banking book derives from interest rate risk related to the Bank's funding, incl. subordinated debt and issued bonds. 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.

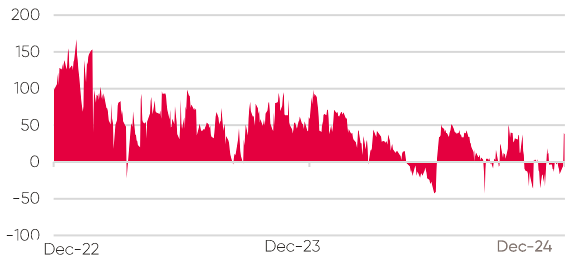
The interest rate risk is assessed on a daily basis, and decisions are made in light of expectations for macroeconomic developments and cyclical trends. Spar Nord converts the interest rate risk in foreign currencies into Danish kroner and offsets the negative interest rate risk against the positive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

Developments in interest rate risk

Figure 3.1 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.

Bank's net interest rate risk was neutralised in large parts of 2024 due to an active strategy of mitigating risk due to uncertainty in relation to interest rate developments.

Figure 3.1
Development in net interest rate risk



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

Figure 3.2 and figure 3.3 show Spar Nord's interest rate if interest rates rise by 1.0 percentage point, broken down by time intervals and currency. Figure 3.2 shows the total interest rate risk, while figure 3.3 shows interest rate risk in the trading book and the banking book, respectively.

At end-2024, the total interest rate risk amounted to DKK 156 million, which is an increase of DKK 118 million relative to 2023. In the trading book, the net interest rate risk is DKK 89 million, of which DKK 64 million is in Danish kroner, DKK 17 million is in euro, while other currencies account for DKK 7

Figure 3.2
Interest rate risk by duration and currency

	2024				2023			
DKKm	**Short Up to 2 years**	**Between 2 and 7 years**	**Long More than 7 years**	**Total**	**Short Up to 2 years**	**Between 2 and 7 years**	**Long More than 7 years**	**Total**
DKK	69	31	23	**123**	1	2	17	**21**
EUR	6	17	4	**27**	13	8	-6	**15**
Other	6	0	0	**6**	3	-1	0	**3**
Total	**81**	**47**	**28**	**156**	**18**	**9**	**11**	**38**

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

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.

million. In the banking book, the interest rate risk is DKK 68 million, of which DKK 59 million is in Danish kroner, DKK 9 million in euro, while other currencies account for DKK -1 million.

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 2024, NII was calculated at DKK 156 million, against DKK 86 million at the end of 2023.** 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 76 million at end-2024, against DKK 68 million at end-2023.**

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.

Figure 3.3
Interest rate risk in the trading book

	2024				2023			
DKKm	Short Up to 2 years	Between 2 and 7 years	Long More than 7 years	Total	Short Up to 2 years	Between 2 and 7 years	Long More than 7 years	Total
DKK	36	6	22	**64**	21	1	12	**34**
EUR	6	8	4	**17**	12	-2	-8	**1**
Other	7	0	0	**7**	4	0	0	**4**
Total	**49**	**14**	**26**	**89**	37	-2	4	**39**

Interest rate risk in the banking book

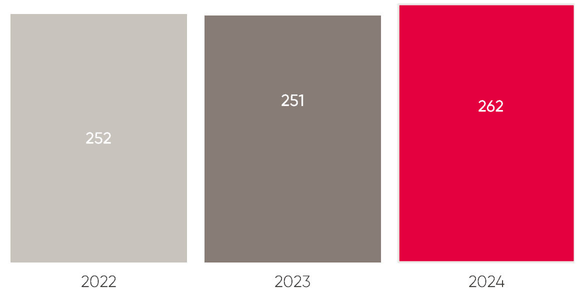
	2024				2023			
DKKm	Short Up to 2 years	Between 2 and 7 years	Long More than 7 years	Total	Short Up to 2 years	Between 2 and 7 years	Long More than 7 years	Total
DKK	33	25	1	**59**	-20	1	6	**-13**
EUR	0	9	0	**9**	2	10	2	**14**
Other	-1	0	0	**-1**	-1	-1	0	**-1**
Total	**32**	**34**	**2**	**68**	**-19**	**11**	**7**	**-1**

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 was calculated at DKK 262 million at end-2024, which is an increase on 2023, when the credit spread in the trading book was DKK 251 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 3.4.

Figure 3.4
Credit spread risk
DKKm



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 that arises on major changes in market rates. Convexity is an expression of the margin of error that arises when assuming that interest rate risk develops linearly.

Bond portfolio
Spar Nord's bond portfolio consists primarily of mortgage-covered bonds 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 3.5, which shows the portfolio by rating.

The total bond portfolio was reduced by DKK 0.8 billion compared with end-2023 to DKK 30.3 billion in 2024. The change covers a modest shift in the composition of the portfolio. The bond portfolio is composed of 94.9% mortgage bonds, 3.1% bonds from financial issuers, 1.1% credit bonds and 0.9% government bonds.

As shown in figure 3.5, 93.4% of the Bank's bond portfolio had an AAA rating at end-2024, which was an increase compared with end-2023. The composition is the result of market uncertainty, which means the Bank places its funds in instruments with a lower credit risk.

Figure 3.5
Bond portfolio by rating*

DKKm/%	2024	2023	2024	2023
AAA	28,338	28,482	93.4	91.3
AA	376	485	1.2	1.6
A	1,098	1,615	3.6	5.2
BBB	232	285	0.8	0.9
BB	94	131	0.3	0.4
B	11	14	0.0	0.0
CCC	0	4	0.0	0.0
Not rated	197	164	0.7	0.5
Total bonds	**30,345**	**31,180**	**100.0**	**100.0**

*) Bond portfolio plus spot and forward purchases and sales

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 3.6. The calculation is based on the assumption that all exchange rates change unfavourably by 2.0% which at end-2024 will result in a loss of DKK 1.2 million.

Figure 3.6 shows that the Bank's foreign exchange position was reduced from DKK 74 million in 2023 to DKK 62 million in 2024. Foreign exchange risk generally remains at a low level.

Figure 3.6
Currency

	Foreign exchange position		Foreign exchange risk	
DKKm	**2024**	**2023**	**2024**	**2023**
EUR	19	18	0.4	0.4
SEK	7	4	0.1	0.1
USD	15	14	0.3	0.3
GBP	4	3	0.1	0.1
CHF	1	0	0.0	0.0
NOK	4	29	0.1	0.6
JPY	8	1	0.2	0.0
Other currencies	5	5	0.1	0.1
Total	**62**	**74**	**1.2**	**1.5**

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.

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

Figure 3.7 shows that the holding of shares in the trading book was increased by DKK 16 million to DKK 137 million at end-2024, due to an increase in the portfolio of listed and unlisted shares. Throughout 2024, Spar Nord maintained limited equity risk because of expectations of equity market developments.

Figure 3.7
Equity risk in the trading book

DKKm	2024	2023
Listed shares in the trading book	100	92
Unlisted shares in the trading book	37	29
Total	**137**	**121**

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 3.8 shows a calculation of equity risk in the banking book. The total holding of shares in the banking book increased by DKK 115 million to DKK 2.7 billion at end-2024.

Shares in strategic business partners were on a level with 2023.

The DKK 121 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.

Figure 3.8
Equity risk in the banking book

DKKm	2024	2023
Shares in credit and financing institutions	1,306	1,298
Shares in unit trust management companies	240	240
Shares in payment services business	0	21
Other equities	92	86
Total shares in strategic business partners	**1,639**	**1,645**
Realised gain	3	0
Unrealised gain	96	109
Associates	1,094	973
Total	**2,733**	**2,617**

Commodity risk
Spar Nord does not assume any commodity risk and only makes transactions on behalf of customers.

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.

Sensitivity analysis

Figure 3.9 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.

Figure 3.9
Sensitivity analysis*

	Impact on operating profit		Impact on equity	
DKKm/%	**2024**	**2023**	**2024**	**2023**
Interest rate increase of 1 %-point	-116	-28	-0.9	-0.2
Interest rate decrease of 1 %-point	116	28	0.9	0.2
Share price decrease of 10% in the trading book	-10	-9	-0.1	-0.1
A fair value decrease of 10% for shares in the banking book	-290	-249	-2.2	-1.9
Unfavourable 2% exchange rate fluctuation	-3	-1	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.

It appears from figure 3.9 that the impact of an interest rate increase will be a loss equal to 0.9% of shareholders' equity. Furthermore, the effect of a 10% decline in the value of the share portfolio both in the banking and the trading book will be a loss equal to 2.3% of shareholders' equity.

4. Operational risk

Developments in 2024

In terms of operational risk, Spar Nord continues to experience a high number of losses relating to external fraud where fraudsters use tricks to gain access to customers' funds. In recent years, the Bank has taken several steps to reduce the number of incidents, to the benefit of customers and the Bank.

Risks related to IT also make up a large part of the Bank's risks and vulnerabilities, and the war between Russia and Ukraine has given rise to an elevated risk level, prompting the Bank to strengthen our defence against cyber attacks.

Money laundering and terrorist financing, GDPR, outsourcing and data management are also among the most important current focus areas, prioritised highly within the Bank through multiple projects and investments.

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 Bank's operational risk policy sets the framework for identification, assessment and management of the Bank's risks. The policy 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 and placed in a risk matrix with the axes of likelihood and impact. The Bank's risk tolerance is also defined on the basis of the risk matrix.

Management, monitoring and reporting

All of Spar Nord's activities are subject to operational risk, and therefore a key task is to mitigate the operational risk to a satisfactory level.

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 25,000 are systematically recorded, categorised and reported. The Bank also registers operational incidents that could potentially have resulted in a loss (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.

Reporting to the Board of Directors and Executive Board is done on a quarterly basis. 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.

Development in operational losses

The operational losses are illustrated as a percentage distribution on risk types measured by number of events and loss amounts, respectively, in figure 4.1 and figure 4.2.

Most of the loss events are events involving a limited financial effect. As shown in figure 4.1 and figure 4.2, 67% of the operational losses in 2024 related to external fraud (2023: 78%), which in terms of amounts corresponded to 41% in 2024 (2023: 44%). **External fraud includes payment card abuse and online banking fraud. The rest of the loss events relate to ordinary banking operations in connection with services provided to the Bank's customers through the local banks or operational errors relating to the Trading Division.**

Figure 4.1
Number of operational loss events broken down by risk type

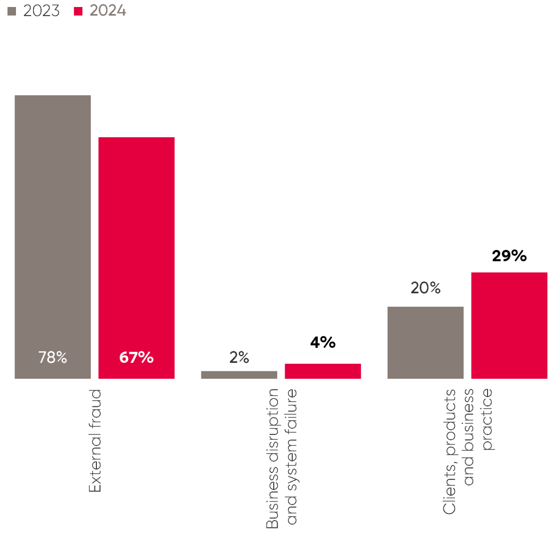
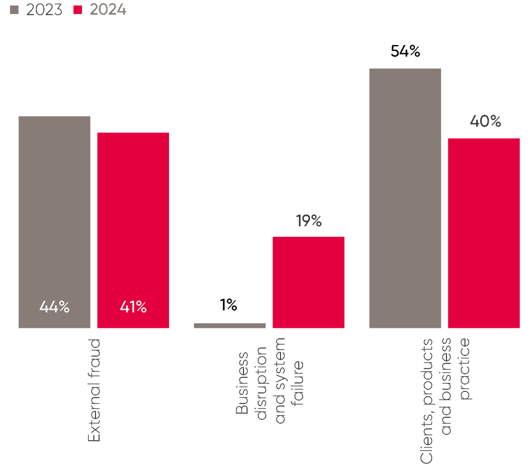


Figure 4.2
Operational loss amounts broken down by risk type %



Information 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, which includes the Bank's Chief Information Security Officer (CISO), forms part of the Bank's risk management function and is thus charged with providing reporting to the Board of Directors. This enables the Board to make decisions regarding the Bank's IT risk based on the adopted IT risk level. Reports are made quarterly. The risk 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. The Bank has an IT security committee, which plays a central role in the Bank's information security management and IT risk management (ISMS).

To be able to report a true and fair view, the IT security function is charged with performing necessary and adequate controls and security tests 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.

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 data stewards. Topics relating to data governance and data quality, including activities relating to the Bank's data strategy, are dealt with by the Bank's data governance committee, which is supported by the Bank's data governance committee. In 2024, the Bank appointed a Chief Data Officer, which has the overall responsibility for ensuring progress across the Bank's data-related activities.

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 Bank's AML department is charged with ensuring that the Bank complies with the Danish Act on Measures to Prevent Money Laundering and Financing of Terrorism, EU anti-terrorism regulations and sanction regulations. AML supports the Bank's business development in connection with ongoing implementation of the legislation. In addition, AML 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 Danish National Special Crime Unit (National enhed for Særlig Kriminalitet - NSK). The number of filings was lower than in 2023. In 2024, Spar Nord had 1,915 filings with the SØIK, compared with 2,738 cases in 2023.

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

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.

Outsourcing

Over the course of 2024, 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.

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 assessments and statements by selected consultation partners, including statements from the Finance Department, AML, ESG, the risk management function and the compliance function, help ensure comprehensive insight into the risks faced by the Bank and its customers. The risk management function and the compliance 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 assessment 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.

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.

5. Liquidity risk and funding

Developments in 2024

At end-2024, Spar Nord's liquidity situation remained solid. The short-term Liquidity Coverage Ratio (LCR) was 289% at end-2024, against 246% at end-2023. The long-term Net Stable Funding Ratio (NSFR) at end-2024 was 131%, which was on a level with 31 December 2023.

At end-2024, Spar Nord's total funding amounted to DKK 109.5 billion, which is an increase of DKK 5.2 billion relative to 31 December 2023. Deposits at end-2024 accounted for 71% of the total funding structure, thus remaining the Bank's most significant source of funding.

In 2024, the Bank established a Green Bond Framework and conducted its first issue of green bonds.

In 2024, Spar Nord issued capital market funding totalling DKK 3.0 billion. Overall, this brought the Bank's capital market funding to DKK 12.0 billion at end-2024, which contributes to the Bank's compliance with the minimum requirement for eligible liabilities (MREL).

Liquidity Coverage Ratio (LCR)

289%

Net Stable Funding Ratio (NSFR)

131%

Asset encumbrance ratio

2.8%

Liquidity and funding policy

The liquidity and funding policy determines Spar Nord's overall risk profile for liquidity risks and financing structure, as well as the overall organisational delegation of responsibilities in the liquidity area with a view to profitably supporting the business model.

The aim of the liquidity and funding policy is to ensure that the Bank has a liquidity risk that at all times bears a natural relation to Spar Nord's overall risk profile. In addition, the liquidity and funding policy is intended to ensure that the Bank continuously handles and manages its liquidity appropriately and is capable of meeting its payment obligations as and when due while complying with applicable legislation and supporting future activities and growth. Lastly, the policy is intended to ensure a financing structure that ensures a correlation between risk and price.

Spar Nord's objective is for the Bank's Liquidity Coverage Ratio (LCR) to amount to at least 125% in compliance with the regulation on LCR. The Bank has 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 in the Supervisory Diamond.

Sustainability

Spar Nord regularly considers sustainability 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 3.

In connection with capital market issues, external ESG ratings provide a basis for dialogue about the Bank's position within sustainability with both existing and potential investors and lenders.

In 2024, Spar Nord established a Green Bond Framework and conducted its first issue of green bonds.

Definition of liquidity risk

Liquidity risk means that Spar Nord cannot meet its payment obligations while also meeting the statutory liquidity requirements. Moreover, a liquidity risk exists if the lack of financing/funding prevents Spar Nord from adhering to the adopted business model, or if Spar Nord's costs for procurement of liquidity rise disproportionately.

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

Principal performance indicators

	2024	2023	2022	2021	2020
Liquidity ratios					
Liquidity Coverage Ratio (%)	289	246	211	280	241
Net Stable Funding Ratio (%)	131	131	127	125	0
The Supervisory Diamond					
Liquidity indicator (%)	275	278	223	292	251
Deposits in the balance sheet					
Deposits excluding pooled schemes (DKKm)	77,183	74,308	72,169	63,775	58,084
Deposits relative to total liabilities (%)	54	55	58	55	57
Growth in deposits excluding pooled schemes (%)	4	3	13	10	9
Loans and advances excl. reverse share of deposits (%)	82	80	79	79	76

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.

Figure 5.1 shows Spar Nord's liquidity management.

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.

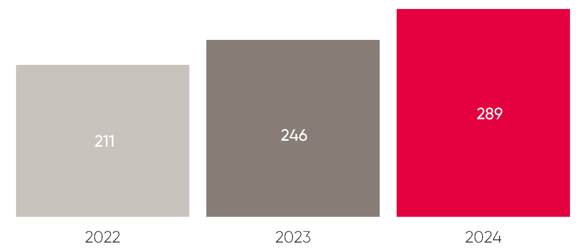
As shown in figure 5.2 and illustrated in figure 5.3, LCR was calculated at 289% at end-2024, which is well above the target LCR of at least 125%. The excess coverage of 164 percentage points relative to the target corresponds to DKK 20.6 billion in excess liquidity. Calculated relative to the statutory requirement of 100%, the excess liquidity amounted to DKK 23.8 billion. At end-2023, LCR was calculated at 246%.

Figure 5.2 shows that both the liquidity coverage requirement and the liquidity resources were higher than at end-2023. As the liquidity resources rose by more than the liquidity coverage requirement, the LCR has increased.

Figure 5.2
Liquidity Coverage Ratio (LCR)

DKKm	2024	2023
Liquidity resources	36,454	29,604
Liquidity Coverage Requirement	12,634	12,049
LCR (%)	**289**	**246**

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 2024 – EU LIQ1 og EU LIQB", regarding Liquidity Coverage Ratio.

Long-term liquidity

Figure 5.4 shows the calculation of NSFR, which is illustrated in figure 5.5. At end-2024, NSFR was calculated at 131%, which is comfortably above the Bank's target of 105%. The excess coverage of 26 percentage points relative to the target corresponds to DKK 23.2 billion in excess liquidity. Calculated relative to the statutory requirement of 100%, the excess liquidity amounted to DKK 27.7 billion. At end-2024, the NSFR was on a level with 2023, when it stood at 131%.

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 Ensuring 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

Figure 5.4 shows that both available and required stable funding increased compared with end-2023. The marginal developments in the NSFR were due to an increase in both the available stable funding and the required stable funding.

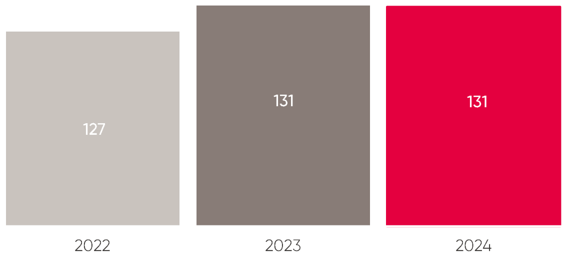
Figure 5.4
Net Stable Funding Ratio (NSFR)

DKKm	2024	2023
Available stable funding (ASF)	117,222	109,567
Required stable funding (RSF)	89,547	83,594
NSFR (%)	**131**	**131**

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.

Reference is made to "Additional Pillar 3 Disclosures Q4 2024, EU LIQ2", regarding Net Stable Funding.

Figure 5.5
Net Stable Funding Ratio (NSFR)
%



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.

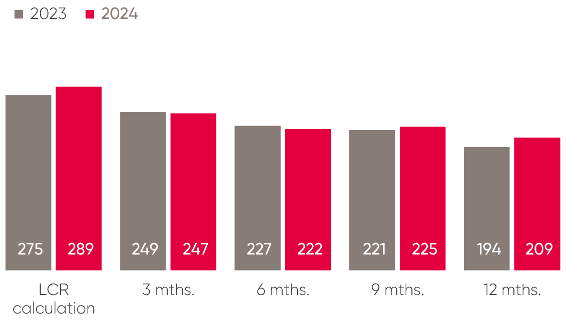
Figure 5.6 and figure 5.7 show the result of a liquidity projection in a severe stress scenario, in which Spar Nord operates with a 3-month survival period in its liquidity management. In addition to money and capital market funding falling due, the stress scenario includes a massive stress on the deposit base, continued lending growth and stress on the bond portfolio.

Figure 5.6
Run-off of liquidity resources in a severe stress scenario

	Liquidity resources		Accumulated run-off	
DKKm / %	**2024**	**2023**	**2024**	**2023**
Calculation period	36,454	33,166		
3 months	22,159	22,388	-39.2	-32.5
6 months	18,823	19,673	-48.4	-40.7
9 months	17,210	18,574	-52.8	-44.0
12 months	15,089	15,713	-58.6	-52.6

At end-2024, the projection in figure 5.6 shows that liquidity resources will be reduced by DKK 21.4 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. In the stress test, the liquidity resources are calculated on a level with LCR.

Figure 5.7
LCR projected in a severe stress scenario

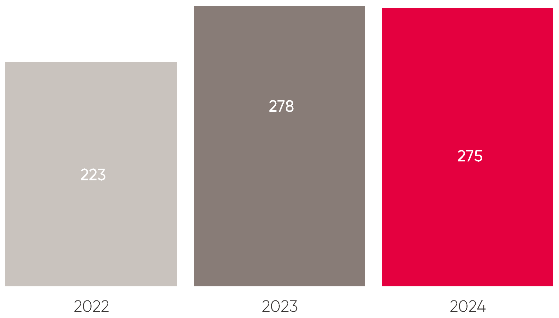


Liquidity indicator

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 5.9.

Figure 5.9
Liquidity indicator
%



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 5.8. From an overall perspective, the Bank's funding at end-2024 increased by DKK 5.2 billion to

Figure 5.8
Funding structure

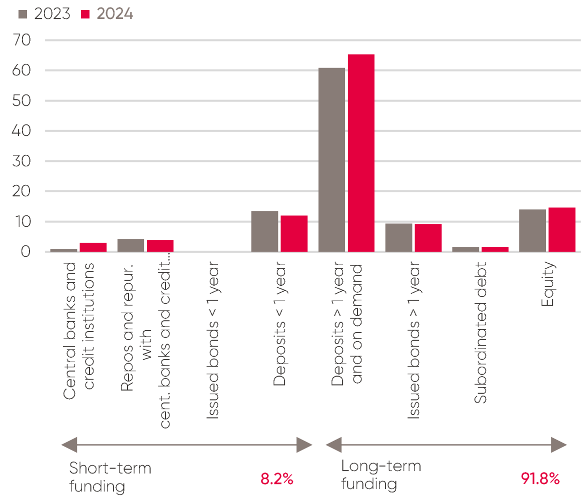
DKKm/%	2024	2023	2024	2023
Central banks and credit institutions	2,973	852	2.7	0.8
Repos and repurchases with central banks and credit institutions	3,866	4,154	3.5	4.0
Deposits < 1 year	12,015	13,475	11.0	12.9
Deposits > 1 year and on demand	65,311	60,922	59.6	58.4
Issued bonds > 1 year	9,134	9,307	8.3	8.9
Subordinated debt	1,588	1,593	1.5	1.5
Equity	14,628	13,979	13.4	13.4
Total	**109,516**	**104,282**	**100.0**	**100.0**

DKK 109.5 billion compared with end-2023. Spar Nord's largest source of funding is deposits, which at end-2024 amounted to 73% of Spar Nord's total funding.

At 31 December 2024, 64% of the deposits excluding pooled schemes were covered by the Guarantee Fund, which is the Danish guarantee scheme to cover depositors. At the same time, the sum of the 20 largest deposits alone accounted for 4.6% of the Bank's total deposits excluding pooled schemes.

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 82.8% at year-end 2024, which is close to the level of year-end 2023.

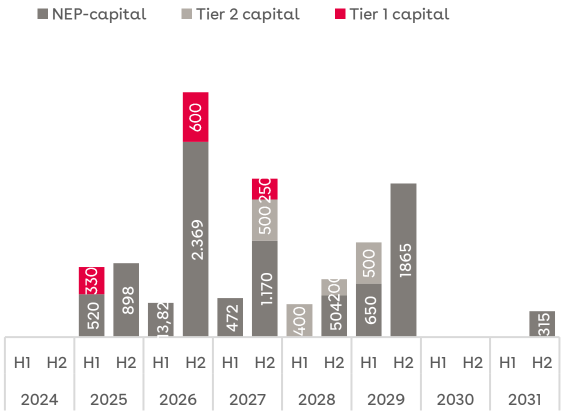
Figure 5.10
Funding structure
DKKbn



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

Figure 5.11 shows the Bank's maturity structure for capital market funding at end-2024. 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



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.

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

Figure 5.12
Asset encumbrance ratio

	End of year		Average	
DKKm	**2024**	**2023**	**2024**	**2023**
Encumbered assets	4,515	4,855	3,795	4,224
Assets and collateral	159,307	148,601	153,699	140,630
Asset encumbrance ratio	**2.8**	**3.3**	**2.5**	**3.0**

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 2024 and 2023. The asset encumbrance ratio amounts to 2.8% of the total assets plus collateral received that can form the basis for encumbrance in 2024. This is 0.5%-point higher/lower than in 2023, when the asset encumbrance ratio was 3.3%.

Reference is made to "Additional Pillar 3 Disclosures Q4 2024 – EU AE1, EU AE2, EU AE3 og EU AE4", regarding encumbered assets.

Rating

Throughout 2024, Spar Nord had an unchanged rating from rating agency Moody's, although Moody's in June 2024 revised the Bank's Outlook to Positive.

After Nykredit's takeover offer, in December 2024 Moody's revised the Bank's Outlook to "Under review for upgrade".

Spar Nord has the following ratings:
- Baseline credit assessment: baa1
- Bank deposit rating: A1 / P-1
- Senior unsecured: A1
- Senior Non-Preferred: A3

6. Capital and solvency need

Developments in 2024
In 2024, Spar Nord's capital position was impacted by continued strong earnings and increased business volume as well as the Board's decision to omit to pay dividends for 2024 and discontinue the share buyback programme for 2023 because of the conditions of Nykredit's takeover offer.

Recognition of the historically strong result for 2024 entails that Spar Nord maintains a solid capital position with a total capital ratio of 22.9%, which is well above the regulatory capital requirement and the internal targets.

Spar Nord's total risk exposure amount increased by DKK 6.2 billion in 2024 to DKK 66.6 billion, driven primarily by the higher business volume. The individual solvency need was calculated at 9.5% at end-2024, against 9.8% in 2023%, while the combined capital buffer requirement was increased from 6.0% to 6.5% in 2024. Spar Nord's total capital requirement for 2024 thus amounts to 16.0%, which leads to an excess capital coverage of 6.9%-points, equal to DKK 4.6 billion at end-2024.

The excess coverage to the regulatory requirement and internal targets is still believed to be solid. Spar Nord is thus entering the upcoming period supported by a strong capital position.

Total risk exposure amount

DKK 66.6 billion

Own funds ratio

22.9%

Individual solvency need

9.5%

Leverage ratio

10.6%

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-2024 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, expressing an intention to distribute 40-60% of the net profit for the year. The Bank intends to 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.

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.

Principal performance indicators

	2024	2023	2022	2021	2020
Total risk exposure amount (DKKm)	66,600	60,368	60,462	60,478	54,865
Credit risk share hereof (%)	81.4	82.1	82.8	82.9	82.5
Market risk share hereof (%)	6.5	6.6	6.5	6.8	7.3
Operational risk share hereof (%)	12.1	11.3	10.7	10.2	10.2
Increase in risk exposure, last 12 months (%)	10.3	-0.2	0.0	10.2	-100.0
Capital ratios					
Individual solvency need (%)	9.5	9.8	9.8	9.6	9.9
Common equity tier 1 capital ratio	18.8	17.7	16.4	16.3	17.2
Total capital ratio	22.9	22.3	20.9	20.8	21.0
Excess capital coverage (% point)	6.9	6.2	5.5	7.4	7.6
MREL and combined buffer percentage	36.6	37.7	31.4	28.7	25.8
Excess coverage relative to MREL and combi requirement (% point)	7.1	7.8	4.2	5.1	6.2
Leverage ratio	10.6	9.8	9.7	8.2	8.6

Development in capital ratios

The common equity tier 1 ratio and the own funds ratio reflect common equity tier 1 capital and own funds 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 **6.1** shows Spar Nord's principal capital ratios applying the IFRS 9 transitional arrangements. The figure shows that, at year-end 2024, Spar Nord had a common equity tier 1 capital ratio of 18.8% and an own funds ratio of 22.9%. With respect to the capital requirement, this results in an excess coverage of 6.9%-points for both the common equity tier 1 capital ratio and the own funds ratio. The individual solvency need was calculated at 9.5% at end-2024. 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 6.2. The figure shows Spar Nord's solid capital position.

On the basis of the conditions of Nykredit's takeover offer, Spar Nord's Board of Directors has decided to deviate from the dividend policy by omitting to pay dividends for 2024, and no amount is reserved hereto in the own funds. A dividend of 60% of the profit for the year in accordance with the dividend policy amounts to DKK 1.3 billion, corresponding to a little over DKK 11 per share and would lead to a reduction in capital ratios and excess coverage of 2.2%-points.

Figure 6.2

Common equity tier 1 ratio and own funds ratio

%

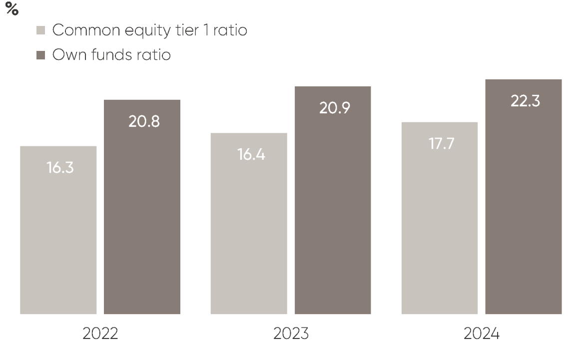


Figure 6.3 shows a calculation of the capital ratios on full phasing-in of the IFRS 9 transitional arrangement. As shown in the figure, the current capital ratio will be reduced by about 0.1%-point without the use of the transitional arrangement. The transitional IFRS 9 arrangement will continue until March 2025. For additional information, see the sections below.

Figure 6.1

Capital ratios and excess coverage using the IFRS 9 transitional arrangement

%	2024	2023
Common equity tier 1 capital ratio	18.8	17.7
Tier 1 capital ratio	20.6	19.7
Own funds ratio	22.9	22.3
Individual solvency need	9.5	9.8
Percentage points		
Excess coverage, common equity tier 1 capital ratio	6.9	6.2
Excess coverage, own funds ratio	6.9	6.2

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, 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.

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.

Figure 6.3

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

%	2024	2023
Common equity tier 1 capital ratio	18.7	17.4
Tier 1 capital ratio	20.5	19.4
Own funds ratio	22.8	22.0
Individual solvency need	9.4	9.6
Percentage points		
Excess coverage, common equity tier 1 capital ratio	6.9	6.0
Excess coverage, own funds ratio	6.9	6.0

The transitional arrangement and its overall effect are shown in figure 6.4 for the period 2021-2024. The figure shows that 25% of the calculated IFRS 9 effects after tax from the COVID-19 component is added to common equity tier 1 capital at end-2024. The effect of the transitional arrangement is thus calculated at DKK 83 million at end-2024.

Reference is made to "Additional Pillar 3 Disclosures Q4 2024 – IFRS9-FL".

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 6.5. No issues were made after the repayment of additional tier 1 capital in 2024.

Spar Nord has also issued tier 2 capital with a total principal of DKK 1.6 billion, distributed on four issues as shown in figure 6.5. The DKK 500 million tranche with ISIN code DK0030537923 was made in 2024 to refinance a first-call repayment of two issues of the same size and capital type.

The issues of additional tier 1 capital and tier 2 capital are recognised in tier 1 capital and in own funds, respectively, with the carrying amount adjusted for the treasury holding permitted by the Danish FSA.

See "Additional Pillar 3 Disclosures Q4 2024 – EU CCA" for more information on issued capital instruments.

Calculated own funds
As shown in figure 6.6, own funds increased by DKK 1.8 billion in 2024 to DKK 15.3 billion. Own funds were primarily affected by developments in the following areas:

- Recognition of profit for the year in equity
- Decision that no dividends be paid for 2024
- Transitional arrangement for IFRS 9 effects
- Deduction for NPE Backstop
- Deduction – Holdings of significant CET1 instruments in entities in the financial sector

Profit for the year after tax and before interest on additional tier 1 capital added DKK 2.2 billion, which is recognised in equity.

In light of the conditions of Nykredit's takeover offer, the Board of Directors has decided not to recommend the distribution of dividends on the basis of the results for 2024. As a result, no amount has been reserved for proposed dividend and any share buybacks for 2024. This is a deliberate deviation from the Bank's dividend policy, which under normal circumstances stipulate a total dividend distribution to the tune of 40-60% of the profit for the year after tax. A reservation of 60% of the profit for the year after tax equals DKK 1.3 billion, or a little over DKK 11 per share.

The DKK 500 million share buyback programme for 2023, which was launched at the beginning of 2024, was discontinued in connection with Nykredit's announcement of an all-cash voluntary

Figure 6.4
IFRS 9 transitional arrangement

	2024	2023	2022	2021
Original transitional arrangement (%)	0	0	25	50
COVID-19 transitional arrangement (%)	25	50	75	100
Static component in DKKm*	0	0	49	97
Dynamic component (2018-19) in DKKm*	0	0	6	13
Dynamic component (2020-23) in DKKm*	83	199	230	64
Total effect	**83**	**199**	**286**	**174**

*) After tax

Figure 6.5
Additional tier 1 capital and tier 2 capital issued

	Principal DKKm	First call date*	Expiry date
Additional tier 1 capital - DK0030465083	330	15.04.2025	Perpetual
Additional tier 1 capital - DK0030484464	600	08.09.2026	Perpetual
Additional tier 1 capital - DK0030495668	250	30.09.2027	Perpetual
Tier 2 capital - DK0030537923	500	08.06.2029	08.06.2034
Tier 2 capital - DK0030510219	500	07.07.2027	07.07.2032
Tier 2 capital - DK0030524277	400	11.04.2028	11.04.2033
Tier 2 capital - DK0030495742	200	30.09.2028	30.09.2033

*) First option of early redemption.

Figure 6.6
Calculation of own funds

DKKm	2024	2023
Equity	14,628	13,979
Phasing-in of IFRS 9	83	199
Additional tier 1 capital recognised in equity	-1,202	-1,202
Proposed dividend	0	-1,205
Intangible assets	-323	-329
Share buybacks, non-utilised portion	0	-10
Deductions for NPE (Non Performing Exposures)	-169	-183
Other primary deductions	-56	-60
Deduction – Holdings of insignificant CET 1 instruments	0	0
Deduction – Holdings of significant CET1 instruments	-464	-500
Common equity tier 1 capital	**12,496**	**10,691**
Additional tier 1 (AT1) capital *)	1,195	1,173
Deduction – Holdings of insignificant CET 1 instruments	0	0
Tier 1 capital	**13,691**	**11,864**
Tier 2 capital *)	1,577	1,578
Deduction – Holdings of insignificant CET 1 instruments	0	0
Own funds	**15,269**	**13,442**

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

takeover offer for Spar Nord on 10 December 2024. In 2024, 3.3 million shares were bought back at a total transaction value of DKK 423 million. At the request of Spar Nord, the Danish FSA has reduced the scope of the share buyback programme to the transaction value of shares already bought back, as a result of which Spar Nord has no unutilised portion of share buyback that must be deducted from own funds at end-2024.

The transitional arrangement for phasing in of IFRS 9 effects results in a DKK 83 million increase in own funds in 2024, which is DKK 116 million less than in 2023. The development was due to additional phasing-in of the transitional arrangement and fewer stage 1 and 2 impairment charges at end-2024 compared with end-2023.

The deduction for non-performing exposures (NPE-Backstop), implemented in the CRR in 2021, is calculated at DKK 169 million in 2024, which is DKK 13 million less than in 2023. This was in part due to further phasing-in of the deduction and replacement of the exposures underlying the deduction.

Spar Nord's holdings of significant and insignificant shares in entities in the financial sector are deducted from own funds if these exceed the permitted holdings as stipulated by the CRR. The difference between significant and insignificant holdings is defined by the share of ownership, with holdings of less than 10% ownership defined as insignificant and holdings of more than 10% as significant.

The permitted holding of insignificant investments in CET1 instruments is 10% of the common equity tier 1 capital after primary deductions. At end-2024, Spar Nord's holding of insignificant investments in CET1 instruments was lower than the permitted holding, which means no amount is deducted in own funds.

The permitted holding of significant investments in CET1 instruments is 10% of own funds after primary deductions and after deduction of any insignificant investments exceeding the permitted holding. The value of Spar Nord's holdings of significant investments in CET1 instruments exceeds the permitted holding by DKK 464 million at end-2024, as a result of which the amount is deducted from common equity tier 1 capital. The deduction is DKK 36 million lower than at end-2023, primarily because of the increase in common equity tier 1 capital, as the value of the holdings increased by DKK 153 million in 2024.

The value of Spar Nord's additional tier 1 capital is calculated at DKK 1.2 billion in 2024 after deduction of the treasury holding permitted by the Danish FSA, which is slightly higher than in 2023. The development was due exclusively to a change in the recognition method. Previously, additional tier 1 capital was recognised as the principal adjusted for the permitted treasury holding. From the end of 2024, additional tier 1 capital will be recognised at the accounting value as instructed by the Danish FSA.

The value of Spar Nord's tier 2 capital is also recognised at the accounting value and is DKK 1.6 billion after deduction of the treasury holding permitted by the Danish FSA, which is largely unchanged from 2023.

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 6.7.

Figure 6.7
Spar Nord's use of capital models

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

As shown in figure 6.7, 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.

Calculated risk exposure

At end-2024, Spar Nord's total risk exposure amount was calculated at DKK 66.6 billion, which was DKK 6.2 billion higher than at end-2023.

Most of the total risk exposure amount derives from credit risk, which accounted for DKK 53.9 billion at end-2024, equal to 81% of the total risk exposure amount. The risk exposure derived from credit risk increased by DKK 4.7 billion in 2024, primarily due to growth in loans, advances and guarantees excl. reverse transactions of DKK 5.5 billion in 2024. Most of the risk exposure derived from credit risk comes from companies and ordinary retail customers, where some of these exposures are secured by mortgages on immovable property.

Risk exposure from OTC derivatives and repo/reverse transactions with financial counterparties (CVA risk) was calculated at DKK 285 million in 2024, corresponding to 0.4% of the total risk exposure amount.

Risk exposure derived from market risk amounted to DKK 4.3 billion at end-2024, equal to a little over 6% of the total risk exposure amount, which is an increase of DKK 338 million relative to end-2023.

Risk exposure derived from operational risk rose by DKK 1.2 billion in 2024 to DKK 8.1 billion, corresponding to 12% of the total risk exposure amount. 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 83 million at end-2024.

Figure 6.8

Calculation of own funds requirements and risk exposure

DKKm	Own funds requirement		Risk exposure amount	
Credit risk, incl. CVA	**2024**	**2023**	**2024**	**2023**
Central governments or central banks	0	0	0	0
Regional governments or local authorities	2	2	25	26
Public-sector entities	0	0	0	0
Institutions	54	63	670	782
Corporates	1,606	1,526	20,071	19,076
Retail customers	1,390	1,274	17,381	15,922
Exposures secured by mortgage on real property	519	440	6,485	5,501
Exposures in default	48	52	596	653
Items associated with particularly high risk	79	25	986	318
Covered bonds	104	84	1,294	1,051
Short-term credit assessment	18	15	226	191
Claims in the form of CIU	0	0	0	0
Equity exposures	336	309	4,201	3,864
Other items	160	146	2,005	1,822
CVA risk	23	29	285	356
Total credit risk, incl. CVA	**4,338**	**3,965**	**54,223**	**49,563**
Market risk				
Debt instruments	312	292	3,897	3,646
Shares, etc.	27	21	333	258
Foreign exchange risk	5	4	61	51
Commodity risk	0	0	4	3
Total market risk	**344**	**317**	**4,296**	**3,958**
Total operational risk	**646**	**548**	**8,081**	**6,848**
Total	**5,328**	**4,830**	**66,600**	**60,369**

Individual solvency need

Consolidated Act no. 1013 of 21 August 2024 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.

As shown in figure 6.9, the adequate own funds amounted to DKK 6.3 billion at end-2024, which is DKK 422 million higher than at end-2023.

The total add-on to the solvency need at end-2024 of DKK 1.0 billion was DKK 76 million lower than at end-2023. The development was due to a reduction in add-ons to credit risk and other risks, which is only partly offset by an increase in add-ons to operational risk and market risk.

At end 2024, the solvency need ratio amounted to 9.5%, which was 0.3%-point lower than at end-2023.

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. 1013 of 21 August 2024 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 institution- and 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 comply with a specific SIFI buffer requirement of 1% of the total risk exposure amount.

The systemic capital buffer requirement serves to counteract and limit long-term non-cyclical systemic or macro-prudential risks that are not comprised by the other capital requirements. On 30 June 2024, the Ministry of Industry, Business and Financial Affairs activated a sector-specific version of the systemic capital buffer requirement aimed at the real estate sector. The new capital buffer requirement was based on an assessment by the Systemic Risk Council that future problems in the real estate sector may impact financial stability in Denmark.

Calculated combined buffer requirement

The combined capital buffer requirement is shown in figure 6.11, and at end-2024 it consists of the capital conservation buffer requirement, the SIFI buffer requirement, the institution-specific countercyclical capital buffer requirement and the sector-specific systemic capital buffer requirement.

As shown in figure 6.11, the combined capital buffer requirement in 2024 was calculated at DKK 4.3 billion, which is close to DKK 737 million higher than in 2023. The higher buffer requirement is due to the activation of the sector-specific systemic capital buffer requirement and the increase in the total risk exposure amount.

The systemic capital buffer requirement is measured as 7% of the risk-weighted exposures to real estate companies, and the share of an exposure

Figure 6.9

Adequate own funds by risk area

DKKm/% of REA*	2024		2023	
Minimum 8% requirement				
Credit risk, incl. CVA	4,338	6.5	3,965	6.6
Market risk	344	0.5	317	0.5
Operational risk	646	1.0	548	0.9
Total	**5,328**	**8.0**	**4,830**	**8.0**
Add-on to solvency need				
Credit risk	160	0.2	261	0.4
Market risk	430	0.6	425	0.7
Operational risk	340	0.5	304	0.5
Other risks	76	0.1	92	0.2
Any add-on, if required by law	0	0.0	0	0.0
Total add-on	**1,006**	**1.5**	**1,082**	**1.8**
Total	**6,334**	**9.5**	**5,912**	**9.8**

*) Risk Exposure Amount

Figure 6.11

Combined buffer requirement

	2024	2023
Total risk exposure amount (DKKm)	66,600	60,369
Capital conservation buffer requirement (%)	2.5	2.5
Institution-specific countercyclical buffer requirement (%)	2.5	2.5
SIFI buffer requirement (%)	1.0	1.0
Systemic buffer requirement (%)	0.5	0.0
Capital conservation buffer requirement (DKKm)	1,665	1,509
Institution-specific countercyclical buffer requirement (DKKm)	1,640	1,483
SIFI buffer requirement (DKKm)	666	604
Systemic buffer requirement (DKKm)	362	0
Combined buffer requirement (DKKm)	**4,333**	**3,596**

Figure 6.10

Geographical breakdown of credit exposures

	2024		2023	
%	Exposure	Buffer rate	Exposure	Buffer rate
Denmark	97.3	2.5	97.4	2.5
Germany	0.9	0.8	1.2	0.8
Sweden	0.3	2.0	0.1	2.0
Norway	0.5	2.5	0.2	2.5
United Kingdom	0.1	2.0	0.2	2.0
USA	0.0	0.0	0.0	0.0
Other countries	0.9	0.0	0.9	0.0

secured by mortgages on real property with an LTV ratio below 15% is exempted. For Spar Nord, the relevant risk-weighted exposures amounted to DKK 5.2 billion at end-2024, which results in a systemic capital buffer requirement of DKK 362 million, corresponding to 0.5% of the total risk exposure amount.

The institution-specific countercyclical buffer requirement was DKK 1.6 billion at end-2024. The buffer was calculated on the basis of the geographic distribution of the Bank's credit exposure. Breakdown by

credit exposures relevant for calculating the countercyclical buffer is shown in figure 6.10. The figure shows that the Bank is principally exposed to Denmark, where the countercyclical capital buffer requirement is 2.5%.

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 2024 - EU CCyB1 and EU CCyB2".

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 6.12 shows that the CET1 capital requirement was 11.9% at end-2024. With a common equity tier 1 capital ratio of 18.8%, the excess coverage to the CET1 capital ratio is 6.9%, equal to DKK 4.6 million at end-2024. The excess coverage to the common equity tier 1 (CET1) requirement is thus 0.7%-point, or DKK 831 million, higher than at end-2023. The higher excess coverage may be due to the fact that common equity tier 1 capital rose by more than the CET1 capital requirement.

Figure 6.13 shows that the total capital requirement at end-2024 was 16.0%. When calculating the excess coverage for the total capital requirement, excess additional tier 1 capital and tier 2 capital, which at end-2024 stood at DKK 1 million, is deducted, as a result of which the excess coverage is calculated at 6.2%-points with a capital ratio of 22.9%.

Figure 6.12
Excess coverage relative to common equity tier 1 (CET1) requirement

DKKm/% of REA*	2024		2023	
Basic requirement of 4.5%	2,997	4.5	2,717	4.5
Add-on to solvency need	566	0.8	609	1.0
Combined buffer requirement	4,333	6.5	3,596	6.0
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	**7,896**	**11.9**	**6,921**	**11.5**
Common equity tier 1 capital	12,496	18.8	10,691	17.7
Excess coverage	**4,600**	**6.9**	**3,769**	**6.2**

*) Risk Exposure Amount

Figure 6.13
Excess coverage relative to capital requirement

DKKm/% of REA*	2024		2023	
Minimum 8% requirement	5,328	8.0	4,830	8.0
Add-on to solvency need	1,006	1.5	1,082	1.8
Combined buffer requirement	4,333	6.5	3,596	6.0
Capital requirement	**10,667**	**16.0**	**9,508**	**15.7**
Own funds	15,269	22.9	13,442	22.3
Capital deducted from excess coverage	-1	0.0	-165	-0.3
Excess coverage	**4,600**	**6.9**	**3,769**	**6.2**

*) Risk Exposure Amount

Leverage ratio

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

The implementation of CRR 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 10.6% at end-2024, as shown in figure 6.14. This calculation was made on the basis of the calculated own funds, which complies with the rules for a transitional IFRS 9 arrangement. Using a tier 1 capital calculated relative to a fully phased-in set of rules, the leverage ratio would be a bit lower, but due to rounding effects it would also be 10.6%.

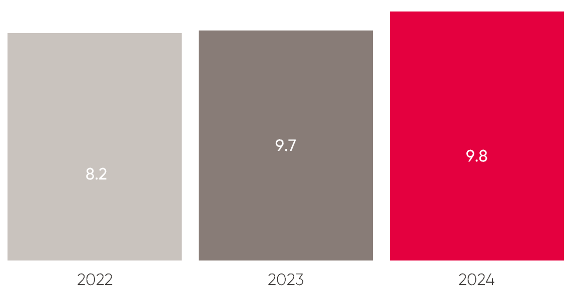
Figure 6.14
Leverage ratio

%	2024	2023
Leverage ratio – IFRS transitional arrangement	10.6	9.8
Leverage ratio – fully phased-in IFRS 9	10.6	9.7

Figure 6.15 shows the calculated leverage ratio for the period 2022-2024.

Figure 6.15

Leverage ratio



Minimum requirement for eligible liabilities

Pursuant to Consolidated Act no. 1013 of 21 August 2024 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
- Recapitalisation amount: Determined as the solvency need plus the combined buffer requirement with the exception of the countercyclical buffer requirement.

In addition to the MREL requirement, Spar Nord must comply with the separate combined buffer requirement using common equity tier 1 capital (see the section on capital buffers) as the common equity tier 1 capital used to meet the combined buffer requirement cannot concurrently be used to meet the MREL requirement. The total MREL requirement is referred to as the combined MREL and combined buffer requirement.

Figure 6.16
Issued Senior Non-Preferred (SNP) and Senior Preferred (SP)

DKKm	ISIN	Principal (DKKm)	Currency	Value (DKKm)	First call date*	Maturity date
SP bonds	DK0030528187	250	EUR	1,865	05.10.2026	05.10.2027
SNP bonds	DK0030523972	25	EUR	186	23.03.2026	23.03.2027
SNP bonds	DK0030540638	250	EUR	1,865	01.10.2029	01.10.2030
SNP bonds	NO0011002602	950	NOK	598	26.11.2025	26.11.2026
SNP bonds	NO0012694316	200	NOK	126		09.09.2027
SNP bonds	NO0012694308	600	NOK	378		09.09.2027
SNP bonds	NO0012775487	724	NOK	456	08.12.2027	08.12.2028
SNP bonds	NO0011002537	750	NOK	472	26.05.2027	26.05.2028
SNP bonds	NO0011037434	500	NOK	315	30.6.31	30.06.2032
SNP bonds	NO0013077719	800	NOK	504	01.12.2028	01.12.2029
SNP bonds	DK0030489349	800	SEK	519	26.05.2025	26.05.2026
SNP bonds	DK0030511886	350	SEK	227	09.03.2026	09.03.2027
SNP bonds	DK0030515606	1,100	SEK	714	01.12.2027	01.12.2028
SNP bonds	DK0030537253	1,000	SEK	649	23.01.2029	23.01.2030
SNP bonds	DK0030530597	300	DKK	300	04.12.2025	04.12.2026

*) First option of early redemption.

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.

Issued senior debt

Figure 6.16 provides an overview of Spar Nord's senior debt in the form of Senior Non-Preferred (SNP) and Senior Preferred (SP) issues. At end-2024, the total principal on issued senior debt translated into Danish kroner was DKK 9.2 billion, distributed on 15 different issues in different currencies.

Senior Non-Preferred debt issues amount to DKK 7.3 billion in total, and the currency distribution hereof is as follows:

- EUR issues total 275 million, distributed on two issues, equal to DKK 2.1 billion at end-2024.
- NOK issues total 4.5 billion, distributed on seven issues, equal to DKK 2.8 billion at end-2024.
- SEK issues total 3.3 billion, distributed on three issues, equal to DKK 2.1 billion at end-2024.
- DKK issues total 300 billion, in a single issue.

One Senior Preferred issue amounting to EUR 250 million, equal to DKK 1.9 billion at end-2024.

During 2024, Spar Nord made two Senior Non-Preferred debt issues. The first (DK0030537253) was issued in Swedish kroner with a principal of 1 billion, equal to DKK 649 million at end-2024. The second (DK0030540638) was issued in euro with a principal of 250 million, equal to DKK 1.9 billion at end-2024.

Spar Nord made a first-call redemption on three senior debt issues during 2024. In May, Spar Nord redeemed its first Senior Preferred issue of DKK 750 million, and in December Spar Nord redeemed two Senior Non-Preferred debt issues totalling DKK 1.8 billion.

As shown in figure 6.16, Spar Nord may redeem at the first call date of three Senior Non-Preferred debt issues in a total amount of DKK 1.4 billion at end-2024. The Bank expects to exercise its first-call redemption option and to refinance issues in the same total amount and of the same capital type.

MREL requirements

The Danish FSA has determined Spar Nord's MREL requirement at 23.5% at 1 January 2025, based on the total risk exposure amount, solvency need and capital buffer requirement for year-end 2023 and the systemic risk buffer for 30 June 2024, as shown in figure 6.17.

The MREL requirement is calibrated in an ongoing process to reflect the current solvency need and applicable capital buffer requirements. As shown in figure 6.17, the calibrated MREL requirement at 1 January 2025 is calculated at 23.1%, which is a bit lower than the Danish FSA requirement.

The total calibrated MREL and combined buffer requirement based on the solvency need and buffer requirements was 29.6% at end-2024.

Figure 6.17
MREL and combined buffer requirement

%	01.01.2025	The Danish FSA's requirements
Solvency ratio	9.5	9.8
Requirement for loss-absorption amount	**9.5**	**9.8**
Solvency ratio	9.5	9.8
Capital conservation buffer requirement	2.5	2.5
SIFI buffer requirement	1.0	1.0
Systemic buffer requirement	0.5	0.5
Requirement for recapitalisation amount	**13.6**	**13.7**
Total MREL	**23.1**	**23.5**
Capital conservation buffer requirement	2.5	2.5
SIFI buffer requirement	1.0	1.0
Systemic buffer requirement	0.5	0.5
Countercyclical buffer requirement	2.5	2.5
Total MREL and combined buffer requirement	**29.6**	**29.9**

Figure 6.18
Subordination requirement - calibrated

%	01.01.2024	The Danish FSA's requirements
Solvency need x2	19.0	19.6
Capital conservation buffer requirement	2.5	2.5
SIFI buffer requirement	1.0	1.0
Systemic buffer requirement	0.5	0.5
Countercyclical buffer requirement	2.5	2.5
Subordination requirement	**25.5**	**26.0**

The subordination requirements defines the scope of how large a proportion of the capital base used to meet the MREL requirements that has to be subordinated. The subordination requirement thus entails an implied threshold for recognition of Senior Preferred capital.

The Danish FSA has determined Spar Nord's subordination requirement at 26.0% at 1 January 2025, based on the total risk exposure amount, solvency need and capital buffer requirement for year-end 2023 and the systemic risk buffer for 30 June 2024, as shown in figure 6.18. As with the MREL requirement, the subordination requirement is calibrated in an ongoing process to reflect the latest figures. At 1 January 2025, the subordination requirement is calibrated at 25.5%, as shown in figure 6.18, which is a bit lower than the 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 2025, the threshold for recognition of Senior Preferred to comply with the MREL requirement is therefore 4.0% of the total risk exposure amount, equal to DKK 2.7 billion.

Excess coverage relative to MREL requirement
Figure 6.19 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.

The total value of eligible liabilities was DKK 24.4 billion at end-2024, equal to 36.6%. According to the calibrated requirement, this leads to an excess coverage of 7.1%, equal to DKK 4.7 billion. When deducting the combined capital buffer requirement, the value is calculated at DKK 20.1 billion, which is the amount of capital to cover the Danish FSA requirement of 23.5%, equal to DKK 15.7 billion. The excess coverage to the Danish FSA requirement is thus DKK 4.4 billion, or 6.6%-point at 1 January 2025.

Figure 6.19
Excess coverage to the calibrated MREL requirement.

	31.12.24 DKKm	%
Own funds	15,269	22.9
Non-preferred senior capital *)	7,269	10.9
Preferred senior capital	1,861	2.8
Total MREL-eligible liabilities	**24,398**	**36.6**
Combined buffer requirement	4,333	6.5
Total MREL-eligible liabilities ex. combined buffer requirement	**20,065**	**30.1**
MREL requirement (calibrated)	19,694	29.6
Combined buffer requirement	4,333	6.5
MREL requirement ex. combined buffer requirement (calibrated)	15,361	23.1
Deduction for excess capital, cf. subordination requirement	0	0.0
Excess coverage	**4,704**	**7.1**

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

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.

In July 2023, Spar Nord submitted an application to the Danish FSA for approval to use own models for calculating risk exposure amounts derived from credit risk. Since then, Spar Nord has been in close dialogue with the FSA.

At the turn of the year, the application process with the FSA entered the final phase, in which the remaining matters are settled and processed. Spar Nord expects to receive the Danish FSA's approval in mid-2025, which will enable the Bank to apply the developed models and, going forward, ensure a more optimal capital application for the Bank.

Future legislation

A new joint European capital requirement 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 and was finally adopted in the European Parliament in mid-2024 and published in the Official Journal of the European Union on 19 June 2024 (EU 2024/1623). The capital requirements regulation has a direct legal effect in Denmark and took effect on 1 January 2025.

The capital requirements directive must be incorporated in Danish law before it has legal effect in Denmark. This is expected to take place at the end of 2025 or early 2026. A significant part of the changes in the capital requirements directive are related to ESG risks and how these can be incorporated into the regulatory toolbox. The directive also provides for a number of extensions of supervisory powers, including in relation to supervision of banks from third countries, fit and proper assessments, sanctions, etc.

The revised capital requirements regulation (CRR III) entails a number of regulatory changes to the calculation of total risk exposure amount, with substantial changes in particular to the standardised approach for determining credit risk. In addition, there are also changes to the principles for calculating the total risk exposure amount derived from credit valuation adjustment (CVA), market risk and operational risk.

However, the European Parliament has decided to postpone the implementation of the new principles for determining market risk, better known as FRTB, until early 2026 at the earliest.

Overall, Spar Nord does not expect a significant impact of the transition to CRR III on the size of the total risk exposure amount in 2025, where credit risk is calculated under the standardised approach and using available transitional arrangements. This is because the expected increase in risk exposure derived from credit risk primarily as a result of new principles for the calculation of exposures secured by mortgages on immovable property is expected to be matched by a reduction in risk exposure derived from operational risk.

In relation to the IRB approach, the largest change in CRR III is the introduction of the so-called output floor, which is a lower limit for the total risk exposure amount when using the IRB approach determined as a discount compared to the standardised approach. The expected level of output floor is not considered relevant for Spar Nord's initial transition to the IRB method.

A possible transition to FRTB in 2026 is estimated to result in an increase in risk exposure amount derived from market risk of around DKK 750 million based on the Bank's current trading book. Note that the risk exposure amount derived from market risk used for output floor must be calculated in accordance with the FRTB rules already from 2025.

7. 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 sustainability 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 a 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 in the annual report.

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 the figure on the right.

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.

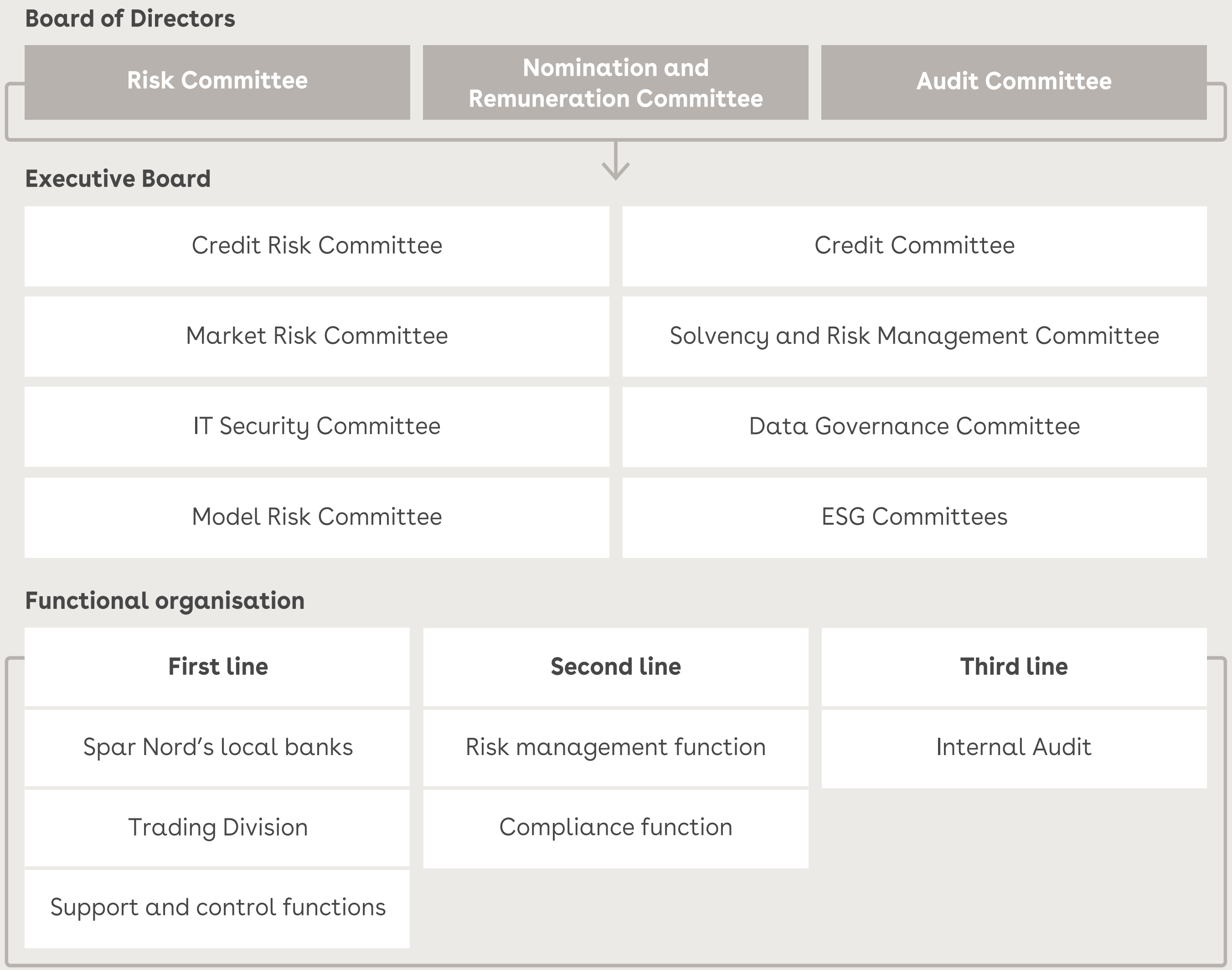
The objective is to ensure cohesion between Spar Nord's vision and strategy while ensuring that the risk profile is appropriate at all times, having regard to the Bank's capital and liquidity situation.

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.

Board committees

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



Establishing these board committees helps ensure a better utilisation of the specific competences held by the board members, thus ensuring in-depth dealing with the board material. The 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 in the Annual Report.

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 seven meetings in 2024.

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 and 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 2024.

Audit Committee

The primary task of the Audit Committee is to oversee the statutory audit of annual financial statements, sustainability reporting, etc., as well as to inform the Board of Directors about the results of the statutory audit, including the processes for financial reporting and sustainability reporting. Its duties also include monitoring the efficiency of the Bank's internal control system, Internal Audit and risk management systems for financial and sustainability reporting purposes.

The Audit Committee consist of three members, two of whom is independent. The Committee held ten meetings in 2024.

Executive Board

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

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

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

Executive Board committees

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

Solvency and Risk Management Committee

The Solvency and Risk Management Committee is composed of a member of the Executive Board, Trading Division, Credit Department, Credit Management, 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.

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.

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.

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, Credit Management and the Credit Department. The committee meets once every quarter to discuss and monitor the management of model risks and to consider recommendations of newly developed and revised models prior to approval and implementation.

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.

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.

Committee for sustainable finance

The Bank's Executive Board is represented in the committee for sustainable finance alongside executives from relevant business units. The committee oversees sustainability-related impacts, risks, and opportunities (IROs) for lending, ensuring progress in terms of executing sustainability-related targets and sub-targets. The committee is responsible for maintaining and updating the Bank's exclusion list for lending and for regularly approving loan types included in the Bank's Green Bond Framework.

Committee for responsible investment

The Bank's Executive Board is represented in the committee for responsible investment alongside executives from relevant business units. The committee oversees sustainability-related impacts, risks, and opportunities (IROs) for investments, ensuring progress in terms of executing sustainability-related targets and sub-targets. Furthermore, the committee is responsible for maintaining and updating the Bank's exclusion lists in the investment area.

First line

The business units Spar Nord's local banks and the 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.

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.

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 the Bank's risks are identified, measured, managed and reported correctly. 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.

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.

Third line

The Internal Audit Department serves as the third line of defence, which on the basis of the audit 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. The Internal Audit Department reports to the Board of Directors through the Risk Committee.

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 7.1 shows the Bank's most significant risk policies approved by the Board and an overview of the risk reports submitted to the Board, 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.

Figure 7.1

Risk policies and guidelines		
Governance	**Frequency**	
Risk policy	Annually	Credit policy
		Market risk policy
		Operational risk policy
		Model risk policy
		Information security policy
		IT risk management policy
		IT policy
		Capital policy
		Liquidity and funding policy
		Data governance policy
		Active ownership policy and Responsible investment policy and sustainability risk
		Policy for manual rating
		Insurance policy
		AML policy, Policy on risk tolerance and risk-mitigating anti-money laundering measures, Policy on transaction monitoring and sanction screening
		Policy on outsourcing of activity areas
		Product policy for financial and other bank products
Guidelines	Annually	Board guidelines to the Executive Board
Risk reporting		
Governance	**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.
	Semi-annually	Integrated reporting: Combined overview of conclusions from the risk management function, the compliance function and internal audit has been compiled on the basis of material risk areas
	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

8. Risk statement

Spar Nord's Board of Directors approved Spar Nord's 2024 Risk Report on 5 February 2025.

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 8.1 and figure 8.2.

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.

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 8.1
Financial ratios

Capital	**2024**	**2023**	**2022**	**2021**	**2020**
Common equity tier 1 capital ratio	18.8	17.7	16.4	16.3	17.2
Own funds ratio	22.9	22.3	20.9	20.8	21.0
Individual solvency need	9.5	9.8	9.8	9.6	9.9
Excess capital coverage in percentage points	6.9	6.2	5.5	7.4	7.6
Leverage ratio	10.6	9.8	9.7	8.2	8.6
Liquidity					
LCR (%)	289	246	211	280	241
NSFR (%)	131	131	127	125	0
Asset Encumbrance (%)	2.8	3.0	2.1	1.7	4.3
Bank deposit rating and outlook (Moody's)	A1/Under review for upgrade	A1/Stable	A1/Stable	A1/Stable	A1/Stable
Credit					
Impairment account (DKKm)	1,652	1,673	1,666	1,591	1,717
Impairment ratio (impact on operations)	-0.03	-0.04	0.11	-0.15	0.44
NPL ratio	1.9	2.0	2.2	2.8	3.4
Total assets (DKKm)	143,785	135,104	124,040	116,626	102,077

Figure 8.2
The Supervisory Diamond

%	**Threshold values**	**2024**	**2023**	**2022**	**2021**	**2020**
Sum of large exposures	<175	68.2	79.4	83.8	81.7	78.1
Growth in lending	<20	7.4	4.0	12.7	15.5	-1.5
Property exposure	<25	11.5	10.7	10.7	9.7	10.5
Liquidity indicator	>100	275.0	278.0	223.0	292.0	251.0

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

Rikke Marie Christiansen

Morten Bach Gaardboe

Gitte Holmgaard

Lisa Lund Holst

Mette Kaagaard

Henrik Sjøgreen

Jannie Skovsen

Michael Lundgaard Thomsen